EMERSON, REID'S

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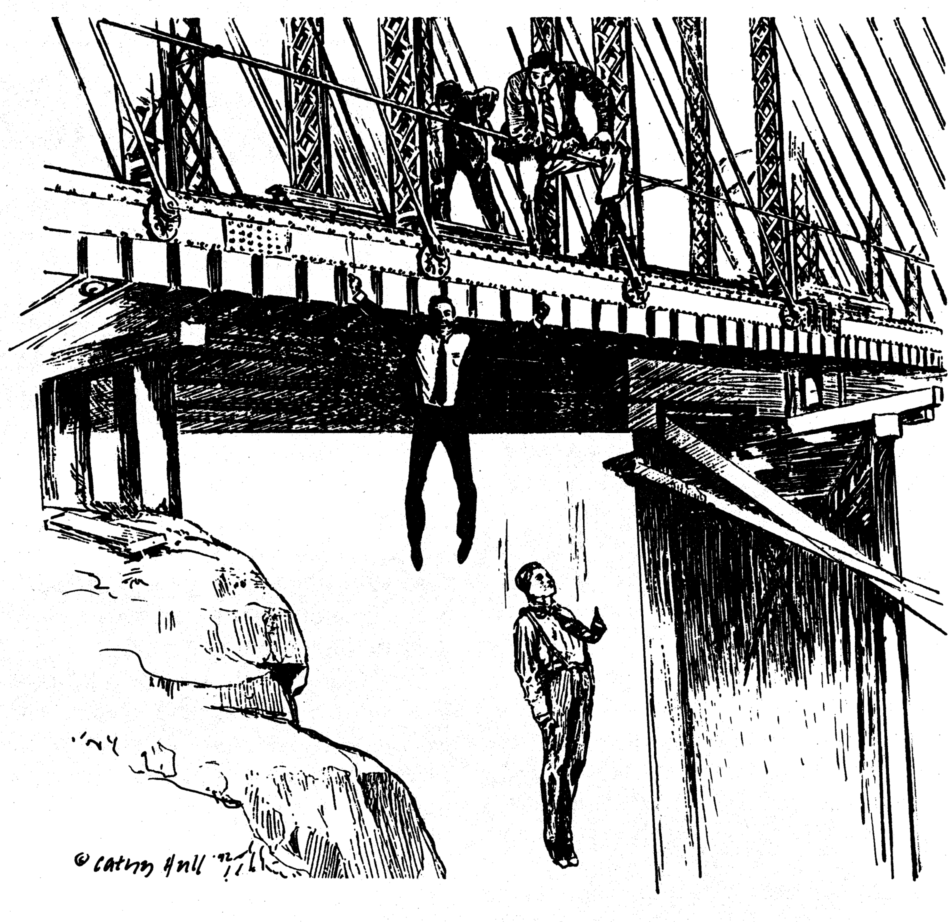
Take My Loss Reserves. Please!

It's no secret that companies have been seeking the protection of Chapter 11 in record numbers lately. That the economy is in dumpersville is obvious to just about everyone, even the president of the United States. One of the nicer aspects of the casualty insurance business, though, is that it's recession resistant—in theory, anyway. All companies, even bankrupt ones, need insurance. Furthermore, a weak economy means less demand for credit. Less demand for credit means lower interest rates. Lower interest rates mean rising bond prices, and rising bond prices mean profits for insurance companies, since they invest most of their assets in bonds. Of course, practice has a way of confounding even the best of theories, and insurance companies have a way of confounding everybody—which brings us to paid-loss, retrospectively-rated, casualty programs.

Retros are about cash flow. (For that matter, casualty insurance and life insurance are about cash flow, too.) Rather than pay the full premium up front, the insured works out a funding agreement with the insurance company whereby the insured pays for its losses *when they are paid*, not when they are incurred. To secure the arrangement, the insurance company usually requires the insured to post a letter of credit equal to the estimated loss reserves. The insurance company can then draw down the letter of credit if the insured, for some reason, can't pay its losses.



The soft market took its toll on insurance brokers.

