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The Wrong Place at the Wrong Time

Follow that Dream

If you're a giant insurance company, you have a tendency to be in the wrong place at the wrong time. This tendency, however, is not usually a fatal flaw. Big insurance companies have proved to be hardy organizations: they can take a lot of mismanagement and still remain standing. Thus, it was possible for the Metropolitan Life Insurance Company to make it through the 1930s seemingly unscathed, despite having invested, by the eve of the Great Depression, 38.9% of its assets in city mortgages. According to Marquis James' history of the company, the Met's finances were so "secure" that it didn't even "contemplate" the sale of securities during the Depression (at then-depressed prices) to raise cash.

The world is a different place nowadays. Although the Met is still solvent and carries excellent financial ratings, it nonetheless plans to unload $6 billion in real estate over the next four years—assuming, of course, that it can find buyers willing to pay up.

The Met's desire to bail out of half its real-estate holdings can be summed up in one word: liquidity. (At a conference last year, "grave dancer" Sam Zell took note of his favorite insurance company fallacy: "a rolling loan carriers no loss.") The Met, like most life insurers, is a big purveyor of annuities, and as such requires assets that are easier to convert into cash than, for example, 45 Wall Street, a second-tier building in the heart of a weak real-estate market.

"I'm betting $100 against a hurricane in Florida."

Although cash is a hallmark of liquidity, as an investment concept it is currently out of vogue in America. Someday, though, it may once again be viewed as an acceptable alternative to common stocks, mutual funds, IPOs, variable annuities, and universal life. In Japan, however, many of the country's beleaguered financial institutions would welcome a little liquidity. *The Financial Post* recently reported that 14 dissatisfied purchasers of variable life-insurance policies staged a nationally televised protest in the headquarters of Mitsubishi Bank. Their complaint: the bank had lent them money in the 1980s to buy variable life-insurance policies that were projected to yield about 9%. Unfortunately, the projections were based on the premise that the Nikkei index would continue to do what it had always done—rise. That turned out to be a rash assumption (the Nikkei is down about 45%), and now some of the policyholders are having difficulty repaying their loans.

Policyholders aren't the only ones suffering. According to a report by London-based

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Andrew Smithers entitled *Japanese Life Insurance: Appearance, Reality and Solvency*, the Japanese life insurance industry "lives under the shadow of crisis." Smithers' thesis is fairly simple: Japanese life insurers, of which there are only 27, need a 4.3% return on assets to cover their liabilities. Unfortunately, they earned only 2.8% in 1994. Their problem, says Smithers, stems from the industry's "failure to match its liabilities with suitable assets." Put simply, Japanese life insurers behaved the way Americans are behaving today: they spent too much on common stocks (and, in the case of the Japanese, real estate) for their own good. There were, of course, logical-sounding reasons. There always are. Stocks, as everyone is "taught" during bull markets, are superior long-term investments. Japanese life insurance companies, for example, own 11% of the Japanese equity market, "a position which is obviously un-salable at market prices and should not, therefore, be valued as if it were," writes Smithers. (Given that the average Japanese stock sells for 118 times earnings and yields a scant .63%, value, at least in the traditional sense, isn't apparent.)

One solution to the Japanese life-insurance-company problem would be for the industry to restructure its assets or its liabilities. But how? Cash flow declined for the first time in 1994. As a result, says Smithers, it has become "increasingly likely that some companies will have negative cash flow" and need to sell assets. Since illiquid assets—stocks and real estate—can't be sold, companies will have no choice but to sell their good assets, thus leaving their balance sheets more mismatched and illiquid.

Although Smithers' thesis is reasonable, it doesn't address one issue: financial institutions' magical ability to resurrect themselves, as evidenced in the early 1990s by U.S. banks and, to a lesser extent, life insurance companies. Just as future problems aren't always apparent at the present, future solutions are also difficult to envision. Perhaps the Nikkei index will soar, or Japanese real estate will levitate. Or maybe the situation will worsen...but no one will care.

Such a scenario is not unprecedented. These days, the Wall Street zeitgeist seems to be that expenses that aren't paid out in cash are not real expenses—sort of. Thus, companies incur massive "non-recurring" charges, yet their CEOs still pose for their annual-report photographs with smiles on their faces. For example, Paul Inderbitzin, American Re's CEO, told shareholders that his company "posted strong financial results" in 1995, but that these results were obscured by a $347 million "non-cash charge" to "strengthen" asbestos and environmental reserves. If one chooses to count the non-cash charge, American Re's results don't look so strong: it lost $88 million.

If there is any business that is prone to non-recurring charges, it is the insurance business. Hurricanes, earthquakes, asbestos-and-environmental-liability charges, and bad investments don't happen like clockwork on an annual basis, but they do tend to pop up every now and then, often when they're least expected.

Calling American Re's $347 million reserve strengthening a "non-cash charge" is a little like calling one's credit card bill a non-cash charge because it doesn't have to be paid off right away. In fact, all but $75 million of American Re's $902 million of incurred losses in its 1995 underwriting-year were "non-cash" charges. In other words, they won't be paid out until some time in the future.

As certain Japanese variable-life-insurance policyholders recently learned, the future isn't always what it's cracked up to be.

♦

A Confederation of Dunces

Insurance companies are subject to many risks. Risk may come in the form of bad underwriting, incorrect reserves, bloated expenses, or investments that don't quite pan out.

A stellar example of the latter is 1 Mount Pleasant Road in Toronto, a 17-story, 400,000 square-foot office building that was Confederation Life Insurance Company's headquarters. Confederation, which made numerous mistakes that led to its failure in 1994, also made the mistake of spending $130 million to build 1 Mount Pleasant Road in 1991.

As part of Confederation's liquidation plan, the building was recently sold for $33.5 million.

Just as McDonald's intends to give its patrons extra value by increasing the size of its hamburger patty from 1.6 ounces to 2 ounces while keeping the same price, insurance companies know that they, too, must give their customers more for less. The problem is, most insurance companies aren't low-cost producers. As a result, when they charge low, or *lower*, prices, they tend to earn low returns on their capital. Certain companies do have lower expenses than others, and this gives them an edge that can translate into lower prices. In personal auto, State Farm, Allstate, GEICO, USAA, and 20th Century come to mind. In commercial lines, AIG.

Although expense structures vary among life-insurance companies, the axiom in that business has always been that life insurance is "sold, not bought." While there is truth to that, sellers of life insurance may be forced to live with far lower commissions than they ever dreamed of—at least if discount broker Charles Schwab is successful with its plan to sell low-load direct-marketed life insurance. Although just 2% of the life-insurance policies sold each year are low-load, the concept is not only logical, but alluring. The lack of a house call, after all, hasn't prevented "investors" from stashing $1.4 trillion in stock funds and $800 billion in bond and income funds. If people can make major financial decisions like those without a stockbroker, certainly many could, and will, do the same with their life-insurance needs.

Who, after all, really needs a life-insurance salesman to come to his house and confuse him with complex illustrations when he can achieve the same state of confusion, cheaply and quickly, dealing with a representative over the phone? ■

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Ride the Whirlwind

Travelers Makes a Quick $3.5 Billion

Sandy Weill, the chairman and CEO of The Travelers Group, is a genius of sorts. Throughout his career he's demonstrated a knack for cobbling together troubled financial firms and ending up with prosperous companies. He has done it in the securities business and in financial services, and is—perhaps—in the process of doing it in the insurance business.

