EMERSON, REID'S

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Fear and Loathing in the Insurance Business

Bad News is Good News, Sort Of

What is an insurance company? There are many answers, of course. If you've had the misfortune of attending the College of Insurance (as we have) and are sitting in the back row in a somnolent state when a professor poses such a query, you might reply that an insurance company is a societal mechanism that enables individuals and organizations to spread risk and alleviate uncertainty—or something like that.

If you're an insurance salesman, you might respond that an insurance company is a glorious institution that provides peace of mind in good times and security in bad.

And, if you're the average insurance-ignorant Joe, you might declare that an insurance company is a rapacious blood-sucker that leeches onto your bank account and stiffs you if you file a claim.

Although these answers aren't exactly wrong, they're beside the point—at least the point we intend to make right now: that an insurance company is, essentially, a pile of assets and a jumble of liabilities. The difference between the two is the equity, and, as is always the case, people who have equity care about one thing: what sort of return they're earning on it. In that respect, the insurance business has been "unsatisfactory," to use a word favored by CEOs.

Although catastrophes, out-of-control lawyers, daffy consumer activists, and hostile regulators are the traditional scapegoats for the industry's malaise, we think the problem lies elsewhere. During the twelve years preceding 1994, financial assets—the stuff that property/casualty insurance companies own lots of—outperformed hard assets such as oil wells, paper mills, and office buildings. Insurance companies benefited from their investments in bonds, and, to a lesser extent, stocks, as well as from the issuance of new shares. But, as was demonstrated by the markets in 1994 (especially the bond market), no class of assets *always* outperforms; over time, returns tend to revert to the mean. Bond yields can only go so low and the price of stocks must ultimately bear some rational relationship to corporate earnings.

In some respects, insurance has more in common with the commodities, real-estate, and capital-goods businesses than is at first apparent. The price of all is highly sensitive to the balance between supply and demand. (In his marvelous new book, *Investment Biker*, Jim Rogers

CNA's boss, Dennis Chookaszian, tries to whip newly-acquired Continental into shape.

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explains that "*price* is supply and demand. Price describes where supply and demand hang out, the place they meet.") When prices rise, as they did for oil in the 1970s, real estate in the early 1980s, and insurance in the mid-1980s, enterprising capitalists create more supply. As this new supply equals, then exceeds, demand, prices level off and eventually fall. Brash real-estate developers don't set out to build vacant office towers, but the given lag time between conception and execution, they sometimes do so.

Insurance, on the other hand, is a "virtual" business. Supply—which we call "capacity"—is a concept. It isn't be found in warehouses or factories; it exists in the minds of underwriters. Unlike, say, Ford Explorers, insurance capacity can be created out of thin air, simply by an underwriter's decision to write more business.

Capacity is often viewed as a quotient of written premium to surplus. A low premium-to-surplus ratio is generally considered conservative, a high one, risky. But premiums aren't always good indicators of risk; for instance, 20th Century Insurance, which had $564 million in surplus, wrote $21 million of earthquake premiums, but its Northridge earthquake losses exceeded $900 million. During soft markets, when rates are depressed, insurance companies may have low premium-to-surplus ratios even though they're actually taking on more risk than they are in hard markets, when ratios tend to be higher.

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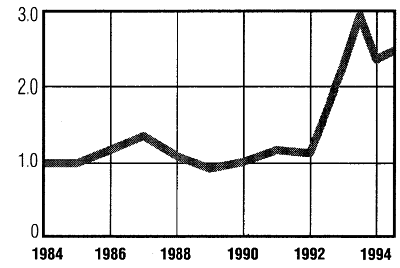
In a nifty tome put out last October, *The Property-Casualty Industry in a Moderate Inflation Environment*, Weston Hicks, a principal at Sanford C. Bernstein & Company (investment research and management) suggests that capacity is "perceived reserve adequacy." In 1984, for example, when the industry's reported capital was $63.8 billion, its "adjusted" surplus (capital ± unrealized gains/losses – after-tax reserve deficiency, *see chart*) was only $32.4 billion. Since written premiums were then $118 billion, the industry was writing business at an unusually high 3.6-to-1 premium-to-surplus ratio (based on depressed premiums) and was thus significantly undercapitalized. The inevitable result: a feeling of fear, which caused underwriters to withdraw from the market, sending rates soaring. Over the next three years premiums rose 64%, attracting new money and emboldening previously reluctant underwriters to compete for a piece of the action. Since 1987, however, in what has perhaps been the most prolonged soft market, industry-wide premiums have grown at only a 4.1% annual rate.