There's nothing new about paid-loss retros; they've been around for quite a while and most large casualty programs employ some variation of the concept. What is relatively new is that insureds' weakened financial condition has added an extra element of risk to the process. Take the case of Shop 'n' Lift Stores (the name has been changed to protect those who might otherwise feel foolish). Their general liability program was on a paid-loss retro with the Vertigo Insurance Company (again, not the real name). When Shop 'n' Lift went bust and was unable to pay for its claims, Vertigo tried to draw on Shop 'n' Lift's letter of credit. Then they discovered they'd fallen into a legal trap. Due to careless drafting of the document, Vertigo was entitled to collect on the letter of credit only if the premium hadn't been paid. But the "premium" had been paid; it was the "losses" that hadn't been paid. Vertigo collected just $100,000 of the $500,000 it was owed.

While this case was relatively small, a jumbo account could build up $50-100 million of reserves over five years, and poses the risk of much larger losses if mistakes are made. What sort of mistakes? A typical one would be underestimating loss reserves. Although the letter of credit is usually adjusted each year, it might be inadequate if actuarial projections proved to be too low, and in a bankruptcy the insurer could be stuck.

Because most of the players in this arena have been burned at some point, they've become cautious. "Underwriters have gotten very sticky about companies with really bad financials," said one broker who asked not to be named. "Only AIG will write those accounts."

We called an AIG spokesman to inquire why they were willing to tread where others feared to go, and to ask whether it was true, as we'd been told, that their service left something to be desired. To date, we haven't heard back, but we think we know the answer anyway. As a broker friend said of AIG, "They're a market for tough risks, and they get their pound of flesh." Perhaps that's why AIG is one of the most successful companies around.

Still curious to learn more, we called the Zurich Insurance Company and asked what effect the Macy's bankruptcy had on them. (Zurich was on the casualty line.) Chris Tasher, Zurich's public relations manager, gave us a friendly but uninformative response: "We've had a good, long-standing relationship with Macy's and we're prepared to stand behind them, but it's not appropriate to get into specifics."

While it seems unlikely that insurance companies will experience major problems because they get stiffed by insureds, their willingness to stand behind their insureds indicates at least one thing: that the insurance market is still very soft.

And it will probably remain that way until insurance spokesmen start telling us that they *aren't* prepared to stand behind their insureds.

Would You Buy a Used Car From This Man? How About Some Preferred Stock?

Reliance Group Holdings, as its name implies, is a holding company that owns Reliance Group. Reliance Group in turn owns Reliance Financial Services, which in turn owns the once-staid 175-year-old Reliance Insurance Company, the 29th largest property-casualty insurance group in terms of net premiums written. In 1968 Reliance Insurance was acquired by a corporate predator about one-tenth its size, Leasco Data Processing, a computer leasing company run by twenty-nine-year-old wunderkind Saul Steinberg.

How did a minnow like Leasco swallow a whale like Reliance? The answer has something to do with the manic-depressive nature of the stock market. Back in the go-go years of the sixties, Leasco was considered a comer, and its stock sold at a huge multiple of earnings. (Earnings that would later be considered by some to be the result of ingenious accounting rather than ingenious management.) Reliance, on the other hand, was considered—probably correctly—the way most insurance companies are: boring. Still, it had its attractive aspects, namely redundant reserves and a conservative balance sheet. Leasco (it later changed its name to Reliance Group) didn't purchase Reliance for cash, since it didn't have much of the stuff. Instead, it used its inflated stock—"Chinese paper" as it was often called.

Emboldened by his triumphal Reliance acquisition, Steinberg set his takeover sights on Chemical Bank, one of the bastions of the WASP establishment. In *The Games Players*, John Brooks describes the first meeting between William Renchard, Chemical's patrician chairman, and Saul Steinberg, in the bank's private dining room:

> One [man] was lean, iron-gray, of distinctly military bearing; a North Shore estate owner, very conscious of the entrenched power of the nation standing behind him, very much a man of few and incisive words. The other was round-faced, easy-smiling, a man of many words who looked preposterously younger than his already preposterous twenty-nine years, and given, as he talked, to making windmill gestures with his arms and suddenly jumping galvanically up from his chair; a *South Shore* estate owner (twenty-nine rooms, tennis court, two saunas, Picassos and Kandinskys—as Steinberg himself characteristically described it, "a modern mansion just like that of any other successful kid of twenty-nine"); a young man bubbling with energy and joy in living.

Steinberg's quest, which churned the undercurrents of anti-Semitism, was quashed when political forces—the Senate Banking and Currency Committee, the Federal Reserve Board, Nelson Rockefeller, the New York State Legislature, and the powers-that-be of Wall Street, banking, and business—lined up against him. As Steinberg remarked at the time, "I always knew there was an Establishment—I just used to think I was part of it."