Weill began his career on Wall Street in the 1950s, and in 1960 formed Carter, Berlind, Potoma & Weill in the back offices of Burnham & Company. Over the years, Weill's firm, a tough and aggressive upstart, acquired a bunch of old-line firms that were mired in problems due to the double whammy of expanded trading volume and reduced commissions. Weill, however, had built a state-of-the-art back-office operation from scratch, and this gave him a distinct advantage. As a result, Shearson (as his firm was rechristened) was able to consolidate operations, trim personnel, slash expenses, and make a lot of money.

In 1981, at the dawn of the great bull market, Shearson sold out to American Express for $1 billion. Although Weill became president of the company, he had to play second fiddle to James Robinson, then chairman and CEO. In 1983 Weill was given a thankless job—fixing up the troubled Fireman's Fund, which was then owned by American Express. By 1985 he and American Express had parted ways.

In 1987, after making an unsuccessful run at Bank of America, Weill ended up at the helm of Commercial Credit, a mediocre consumer-finance company that had strayed into Third World lending. Weill's well-paid crew of number-crunching cost cutters went to work immediately. "Our strategy," he wrote in Travelers' 1995 annual report, "was to completely refocus the company on its basic consumer lending business, which we have since grown, through acquisitions and internally, from a little more than $2 billion in receivables to $7.2 billion today. We have instilled—and maintain—vigilant control of operating costs and credit criteria. We introduced time- and labor-saving state-of-the-art technology. We created programs that have made employees more entrepreneurial..."

In 1988, Commercial Credit acquired Primerica, which, until it had been remade into a financial-services conglomerate by Gerry Tsai (the "go-go" manager of the Manhattan Fund in the 1960s) was known as American Can, a venerable, albeit lackluster, component of the Dow Jones Industrials. Primerica's most profitable division was A. L. Williams, a sleazy and cynical peddler of life insurance ("Buy term and invest the difference").

In the wake of trouble, Weill saw opportunity. "Our company is comprised of businesses that couldn't be more basic and tradition-bound: insurance, consumer finance, and investment services," he wrote. "Yet our company has thrived for the past nine years while these basic businesses have been in a constant state of transformation, in industries undergoing profound transformation.

Continued

Anatomy of a Deal

How The Travelers Group transformed its property/casualty operations, which had $2.4 billion in statutory surplus, into an investment worth $8.8 billion—in five months.

November 29, 1995

The Travelers Group
Announces plans to acquire Aetna P&C for $4.16 billion.

Early 1996

The Travelers Group
Forms **Travelers/Aetna Property Casualty** and contributes its property/casualty operation, Travelers Indemnity.
Contributes $1.1 billion of additional capital.

→ 100% → $1.1 Billion →

Travelers/Aetna
Operations consist solely of Travelers Indemnity.
Shareholders' Equity: $4.6 billion.

April 2, 1996

Travelers/Aetna
Borrows $3.2 billion.
Buys Aetna P&C.
Based on the $15.91 purchase price, The Travelers Group's 328 million shares Travelers/Aetna shares are worth $5.26 billion.

← $525 Million ← 9.15%

J.P. Morgan
Aetna Life & Casualty
The Trident Partnership
Fund American
Invest $525 million in Travelers/Aetna at $15.91 per share.

April 22, 1996

Travelers/Aetna
Raises $885 million by selling stock to the public at $25 per share.
Stock immediately trades up to $27.
The Travelers Group's Travelers/Aetna shares are now worth $8.8 billion, an increase of $3.5 billion.

← $885 Million ← 8.9%

The Public
Smith Barney (a subsidiary of The Travelers Group) is the lead underwriter for Travelers/Aetna's $885 million IPO.

"To some, such dramatic change is disconcerting at best, failure-producing at worst. The past wreckage of defunct or undermined banks, savings & loans, securities firms and insurance companies attests to that. For our management team, however, this environment actually plays to our strengths. It has created opportunities for us to approach traditional businesses in a revolutionary—or at least evolutionary—way. It has challenged us to address the need for consolidation in industries with obvious excess capacity—and make strategic acquisitions..."

In December 1992 Primerica entered the insurance business in a big way, acquiring 27% of The Travelers Corporation, which was reeling from bad management. In mid-1993 Primerica bought then-troubled Shearson Lehman Brothers and merged it into its Smith Barney division. At the end of 1993 Primerica bought the rest of Travelers, and once again adopted a new moniker: The Travelers Group.

In many ways, a bloated multi-line insurance company like Travelers was ideal fodder for Weill's aggressive management techniques. Over the next two years, Travelers' general and administrative expenses were sliced in half, and thousands of people were fired. Employees were told to pay *personally* for their subscriptions to *The Wall Street Journal*, and $55,000 was saved by buying stationery without a watermark.

By most measures, the Travelers acquisition has been a success; bad real estate has been shed, and the culture has been shaken, not merely stirred. But can cost cutting and restructuring build a great company or merely transform a terminal case into an average performer? And can a property/casualty business like Travelers generate the 15.6% return on equity that Sandy Weill has averaged over the past nine years? It seems unlikely.

That, however, is why Travelers' acquisition of Aetna's property/casualty operations is so intriguing. The deal—as well as the subsequent IPO—isn't simply a consolidation of industry giants and an exercise in cost cutting and sound management, although it undoubtedly has those elements. It is also a well-timed exercise in financial prestidigitation and clever packaging: Weill has bought a couple of plow horses, stuck good jockeys on their backs, and then sold them to the public as if they were racehorses. This is, after all, a white-hot bull market, and the public, well aware that Sandy Weill has always been a winner, has gone wild and is buying what Weill is selling, instead of what he is keeping.

To understand the deal, we must go back to November 29, 1995, when The Travelers Group announced that it would buy Aetna P & C for $4.16 billion. Although the purchase price appeared rich, Travelers stock rose 6.8% that day on the expectation that the deal, which would not close for five months, would be a winner.

Then, in January 1996, The Travelers Group formed Travelers/Aetna Property Casualty Corp. as a holding company for its property/casualty operations. Travelers/Aetna, which did not yet include Aetna's operations, was in good shape—statutory capital stood at $2.4 billion, GAAAP net worth (which included $419 million of intangibles) was $3.6 billion, and 1995's earnings were $375 million—but it needed more capital to pull off the big acquisition, so The Travelers Group contributed an additional $1.14 billion.

A financial analyst concerned with *value* (as opposed to one concerned with *momentum*) might want to pose a simple question: what was this newly reconstituted Travelers/Aetna worth? (Bear in mind, it hadn't yet bought Aetna.) If one attached a multiple of 11 times earnings, which seems reasonable for a middling insurance business, then the operating business would be worth $4.125 billion. Add in the additional $1.14 billion of capital that The Travelers Group contributed, and you arrive at $5.26 billion, or about $16 per share. (The Travelers Group, through its subsidiaries, owned all 328 million shares.)

In fact, this exercise seems pretty accurate, because on April 2 several institutional investors—J.P. Morgan, Aetna Life & Casualty, The Trident Partnership (run by Marsh & McLennan Risk Capital), and Fund American—invested $525 million in Travelers/Aetna at $15.91 per share. At the same time, Travelers/Aetna borrowed $3.2 billion and bought Aetna P & C.

One can assume that $15.91 was a fair price for Travelers/Aetna. Insurance stocks had been in a bull market since the latter half of 1994, and shrewd dealmeisters like

One of the Big Boys

December 31, 1995

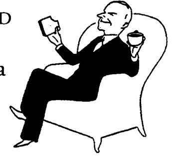
Travelers/Aetna is the third largest writer of commercial lines and the sixth largest writer of personal lines.

