



SIR
SOCIETY OF INSURANCE RECEIVERS
QUARTERLY NEWSLETTER

Vol. I, No. 4 December 1992

**MEET DIRECTOR
MICHAEL MIRON**

SIR proudly presents director Michael Miron. Anyone, any where in insurance insolvency activity knows or knows of Michael Miron. His great energy, wisdom, experience, tact, modesty, service and dedication all bless SIR and our industry. The following brief CV will introduce him just a bit further.

Michael Miron currently serves as Deputy Liquidator of Integrity Insurance Company In Liquidation, a large, international property-liability insurance company currently liquidated in New Jersey. He previously served as Deputy Rehabilitator of Integrity from the time it was placed into receivership at the end of 1986.

Mr. Miron has approximately 40 years business experience in the insurance field. Immediately prior to his appointment with Integrity, he was a financial consultant, editor and publisher of International Insurance/Financial Service and American Insurance/Financial Service, rating services which covered non-United States insurers and domestic reinsurers, respectively. Previously he served as chief financial officer of both property and liability and life insurance companies, chief executive of a reinsurance pool and financial consultant specializing in reinsurance matters.



Michael Miron

Mr. Miron has written numerous articles, has lectured on diverse subjects within the insurance industry, and has served on numerous industry committees. He is a C.P.A and an attorney, having graduated from the University of Pennsylvania and Rutgers Law School.

Mr. Miron is also one of four founders of the Society of Insurance Receivers and presently serves as Director, Treasurer, the linchpin on several key committees and wise counsel to the Newsletter Editor of SIR.

Thank you Mike.

**SPECIAL NOTICE TO
ALL MEMBERS**

We are getting together, everybody, Monday, December 7, 1992, beginning at 6:00 p.m., Salon A on the Convention Level of the Atlanta Marriott Marquis. Please respond to the RSVP registration recently furnished all members and see you, and any interested guests, there.

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A WORD FROM THE PRESIDENT

The Board of Directors will be hosting a reception at 6:00 p.m. in Salon A on the Convention Level of the Atlanta Marriott Marquis on Monday evening, December 7, 1992. A dinner will follow the reception at a cost of \$40.00 per person. The annual meeting of the membership will be at 8:30 p.m., directly after dinner. Discussion will include a bylaw change, which was mailed to everyone, as well as an election of four directors.

As mentioned in the last newsletter, there will be a retreat for Principal members on December 5, 1992. This retreat will be held at Lake Lanier, an hour outside of Atlanta Georgia.

I would like to thank Jeanne Barnes Bryant, Chair of our Education Committee, and Joyce Wainscott, Chair of our Seminar Sub-committee for the excellent seminar which was put on October 1, and 2 in Denver, Colorado. Approximately 100 people attended the two-day seminar. Many questions were raised, and there was a lot of interaction between panelists and the audience. The Education Committee is in the process of putting together four seminars for the year 1993.

Congratulations to the Publishing Committee, Nelson Burnett, Chair, for the publication of their fourth newsletter.

The Membership Committee, Robert Deck, Chair, is to be congratulated and thanked for all its hard work. Our membership now stands at 214 members.

INSOL International will be having their fourth International Conference on Insolvency, "Saving Business- A Multi-Discipline Approach" on the 14th and 17th of March, 1993 in Melbourne, Australia.

This completes 1992, the first year for the Society; I hope that it has been informative. Although the goals which we set this year were very ambitious, with hard work, we were able to meet all of them. We are now very busy planning many more activities for next year. I hope that you have met and been able to interact with other members of SIR. I have enjoyed talking with the members and have especially enjoyed meeting with many of you. With your help, ideas, and support, 1993 will be an informative, productive, and enjoyable year for the SIR and its members.

Karen Weldin Stewart
President

RECEIVERS PARTICIPATION IN GUARANTY FUND ANNUAL WORKSHOP

Summary By: Ron Rosen

SIR members were highly visible participants in the 1992 Annual Workshop of the National Conference of Insurance Guaranty Funds (NCIGF) held last month in Monterey California. A group of over a dozen SIR member constituted about 10% of the Conference's attendees.