Boom and bust periods are typical of the property/casualty industry. (In our December 1992 issue, we charted the fire insurance cycle back to 1849.) When losses deplete capital, companies raise rates. The increase generates profits, replenishes capital, and begets competition, which causes the cycle to start all over again.

The $44 billion of catastrophe losses during the last three years, however, have had a somewhat different effect. Anticipating a sharp contraction in capacity and a dramatic turn in pricing, more than $15 billion of new, "smart" money poured into the industry in 1992 and 1993, in search of El Dorado. Since rates (with the exception of coastal property and earthquake risks) have not yet headed north, this new capital has probably had the effect of delaying a turn for the better. After all, a hard market is the result of a hole in the industry's balance sheet, a shortage of capital. Once that hole is plugged—whether by profits, new capital, or the discovery of a gold mine on John Street—there's no economic necessity for significant price increases.

The Price of Disaster
Catastrophe Reinsurance Price Index (1984 = 1.0)



Source: Paragon Reinsurance Risk Management Service, Inc.

Right now there's an almost universal agreement that premiums are inadequate, and few see signs of an across-the-board pickup. Pundits who only a couple of years ago were predicting an upswing in the cycle are now repeating the mantra, "This isn't a soft market, it's *the* market."

We don't believe that the industry's cyclicity has gone the way of the buffalo nickel. Cycles, after all, are the result of human behavior, which doesn't change. The crowd will always be optimistic at the top and pessimistic at the bottom.

Although we expect higher prices (or, at least, improved combined ratios) at some to-be-determined future date, we don't think their arrival will necessarily be accompanied by a chorus of cheers, because most likely, it will be on the heels of distress.

There are numerous scenarios that might cause this pain, and you can choose your favorite. A $50-billion catastrophe (the property/casualty industry has about $175 billion in surplus) is always a good bet and probably has the inside track right now, but environmental liabilities (the number is anybody's guess, but let's just say $30-50 billion) are coming on strong, and may give catastrophes a run for their money. Publicly held insurance companies will be under pressure from their auditors and actuaries to beef up their reserves, which could weaken balance sheets and intensify scrutiny from regulators. Trailing, but always a danger, is the specter of higher interest rates. (In 1994, bonds turned in their worst performance since 1967, as ten-year rates jumped 200 basis points, nipping about $40 billion off the property/casualty industry's GAAP balance sheet.) Way behind the pack, and as yet unquantified, is the possibility that billions of dollars of "reinsurance recoverables" may never be recovered.

The rating agencies are already taking a harder look at insurance companies, and we expect to see numerous downgrades. A. M. Best, most importantly, has shifted its standards (see "Clear and Present Danger" and "The Harder They Fall," *Emerson, Reid's Insurance Observer*, October 1994). Despite Best's downgrading of The Home and Cigna to B+ and B++, respectively, Best's ratings—especially its definitions—are still less discerning than those of Standard & Poor's, Moody's, and Duff & Phelps. We expect this situation to change over time because, in order to preserve its franchise, Best must be perceived as being on the cutting edge. Its difficulty in getting there stems from its longtime role as the predominant rating agency. If tomorrow, Best were to alter its ratings to a scale similar to that of Standard & Poor's or Moody's, it would run the risk of discrediting its work up to that point. Such a radical move is unlikely. After all, Best has a good business and would prefer not to shake things up too much, if possible. (While that attitude is understandable, it is misguided.) Instead, Best will probably downgrade weaker companies one by one, and make additional changes in its rating methods, terms, and definitions, over time. Regardless, insurance companies will be under continued pressure.

Given this difficult environment, why is a shrewd investor like Larry Tisch, the chairman of Loews (which controls CNA), buying Continental? After all, insurance stocks tend to underperform the market during periods of rising interest rates and an accelerating economy.

Tisch, a contrarian, knows that the best time to buy something cheaply is when nobody else wants it. He's often early, but not often wrong. (In 1993, when interest rates were bottoming out, 36% of CNA's $24 billion of investments was in short-term maturities—cash, so to speak. CNA also took advantage of the low rate environment by issuing $250 million of ten-year notes and $250 million of thirty-year notes, at 6.4% and 7.3%, respectively.)

One "contrary indicator" worth considering comes to us from Chris Davis, manager of the Global Value Fund. Davis, a long-term bull on the insurance industry, recently noted that Fidelity's insurance fund, which has a measly $6 million in assets, was the second smallest of the mutual-fund giant's thirty-five "sector" funds. (By comparison, the precious metals fund has $589 million in assets, the utilities fund $217 million, and the regional bank fund $139 million.)