$ Millions	Travelers	Aetna[1]	Travelers/Aetna Pro Forma[2]
Premiums	$3,315	$4,118	$7,433
Net Investment Income	710	902	1,577
Fee Income	456	82	538
Realized Investment Gains	71	199	270
Other	17		17
Total Revenues	4,569	5,301	9,835
Claims and claims expenses	2,817	4,232	7,049
General and administrative	512	623	1,135
Other	689	852	1,708
Total Expenses	4,018	5,707	9,892
Income before taxes	551	(406)	(57)
Taxes	132	(163)	(94)
Net Income	$419	$(243)	$37

1. Includes $1.085 billion ($706 million after tax) in charges for environmental and asbestos claims.
2. Adjusted for equity and debt offerings in April 1996.

Lead the Good Life

Write for *Emerson, Reid's Insurance Observer*



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Sandy Weill aren't in the habit of giving things away.

Weill, of course, would have no qualms about selling something for *more* than its worth, and that, it appears, is exactly what he did. On April 22, just three weeks after selling shares to institutional investors for $15.91, Travelers/Aetna marked itself up 57% and raised $885 million by selling 35.4 million shares at $25 to—who else?—the public. (Smith Barney, a subsidiary of Travelers Group, was the lead underwriter.) The stock immediately shot up and is now around $27. In essence, Weill had taken $5.26 billion of Travelers/Aetna shares and, via the magic of the public-securities market, transformed them into shares with a value of $8.8 billion.

Although this is awe inspiring, several questions are worth pondering. For starters, why did Travelers Group choose to sell 18% of Travelers/Aetna to the public? If the business was so good, wouldn't The Travelers Group have chosen to retain *all* of it? If The Travelers Group needed more capital to finance the deal, then it could have issued its own shares rather than shares of Travelers/Aetna. But it seems that capital wasn't a problem. On March 27, less than a month before the Travelers/Aetna offering, Travelers Group announced plans to *repurchase* $600 million of its shares, indicating that Weill considers Travelers Group stock a better value than Travelers/Aetna stock.

The Travelers/Aetna IPO may also indicate that Weill, having spruced up the property/casualty business, is looking for an exit strategy from a cyclical business where a sustained competitive advantage is hard to come by.

There are other reasons why Travelers/Aetna stock doesn't look like a bargain. At $27, it's sporting a market capitalization of $10.7 billion, 2.2 times its tangible net worth, and 13.2 and 11 times this year's and next year's earnings, respectively. Although the company's prospectus lists the standard "risk factors"—the volatility of the property/casualty industry, catastrophe losses, uncertainty regarding the adequacy of environmental and asbestos loss reserves, reinsurance considerations (Lloyd's is Travelers' largest reinsurer), substantial dilution, and so forth—it's the "strategic plan" that really makes one wonder. Travelers/Aetna's strategic objectives include the following: to become a low-cost provider of property/casualty insurance, to focus on core product lines using a disciplined underwriting approach, to emphasize a customer-oriented focus, to manage distribution systems, and to capitalize on cross-selling opportunities. In other words, its strategy doesn't *sound* all that different from anyone else's.

Weill Walks on Water

Travelers/Aetna, which has yet to prove that it can achieve superior returns, sells at a fancy multiple of earnings and book value compared to other insurance companies.

	Price/earnings ratio–1996E	Price/book value (%)
Travelers/Aetna	13.3	221
Chubb	13.1	162
Hartford	11.9	142
Allstate	11.6	164
CNA	10.4	99
St. Paul	9.9	120

Travelers/Aetna is a sizable operation. It's the third largest writer of commercial lines and the sixth largest writer of personal lines. Annual premiums total $7.5 billion. Yes, there's plenty of fat to trim in Aetna's operation (the company expects to realize $300 million in annualized cost savings over the next two years, and Travelers has already cut $180 million of its own expenses). Still, Travelers/Aetna is a behemoth with a tradition of mediocrity—despite the many good people that work there. Is it realistic to believe that it can become a superior company (in terms profitability)? As Warren Buffett has noted, "when a management with a reputation for brilliance tackles a business with a reputation for poor fundamental economics, it is the reputation of the business" that generally "remains intact."

Sandy Weill knows this. Perhaps that's why he chose to sell stock to the public at a fancy price. One Wall Street analyst we know told us he didn't like the deal but feels certain that, given Weill's Wall Street following, the stock will be a winner—in the short run.

In other words, Wall Street is already giving Weill credit for turning around the combined companies, and it is discounting the risk of higher interest rates, a tougher climate for the property/casualty industry, and a less lofty stock market. That may prove to be a rash decision—in the long run. ■

Is Travelers/Aetna worth $10.7 Billion?

December 31, 1995

Travelers/Aetna has $1.56 billion of long term debt and $900 million of redeemable preferred stock outstanding. Stockholder's equity is $6.08 billion.

$ Millions	Travelers	Aetna[1]	Travelers/Aetna Pro Forma[2]
Assets			
Fixed maturities	$10,908	$11,598	$23,189
Equity securities	603	500	1,103
Mortgage loan	213	1,062	1,109
Real estate	23	265	221
Short term securities	786	137	923
Other	287	291	578
Total Investments	12,820	13,853	27,123
Cash	51	1,137	1,188
Investment Income Accrued	165	185	350
Premiums receivable	2,213	1,002	3,215
Reinsurance Recoverables	5,407	5,277	10,684
Deferred acquisition costs	202	306	407
Intangible assets	419		1,267
Deferred taxes	650	634	1,590
Contractholder receivables	1,713		1,713
Other	981	1,005	1,934
Total assets	24,621	23,399	49,471
Liabilities			
Claims reserves	15,460	16,559	32,019
Unearned premium reserve	1,695	1,398	3,063
Long-term debt		35	1,521
Contractholder payables	1,713		1,713
Other	2,152	1,526	4,146
Total liabilities	21,020	19,518	42,492
Redeemable preferred securities			900
Stockholders' equity	$3,601	$3,881	$6,079

1. Includes $1.085 billion ($706 million after tax) in charges for environmental and asbestos claims.
2. Adjusted for equity and debt offerings in April 1996.

"Hell up in Hartford"

I've been in the insurance business for forty years.

I've worked as a claims examiner, underwriter, regional vp, group president.

Sandy Weill, on the other hand, is a Wall Street financial guy.

He wouldn't recognize a package policy if it were sitting on top of his Quotron.

I care about people.

Sandy cares about the bottom line.

I was proud of our "sensitivity training" program.

Sandy canned it.

I was proud of our "leadership initiative" program.

Sandy canned it.

We used to provide nice people with a good job at a fair wage.

Sandy fired them.

Now we're slicing benefits, cutting perqs, outsourcing.

Nothing is sacred. It's creating a social dynamic that...

...this country is going to have to deal with some day.

Is zero-based planning more important than human beings?

But Sandy's like a broken record.

Shareholder value! Shareholder value! Shareholder value!

He's gotten paid more than $200 million in the last five years.

I've got stock options, too. And our stock has gone up.

Hey, after forty years I'm entitled to something.

So you know what? Screw the little people.

Sandy baby, I'm with you 100%.

The Boys in the Back Room

U.S. Insurance Brokers' Curious Cast of Characters

It's no secret that the insurance brokerage business is tough. Premiums are soft, carriers have been cutting commissions, and those nasty but necessary evils—insureds—have been demanding more and offering to pay less. Although most insurance brokers would willingly admit that there's plenty of competition out there, Washington, D.C.-based U.S. Insurance Brokers won't—not even in its filings with the SEC, which state that "there is very little agency competition in association insurance marketing."

Who is U.S. Insurance Brokers and why is it saying such things?