Despite the setback and some difficult years, Steinberg has prospered.

EMERSON, REID'S
INSURANCE OBSERVER

David Schiff, Editor and Writer

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He has also garnered a great deal of attention for someone in the insurance business, and his company has often been taken to task for its risky investment strategy. Reliance, which was a big client of Drexel Burnham, was a prodigious issuer and purchaser of junk bonds, and during the 1980s Steinberg became a feared corporate raider, amassing big positions in the stocks of companies that seemed disposed to wanting nothing to do with him. (Disney was a prominent example.) Although his takeover maneuvering may have been little more than saber rattling, it was usually quite profitable.

Steinberg took Reliance Group private in 1982, and in 1986, when the markets were receptive, he took it public again at $10 a share. The stock is now about $4½, due, in part, to Reliance Group Holdings' meager earnings over the last few years. Nonetheless, Steinberg has been remarkably well paid for his work, taking home $6,314,000 in salary in 1990. Needless to say, he still lives in opulent surroundings and the comings and goings of him and his glamorous wife are often reported in society columns.

Of course there are those who view him as a modern-day robber baron whose gilded lifestyle personifies conspicuous consumption, and Steinberg has often been skewered in the press. But he's had the last laugh, at least so far. His family's 78.7% stake in Reliance Group Holdings is worth more than $270 million. But this wealth is perched atop a mountain of debt. As of September 30, 1991, Reliance Group Holdings' Milkenesque balance sheet shows shareholders' equity of just $333 million versus debt of $989.8 million. Furthermore, the company's tangible net worth was *negative* $383.9 million (see page 4).

As if the lack of tangible net worth, heavy debt load, junk-bond investments, and intensely competitive insurance markets were not enough, owners of Reliance Group Holdings' common stock and bonds must also consider the holding-company structure that relies on dividends from the insurance company to meet debt requirements.

These factors are of much less concern to shareholders of the Reliance Insurance Company $2.68 Series A Cumulative Preferred Stock, which is listed on the Philadelphia Stock Exchange. The Reliance Insurance Company is the heart and soul of Reliance Group Holdings; it's the farm that feeds Steinberg's empire, and its preferred stock recently traded at the bargain-basement price of $23. (For the record, we have recently purchased a position in Reliance preferred shares.) Here's our analysis of the situation:

Consider that all the various Reliance entities are part of a pyramid. At the top is the stock of Reliance Group Holdings, which, at a recent price of $4½, has a market cap of $335 million. Since there's almost $1 billion of debt to be reckoned with, stockholders are apparently betting that this debt can be repaid with money to spare. Reliance's bondholders are less optimistic. Proof is Reliance's notes and debentures (see page 5) which trade at yields-to-maturity ranging from 11.82% to 16.66%. These rich yields signify that bondholders have doubts as to the ultimate collateral behind their securities.

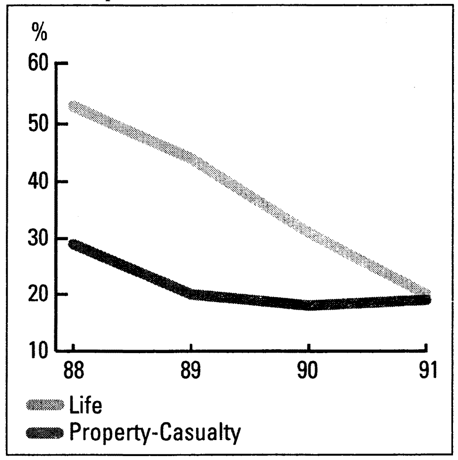
Which brings us back to the Reliance Insurance Company's preferred stock. For those who may have forgotten, in the realm of corporate hierarchy, preferred stock is a royal flush to common stock's four-of-a-kind. That is, if the preferred stock isn't good, the common is worthless. There are currently 1,343,892 Reliance Insurance preferred shares outstanding, with a total redemption value of $33.59 million, and a sinking-fund provision requiring one-fifteenth of these shares to be redeemed annually, with the final redemption occurring in 2001.