The Conference's theme- Achieving Excellence- was marked by numerous references to Liquidator/Guaranty Fund cooperation. Situations requiring greater cooperation have arisen as guaranty funds continue their transition from their original role in personal lines insolvencies to the more complex commercial lines insolvencies.

Avoidance of Liquidator/Guaranty Fund differences through informed reporting was addressed by Tom Wrigley, SIR board member.

Keynote presentations dealt with future expectations. NCIGF panelists warned of possible commercial insurer failures as a result of current rate inadequacies in the worker's compensation market place. Paul Sweeney, a guaranty fund board member suggested that the NAIC's new Risk Based Capital requirements would uncover insolvencies that now exist. Michael Miron, SIR Treasurer, reminded attendees that emergence of long tail claims from the wave of commercial insurer failures of the mid-80's were far from over.

Similar concerns were noted in several presentations devoted to the growing importance of claim handling of environmental claims to guaranty funds. Harold Ornstein of New Jersey's Property/Liability Insurance Guaranty Association (NJPLIGA) reported that environmental claims already constituted over half of his guaranty fund's workload. Furthermore, he predicted these environmental claims will exceed 75% of his guaranty funds workload in the not too distant future.

Early Access distribution issues also captured attention. SIR Vice President Ron Rosen, California's Deputy Commissioner in charge of liquidations, urged NCIGF members to amend their state statutes to eliminate deductibles on claims because many of these smaller deductibles end up costing the insolvent estates (and indirectly the guaranty funds) administrative expenses that exceed the amount of the deductible. Michigan's \$10 deductible drew criticism as the deductible most obvious for reform.

Francesca Bliss, A SIR member from New York's Liquidation Bureau (NYLB) reported on the progress of

closing out several old New York insolvencies. She pointed out the burden imposed on the NYLB by the three major commercial insurer insolvencies-Ideal, Midland and Union Indemnity-that had occurred within a short time of each other. Dale Stephenson, President of the NCIGF, thanked Ms. Bliss on behalf of all the attendees for her communicating and cooperation during the past year.

A potpourri of other topics discussed included aspects of the working of Early Access laws, issues related to guaranty fund "claim handling" expenses; and the increased cooperation between receiver and guaranty funds. Ms. Holly Bakke, New Jersey, who served as program chair cited a recent experience involving numerous guaranty funds and the Integrity estate arising from a large asbestosis claim.

Other receivers that participated in NCIGF's program included John Vasquez (Texas) and Richard Darling (Illinois). The consensus of the receiver attendees is that the Annual NCIGF Workshop can effectively assist in achieving efficient relationships between guaranty funds and receivers. Toward that goal, NCIGF representatives were invited to SIR's December retreat during the upcoming NAIC Meeting in Atlanta.

PLAUDITS

First and foremost this Society, our whole industry takes constant pleasant note of and profit from leadership and continuing concrete results accomplishment of our President Karen Weldin Steward Excelsior!

Director Jeanne Bryant, Chair of the Education Committee, and the people working with her making the Denver Seminar so successful rate four stars.

And, super plaudits to Director and PRINCIPAL member Vince Vaccarello. In and beyond SIR, NAIC and SOFE, Vince is tireless in his efforts on behalf of our profession and finds time to encourage and assist so many of us less experienced and less blessed. Vince was all smiles and wearing a necktie(!) in Cincinnati particularly when he shared the Mutual Fire Marine and Inland Insurance Company opinion by Chief Justice Nix of the Pennsylvania Supreme Court which upheld and commended rehabilitation effort of Vince, Alex and their staff.

SIR TRAINING SEMINAR – REINSURANCE SECTION

Denver, Colorado
October 1-2, 1992

By Catherine MacDonagh

Hats are off to Joyce Wainscott (Chair) and the entire Education Training Seminar Subcommittee for a job extremely well done! The quality of the speakers we enjoyed in Denver is obvious from a mere glance at the names of the distinguished panel.