U.S. Insurance Brokers is a subsidiary of Century Industries, a tiny public company with a history of losses and nebulous business transactions. It was formed in 1994 and has little in the way of revenues. It does, however, claim to have agreements to sell insurance to the members of two large national associations. In a 10-K filing with the SEC, U.S. Insurance Brokers "projected" that these two programs would generate $104 million in premiums and $3.12 million in profits. And that's just the beginning. U.S. Insurance Brokers also says it is in "active negotiations" with other associations and is, if one believes the company's press releases, on the verge of hitting it big.

Before taking these claims at face value one might want to consider the players involved. Richard Campanaro, U.S. Insurance Brokers' president, was previously associated with Underwriters Capital Corporation, an amorphous—and now defunct—investment banking firm that operated in the nether world of penny-stock shell corporations. In 1992 it arranged for BRI Coverage, a notorious insurance brokerage in New York with whom it shared office space, to go public by merging with a troubled oil and gas concern named Chippewa Resources. BRI, which subsequently changed its name to Underwriters Financial Group, went bankrupt in 1995 amid allegations of financial irregularities, missing premium trust funds, dubious accounting, and phony premium-finance deals (see "The Worst Insurance Brokerage in America," *Emerson, Reid's Insurance Observer*, August 1995).

Campanaro also controlled Underwriters Insurance Group PLC (UIG), a Dublin-based company that, according to *Business Insurance*, had ties to convicted felon Michael Arthur Strauss. UIG's subsidiary, Mid Atlantic Insurance Brokers, went bankrupt in 1991. In 1992 Campanaro and one of his UIG partners, Andres Romero, introduced BRI/Underwriters Financial to promoters peddling $35 million of questionable "financial guarantees" from Kwajalein Island, a small South Pacific atoll. BRI/Underwriters Financial then began using these guarantees as if they were real money. It made bids for a number of large insurance brokers and put $5 million of the guarantees into its Cayman Islands reinsurance company, International General Insurance. The guarantees, apparently, were no more creditable than Confederate bank notes. UIG's dealings with BRI/Underwriters Financial led to litigation that resulted in UIG receiving 150,000 shares of BRI/Underwriters Financial stock in March 1993.

On December 31, 1993, UIG's Bermuda subsidiary, Covent Insurance Co., entered into a spurious excess-of-loss-reinsurance and portfolio-transfer agreement with International General Insurance that gave BRI/Underwriters Financial the appearance of significantly greater financial strength than it actually had. International General Insurance subsequently defaulted on notes it owed to Reliance Insurance, and Covent was ordered into liquidation in 1995.

Campanaro, who claims to have no knowledge of these transactions, told us that Underwriters Insurance Group is no longer in existence and that he had merely "served them at the request of an [English] gentleman."

In 1993 Campanaro, through Underwriters Capital, arranged for Century Industries, an unprofitable steel fabricating company (which now owns U.S. Insurance Brokers, of which he is president), to go public via a merger with a penny-stock shell corporation. Although Campanaro denied any involvement in this transaction as well, Century's 10-K, *which he signed as chairman*, states that Campanaro was "issued 100,000 shares of stock for services rendered in connection with" the deal.

Once public, the creative accounting techniques that Century employed were available for scrutiny. Although Century's 1992 financial statement showed a net worth of $2.5 million, it included a vaporous $1.5 million "subscription receivable" and a dubious $1.5 million "investment," both of which were subsequently deleted from the balance sheet. The statement also showed a $450,000 profit; the reason: it counted $500,000 of the dubious "investment" as "income."

In 1993 Century beefed up its balance sheet via further legerdemain: it exchanged 5,000 shares of its preferred stock for 100,000 shares of UIG. This transaction was valued as a $1-million addition to paid-in capital. (According to Century's lawyer, Robert Flynn, UIG's primary asset was its shares of BRI/Underwriters Financial. Thus, Century's indirect holdings of BRI/Underwriters Financial became its largest "asset." Century's filings, however, did not disclose this.) Century's investment in UIG was written down to $57,500 the following year.

Although he was chairman of Century during this time, Campanaro denies any knowledge of these transactions, or of those involving Underwriters Capital's cohort, a New York securities firm, Cameron Phillips (now defunct) which—what a coincidence!—used the same obscure Virginia accounting firm, Esquerra & Esquerra, as did Century.

In 1994 Century announced the signing of a letter of intent to purchase Prestige Casualty Insurance Company for $3-to-$4 million (Prestige had been run by convicted insurance con man, John Goepfert). Century then issued a press release projecting $3 million in earnings from the deal, hoping, it would seem, to boost its stock price. Century also announced the sale of 600,000 shares of its preferred stock to UIG for $3 million. Since UIG's primary asset was its shares of BRI/Underwriters Financial, it appears that it was in no position to come up with much of anything, let alone $3 million. Campanaro and Century, as major shareholders of UIG, should have been well aware of this. Century also announced that it had given UIG the option to buy more of its stock in exchange for $2 million in "guaranteed bank notes" (shades of the Kwajalien Island "financial guarantees"). None of these deals actually took place, and several months later Prestige was declared insolvent.

In 1995 Century acquired U.S. Insurance Brokers by issuing 1,000,000 shares of convertible preferred stock to Ted Beck, a

director and controlling shareholder of Century. (An Underwriters Capital brochure lists Beck, who is 34 years old and sometimes goes by the name of Schwartzbeck, as one of the firm's "founders," and states that he "has been active in the U.S. and European investment market for many insurance companies for two decades." When queried, Beck said he knew nothing about this.)

In a 1995 press release, Century stated that U.S. Insurance Brokers was the "national association insurance plan administrator agent for the members of the Charles J. Givens Organization." Givens, the best-selling author of *Wealth Without Risk*, is a financial charlatan whose Canadian organization went bust last year and whose U.S. organization is in shambles as a result of a $14.1 million class-action judgment stemming from his "intentional and negligent misrepresentations" and "violations" of California statutes.

In early 1996 U.S. Insurance Brokers announced "agreements" or "broker of record letters" with the National Lumber and Building Material Dealers Association (NLBMDA) and the Association of Metropolitan Sewerage Agencies (AMSA). U.S. Insurance Brokers also said it was "in active negotiations" with the National Association of Career Colleges, the American Vintners Association, and the National Association of Letter Carriers. U.S. Insurance Brokers' marketing gimmick, if one might call it that, is to give associations a cut of the "profits" from the sale of insurance to association members.

U.S. Insurance Brokers, by the way, has no employees of its own. Instead, it enters into joint-venture arrangements with other agencies and lets them do the work, assuming there is work to do. One such firm is the White House Agency, which, perhaps not coincidentally, is the same name as a subsidiary of bankrupt BRI/Underwriters Financial.

Although U.S. Insurance Brokers claims to be licensed with a number of insurance companies, inquiries to some of these carriers—Fireman's Fund, Golden Rule, and American Medical Security—revealed that they had no record of U.S. Insurance Brokers.

As for the $104 million of premium that U.S. Insurance Brokers projects it will write, that seems to be a matter of opinion. The NLBMDA didn't have any comment, but Ken Kirk, AMSA's director, said that "right now there's not a lot of interest from members." Even Campanaro and Beck admit that no business has been written, although Beck insists "the projections are accurate."

That seems doubtful, as does almost everything about Century and U.S. Insurance Brokers. In fact, considering Century's history of bullish press releases and aggressive projections, it appears to a cynic that the company's real goal may be to hype its stock, or at the very least, create a market for it. And what possible reason might it have to do that? In March, April, and May, Beck and Campanaro registered some of their Century stock, and Beck subsequently sold 13,000 shares.

His actions, we suspect, speak louder than his words.

With Friends Like These...

U.S. Insurance Brokers' Tangled Web

Coral Re: AIG's $1-Billion Secret

Rolling Thunder

It's two o'clock tomorrow morning when you come up with a scheme that's so good you decide to call Hank Greenberg, AIG's chairman and chief executive officer.