As James Grant, editor of *Grant's Interest Rate Observer* and the undisputed heavyweight champion of financial writers, has often explained, change occurs at the margin. It's the incremental demand (or lack thereof) that drives prices, whether they are those of newsprint, aluminum, or catastrophe reinsurance. Since insurance is generally perceived as a generic product, the highest-quality insurance companies haven't had the pricing power to charge more than their dumbest competitors, which tend to be the weakest companies. The demise of some of these shakier insurers—whether by insolvency, withdrawal from the market, or buyers' refusal to deal with them—could have a firming effect. Perhaps that's why we detect such a strong feeling of *Schadenfreude* among industry executives over the travails of The Home, Cigna, and others.

Although buyers of commercial insurance aren't placing enough emphasis on financial strength, that will change—if only for a while—after some sort of crisis (a major insurance company is downgraded below "secure," Lloyd's disintegrates, 10% yields on treasuries). In a crisis, pricing will be set by the strongest players—those who will unquestionably be around to pay claims. In fact, there may be little demand, among large buyers of insurance, for many companies that currently have A– ratings. (After a crisis, these companies may have lower ratings.)

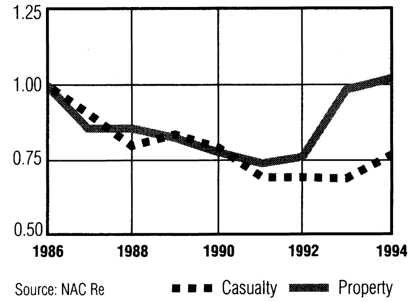
Despite our feeling that there will be more bad news before good news, we think the prices of many insurance stocks are attractive, and we have been a buyer, in the last couple months, of AIG (a global leader with rapid growth in Asia), St. Paul (excellent financial strength and strong reserves), Chubb (a premier, high-quality company), SCOR (a dirt-cheap reinsurer selling for two-thirds of book value), and Allstate (a great consumer franchise—we're willing to take the catastrophe risk). We also own Cincinnati Financial (the company everyone tries to emulate), H.W. Kaufman (at 50% of commissions and eight times earnings, this surplus-lines broker is a good play on a turn in the market), Arista (a takeover candidate), Loews (at a price below book value, it's a good deal to become Larry Tisch's partner), Reliable Life (a cheap home-service life company we've had for a while), and Merchants Group (we're still not sure why we own this—it's cheap, but then again, it deserves to be).

Long live the insurance cycle. ■

A Leading Indicator?

Facultative Reinsurance Price Index (1986 = 1.0)

Have casualty rates bottomed out? According to NAC Re's facultative casualty reinsurance price index, which some say is a good indicator of "pure" insurance pricing, the market recently showed its first uptick in five years.



Source: NAC Re

It Don't Take a Weatherman to Know Which Way the Wind Blows

"Adjusted surplus" is a more realistic assessment of the property/casualty industry's financial strength.

	Reported Capital	Unrealized Gains (Losses)	Loss Reserve Deficiency	Adjusted Surplus	Written Premiums	% Change in Written Premiums
1984	$63.8	(2.2)	29.2	32.4	118.2	8.4
1985	75.5	0.6	28.6	47.6	144.2	21.9
1986	94.3	2.6	23.6	73.2	177.0	22.7
1987	104.0	(0.9)	16.8	86.3	193.5	9.3
1988	118.2	(1.6)	10.5	106.1	201.5	4.1
1989	134.0	2.5	9.2	127.3	207.9	3.1
1990	138.6	2.0	5.9	134.7	217.2	4.4
1991	158.7	10.8	2.5	167.0	222.3	2.3
1992	163.1	7.9	1.4	169.6	227.5	2.3
1993	182.7	12.5	0.0	195.2	241.6	6.2
1994E	176.0	0.0	0.0	176.0	256.4	6.1

($ billions)

Source: Sanford C. Bernstein & Company, A. M. Best Company

Do the Wall Street Shuffle

'There's No Such Thing as the Perfect Hedge'

As folks who live in Orange County learned the hard way, with derivatives in general, and "stepped inverse six-month-LIBOR-indexed notes" in particular—which the county's fund happened to own in quantity—you don't always get what you think you've paid for. Although these investments were bought for the purpose of *enhancing*, rather than *decreasing*, returns, the process of stretching for yield involves risks. These risks are magnified if you are using leverage, as was Orange County.