The importance of all this is elementary: Reliance Group Holdings, through Reliance Financial Services, owns 100% of Reliance Insurance Company's common stock. Reliance Insurance Company pays about $140 million a year in common stock dividends to its parent. These dividends are the principal source of revenues for the parent companies. Without these dividends, the holding companies wouldn't have the operating cash flow to pay the interest on their debt, *and these dividends cannot be paid unless Reliance Insurance Company has paid the full cumulative dividend on its preferred stock.*

Given the strength of the Reliance Insurance Company balance sheet and the fact that its preferred stock is senior to all the Reliance Group debt, one would expect the preferred to yield less than those more speculative debt securities, and in fact it does. One would expect the preferred, which is rated BBB+ by Standard & Poor's, to carry an investment grade yield of 9% or so, like other similarly rated preferred stocks. In fact, it doesn't. The yield-to-maturity on the Reliance Insurance Company Preferred is 12.2%, which seems startlingly high.

A glance at the Reliance Insurance Company balance sheet shows negligible debt, nominal real estate investments, and a net worth of $1.1 billion. The obvious question is: if things are so good, why has Reliance's Best rating declined from A+ in 1986 to A- in 1991? The answer is simple: junk bonds. In 1988, 45% of Reliance's fixed-income investment portfolio was in junk or non-rated securities, and at year end 1990, the company had a $396 million unrealized loss on its bond portfolio. Since then, both the junk and investment grade bond markets have rallied mightily. As of September 30, Reliance's bond portfolio was worth $131 million more than book, and it's a safe bet to say that the year-end numbers will be hundreds of millions of dollars better. Furthermore, Reliance has paired its junk bonds down to about 20% of the portfolio (see the graph above).

Less Junk: **Reliance Insurance Company**
Junk bonds and non-rated bonds as % of investment portfolio.



Reliance has also invested heavily in stocks, and its $704 million portfolio is concentrated in just a few issues. The largest investment—around $300 million—is in Frank B. Hall, which has undergone considerable turmoil over the past decade but now seems to be stabilizing.

Also worth noting is Reliance Insurance Company's ownership of $68 million (par value) of Reliance Group Holdings bonds, including $2,035,000 worth bought from Saul Steinberg in April of 1990. Reliance Group Holdings repurchased 300,000 of its shares from Steinberg on April 11, 1991, for $5.75 per share. Also, Reliance Insurance Company owns 34.9% of Zenith National Insurance, and Zenith National Insurance owns 23.88% of the Reliance Insurance Company Preferred.

Despite the intricate transactions and concentration of higher-risk assets, it appears that Reliance's investments—although not our style—are okay.

It would be nice to report that Reliance's property-casualty business was doing well, but we can't. Richard Earle, a Reliance spokesman, said he sees some improvement in certain specialty lines but that overall business is still soft. That's a common lament. We think the industry will continue to be marked by extreme competition and inadequate returns on equity, although from time to time there may be sharp, and short-lived, upswings.

Leveraged: Reliance Group Holdings, Inc. (in thousands) September 30, 1991

Assets		Liabilities	
Fixed maturities (market - $7,101,349)	$6,976,268	Unearned premiums	$734,167
Equity securities	704,125	Unpaid claims	2,424,785
Short-term investments and cash	1,049,249	Future policy benefits and policlyholders' funds	5,947,502
Premiums and receivables	1,185,461	Accounts payable	742,005
Real estate	125,710	Debt	989,805
Deferred policy acquisition costs	410,928	Minority interests — preferred stock	29,454
Excess of cost over fair value of assets acquired	306,032		
Other	442,991	Shareholders' equity	$333,046
	$11,200,764		

Unleveraged: Reliance Insurance Company (in thousands)

Assets		Liabilities	
Fixed maturities (market - $7,165,024)	$7,034,388	Unearned premiums	$734,167
Equity securities	704,125	Unpaid claims	2,423,462
Short-term investments and cash	1,043,977	Future policy benefits and policlyholders' funds	5,956,773
Premiums, investment income, and other receivables	1,150,307	Accounts payable	643,406
Real estate	110,498	Debt	28,428
Deferred policy acquisition costs	410,928		9,786,236
Other	472,247	Redeemable preferred stock	33,597
	$10,926,470	Shareholders' equity	$1,106,637

Like almost everyone else, Reliance is trying to adapt to these difficult times. Steinberg explained the strategy in the 1990 annual report:

> We continue to shift our emphasis towards the higher-margin specialty commercial lines, where risks are more complex, where there are fewer competitors, and where clients are willing to pay adequate premiums for our underwriting and technical skills. . . . At the same time, we have been reducing our exposures in those lines most affected by inadequate pricing—particularly personal lines, which now account for 11% of our book, versus 29% three years ago.