Greenberg, of course, is the most powerful guy in the insurance business, and his toughness is the stuff of legend. He doesn't just demand good results, he insists upon them. He tells his minions that they'd better make an underwriting profit—or else—and that they'd better show growth, too. To say that folks are scared of Greenberg is an understatement. Many in the insurance industry are too terrified to talk about him "on the record." Off the record, however, they generally describe him as an overbearing tyrant, but a brilliant overbearing tyrant who sure knows how to run an insurance company.

As you dial Greenberg's number, it occurs to you that he's probably sound asleep.

"Hi Hank," you say cheerfully when he answers the phone. "Hope I'm not disturbing you."

"What time is it?" Greenberg asks tiredly.

"Never too late for business. Listen, some buddies and I want to start a reinsurance company in Barbados, but we don't have any money. So we thought that with your help Sanwa Bank might give us a $50-million non-recourse loan—"

"It's two o'clock in the morning!" Greenberg says as he starts to wake up.

"I know. Anyway, we want to take the $50 million and form this reinsurance company. Then AIG will cede it $1 billion in premium, just as you did with Coral Reinsurance. And, oh yes, we'd like to be guaranteed a profit."

"What do you think you're doing waking me up at—"

"Hold your horses, Hank," you say, annoyed at Greenberg's cranky attitude. "We'll also need a cheap stop-loss, so we'd like you to call the boys at Munich Re and arrange it."

"What the hell is this all about?" demands Greenberg, clearly furious.

"Here's the payoff. Since my buddies and I are guaranteed a profit with no risk, you can do what you want with this reinsurance company. Use it for surplus relief, portfolio transfers, or something far more complex than I can dream up. After all, legally speaking, it won't be an affiliate of AIG."

"!#!@ !#! *#@!!!"*

"Look, Hank, why don't you sleep on it and I'll call you in the morning."

Click.

Hank Greenberg declines to answer questions about Coral Reinsurance.

While the deal proposed to Hank Greenberg in this conversation may sound preposterous, it isn't exactly unprecedented. Our March issue included an article about Coral Reinsurance Company, a Barbados reinsurer that was formed on December 17, 1987, to reinsure certain AIG business. AIG's "interest in creating" Coral was clearly stated in a "confidential private placement memorandum." The National Union pool planned to cede premium to this newly-formed "reinsurance facility," thereby allowing AIG "to write more U.S. premiums" than it would otherwise have been able to, given its level of surplus.

Coral, which is managed by an AIG subsidiary, started with $52 million of capital. In its first 14 days of operation it received $474 million of reinsurance premiums from AIG. By year two it owed AIG almost $1 billion.

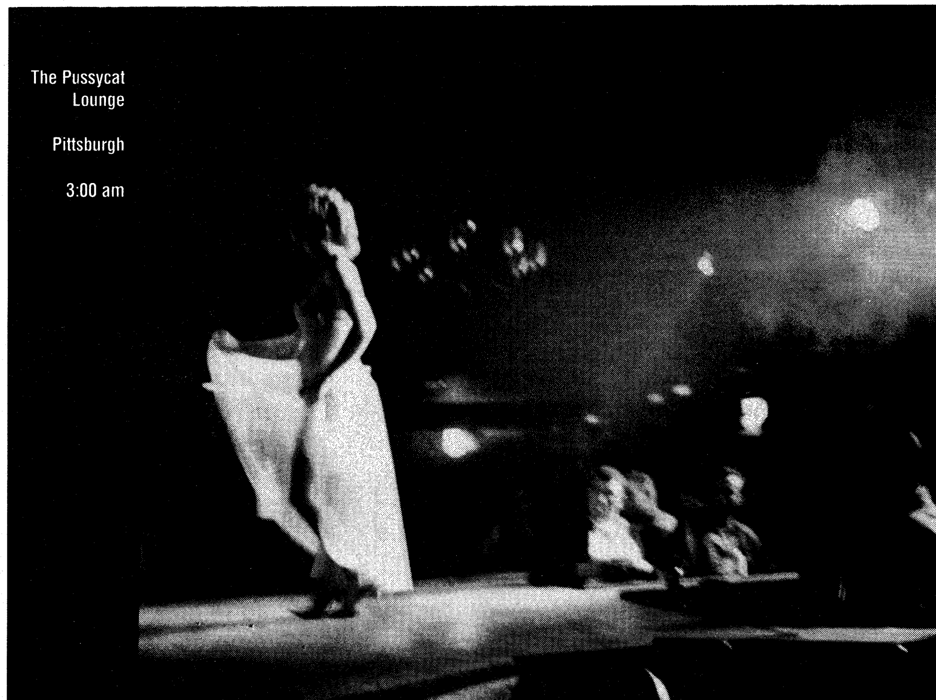
While the sheer size of these numbers makes Coral hard to ignore, it's the strangeness of the entire transaction that makes Coral particularly noteworthy. You may recall that the deal, a private placement underwritten by Goldman Sachs, was structured so that it was a *sure thing* for the dozen or so "investors" who were allowed to participate. It worked like this: the Chicago branch of Sanwa Bank made $52 million of non-recourse loans to the investors, who then capitalized Coral with $52 million. Coral, in turn, took this $52 million of "capital" and bought a $52 million certificate of deposit from Sanwa Bank. A "pledge and security agreement" between the investors and Sanwa sums it up nicely: "This certificate of deposit both constitutes the capital of Coral and is the ultimate funding source of [Sanwa Bank] for the [non-recourse loans.]" The investors' payoff came in the form of dividends that they received from Coral, a portion of which was used to pay the interest owed to Sanwa Bank. The bottom line: an investor made about $25,000 in the first year and $45,000 in each subsequent year—with no risk.

One doesn't have to be Bernard Baruch to know that banks usually don't

make non-recourse loans to people who want to form reinsurance companies in Barbados, much less people who want to form reinsurance companies that will have 9-to-1 premium-to-surplus ratios, as did Coral. On the other hand, suppose that AIG had a long-standing relationship with Sanwa Bank in Japan, and suppose that AIG, with a wink and a nod, told Sanwa Bank that it thought Coral was creditworthy. In such a situation, Sanwa Bank just might decide to make the sort of loan that bankers generally shy away from.

Exactly what Greenberg and AIG did or didn't do is a subject for speculation, since AIG steadfastly refuses to discuss the matter, other than to say that it doesn't own Coral and that it deals with it on an arms-length basis. But questions remain. What was AIG up to when it created Coral? Why did it cede it $1.6 billion in premium over seven years? What will be the result of insurance regulators' examination of AIG's relationship with Coral (which was first reported last year in a dandy *Business Insurance* article by Douglas McLeod)?

Based on the Coral prospectus, copies of reinsurance treaties, financial statements, and other documents we've obtained, it appears that AIG's goal in creating Coral was to have an *unaffiliated* offshore company over which it had de facto control. From a regulatory point of view it was crucial that Coral not be a subsidiary of AIG. If AIG owned Coral, then ceding it premiums would be like



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Coral Reinsurance Company, Ltd.— The Deal Hank Greenberg Doesn't Want You to See

AIG set up Coral in such a manner that the company was not an "affiliate." Coral began business on December 17, 1987, yet had $474 million of "outstanding losses" by year end 14 days later—all ceded to it by AIG. "Outstanding losses" (loss reserves) soon topped the $1 billion mark even though Coral only had a $52-million sliver of capital.