The attendees were introduced to the Reinsurance Training Seminar by the illustrious Leonard H. Minches who needs little introduction. Mr. Minches is currently a partner in the international law firm of Urison, Elser, Moskowitz, Edelman & Dicker in the firm's New York Office and has been in the industry for many years. His experience and knowledge were evident from the insight and thought provoking questions he asked in his role as moderator. All of the speakers picked up on the theme Mr. Minches established at the outset: the need for COMMUNICATION.

Paul Walther, President of Chilton-Omni Services, Inc. spoke first and discussed the definition of reinsurance and the reinsurance marketplace. He was followed by Kevin Oates, Sr. Vice President of Chilton-Omni, who educated us on the purpose of reinsurance.

John M. Parker, C.P.C.U., of the law firm of Sidley & Austin (Chicago) delivered an excellent presentation on common clauses in Reinsurance contracts from the Liquidator's perspective. Mr. Parker provided us with forms, provisions, and explanations which were included in the seminar manual. This material will undoubtedly be useful.

American Reinsurance Company of New Jersey offered us two fine speakers. Frank J. Maffa CFC, CIE, and James Anastasio gave us the nuts and bolts of mechanics of Reinsurance Accounting and discussed premiums, commissions, claims and billing applications.

Peterson Consulting rendered an impressive performance and displayed technology for Reinsurance Recordkeeping. Thanks to Lauren Kingsmore, Federick Bingham and Jeremy Capell, for an informative and entertaining session. I would also be remiss if I did not take the opportunity to give kudos to Kristine Bean of Peterson who serves on both SIR's Education Committee and the Education Training Seminar Subcommittee.

They saved one of the best for last. Earl C. Davis Vice President, Claims, of San Francisco Reinsurance Company, discussed reinsurance claims. Mr. Davis, who spoke from a reinsurers' perspective and gave us useful, practical information, and stressed the importance of the relationship between a cedent and reinsurer and/or retrocessionaire and reiterated the need for COMMUNICATION.

The Panel Discussion that concluded this two day event showed by example that when we combine our knowledge and resources, we help each other and improve the quality of the industry in which we work.

Congratulations are in order to the SIR Education Committee for a fantastic seminar. Besides being organized and well attended, it set a high standard for future meetings.

It was wonderful to have met so many outstanding individuals and we have SIR to thank for this opportunity. We look forward to many more years of successful programs like the training seminar in Denver.

SIR TRAINING SEMINAR – CLAIMS SECTION

Denver, Colorado
October 1-2, 1992

By Wendy Weill

My usual comments after a so-called "workshop" are: The meetings were uninformative unorganized, and either too basic or way over my head, and I returned with a few business cards and an empty note pad.

And this meeting? NOT!! (As my teenager would say) It was fabulous! There were great speakers, great topics, great handouts, great participation and it was very well organized. We were eager to learn and to understand all that is evolving in the world of insolvency.

What made the difference? SIR was organized so that "we" could get together about OUR issues, OUR problems and how to network together and discuss them. This was a meeting of Receivers, Deputy Receivers, Administrators, Staff and others who are a part of a receivership operation and because of this, it was a great success!

If I overlook anyone as I attempt to summarize the claims workshop, I am sorry. There were so many people who contributed and I am hurriedly trying to get this report complete. "LL" in his infinite wisdom, asked that I be the reporter for SIR, and upon returning from Denver, I was asked by "LL" to manage two companies that had just been placed in receivership that are approximately 100 miles from home. But as I recall,

during our "lull" period, I secretly wished for another company, and I guess Santa thought I had been so good, he would give me two before Christmas. A double "rush," but it's great to start fresh with all this new knowledge from the SIR meeting!