Reliance Insurance Company's life-insurance business, which sells a line of tax-advantaged, single-premium deferred annuities, is also having a tough time, and according to its September 30 10-Q, plans "to limit sales of life insurance products due to a lack of fixed-income investment opportunities that provide adequate margins." By opting for less risk in its investments, Reliance has run into the problem faced by so many others—inadequate investment spreads. That's why Reliance "is not aggressively competing on price," according to Bryan Martin, Reliance Group Holdings' Vice President of Communications. The company has also made a strategic decision not to add to its annuity book unless the business is "long term, fixed rate, and non-cancellable." With those sort of restrictions it's not hard to see why business is slow.

Despite the many negatives (and what insurance company doesn't have plenty of them), we feel sanguine about our investment in Reliance preferred. Due to the unusual nature of this preferred—it's a direct obligation of the insurance company—as a security it's much safer than the Reliance holding companies' debt. Also, it seems likely that Reliance Insurance Company will strive to maintain or improve the quality of its balance sheet, mainly because insurance buyers are wary of lesser-rated companies. Although Martin said that Reliance's A- Best rating "hasn't affected us much," an A- rating is of concern to many these days, particularly the larger corporate accounts that Reliance is emphasizing.

As it is, we're also concerned about the A- rating but think that the 12.2% yield on the preferred more than offsets the risk. In any event, we've paid our money and are prepared to take our chances.

Debt Be Not Proud: Reliance's debt and preferred stock

	S&P Rating	Price	Yield to maturity %
Reliance Group Holdings, Inc.			
11% Senior Sinking Fund Notes, due 1996	BB	82	16.51
14% Senior Sinking Fund Debentures, due 1996	BB	96 1/2	15.02
11 1/2% Sinking Fund Debentures, due 1997	BB	81	16.66
14 1/4% Senior Variable Rate Notes, due 1998	BB	94 1/2	. . . .
11 1/2% Subordinated Sinking Fund Debentures, due 2001	B+	79	15.75
Reliance Group, Incorporated			
9 7/8% Subordinated Sinking Fund Debentures, due 1998	B+	87	12.83
9 7/8% Subordinated Sinking Fund Debentures, due 1999	B+	85 3/4	12.91
Reliance Financial Services Corporation			
9 5/8% Sinking Fund Debentures, due 1997	BBB	90 7/8	11.82
10 3/8% Senior Reset Notes, due 2000	BBB	92	. . . .
10 5/8% Senior Reset Notes, due 2000	BBB	94	. . . .
11 3/8% Sinking Fund Debentures, due 2008	BBB	91 1/2	12.61
Reliance Insurance Company			
$2.68 Series A Cumulative Preferred Stock	BBB+	23	12.20

Source: Standard & Poor's

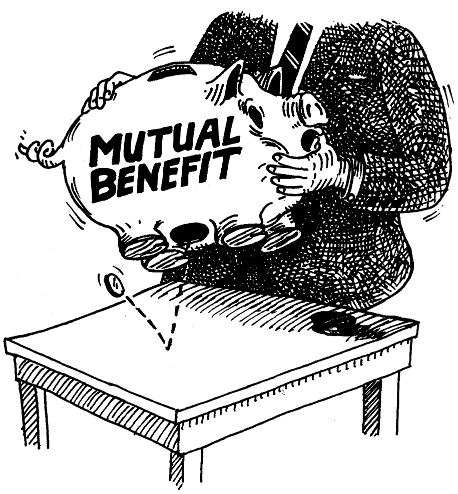
Dancing in the Dark

In our September tour de force entitled "Q: How Does an Insurance Company Go Bust? A: Slowly at First, Then Suddenly," we chronicled rise and fall of Mutual Benefit. Although just about everyone in the industry has been saying that Mutual Benefit was not, and is not, insolvent—that it's just the victim of a severe liquidity crisis—Victor Palmieri, the company's deputy rehabilitator and chief executive officer, recently put matters in a different light: "Marked to market today," he said, "you can bet that Mutual Benefit's assets would fall well short of its liabilities, but you could say the same thing for most of the financial institutions of this country that are heavily invested in real estate." While the insurance industry might feel better knowing that Mutual Benefit wasn't the only real-estate speculator to lose its shirt, we doubt it's any consolation to policyholders, who have had their cash values frozen since last July.