	1993	1992	1991	1990	1989	1988	1987
Assets							
Cash	$39,196,617	$33,388,688	$41,667,670	$75,605,554	$63,189,951	$123,432,681	$63,997,383
Bonds	917,483,270	879,042,401	974,184,478	937,100,376	973,106,694	746,862,421	432,923,782
Premiums Receivable	135,648	0	18,058,516	17,556,465	1,788,989	116,113,316	12,307,741
Other	32,792,694	32,750,377	40,798,153	39,485,763	42,670,430	33,940,483	19,759,539
Total assets	989,608,229	945,181,466	1,074,708,817	1,069,748,158	1,080,756,064	1,020,348,901	528,988,445
Liabilities							
Outstanding Losses	967,998,760	884,728,120	1,009,866,399	1,011,968,187	1,016,201,591	957,338,408	474,055,383
Funds witheld from reinsurer	0	38,297,676	36,450,000	0	0	0	0
Other	6,568,321	7,106,381	13,287,686	5,022,969	11,774,688	9,784,030	1,764,802
Total liabilities	974,567,081	930,132,177	1,059,604,085	1,016,991,156	1,027,976,279	967,122,438	475,820,185
Share capital	15,000,000	15,000,000	15,000,000	52,680,000	52,680,000	52,680,000	52,680,000
Retained earnings	41,418	49,289	104,732	77,002	99,785	546,463	488,260
Shareholders' equity	$15,041,148	$15,049,289	$15,104,732	$52,757,002	$52,779,785	$53,226,463	$53,168,260

shifting money from one pocket to the other, and that, of course, wouldn't accomplish AIG's stated goal of reducing its premium-to-surplus ratio.

It seems that some high-priced lawyers were quite careful to make Coral appear independent of AIG. For starters, Coral was owned by investors, albeit investors who didn't have to put up any money. Although an AIG company "executed" Coral's "management and operating procedures," it did so "as directed by" Coral and its board of directors. Thus, AIG was *just following orders*.

So who was calling the shots? Coral's board included Robert Aicher, a lawyer in Chicago who was appointed by Sanwa Bank; Trevor Carmichael, a lawyer in Barbados; Martin Hole, an insurance-company executive in Barbados; J. Markham Green of New York; and Michael Laparra, the chairman of Abeille Reassurances, which was an investor in Coral and an affiliate of Abeille General Insurance Company, which AIG managed.

Did this disparate group really get together, set up a tiny Barbados reinsurer, line up non-recourse loans, hire Goldman Sachs to find investors who wanted to make a risk-free investment, arrange for Munich Re to provide $470 million of stop-loss coverage for $1 million, and then talk Hank Greenberg and AIG into ceding their newly-formed company $1 billion in premium in a little over a year? And, if so, why did these folks go to all that trouble when Coral, according to its own projections, was *expected* to make a negligible amount of money from its insurance operations? (The prospectus pegs Coral's expected return on equity at 9%—about what one could have made buying bonds at the time.)

Finally, was it merely AIG's good fortune that all this happened at a time when the insurance market had hardened and AIG was apparently in need of some cheap financial reinsurance? Between 1984 and 1987, AIG's "domestic general-brokerage" gross written premiums had grown from $3.3 billion to $9.1 billion, but its net written premiums—premiums less reinsurance ceded—had soared from $1 billion to $5.1 billion. At the same time its net retentions increased dramatically. AIG may have felt compelled to lay off a big chunk of premiums in order to keep its various leverage ratios lower. (Buying a stop-loss cover may not have done the trick. It might have reduced the company's economic risk without affecting its financial ratios.) AIG, however, may not have been eager to cede premium at a time when underlying pricing was terrific and reinsurance was expensive. It may have viewed the environment as a rare opportunity to write tons of incredibly profitable business (which it was) and thought, "Why should some shiny-suited regulator tell us how much business to write?"

Presumably, AIG could have ceded to Munich Re the $1 billion in premium that it ceded to Coral, but Munich Re would have wanted a rate of return considerably higher than that which it could earn by merely buying bonds. Coral's

Greenberg's Greenbacks

When Jeffrey Greenberg (Hank's oldest son), left AIG last year, the news made it to the front page of *The Wall Street Journal*, and speculation about the circumstances of his departure—a feud with his father, a rivalry with his brother, etc.—was a favorite topic of conversation among folks who follow the industry. In fact, many pundits chose to ignore another scenario: that Greenberg, a dynamic 44-year-old, wanted to run his own show outside the glare of his autocratic father.

Whatever the circumstances, Greenberg's current job—chairman and chief executive officer of Marsh & McLennan Risk Capital Corp., and director of Marsh & McLennan Companies, Inc.—is nothing to sneeze at. Greenberg's contract, which makes him one of the highest paid people at Marsh & McLennan, calls for him to receive a salary of $750,000 per year, a signing bonus of $300,000, a deferred bonus of $300,000, 20,000 shares of restricted stock (worth about $1,760,000 on October 31, 1995) and options on 50,000 shares of stock. In addition, he will be eligible for annual bonuses, restricted shares, and stock options.

Is Greenberg worth it?

You decide. Trident Partnership, which is managed by Marsh & McLennan Risk Capital, recently invested $75 million in Travelers/Aetna Group (see page 3). The investment already shows a gain of $53 milion.

Not bad for a few months work.

Coral Reinsurance Company, Ltd.—What was Hank Greenberg up to?

A mighty strange deal: According to its own projections, Coral expected to make a negligible amount of money from its insurance operations. It succeeded.

	1993	1992	1991	1990	1989	1988	1987
Earned premiums	$121,729,484	$124,515,335	$233,586,035	$65,768,557	$133,356,416	$442,819,366	$474,397,488
Reinsurance premiums ceded	1,000,000	1,000,000	102,728,914	1,000,000	1,000,000	1,000,000	1,000,000
Net premiums earned	120,729,484	123,515,335	130,857,121	64,768,557	132,356,416	441,819,366	473,397,488
Loss and loss expenses	201,818,364	201,041,947	223,818,277	152,738,075	214,171,545	483,577,098	474,055,383
Underwriting expenses	5,287,337	5,515,473	955,162	5,460,070	8,266,374	17,592,142	0
Total	207,105,701	206,557,420	224,773,439	158,198,145	222,437,919	501,169,240	474,055,383
Underwriting income	(86,376,217)	(83,042,085)	(93,916,318)	(93,429,588)	(90,081,503)	(59,349,874)	(657,895)
Investment Income	88,188,530	84,651,946	95,163,339	98,826,264	95,876,225	65,043,913	1,919,228
General and administrative expense	218,651	213,556	226,066	230,388	193,077	235,039	773,073
Net income	$1,693,662	$1,396,306	$1,024,953	$5,166,286	$5,601,645	$5,459,000	$488,260

investors, perhaps because they weren't risking anything, didn't have such requirements.

Coral also had the advantage of a favorable domicile. As its prospectus implied, a U.S. insurance company is hampered by silly old regulators who insist upon "a high level of surplus to support insurance premiums." In Barbados, where sugar cane is the main export, "the statutory requirements are less restrictive."

Barbados, in addition to its pleasant clime and lax regulations, permits insurance companies to operate free of taxes. In the U.S., however, The Tax Reform Act of 1986 requires the discounting of loss reserves, which accelerates the recognition of profits for income tax purposes, thereby increasing taxes. If, however, a U.S. insurance company were to have economic control over an "unaffiliated" Barbados insurance company through a contractual arrangement such as a reinsurance treaty, it is conceivable that it could cede premium to that Barbados insurer, shift income to the future, and postpone the payment of taxes for years. And, if the Barbados insurer would handle the transaction for next to nothing, all the better.

From AIG's point of view—although who knows what its point of view is?—it might be fortunate if a friendly Barbados company would accept $1 billion in premium, secure the reinsurance recoverables with collateral, and pay out $1 billion in losses *plus* the investment income earned on the ceded premium. As luck would have it, Coral, which was created by—gee whiz, who knows?—appeared in the nick of time.