Items that I was particularly interested in were:

A. Fabe

Steve Schwab brought our attention together by outlining this soon to be historical case which deals with Super Priority for the Federal Government over and above policyholder claims. This case can and will set a precedence for all insolvencies. The outcome of this case, set in Ohio, will probably not be settled until 1993, but we as Receivers, should watch its progress closely. So what do we do if the Federal Government does win and State Statutes no longer apply to their claims? Can the Fed's come after assets which have been distributed? Will Receivers be held responsible? An will the Guaranty Funds return money to the receiverships based on a re-calculation of distribution? The answers to all these questions were discussed at great length at the workshop, and the answer to all of the above is yes! It would be a good idea for all to gather your federal claims for taxes, or for environmental losses, wipe the dust off, and keep them close by.

B. Great Quotes

"Set offs, the abortion issue of the NAIC,"
Dough Hartz.

"We have to get along, or in five years, we won't have a choice," Dale Stephenson (NCIGF), referring to the Dingell Bill.

"The three C's- Communication, Communication, Communication," Leonard Minches.

C. New Terms and Issues

-Priority Jump, Drop Dead Bar Date, Fabe

-Receivership Law 101: Steve Schwab, Doug Hartz, Mark Richardson

-Historical Development of State Insurance Law

-Legal Capacity of Relationships: (a) Policyholder/Insurer, (b) Reinsurer/Insurer, (c) Parent Company/Subsidiaries.

-Mutuality of Time: what claim can be presented and what can be set off, triggers Pre or Post Receivership Debt.

-Contingent Claims, your statute, and the Model Act.

-Contested Claims, time, money & doing what's right.

-Settlements, pay now or wait in line.

-Receivership Court, should there be one?

D. Uniformity: Karen Stewart, Dale Stephenson, William O'Bryan

Data Base- Using the NAIC recommended guide to conform your current system into the structure that will work best.

1. Most systems contain the majority of the information and additional fields could be used to extend your present format.
2. System conversion. The ASKEE program is one that has been utilized and could be compatible with your current system. Have your computer whiz contact Dale for more information.
3. The additional information will make the cycle easier in the long run because of the data needed to report to reinsurers, guaranty funds and Liquidation Courts and the NAIC.
4. This is not a system, but a reporting FORMAT that has been recommended for use in our various states so that our border may be crossed with fewer obstacles and confusion. Karen Stewart presented many samples of forms and documents which have made her job easier, and I for one have already contacted her and started implementing a new system for assigning claim numbers.

E. Insight from Integrity:

Debra Carr and Angela DelCasale kept us intrigued with the unique situations faced in their receivership. Legal issues, surety bonds and claims issues of this massive operation kept us asking questions from breakfast to dinner. Michael Miron has a fantastic team of experts.

This is what we are about-sharing our experiences, our problems and our solutions. Many conversations were held and I saw numerous business cards passed around. I now have new friends in Pennsylvania, Arizona, New Jersey, Colorado, Alaska, Missouri, Delaware, and Georgia. Maybe we will meet again, I hope so. This was a top notch workshop a meeting of the minds, and I am glad to be part of it. To SIR with greatest admiration!

DENVER S



Jeanne Bryant, SIR Leadership Personified



Earl Davis Reinsurance, California Perspective



"Lenny" Minches MR. RECEIVER



William "Moses" O'Bryan, Advice is only worth what you pay for it.