Taking risk, however, is part of the game, especially if you're a life-insurance company. The "life-insurance business" (which is something of a misnomer since 70% of the industry's reserves are from annuities) is a "spread" business, and as such is inherently leveraged. (The industry's capital-to-assets ratio is about 10%.) Profits are made by acquiring funds at one rate and investing them at a higher rate. Investment vogues come and go, and the industry has a tendency to emphasize the wrong investment at the wrong time: farm mortgages in the 1920s, long-term Treasurys in the 1940s, stocks in 1972, junk bonds and commercial mortgages in the late 1980s.

Mortgage-related securities have been the life-insurance industry's fastest growing asset class, jumping from $25 billion in 1983 to $273 billion in 1993. There are reasons for this. The industry needed yield to make annuities and interest-sensitive products attractive, but after its poor experience with junk bonds and mortgages, it was wary of credit risk. Mortgage-related securities, which are often guaranteed by federal agencies, carry little credit risk, and under the NAIC's risk-based capital calculations, there's no capital charge for AAA, AA, and A rated mortgage-backed securities.

The securities are, however, susceptible to interest-rate swings, which create prepayment risk and extension risk. In order to hedge these risks, many companies have turned to derivatives.

One indication that there's considerable interest in this subject is an upcoming conference, *Maintaining Regulatory Compliance and Policyholder Confidence through Innovative Asset & Liability Management Strategies for Insurance Companies.* (When the same conference was given last July and November, it was sold out.)

Conference attendees will, among other things, "learn how to integrate exotic CMOs into [their] asset/liability management strategy."

When we ran that by Peter Hutchings, the chief financial officer of top-rated Guardian Life, he chuckled and said, "Isn't that a little like learning how to integrate exotic diseases into your body?"

Hutchings noted that asset/liability matching "is either very crucial to you, or not very crucial, depending on your business mix. There are two products that generate tremendous issues, and we don't sell either in quantity: GICs and fixed annuities. I don't think we've ever figured out a satisfactory way to invest the money in a prudent manner on a competitive basis. I'm not saying others haven't, but we don't see a way to do it well—and safely."

Mortgage-related securities have been the life-insurance industry's fastest growing asset class.

Asset/liability matching is no simple subject. A company must consider the interest rates guaranteed, expected yields, surrender charges, reset rates, commissions, and expenses, among other things.

James Grant, the interest-rate observer and financial historian, explained why the world needs the more complex CMOs and derivatives. "On the supply side," he said, referring to the bankers who create these securities, "there's no money in investment-grade securities, and there's no money in generic derivatives. The only way an investment bank can generate above-average fees is in derivatives of above average risk. On the demand side, some company is always going to be reaching for the extra basis point and—low and behold—you have an 'exotic' CMO.

"In the mid- and late-1980s we saw a similar dynamic in junk bonds. There was less and less money to be made in investment grade, more and more in speculative..." He didn't need to explain what happened after that.

One leading user of derivatives in the life-insurance market, and incidentally, a participant in the previously mentioned conference, is Lincoln National, of which Standard & Poor's says the following:

> Lincoln employs sound asset/liability techniques in managing interest-rate exposures... the company uses derivatives, including interest-rate caps, financial futures, and options... The company has structured the program to offset rate spikes and has purchased caps with different strike prices and durations to add diversity to the hedge program.

We aren't suggesting that Lincoln National's use of derivatives is speculative, nor are we saying that its, and other insurance companies', use of derivatives is the same as Orange County's, but there are similarities in that all are looking for extra return somewhere along the line. Insurance companies have been willing to take the risks that come with higher-yielding mortgage-related securities ("higher yielding" compared with other similarly rated securities), but have then hedged those risks through the use of derivatives. The catch, of course, is that there's a cost to hedging, and it can be considerable. If you hedge away all your risk you wind up with a risk-free (read *inadequate*) return approximating short-term Treasures.

"There's no such thing as a perfect hedge," says Patricia McWeeny, a director of Standard & Poor's who in a previous job managed GIC and long-term annuity portfolios, "only a relatively perfect hedge. If the spread is there, it's because you're taking risk. There's no such thing as a free lunch."

To expound on that, perhaps the greatest risk associated with these investments is that they give one a false sense of security. An insurance company, believing it is hedged, may write more annuities than it would have otherwise written. It may then invest its funds in riskier securities than it otherwise would, because it believes it is hedged. If, however, either side of the equation doesn't behave as expected, the company may be stuck with considerably more exposure than it had counted on.

