EDERSON, REDS Vol. 4 · No. 2 INSURANCE OBSERVER June 1992

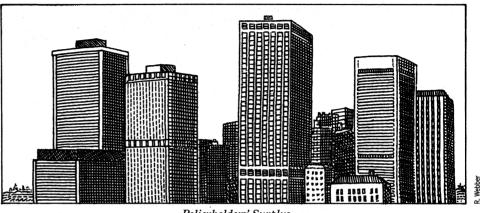
What, Me Worry?

Companies Are Underreserved And Loss Ratios Are Up

The Frontier Insurance Company, which has reported an underwriting profit for five years in a row, has come up with a technique that could revolutionize the insurance brokerage business. Last year, when broker Joe Hatch asked the company to underwrite a special liability program, it told him to take a jump. Hatch complied, and thus was born Frontier's bungee jumping program. In addition to the usual risk management criteria, Frontier requires Hatch to personally take a plunge at each bungee jumping facility before binding coverage.

Hatch, whose Pine Bush, N.Y. firm has written a million dollars in bungee premiums this year, is a sensible-sounding fellow whose mild manner belies the daredevil inside. He told us that while frightened at first, he now loves jumping off high places supported by nothing but an elastic cord. "At normal heights it's pure enjoyment," he said, "but I'm still scared above 200 feet." Hatch admitted that most people think he's nuts, but insists that when done prop-

Gala Insurance Review1-	6
INCLUDING:	
Teflon Presidential Life (Not!); Stag	
Party: ITT Hartford; Hilb, Rogal: Less	
Than Meets The Eye? AND MUCH MORE	
Chicago By Train	7
Long Term Disability	8
New York DBL	8



Policyholders' Surplus

erly, bungee jumping is "less dangerous than bumper cars." Harry Rhulen, Frontier's vice president, concurred, assuring us that bungee jumping is "a very safe activity for commercial participants." Rhulen, however, has no plans to give it a try.

Judging from the scores of insurance company annual reports we've read recently, the insurance industry is something of a bungee jumper itself, albeit a heavy one using a lightweight cord. While we're not expecting that cord to snap, it is frayed. In addition to its current woes, the insurance industry remains particularly vulnerable to a catastrophe—an earthquake for example. (A reference point: Of the 246 insurance companies involved in the 1906 San Francisco earthquake, only five paid their claims in full.)

Obviously, today's insurance companies bear scant resemblance to their turn-of-the-century predecessors. Then, the insurance industry operated in a cartel-like fashion ensuring reasonable—but not spectacular—profits for its participants, without entailing undue risk (earthquakes not withstanding). These days, mediocre profits and high risk are the norm.

Insurance executives are ever hopeful, and we keep hearing lots of blather about "reason" prevailing in the industry. That, in and of itself, is an unreasonable expectation. Insurance —like wheat, newsprint, or natural gas—is a commodity, and its pricing is ruled by the laws of supply and demand. Prices will go up when there's a shortage of insurance, and there will only be a shortage when underwriters are scared. Really scared.

Walter Rhulen, Frontier's president, poses a good question: "Isn't it conceivable that all of the competing market forces will serve to produce a combined ratio that will allow a majority of companies to continue on their current path of marginal profitability indefinitely? Why assume that there must be a next hard market?"

We agree with Rhulen's sentiment but don't rule out the cyclicity inherent in a commodity business. From time to time the market will undoubtedly tighten. But a sharp tightening, in all likelihood, would only result from extreme conditions, such as sharp losses by many major carriers.

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A hard insurance market is, after all, a reaction to extreme financial pain. By most standards, the insurance industry has not reached that point. Yet.

The signs of modest pain are abundant, however. Property-casualty underwriting results have been terrible—they would have been worse had companies not underreserved and life insurance companies are paying the price for their unabashed real estate speculation. Had it not been for the massive rallies in the stock and bond markets—which are unlikely to recur soon—insurance company balance sheets and earnings statements would have been considerably weaker.

Several years ago we opined that property-casualty the market wouldn't turn until, at the very least, General Re reported an underwriting loss. Well, in 1991 they reported a 102.2% combined ratio on a 4.6% increase in net premiums written. Posting an underwriting loss poses no problem for General Re due to its powerhouse balance sheet and ultraconservative premium-to-surplus ratio of 73%. CEO Ronald Ferguson told shareholders that "current conditions in the insurance business would make rapid growth of reinsurance premium imprudent," and stressed that General Re won't pursue growth at the expense of underwriting integrity. Of course, no insurance company plans to throw underwriting



David Schiff, Editor and Writer

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Copyright © 1992 by David Schiff. You are welcome to reprint short quotations or extracts from this material with credit given to David Schiff and Emerson, Reid. integrity to the wind, anymore than General Motors plans to lose money selling cars. It's just that the markets and the economy aren't always accommodating. Such was the environment from 1982 to 1986 that General Re reported an underwriting loss each year. Even in 1984, when the combined loss ratio hit a startling 127%, the company managed to report a modest profit. As we said earlier, we don't think rates will rise significantly until companies start losing money. (That the underwriting environment hasn't improved seems borne out by General Re's first quarter combined ratio of 105.4%.)