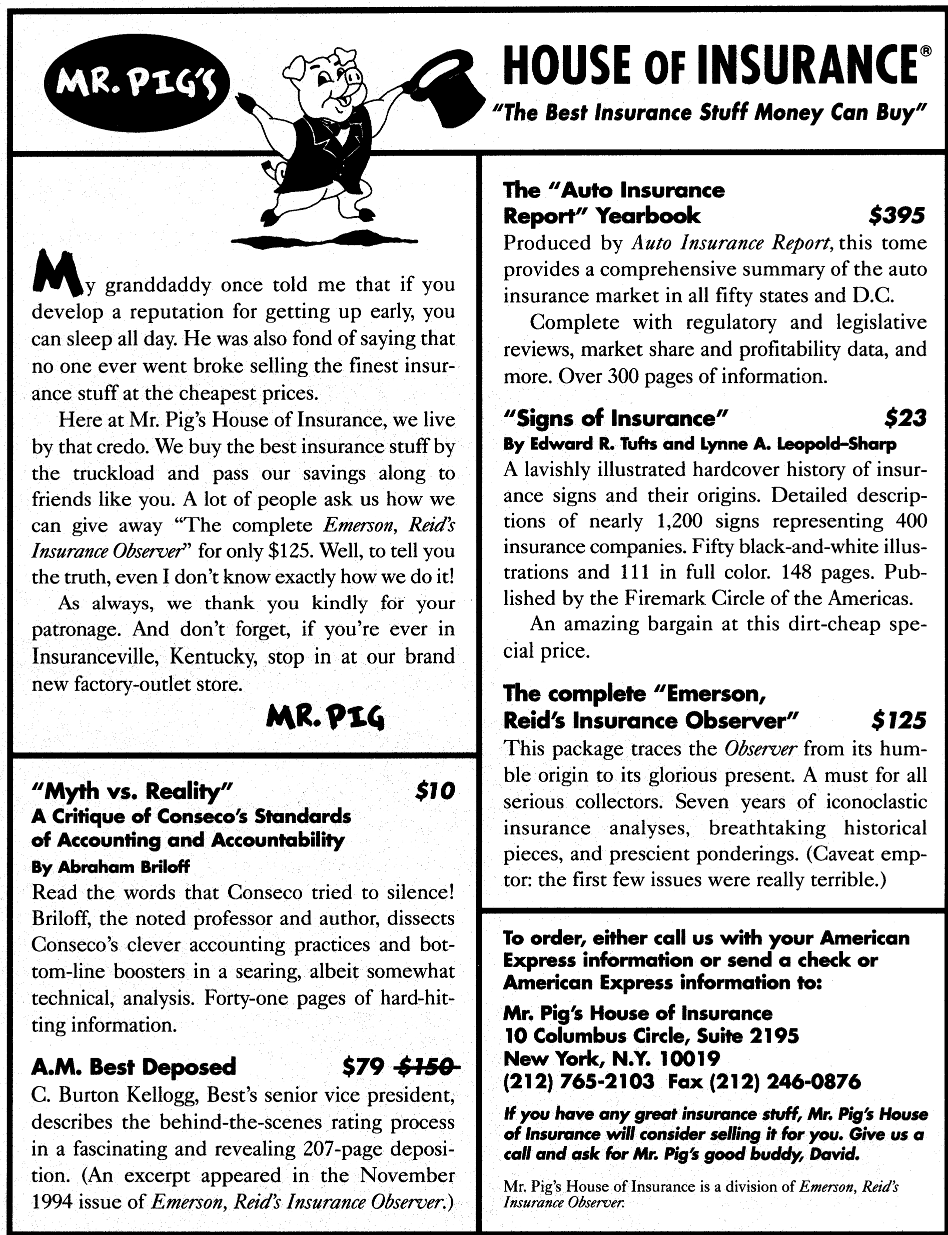
It's well known that the insurance industry has a habit of setting up redundant reserves in good years and taking them down in bad years. This has the effect of "smoothing" earnings over time, which tends to placate Wall Street, where investors prize consistency. Nonetheless, property/casualty companies, because of their inherent risks and cyclicity, generally trade at a lower multiple than that of the Standard & Poor's 500 index.

Although AIG is in businesses—property/casualty insurance, life insurance, and financial services—where rapid earnings growth is almost impossible to sustain over time, its earnings have compounded at an 18.4% annual rate since 1985. This steady growth has certainly got the attention of Wall Street, where Greenberg is revered and AIG is the bluest of blue-chip insurance stocks. (AIG's return on equity, which averaged in the high teens in the late 1980s, has fallen to about 14% recently, which is still much better than average.) AIG's shares sell for 15.7 times this year's earnings and for 230% of book value, far higher than the average insurance company. It's impossible to say how much AIG's consistence adds to its stock multiple. Question: although Coral certainly wasn't responsible for AIG's success, did transactions with it, or with other similar companies, play a role in smoothing or increasing AIG's earnings?

Finally, if AIG did pull the strings on Coral Re, would that be wrong? While setting up complex offshore transactions with an "affiliate" that is, technically speaking, not an affiliate, might be pushing the envelope, we assume that Hank Greenberg wouldn't do something unless it passed muster with a slew of fancy lawyers and accountants.

Hank Greenberg is a genius. He is to the insurance industry what the 1927 Yankees were to baseball. He wouldn't get involved with a tiny Barbados company, no-risk investments, non-recourse loans, and $1 billion in premiums unless he had a compelling reason.

Someday, perhaps at two o'clock in the morning, he'll tell us exactly what it was. ■



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Auto Insurance Report

The Authority on Insuring Personal and Commercial Vehicles

Vol.3#27/123 April 29, 1996

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The Grapevine

Louisiana Passes No-Pay, No-Play But With Wild Rate Rollback Twists

The insurance industry wanted the **Louisiana** state legislature to pass a law that would prevent uninsured motorists from suing for pain and suffering damages resulting from an auto accident.

As the old saying goes, beware what you wish for . . .

At the 11th hour, the legislature did indeed pass such a "no-pay, no-play" bill (H196), but at the same time it mandated a 10% rate rollback on bodily injury insurance rates. And if 40% of the market succeeds in arguing that it can't justify the 10% rollback, then insurers will have to rebate 25% of premiums to all drivers

Please see GRAPEVINE on Page 3

Growth Clouds Results

Colorado Auto Majestic For Some, But Becoming Rocky For Others

In recent years, **Colorado** has been is a good place for selling auto insurance. On that point most insurers agree. Will it continue? That's where it gets more complicated.

Because the state is growing quickly, it has made room for many new competitors. It has also brought existing companies a book of business that has a high level of new customers mixed in with long-term customers. A number of insurers contacted last week reported that these factors are making it hard to get a firm hold on where the market is headed. Some are certain that tougher times are coming as claims rise and competition holds prices down. Others see a continuation, at least in the near-term, of the current favorable marketplace.

Back in the 1980s, when most state personal auto insurance markets were performing poorly, Colorado was among the weaker states. It didn't help when a giant hail-

Please see COLORADO on Page 5

In November, California Ballot Will Again Be Tort Reform Battleground

California voters just rejected three tort reform ballot initiatives in March. But they're going to be faced with another three in November in an ongoing battle between business interests and lawyers with a major impact on insurers. And supporters of a failed no-fault ballot initiative are vowing to try again in 1998.

The March initiatives would have introduced strict no-fault, would have made it more difficult to bring a class action shareholder suit, and sought to curtail the contingent fees lawyers earned on lawsuits that settled quickly.