Joyce Wainscott, One Busy Lady

SEMINARS



Claims Meeting Denver



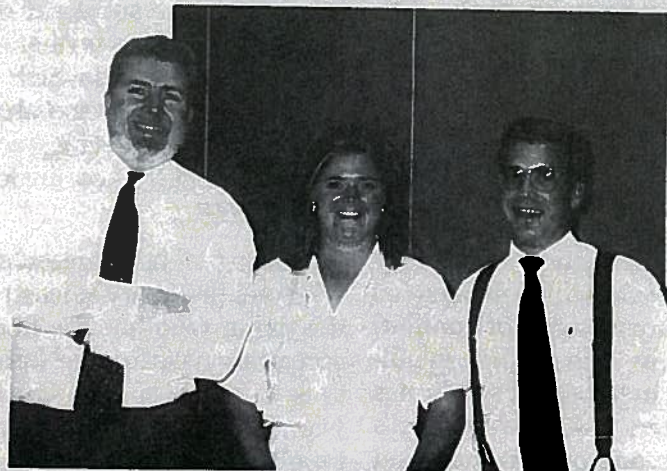
Dale Stephenson NCIGF



**"Reinsurance" Paul Walther, John Parker,
& James Anastasio**



**"Women's Bank!" Angela DelCasale
& Karen Stewart**



**Peterson Consulting Group, Frederick Bingham
Lauren Kingsmore Jeremy Capell**

MISSION IMPOSSIBLE, OR HOW TO EXPLAIN LLOYD'S IN A FEW HUNDRED WORDS

By: Philip J. Singer

I recently asked Nelson Burnett, the editor, what subject he would like me to address in this edition. His reply surprised me, at least initially, but on reflection I had to agree that the suggested subject was akin to what Sir Winston Churchill described as a riddle wrapped in an enigma.

The subject? Lloyd's, which Nelson would like to have explained in a few hundred words! In attempting to do so I am conscious that the need for brevity leaves more questions unanswered than answered.

Lloyd's is a society incorporated by Act of Parliament whose members are known as Underwriting Members of Lloyd's or 'Names'. Although the business of Lloyd's goes back more than 300 years its legal foundation dates from the Lloyd's Act 1871 when Lloyd's underwriting members were incorporated into the Society, known from then on as the Corporation of Lloyd's. There have been five further Acts of Parliament and the current Lloyd's Act dates from 1982. Management of the Corporation is in the hands of an elected Council comprising 12 "working" and 8 "external" members together with 8 members nominated by the Council and endorsed by the Governor of the Bank of England. The Council's "working" members are Names who are professional insurance men working in the Lloyd's market. These working members comprise the Committee of Lloyd's which is an executive body responsible to the Council for regulating the Corporations' day to day affairs. The external Council members are elected by non-working Names.

The first thing which needs to be understood is that Lloyd's is not an insurance company. It is not even a group of insurance companies, it is in fact a market of individuals grouped into syndicates. In the early days of Lloyd's, when business was transacted from Mr. Edward Lloyd's Coffee House, Lloyd's underwriters acted as sole traders with the obligation which they undertook, secured against the whole of their personal wealth. This situation existed for a couple of hundred years but towards the end of the 19th century, syndicates started to develop, with members of syndicates taking a share of the underwriters' risks. Today Lloyd's syndicate may typically have one or two thousand members, each of whom will be a Name.

A person wishing to become a Name will need to satisfy the Corporation of Lloyd's that he is an individual capable of showing immediately available assets of not less than £250,000 in order to secure his underwriting obligations. However, having shown wealth of £250,000 the Name is actually liable for the risks underwritten in his name up to the whole of his personal wealth. Names operate as sole traders and therefore it is not possible (at least under present legislation) for them to incorporate and limit their liabilities, their liability is therefore several and unlimited.

Each syndicate is headed by an underwriter who operates from a "box" located in the "room" at Lloyd's where he will be visited from time to time by insurance brokers (who must be Lloyd's brokers) who introduce risks to the underwriter set out in brief terms on a 'slip'. The underwriter then decides whether or not he wishes to participate, and if so on what terms. Risks placed in Lloyd's are normally rated, both as to premium and term, by the "lead" underwriter and other underwriters, should they wish to take a line, will follow the judgement of the lead underwriter.

A Lloyd's underwriter will maintain a minimum of records, although all risks have to be recorded, relying instead upon the Lloyd's broker to maintain full records, and all accounting will take place through the Lloyd's broker.

All accounting for all Lloyd's business is cleared centrally through Lloyd's central accounting and all policies, with the exception of some personal line business, are issued centrally through Lloyd's policy signing office.

Another curiosity is the Lloyd's three-year accounting system. Lloyd's underwriters allow the risks which they write, regardless of the length of the tail, to run-off over a three year period. Business underwritten in any one year is the subject of a separate account which remains open for a further two years before a balance is struck. Any losses which are outstanding at the end of the three year period are reinsured on a portfolio basis into the next year, a practice known as "reinsurance to close." Thus the account for 1992 will be closed at the end of 1994.