So just how much is the company in the hole for? On February 4, *The Wall Street Journal* reported that "some industry analysts have said that Mutual Benefit would have had a negative net worth of between $500 million and $1 billion," if its assets had been carried at market value.

We're well aware that lots of folks think it's downright crazy to make insurance companies mark their assets to market, since these assets are held for the long term. (By the way, most people making this argument seem to work at insurance companies.) We disagree. Both assets and liabilities should be marked-to-market, or at least marked-to-*something* that bears some relationship to reality. It's hard to see why any disinterested party thinks it's preferable to pretend that bum assets—loans against half-filled, money-losing office buildings, for example—are worth one hundred cents on the dollar.

Further evidence of Mutual Benefit's poor real-estate investments can be found in the publicly-traded mortgage-backed bonds of Mutual Benefit Overseas, a subsidiary of Mutual Benefit Life. Way back in 1986, when real estate money was flowing freely, Mutual Benefit Overseas sold $475 million of these bonds at prices around par. The bonds were secured



by first mortgage loans on commercial properties as well as by certain obligations of Mutual Benefit Life, and seemed like a sure thing: if the commercial mortgages didn't work out, Mutual Benefit would step in and make up the shortfall.

What a difference a few years makes. The $9\frac{5}{8}$s of 1998, although not in default, are now trading in the $62-65 range, which indicates that the market expects them to default.

If bad real estate were Mutual Benefit's only problem, perhaps that would be proof that the world truly is a kinder, gentler place. Sadly, that doesn't seem to be the case. Under the Bush administration's new tax proposal, companies won't be able to deduct the interest paid on corporate-owned life insurance policies. Therefore, most of Mutual Benefit's corporate-owned policies would probably lapse, and the lost revenue stream would be in the "hundreds of millions of dollars," noted Palmieri.

As if all this weren't bad enough, in January the state of New Jersey charged that Mutual Benefit had made $22 million of improper payments to its largest agency. According to a lawsuit filed in Superior Court, the payments were made in a manner designed to "avoid regulatory scrutiny."

Perhaps what's ultimately so shocking about the Mutual Benefit mess is its banality. The company didn't become a ward of the state because of any sudden shift in strategy or grandiose scheme. Its problem was much simpler: *it stretched for yield.*

Mutual Benefit wasn't alone in this regard. Throughout the 1980s, junk bonds and real estate lured investors with their siren's song of easy money. Like so many others, insurance companies could resist everything but temptation.

But that's the way it always is. Even today, when many of America's financial institutions are hurting and the country is in a recession, people can't resist spinning the wheel of fortune. We're referring to the stock market, of course. Caught between the Scylla of low interest rates and the Charybdis of sky-high price/earnings ratios on stocks, hordes of people are casting their lot with equities in the belief that a stock market in an upward motion remains that way, no matter what.

If history is any indicator, folks are likely to be disappointed.

Don't Mess With Texas

Even if you've got nothing better to do, you probably don't want to drive around east Texas for a couple of days. The prairie is flat, the towns are on the sad side, and except for twanging country music and bible-thumping preachers, the radio waves are as dead as vaudeville. Naturally, none of that stopped us from getting behind the wheel of a rented Lincoln Town Car and taking in the corner of the lone star state that's bounded by Dallas to the west, Texarkana to the east, the Red River to the north, and the Piney Woods and Big Thicket to the south.

Everywhere we drove we saw "Don't mess with Texas" signs. Typical. Texans talk tough. We still remember the Texas bumper sticker from the days when it looked as if oil was going to $100 a barrel: "Drive fast. Freeze a Yankee." Perhaps that's why the arrogance, the cockiness, the jingoistic boosterism of "Don't mess with Texas" rubbed us the wrong way. When we finally complained to a Texan, we were informed that "Don't mess with Texas" had nothing to do with Texans' proud, kickass mentality; it was merely an anti-littering campaign.

"Never mind," we said quietly, feeling foolish.