But then that wouldn't be the first time that's happened. ■

Symbolism: Insurance Company Trademarks

'Reinforcing the Core Message'

Insurance is a generic product; for the most part, one company's policy is pretty much the same as another's. In theory, insurance companies compete on the basis of price, service, and financial strength. In practice, insurance buyers tend to view companies as interchangeable. (That insurance is a commodity is undeniable: since December 1992, insurance futures have been bought and sold on the Chicago Board of Trade, alongside oats, soybeans, corn, and silver.)

It's not surprising that people have trouble telling one insurance company from another. There are at least 310 insurance companies whose names begin with "American," 172 with "Farm" or "Farmers," 116 with "United," 114 with "First," and 111 with "National." Other words commonly appearing in insurance companies' names are "Benefit," "Capitol," "Colonial," and "Security."

Although the moniker "Continental" isn't especially common, there are a Continental Casualty, a Continental Divide, a Continental General, a Continental Heritage, a Continental Insurance, a Continental Life & Accident, a Continental Mutual, a Continental National, and a Continental Western.

To add to the confusion, numerous insurance companies are named for, or are associated with, famous Americans, especially those appearing on currency. There are several Franklin insurance companies, an Alexander Hamilton Insurance Company of America, an Andrew Jackson Casualty Insurance Company (as well as an Old Hickory Casualty), and more than a dozen named after Abraham Lincoln. There are a Washington Mutual, a Washington National, and a Valley Forge Life Insurance Company. Several companies bear Thomas Jefferson's name and there are two Monticello Insurance Companies, one in Richmond and another in Jersey City. There are also John Adams Life, John Alden Life (as well as Pilgrim Life and Plymouth Rock Assurance), John Hancock Life, Madison Assurance Group, Paul Revere Life Insurance Company, William Penn Life, and Horace Mann Life.

Due to the intangible nature of insurance, most insurance companies have had difficulty creating recognizable symbols that enhance their images. Unlike consumer products with great brand names such as Coca-Cola or Kellogg, insurance companies with well-known logos or trademarks aren't generally able to charge premium prices for their products. Despite their strong consumer franchises, Allstate and State Farm, for example, tend to have lower prices than many of their lesser-known competitors.

The concept of brands and trade symbols dates to the late nineteenth century. One of the earliest trademarks, Procter & Gamble's moon-and-stars design, originated in 1851. The Arm & Hammer symbol, the Quaker Oats man, and Coca-Cola's signature lettering can all be traced to the 1870s and 1880s. These memorable trademarks (and more recent ones such KFC's Kentucky colonel) create positive images for the products they represent and, according to Hal Morgan's *Symbols of America*, "help to promote the effect of recognizable individuality."

LogoValue® Survey

	Name	vs.	Logo		% Change
1.	Prudential [1]	49	The Prudential	53	+8%
2.	Allstate	44	Allstate	35	-20
3.	Prudential [2]	38	The Prudential	37	-3
4.	Aetna	33	Ætna	24	-27
5.	Travelers	32	The Travelers	30	-6
6.	U.S. Healthcare	32	US Healthcare	23	-28
7.	Cigna	19	CIGNA	18	-5
8.	New York Life	15	New York Life	16	+7
9.	Continental Insurance	15	Continental Insurance	11	-27

1. 1991 2. 1994 Source: The Schecter Group

Six hundred consumers were tested to see whether a company's logo added to or detracted from its overall image. The difference between consumers' ratings of the company name in black type, as opposed to with the full logo, is expressed as a percentage.

According to The Schecter Group, a brand-identity consultancy, the insurance industry has the lowest overall Brand Esteem™ of any industry surveyed. In fact, of the nine insurance company logos tested (see chart) six detracted from their brand names. Says David Martin, Schecter's executive vice president, "What you find among folks who run insurance companies is that there hasn't been a lot of imagination. Our research tells us that if you have a symbol, it must express something clearly. Pictorial representations such as Pillsbury, Quaker, and Green Giant appear to do the best. The more literal the symbol, without being trite, the more valuable it can be. If it's an abstract geometric form, it misses the opportunity to express something."

Clive Chajet, chairman of Lippincott & Margulies, identity and image consultants, is skeptical that a symbol can actually detract from a company's image. Symbols aren't stand-alone entities, he says: they always appear adjacent to the company name. "The more the symbol reinforces the core message, the more effective it is."

Insurance trademarks have tended to convey images of strength, stability, and security (Prudential's Rock of Gibraltar, for example). Says Chajet, "there was never a great desire for companies to differentiate themselves, because the essence of the insurance image is safety. That's fundamental. The need for high awareness depends upon a company's distribution system. Logos are most significant with mass markets."