A Name will be represented by a "Members Agent" who will (in theory at least) recommend syndicates to the name who has the final choice. With a view to spreading risks for the Name the Members Agent will seek to put him on a spread of syndicates so that a Name showing the minimum wealth of £250,000 might be placed on ten different syndicates with personal capacity of £25,000 on each syndicate. If one of those

syndicates have a thousand members and if each member's share was similarly restricted to £25,000 the underwriter would know that he could write a premium capacity of £50 million, ie. twice the effective capitalization.

That then in very brief terms is the corporate nature of the beast known as Lloyd's which as a result of huge underwriting losses has had something of a poor press recently. Those losses have been incurred following a

series of unprecedented disasters and the habit of some Lloyd's syndicates thus leading to a concentration of risk within Lloyd's, known as LMX spiral. In this brief article I do not propose to discuss the problems which Names are currently experiencing nor to speculate upon the future of Lloyd's, but it has been around for more than 300 years and has always met all its obligations in full, which is why it has always been regarded as such excellent security. Long may that remain the position.

RECEIVERSHIP RAMBLINGS

Cincinnati, Ohio - September

Denver, Colorado - October

Atlanta, Georgia - December

Cincinnati was beautiful but between SIR and NAIC activities, were very busy. SIR membership is, properly so, involved in all the key NAIC programs, meetings, committees, task forces, working groups, goals and accomplishments.

One wonders when we get our "receivershiping" done?

Those who rambled to Denver the 1st of October for the Seminars are high in their praise for this pole-star in the SIR galaxy, see this letter.

As you have been notified another President's Retreat is planned preceding the annual NAIC meeting in Atlanta, December 5, 1992. Much has been accomplished toward speedy, fair, superior receivership administration internationally. And we've just started!

THIS IS IMPORTANT, all members will have received RSVP notices and it will be stressed elsewhere in this letter, but ALL SIR members are invited and urged to attend the first annual membership meeting and dinner, Monday, December 7, 1992, 6: p.m., Salon A, Atlanta Marriott Marquis. Come, bring guests, celebrate a fantastic first year.

THE LOQUACIOUS LIQUIDATOR

was just in asking if we have heard of any good banks lately? He says his banks are paying 3% on CD's, less on repos but charging his children 15% to finance new cars, 10% plus points for home loans and 18% credit card interest. Pretty soon they will be tapping receivership portfolios for service charges and deposit fees and paying zip interest. Banks continue wanting to get into the insurance business. Maybe we should let them into our receivership / rehabilitations for asset enhancement. There are some bank CEOs out there who can turn a profit overnighting Confederate States Bonds. They've arranged the long term use and keeping of our money for free- the least we can do is free up the regulatory strictures on ownership and investments, continue their creative license, activate their Milken machines and step back for dividends.

Himself allows that bank intervention or no, federal regulation commencing with a national multi-line guaranty fund is inevitable in the 90's Some states are ready for it. He says Texas is shutting down its entire liquidation bureau, thereby creating a golden opportunity for banks. It's a shame their First City Bank could not have hung on long enough to get its share of receivership residue.

El Loquacio also says tell them that they are fighting the wrong people in the wrong arena. Reinsurers have more money and more ways of keeping it. Get real, get together with them. Win the war and the peace! So you beat them up good on the offset issue. They won't be there at all the next battle whenever you take down Slapout Mutual! Point well taken. Of course in his partial retirement Himself has enjoyed his travels to London, Monaco, and Bermuda. He hopes to get to Chicago soon, friends all over.

HEALTH CARE REFORM AND INSURER SOLVENCY

By: Thomas D. Snook, F.S.A.

One of the centerpieces of Bill Clinton's successful presidential campaign was health care reform. "Health care reform" is a broad, loose term encompassing everything from malpractice reform to changes in Medicaid funding to limits on physician salaries. In this brief article, I'll examine the insurance related health care reform issues and how these may impact receivers and liquidators.