The state's trial lawyers, through the **Consumer Attorneys of California**, raised millions of dollars to fight the initiatives in March, and simultaneously they were collecting names to put a counter-initiative on the ballot. Depend-

Please see BATTLEGROUND on Page 2

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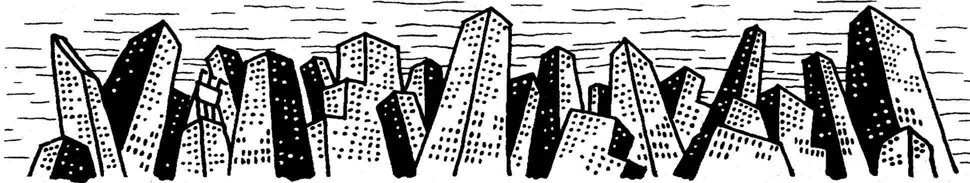


THE INSURANCE BEAT

George Steinbrenner, CPCU?

COULD GEORGE STEINBRENNER, the owner of the New York Yankees, become a CPCU? We raise the issue not because Steinbrenner has evinced an interest in the insurance business, but because the trustees of the American Institute for CPCU recently approved changes in the Institute's code of professional ethics. The code now states that a CPCU "shall not violate any law or regulation relating to professional activities *or commit any felony*." Before this change, a CPCU could, apparently, break almost every law in the book so long as transgressing those laws didn't suggest the likelihood of professional misconduct. Now, CPCUs who become felons are subject to the Institute's draconian penalty: they immediately lose the right to use the CPCU designation.

Which brings us back to Steinbrenner, who pled guilty to charges of obstructing justice and making illegal campaign contributions to Richard Nixon (but was eventually pardoned by Ronald Reagan). Would the Institute allow Steinbrenner to retain his CPCU designation, assuming that he had one?

Karen Burger, the public relations director, gave us a simple answer. "To tell you the truth, I wouldn't even venture a guess."

AIG's 'Top Secret' Chart

AMERICAN INTERNATIONAL GROUP is a vast organization. It has somewhere in the neighborhood of 500 different subsidiaries around the world, among them Unity Insurance Company Limited (Zimbabwe), Cunard-American International Cruises (British Virgin Islands), and Securitised Instantly Repackaged Perpetuals Limited. While this sort of information may not be of interest to the average insurance buyer, it is of interest to certain muckraking journalists. It is also of interest to insurance regulators, who require insurance companies to include an organizational chart, known as "Schedule Y," as part of their annual statements filed with various insurance departments.

While perusing National Union's 1994 annual statement, we noticed that Schedule Y was printed in a manner that made it completely illegible. Desiring a readable copy, we called AIG and politely asked the folks there to send us one. To our surprise, they declined to do so, invoking issues of confidentiality.

That didn't sit well with us. After all, AIG is *required* to disclose this sort of stuff, and making illegible reports is tantamount to not disclosing anything. So we went to the New York State Insurance Department and filed a Freedom of Information Act request for a clean copy of the chart. The department then wrote to AIG and demanded such, which it subsequently received and made available to us (for a fee).

AIG is, of course, notorious for being arrogant and difficult with regulators, but still, why would it file an unreadable chart?

Whatever the case, when we received the company's 1995 statutory statement (filed in 1996), the first thing we noticed was that the organization chart was printed clearly.

The Greatest

ROBERT ROSENKRANZ, the chairman of Delphi Financial, which owns Reliance Standard Life and Safety National Casualty, is not bashful about tooting his own horn. Year after year, his letter to shareholders in Delphi's annual report demonstrates a level of unrestrained optimism and sheer megalomania that is entertaining yet appalling.

If we seem harsh in our assessment, it is only because, over the years, we haven't noticed any correlation between braggadocio and success. In fact, the opposite seems to be true. (Confucius said, "He who speaks without modesty will find it difficult to make his words good.")

Rosenkranz's promotional pronouncements are not without reason. As he points out, without a high stock price, Delphi "would face impediments in using its stock as currency, or raising funds in the capital markets." Given that goal, and given the fact the Rosenkranz owns 32% of the company, investors may want to think long and hard before taking his words, which follow, at face value:

> Delphi's performance in 1995 was as strong and solid as the Indiana limestone of our headquarters building...Delphi's achievements left the company bigger, more powerful, more unequivocally big league and gilt edged...Hitherto we had been content to use unconventional means to achieve unconventionally high total returns...Investors never grew comfortable with the idea that Delphi's performance, though volatile in the short term, was over the long term dependable and spectacular. Even though our financial results ran circles around our competitors...Delphi's stock, which by right of the company's superior performance should have been selling at a premium to other insurance companies shares, in fact sold at a discount...

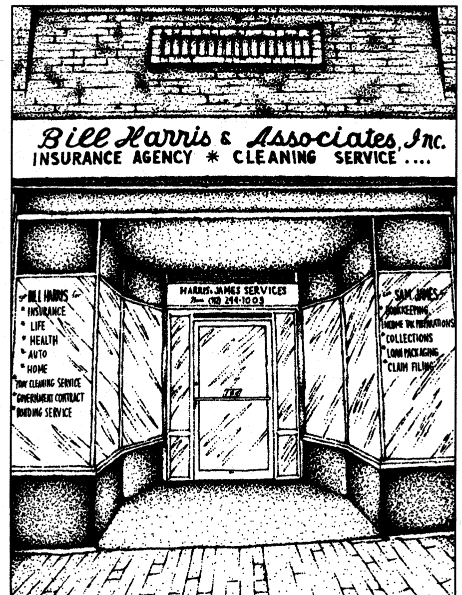
Step right up and place your order.

Satisfaction 'Guaranteed'

ARGONAUT INSURANCE COMPANY writes big workers compensation insurance policies in California; the minimum premium is $250,000. Like everyone else in the insurance business, Argonaut emphasizes "service" as an integral part of its strategy. Unlike everyone else, since October 1, 1995, Argonaut has been providing insureds with a written "unconditional guarantee" promising that it will do the following: 1) meet with the insured and broker within ten days of the policy's effective date to set loss-reduction goals and agree upon a service plan; 2) fulfill every service plan commitment; 3) meet with the insured and the broker as often as desired and 4) respond to questions and concerns within one working day.

The unconditional guarantee also says that if, at the end of the policy period, the insured determines that the company's service didn't meet its commitment, it will pay the insured a specified sum of money. The customer, by the way, is the final arbiter as to whether Argonaut's service is up to snuff. According to Marilyn Brands, Argonaut's vice president of underwriting, the largest guarantee so far is $50,000.

No one has asked for his money back yet.



David Schiff, the editor and writer of *Emerson, Reid's Insurance Observer*, circa 1973.

Even as a misanthropic young man meandering through the streets of New York in a psychedelic haze, David Schiff knew that he wanted to write about the insurance business. Of course, his options were somewhat limited. With his abysmal grades, poor attitude, and aversion to work, most careers were simply out of the question.

Insurance, however—where intellect, judgment, and competence are not prerequisites—not only welcomed a pensive curmudgeon like Schiff, but gave him the greatest job in the world as well: observing the rampant dementia, deceit, and sophistry in the industry and chronicling it in a fearless newsletter beholden to no one.

So Schiff lucked out. He spends his days waist-deep in insurance-company filings, financial statements, trade publications, and actuarial reports. His nights are spent penning cutting-edge exposés, groundbreaking analyses, and hard-hitting commentary in his trademarked tone of acerbic irreverence.

Yes, Schiff's job is so much fun that he ought to be willing to do it for free, but he dreams of the fabulous wealth and international renown that come from owning a successful newsletter about the insurance business, so…

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