If one believes, as we do, that the distribution of personal insurance will evolve toward more direct selling over the next decade, then it follows that a company with a strong image, name, and logo will have a built-in advantage.

Of course, a strong brand name or logo won't make all the difference, but at the margin, it's important. It's easier to make a sale with a well-known name.

So why aren't more companies developing recognizable symbols to enhance their images?

Explains Chajet, "The most obvious symbols got used first."

1752

1

You're in good hands

with ALLSTATE

2

YOU'RE IN GOOD HANDS WITH ALLSTATE

3

The oldest insurance company trademark (1), designed in1752, belongs to America's oldest insurance company, **The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire**, which was founded by Benjamin Franklin in that same year. Four interlocking hands, symbolizing mutual support, appeared on the company's firemark, which was modeled after the Hand-in-Hand Society of London. Over the years The Philadelphia Contributionship came to be known as "the Hand in Hand."

Allstate Insurance Company's famous slogan, "You're in good hands with Allstate," was coined by the company's general sales manager in 1950. The original logo (2) showed a pair of hands holding a car. In 1956 a house was added (3).

The **Mutual Assurance Company** (1), also known as the Green Tree Mutual, is America's second oldest insurance company. It was formed in 1784 by dissident policyholders of the Philadelphia Contributionship, who objected to the company's refusal to write insurance for houses with trees in front of them (trees impeded fire fighting). **Executive Life** (2), which revolutionized the life insurance industry by selling interest-sensitive, investment-oriented products, became insolvent as a result of its investments in junk bonds. **Cigna**, which was formed by a merger of Connecticut General and INA (Insurance Company of North America) recently unveiled a new logo, the "tree of life." (3)

1784

1

2

3

1

2

3

4

5

The high-contrast, simplified logos of **John Alden Life** (1), **Paul Revere** (2), **William Penn** (3), **Continental** (4), and **Colonial** (5) bear striking similarities to one another. Other companies have also adopted this imagery—Quaker Oats and KFC, for example. According to David Martin at The Schecter Group, the increased use of black-and-white logos is the result of the different printing environments—e.g., brochures, newspapers, stationery, golf balls, and paper cups. When an image is stripped down to its essence—masses of white and black—it is more easily reproduced.

With the exception of Continental, which dates to 1853, all of these insurance companies were founded in the twentieth century. Looking at this array of early American images, we can't help but be reminded of Samuel Johnson's admonition, "Patriotism is the last refuge of a scoundrel."

1

2

The National Rifle Association's favorite insurance logos: **Frontier Insurance Company** (2), which can trace its operating activities all the way back to 1977, has a logo that is reminiscent of **Continental Insurance Company's** old logo (1).

3

4

Profiles in currency: Neither **Washington National Insurance Company** (3) nor **Lincoln National Life** (4) have anything to do with the presidents for whom they're named. (Although Ulysses S. Grant appears on the $50 bill, his administration was marked by graft, and he was known for his poor business judgment. Not surprisingly, there are no insurance companies named after him.)

5

"Three may keep a secret if two of them are dead."
–Poor Richard's Almanack

The Franklin Life Insurance Company (5) was formed ninety-four years after Poor Richard's death.

1

2

3

4

The Hartford Insurance Company's use of the stag logo (1) dates back to 1861. In 1871, Sir Edwin Landseer's popular painting, *Monarch of the Glenn*, was adopted (2). The current logo (3) has been in use since 1971. **Standard Security Life Insurance Company** (4)

Continued

The bald eagle is one of the most popular insurance logos: **GEICO** (1), **American Re** (2), **First American Insurance Co.** (3), **Golden Eagle Insurance Co.** (4), **American Bonding Insurance Co.** (5), **Nationwide** (6), **Phico Insurance Co.** (7), **Guaranty National** (8), **Independent Insurance Agents of America** (9), **State Mutual** (10)

Prudential Insurance Company's Rock of Gibraltar trademark (1) was conceived in 1896 by the J. Walter Thompson advertising agency. Surrounding the trademark was the caption: "Life Insurance—Both sexes, ages 1 to 70. Amounts: $15 to $50,000."
The trademark underwent slight changes over the years (2), (3), and for a while bore the catchy slogan, "Prudential has the strength of Gibraltar." In 1984, while Prudential was still enamored of the "financial supermarket" concept, the noble Rock was reduced to an almost unrecognizable abstraction (4). More recently, it has returned to a more traditional look (5). Although Prudential's logo scored highly in The Schecter Group's surveys, its rating dropped in 1994, probably as a result of the turmoil at Prudential Securities.