The Current Political Environment

The past session of Congress saw a profusion of health insurance reform bills introduced. Out of the ensuing chaos of confusing, often overlapping proposals, a pattern emerged. Most bills considered as serious contenders fall into one of three categories:

- National Health Insurance, similar to the Canadian system. Rep. Marty Russo's bill is the leader of this group.
- "Pay or play," requiring employers to buy private health insurance or pay into a government-sponsored health insurance pool; Senators George Mitchell and Ted Kennedy lead this camp.
- Incremental insurance reform, such as proposed by Sen. Lloyd Bentsen and Rep. Dan Rostenkowski.

There are other proposals, such as those sponsored by the conservative Heritage Foundation, but these have not received as much attention as these three categories.

Clinton's Position

Health care reform is likely to be one of the most difficult political issues Clinton will face in the early days of his presidency. He is faced with a broad range of opinion and proposals even within his own party. In addition, he will have to deal with the health insurance lobby, the health care delivery lobby, the budget deficit, and taxpayers' reluctance to fund new government programs.

Clinton has already stated publicly that he does not favor a national health insurance system. The buzzwords in the Clinton campaign were "managed competition," implying the maintenance of the private health insurance marketplace with increased (presumably Federal) regulation and increased emphasis on HMOs and other forms of managed care.

It's a good bet that the insurance reform proposals (the third category of plans) will get serious consideration

and wind up playing some role in any proposal that the Clinton administration may eventually put forth. "Pay or play" could also figure prominently in the package. At this point, it's too early in the game to say what exactly will result. Therefore, let's just examine the consequences of some of the relatively moderate reform ideas on the table.

Impact on Group Health Insurers

The group insurance reform measures being considered by Congress have some common threads. They are in large part restricted to the small group market, although there is no guarantee that they won't eventually apply to all group markets. Generally, they all restrict an insurer's ability to manage its block of health insurance business subject to the proposals. Common proposals include:

- Restrictions on the use of pre-existing conditions limitation.
- Restrictions on the degree of underwriting a carrier can perform at issue.
- Restrictions on the right of an insurer to cancel coverage.
- Restrictions on the magnitude and implementation of premium rate increases.
- Standardized benefit plan designs.

The restrictions on pricing and selection of risk may cause insurers to manage care more efficiently, one of the goals of health care reform. However, on the negative side, limitations on an insurer's ability to manage its block of business may increase the risk of losses. In the case of undercapitalized or poorly managed companies, this may ultimately increase the risk of insolvency. In the current environment, an insurer can avoid serious financial trouble through timely rate increases or, if necessary, the cancellation of a block. Under reform, these options may be severely limited or possibly eliminated altogether.

Impact on Individual Health Insurers

At first glance, it may seem that individual health insurance will not be affected by health care reform, since the health insurance reform debate has focused largely on group insurance issues. In many states, individual health is already heavily regulated; in addition, guaranteed renewability is a common feature of individual policies.

However, it seems unlikely that the individual health insurance market will emerge entirely unscathed. For one thing, the proposals for the small group market may easily be extended to individual insurance.

In this case, the individual health insurer is faced with the same reduction in its ability to manage its business, which may increase the risk of insolvency.

More importantly, the size of the individual health insurance market may be reduced significantly with health care reform. Individual health insurance is traditionally sold to self-employed individuals and individuals whose employers do not provide health insurance, mostly small employers. A reform of the small group market may make that form of insurance more appealing to small employers, at the expense of individual policies. A "pay or play" law could eliminate the individual market almost completely.

Impact to Receivers and Liquidators

The most obvious impact of health care reform to receivers and liquidators is the potential for a greater number of health insurer insolvencies. With the ability to manage their business to profitability reduced, insurers will have less operating margin. While strong companies will adapt and survive under reform, others may not.