The dried out, lonely little Texas towns with names like Paris, Commerce, Blossom, Clarksville, Avery, DeKalb, and Malta look a lot like all the other sad towns we've seen throughout the South. One surprise was Jefferson (population 2,500), which, according to some, is the prettiest town in all of Texas. Located along the Cypress River, it was once Texas's largest city and served as an important stopping point during the glory days of river transportation. Jefferson has a distinct Old Southern feel to it and you can easily spend an hour wandering around the historical district. We did it in fifteen minutes, though, and that included taking a gander at *Atalanta*, the private railroad car of nineteenth-century financier Jay Gould. *Atalanta* is across the street from the Excelsior House, a charming hundred-and-forty-year-old hotel that has "entertained such notables as Ulysses S. Grant, Rutherford B. Hayes, and Oscar Wilde," although not all on the same night.

Without a doubt, the town of Kilgore (population 12,100, altitude 371 feet) was the highlight of our trip. That's because it's the home of the Rangerette Showcase Museum. The Rangerettes (officially known as The Kilgore College Rangerette Dance-Drill Team) have been a called "a living-breathing art form," and are a venerable institution in these parts. Back in 1940 they virtually invented the football-halftime show. With their signature uniforms — a blue mini-skirt, white waistband, short-sleeved red shirt, and white cowboy hat and boots — these "sweethearts of the nation's gridirons" are the winningest team in Texas. As football coach Joe Turner noted in 1960, "We haven't lost a halftime in twenty years."

The Rangerettes have demonstrated their "unique form of American culture" at the Cotton Bowl for over a quarter of a century and have been sponsored by the State Department as ambassadors of goodwill. They've posed for pictures with LBJ, Richard Nixon, Gerald Ford, Ronald Reagan, John Wayne, Sandy Duncan, Congressman George Bush, and the Rockettes, to name just a few.

The Rangerettes have also strutted their stuff at presidential inaugurations, conventions, pageants, parades, and on TV. Although a columnist of the 1950s called them "the champions of the high kick and the posterior wiggle," the Rangerettes — whose "most dazzling maneuver," according to *Life* magazine, is "the Pom-Pom routine"— seem rather tame compared to the Dallas Cowboys Cheerleaders, the Laker Girls, or the Swedish Bikini Team.

There were no Rangerettes on hand the afternoon we visited the Showcase Museum, so we had to content ourselves with a ten-minute film, photos, old-newspaper clippings, assorted memorabilia, and a life-size model of a Rangerette.

No trip to Kilgore would be complete without a visit to the East Texas Oil Museum. The event that put Kilgore on the map took place in 1930, when "Dad" Joiner, a seventy-one year old wildcatter, struck oil. Although he didn't know it at the time, he'd discovered the East Texas Oil Field, which has since produced 4.5 billion barrels of oil.

Before the oil boom, Kilgore was just another tiny agricultural and lumbering town in the throes of the Great Depression. After, downtown Kilgore became home to "the world's richest acre," so called because twenty-four oil wells were drilled within one block. Nowadays, the oil boom over, Kilgore is just another quiet town again.

Dad Joiner soon sold out to ultra-right-winger H.L. Hunt, who went on to become a billionaire. A room in the East Texas Oil Museum is devoted to Hunt's memory. Although nothing is mentioned of his belief that the rich should have greater voting power than the poor, a plaque on the wall commemorates his "joyous quest to preserve freedom."

If, as the song says, "freedom's just another word for nothing left to lose," then Hunt's sons have certainly achieved freedom; they went bankrupt after trying to corner the silver market in the early 1980s.

We pondered that as we walked Kilgore's empty streets and saw the faded glory of its Art Deco buildings. We thought about it some more as we drove back to Dallas. During the 1980s, nine of the ten largest banks in Texas went bust, and the big cities were filled with "see-throughs"— office buildings without tenants.

It's much easier to lose money than it is to make it.

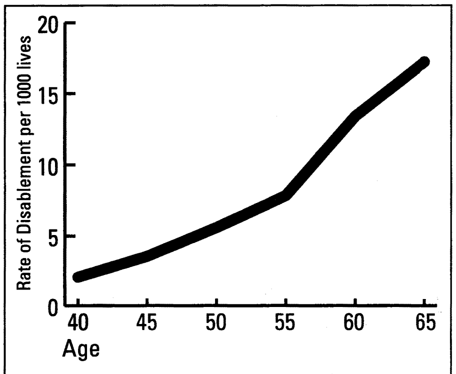
Long Term Disability: A Booming Market

Even though demand for Long Term Disability has been growing rapidly, only 27% of American income earners have any form of disability coverage, while 85% have some form of health insurance. And, even though most working people have a much greater chance of becoming disabled than dying—a thirty-two year old is 6 1/2 times more likely to be disabled for ninety days than to die—life insurance is much more prevalent.