Midwestern Indemnity's logo (6) bears more than a passing resemblance to Prudential's. There are no peaks in Milford, Ohio, where Midwestern is headquartered; nor is Newark, New Jersey, the home of Prudential, anywhere near the Rock of Gibraltar.

"Give me liberty or give me death."
Philadelphia Insurance Co. (1), **Liberty Mutual Insurance Co.** (2).

Employers of Wausau (3), **Home Beneficial** (4), **Safeco** (5)

The wild kingdom: **Mutual of Omaha's** Omaha Indian chief (1) in 1950, and today (2).

When **Union Mutual Life** demutualized in 1986, it was unable to continue using "Mutual" in its name. Rather than become the Union Insurance Company, which wasn't distinctive, a new name, **UNUM**, was created. The lighthouse (3) was retained as the logo, although an abstract representation of it is now often used (4).

1 2 3 4 5

American Bankers Insurance Co. (1), **American General** (2), **Skandia** (3), **General Star Indemnity's** (4) logo is reminiscent of the Texaco Star. **TempestRe** (5)

1 2

Pillars of strength: **20th Century Insurance Co.'s** (1) surplus was wiped out by the Northridge earthquake. **Trans-General Insurance** (2)

3 4

Let the sun shine in: **SunLife Insurance Co.** (3), **The Manhattan Life Insurance Co.** (4)

1 2

The **Travelers Insurance Co.'s** umbrella (1) has appeared in the company's ads since the 1800s, although it didn't become part of its logo until 1959. The Travelers Group, the parent corporation that owns Smith Barney as well as a host of other businesses, plans to extend the use of the umbrella logo across its financial services empire. A twelve-page logo-guideline manual has been created and umbrella lapel pins are being given to the company's 65,000 employees. **Torchmark Corp.** (2) is a life insurance holding company.

3

Aetna's "use of an archaic typographic treatment of the A and E (3), although distinctive, may put people off," says Alvin Schecter, chairman of The Schecter Group.

1 2 3 4 5

American International Group (1). **Chubb's** monogram (2) is "particularly well executed," says the Schecter Group's David Martin. "It has a distinctive quality." **Harleysville Group** (3), **Ohio Casualty** (4), **Zurich Insurance** (5)

1 2 3 4 5

Abstract geometric designs first gained popularity in the 1960s. **Amwest Surety Insurance Co.** (1), **Atlantic Mutual** (2), **Pacific Mutual** (3), **Phoenix Home Life** (4), **The Guardian Life** (5)

1 2 3

Transamerica's logo (1) is a high-contrast rendering of its famous San Francisco "pyramid" office tower.
At first glance, **USF+G's** new logo (2) doesn't look like much of anything. In fact, it's an open door with light shining through it. According to the company, which used to be called The United States Fidelity and Guaranty Group, the logo "represents the energy that is USF+G today and the clarity, openness, and customer orientation that we bring to the insurance process." One wouldn't think this image would go over particularly well with consumers, but perhaps it works with insurance brokers and agents. **SunAmerica's** new logo (3) is a sundial.

The Insurance Beat

Rates Down, Premiums Up

IF INSURANCE RATES are inadequate, as most insurance executives claim, why write more business? That's a question worth asking—again and again and again.

In Piedmont Management's third-quarter letter to shareholders, R. Randolph Richardson, the company's chairman, and Robert DeMichele, its president, noted that 1994 was "a very disappointing year... The market is still soft! The insurance and reinsurance industry is pricing its product at almost the lowest common denominator."

Their decidedly bearish view of the industry isn't surprising considering the losses experienced by their insurance company. "We wish we could be more positive regarding the short-term outlook for the insurance and reinsurance businesses," the executives wrote, but "the expectations of a strong turnaround do not appear imminent."

Despite this gloomy outlook, Richardson and DeMichele had one "positive note" to report: premiums were up 18% at Piedmont's main subsidiary, the Reinsurance Corporation of New York, due to new accounts, increased participations on reinsurance treaties, and growth in the primary insurance business. This prompts the obvious question: if rates are "inadequate," why is it "positive" to write more business?

To paraphrase an old joke, underwriters apparently think that they can lose money on each policy but make it up on volume.

The A.M. Best Factor

IN ITS 1992 FINANCIAL statement, Continental Insurance, in response to the lowering of its Best rating to A– (as well as downgradings by Standard & Poor's and Moody's), blithely stated that it did "not expect these rating changes to have a material impact on its competitive position within the insurance industry." It did say, however, that it expected its borrowing costs to rise.