The increased potential for insolvencies calls for increased vigilance on the part of regulators in identifying and monitoring troubled insurers. Rehabilitation of health insurers may become more difficult after reform. Premium rating and renewability restrictions may make it even more difficult than it is now to dig a company out of a hole. Eventually, tighter restrictions on carriers may force earlier intervention on the part of regulators. Earlier intervention reduces the margin for error for regulators as well.

Currently, a health company under state supervision or rehabilitation may take actions necessary to restore it to viability through judicious rate increases and policy cancellations. Under the health care reform proposals, however, these options may be limited or unavailable even to state rehabilitators. Until the laws are actually drafted, it is not clear how state and Federal regulation will interact.

One common approach currently used by liquidators is to sell blocks of insolvent insurers business to protect policyholders and reduce the guaranty fund's liability. If reform makes health insurance a less attractive market for insurers, this may become more difficult. There may be fewer insurers actively seeking blocks of health insurance, particularly blocks with questionable profit potential and which may be more difficult to manage back to profitability.

Conclusion

It seems likely that any health care reform package adopt will change the way an insurer can manage its

block of business. Depending on the exact form of the legislation, this may lead to an increase in the number of insolvencies among health insurers, due to a reduction in the margin within which an insurer operates. As protectors of policyholder interests, state receivers and liquidators will need to be aware of changes in the health insurance field and be prepared to deal with them.

WW RESPONDING TO THE LOQUACIOUS LIQUIDATOR

The question has been put to me time and time again, "Why do we have separate receiver claim files?" The Loquacious Liquidator could not, or would not comprehend our adopted system of having guaranty fund control files, and a separate system for receivership claims. I have gone through this with "LL" on numerous occasions, I put it to writing and taped it on his wall:

Ten reasons why we have separate GF Claim and Receiver Claim files:

1. It was set up that way before I got here.
2. To control Guaranty Fund Activity
3. To Control Receivership Activity
4. To cause mass confusion
5. More files to be lost or misplaced
6. To help the economy by employing more people in order to add to the mass confusion
7. More paper work, companies love paper work, so this is in compliance with company policy.
8. Cross checking, if you can't find what you need in one file, this gives you the opportunity to pull the other file, thereby getting all the file folders tangled up and confusing the next person who works on either file.
9. Getting even with staff, see number 8 above.
10. Makes the person who has the system figured out feel like his/her job is secure and they have the ultimate control over the entire office.

The Loquacious Liquidator and I now have an understanding, he doesn't ask why, and I don't tape humorous little notes to his wall.

Ed's note:

(Hereafter any and all duplication of files, efforts, systems, opinions shall be summarily dealt with thusly: Salary reductions pari passu in direct proportion to each redundancy factor.)

SOCIETY OF INSURANCE RECEIVERS

Volume I, No 4

December 1992

Nelson Burnett
Newsletter Editor

OFFICERS and DIRECTORS

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Vincent B. Vaccarello	Jeanne B. Bryant
Philip J. Singer	Nelson Burnett

CONTRIBUTORS

Thomas D. Snook is a colleague of contributing Editor Harry Miller, working out of Houston, Texas with Milliman & Robertson, Inc./Woodrow Milliman. Insolvency activity '92 & '93 seems weighted on the health side and Tom's article could not be more timely.

Philip Singer, SIR Director, ongoing contributor from Cork Gulley, London, U.K., you know and appreciate.

Catherine Alman-MacDonagh and *Wendy Weill* are also former, regular contributors and in this issue they add their praise and appreciation of the Denver Seminar.

THE LOQUACIOUS LIQUIDATOR feels that it may be just his age and the slowing of his physical and mental processes but has anyone else noticed the NAIC "cram down" of around the clock meetings, meetings to discuss meetings that need to be attended adinfinitum. And how does it always work out that the smallest meeting rooms are the ones generating the greatest attendance / interest? Salon D in Cincinnati with seating for 15 maximum held 150 "squeezees" at several meetings. FIRE MARSHAL ALERT!

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FIRST CLASS

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SIR Quarterly Newsletter