Ultimately, Long Term Disability will be as common as health insurance is now, but it'll take a while. In the meantime, the situation provides brokers with an opportunity that's quite rare in the insurance business—a major risk that is mostly uninsured.

Emerson, Reid has long been recognized as the leading general agent and specialist in the statutory and short-term disability market, and we've carved out a niche for ourselves in the Long Term Disability market as well. So give us a call.

Rate of Disablement



Source: Society of Actuaries

New York DBL: Steady Growth

The accompanying chart of DBL claims statistics provides a good snapshot of what's happened in this market over the past two decades. Primarily due to inflation, the average weekly benefit rate, indemnity payment per employee, and payment per claim, have risen.

The number of claims per one hundred covered employees peaked at 5.9 in 1970 and has gradually trended downward to 5.1 in 1989. The average duration of a claim was 7.7 weeks in 1970. It got as high as 8.7 weeks in 1982, but has since stabilized, and declined slightly.

LETTERS TO THE EDITOR

When I receive other industry publications I normally set them aside to read at a later date. The one exception is your publication; I read it immediately. It's interesting and most informative. Kudos to Emerson, Reid & Company.

Marie Zaino
Long Island City, New York

I would like you to know how much I enjoy your Insurance Observer. I find it more informative than many of the other insurance periodicals. I hope you will continue the good work.

Thomas B. Rice
New York, N.Y.

I certainly enjoyed reading your article [on The Guardian] in the December 1991 Observer. I enjoyed our visit together and it was nice to see the results.

Peter L. Hutchings
Exec. VP and CFO
The Guardian
New York, N.Y.

We love receiving comments from our readers, so please write. Letters should be addressed to David Schiff, Emerson, Reid & Company, Inc., 10 Columbus Circle, New York, N.Y. 10019.

We are also interested in publishing articles by our readers, so call if you've got a good idea.

New York State Disability Benefits Claims Statistics
Statutory Coverage, 1970—1989

Year	Initial indemnity benefit claims allowed	Indemnity benefits paid (000)	Average weekly benefit rate	Average duration of benefits (weeks)	Average number of employees covered	Claims allowed per 100 covered employees	Indemnity payment per covered employee	Average indemnity payment per claim
1970	199,333	$77,232	$50.48	7.7	3,382,156	5.9	$22.84	$387.46
1971	193,989	82,896	55.46	7.7	3,431,223	5.7	24.16	427.33
1972	191,622	83,809	59.01	7.4	3,604,023	5.3	23.25	437.37
1973	204,443	91,387	59.03	7.6	3,691,156	5.5	24.76	447.01
1974	196,764	94,043	63.34	7.5	3,566,650	5.5	26.31	477.95
1975	185,982	98,557	69.70	7.6	3,642,126	5.1	27.06	529.93
1976	179,345	101,908	73.40	7.7	3,770,411	4.8	27.03	568.23
1977	178,990	104,326	75.09	7.8	3,630,908	4.9	28.73	582.86
1978	212,212	125,004	79.08	7.4	3,834,257	5.5	32.60	589.05
1979	203,378	130,831	79.50	8.1	3,935,728	5.2	33.24	643.29
1980	203,864	140,873	81.46	8.5	4,018,927	5.1	35.05	691.02
1981	215,067	151,507	83.15	8.5	4,291,954	5.0	35.53	709.12
1982	216,142	156,271	83.29	8.7	4,340,438	5.0	36.00	723.00
1983	218,824	163,629	88.38	8.5	4,409,937	5.0	37.10	747.77
1984	227,783	195,954	102.22	8.4	4,434,836	5.1	44.19	860.27
1985	227,856	218,372	110.48	8.7	4,500,824	5.1	48.52	958.38
1986	238,790	227,892	111.70	8.5	4,795,198	5.0	47.53	954.36
1987	238,548	230,686	115.19	8.4	4,930,068	4.8	46.79	967.05
1988	238,377	233,792	118.64	8.3	4,907,689	4.9	47.64	980.77
1989	251.419	259,922	123.76	8.4	4,943,789	5.1	52.58	1,033.82

Source: State of New York Workers' Compensation Board.