Although Continental's observation that ratings didn't matter much (to insurance buyers) may have seemed true at that moment, it was not a universal truth. A little over a year later the ailing company would find itself in the midst of a struggle to shore up its finances and thus avoid another ratings downgrade. The result was a deal with Insurance Partners for a $200-million capital infusion (which was subsequently scuttled in favor of an outright sale to CNA).

Although the 200-page "securities purchase agreement" between the Insurance Partners and Continental was filled with the usual blather, one particular condition stood out: Continental "shall have received confirmation from A.M. Best & Co. (which confirmation may be delivered orally) that [its] subsidiaries engaged in the insurance business will maintain a pooled rating of at least 'A–' after giving effect to the transactions contemplated by this agreement."

It's interesting that the agreement specified Best's ratings, but not Standard & Poor's, Moody's, or anyone else's. Whether that was due to Best's dominance of the insurance-rating field, to Best's lenience, or was merely an oversight, is open to question.

What *is* known however, is this: when an insurance company needs a sizable capital infusion merely to maintain an A– rating, an insurance buyer may want to think twice before placing coverage there.

The Great Dowling

ON NOVEMBER 20, one of our favorite securities analysts, V. J. Dowling of Hartford-based Paulsen, Dowling, took note of some new wording in Cigna's third-quarter 10Q and deduced that "management is leaving its options open to attempt to extricate shareholders from the property/casualty operation should the investment bankers finally devise a solution that passes muster with the state insurance regulators." Dowling said that Cigna's property/casualty operations didn't deserve an A– rating and noted that A.M. Best would probably come to the same conclusion.

Dowling was, as usual, right on the money. On December 21, Best, in the spirit of its new-found boldness (more on this in our next issue) knocked Cigna off the once-hallowed A– perch, to B++.

Which company will be the next to lose its A– rating? Dowling thinks that it will be Farmers Group, due to its "catastrophe exposure and poor results."

Stay tuned.

Wild, Wild Kingdom

AN OFFICIAL-LOOKING "underground" publication called *Undercurrents*, apparently put out by disgruntled Mutual of Omaha agents or employees, has been making the rounds. The fall issue, which crossed our desk recently, lambastes the company for everything from "cherry-picking" to "insulting Native Americans" (the Omaha Indian head logo).

When we called Mutual of Omaha with questions about some of the allegations, including "dissension [among] the ranks," and "drastic reductions in recruiting and retention of agents, general managers, and district sales managers over the last several years," a spokesman told us that *Undercurrents* "does a disservice to Mutual of Omaha and deserves no credence," then refused to discuss it further.

That seems like a poor way to handle important issues.

The Midas Touch

NEW YORK LIFE, a paragon of financial strength known for its slogan, "The Company You Keep," recently gussied up its sixty-eight-year-old, thirty-four-floor Madison Avenue headquarters. According to the *Village Voice*, "26,000 gold-baked tiles, costing about $2.5 million total, were applied to the building's sloping 88-foot cap. Then the five-story spire above that was completely recovered in gold."

On a separate note, in December of 1993, when interest rates were hitting a twenty-year low, New York Life shrewdly issued $450 million of ten- and thirty-year surplus notes yielding 6.4% and 7.5%, respectively.

David Schiff, the editor and writer of "Emerson, Reid's Insurance Observer," ponders the insurance scene.

Instead of doing something productive, like selling waxed fruit, David Schiff, the curmudgeonly editor and writer of *Emerson, Reid's Insurance Observer,* has chosen to wile away his time chronicling the madness of the insurance crowd.

Why insurance, you ask? To that same question Haverhill replied (in what was to become known as "Haverhill's reply"), "Why not insurance?"

Insurance, you see, is just like any other business—only worse. It combines the tedious drudgery of banking with the mindless travail of the assembly line. If it were possible to get repetitive-stress syndrome of the cerebrum, one would, undoubtedly, get it from the insurance profession.

It is against this dismal background that Schiff, a spirited iconoclast with plenty of time on his hands, has chosen to ply his trade at a scrappy little newsletter that hopes someday to turn a profit.

Of course, *Emerson, Reid's Insurance Observer* isn't for everyone. Those who don't have the time for cutting-edge analyses, the stomach for groundbreaking exposés, the guts for hard-hitting commentary, or the sense of humor for seething irreverence, are better off not subscribing.

All others should send in their money.

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