Compared to most service or industrial companies, insurance companies have considerable flexibility in "managing" their reported earnings. Because of the variety of accounting or actuarial assumptions available, any given year's financial statement isn't necessarily a rendering of reality. Often, insurance companies don't even have a good sense of the value of their assets or their liabilities, although generally they tend to overstate their assets and understate their liabilities.

Because of the inherent leverage in the insurance business, when companies make mistakes the results are magnified. A case in point is the Travelers Corporation, which has been reeling from what Fortune called "a binge on Southwest loans and properties." According to Travelers' 1991 annual report, "operating results have been, and are expected to continue to be, affected by a significant decrease in interest income from underperforming mortgage loans." Referring to real estate, Robert Crispin, Travelers' vice chairman and chief investment officer. writes: "We harbor no illusions that the [real estate] recovery will be fast or easy.... We continue to foresee an extended course of correction [emphasis added]."

The problem with the commercial real estate market is that there aren't enough tenants to fill the glut of buildings that were built with too much borrowed money, so now the buildings aren't worth anywhere near

The Art of The Deal: Big Real Estate Investors

	Real Estate 12/31/91			
Company	As a % of surplus	(\$000)	Nonper- forming (\$000)	
Equitable	1,110	\$12,173	\$765	
Aetna	1,028	19,071	2,150	
Teacher's	718	21,945	1,581	
John Hancock	705	11,135	534	
Conn. General	673	10,081	593	
Travelers	654	13,404	3,260	

Source: Fortune

the value of the loans. The Travelers' stock price is indicative of these difficulties. At around \$20 per share, the company is selling for less than half its book value, which makes the task of raising additional capital all the more difficult.

Presidential Life Corporation is reeling, too. But from junk bonds, not real estate. Using a junk-bond investment strategy to aggressively write annuities, Presidential became one of the fastest growing companies during the 1980s' financial decadence. Unfortunately, but not unexpectedly, Presidential was stuck with large unrealized losses on its portfolio when the music stopped. Then, when the public began reading life-insurance company balance sheets, Presidential suffered a serious increase in surrenders. The result was a decline in net worth and a 90% drop in annuity premiums.

For the time being anyway, the situation has stabilized, junk has rebounded, surrenders have subsided, and Presidential is still standing, although staggered by body blows. Although we were no fan of their growth strategy and have been wary of the annuity business anyway, we confess that Presidential does have many admirable qualities. Expenses are kept under tight control and the company is the low-cost operator in the annuity business. Although junk still accounts for almost 35% of its assets, it has been whittled down from much higher levels. Taking into account projected calls and additional sales, junk should be below 25% in the not-too-distant future. While that level could still be problematic, Presidential's other assets are pretty good.

There's no real estate or mortgage investments, no subsidiaries, no surplus notes and no surplus relief insurance. Presidential has never written Guaranteed Investment Contracts and its GAAAP accounting is conservative. (But it's downright unusual that Presidential's financial statement is audited by a CPA who is a sole practitioner.)

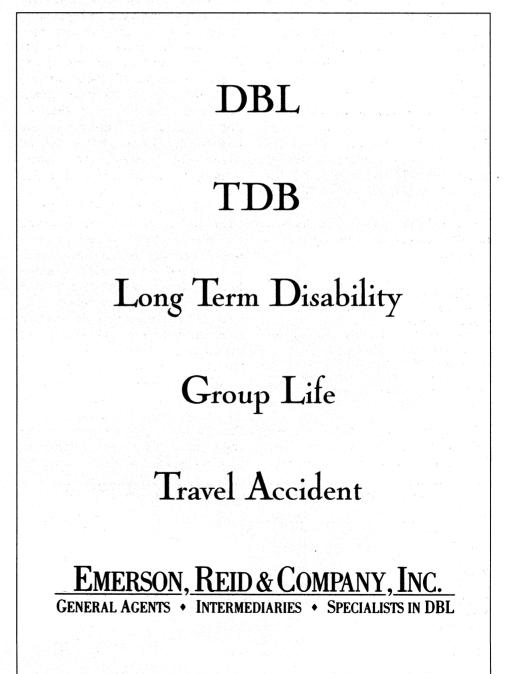
Rumor has it that Presidential might be interested in raising additional equity capital. This could come in handy since the company must repay \$80 million of debt in 1993 and 1994. Although shareholder's equity is \$166 million, all the company's net worth is tied up in its life insurance subsidiary. Getting the money to the holding company where the debt is—might not be easy.

So at \$4.75 a share—its adjusted book value-is Presidential's stock a buy? The brokerage firm of Fox-Pitt, Kelton thinks the company will earn 95ϕ a share this year, which certainly makes the stock sound cheap. As usual, we remain skeptical. We've got a feeling that the unwinding of the post-war (post-World War II, that is!) credit boom is far from over. True, the signals are mixed. They always are. On one hand, stock prices have soared and there are signs of a pick-up in business. On the other hand, the deflationary environment is obvious: credit demand is weak, the yields on Treasury securities are the lowest they've been in an age, and Olympia & York-formerly real estate's bluest-chip borrower-is teetering. If we're correct in assuming that the backlash from years of speculation-in everything from art, to real estate, to baseball cards-has not been fully played out, then Presidential, as well as many others, may face trying times again.

Until 1959, when Harold Geneen became the boss of International Telephone & Telegraph (ITT), the company was pretty much what its name implied—a multi-national telecommunications business. Over the next decade, however, Geneen, a bean-counter extraordinaire, transformed ITT into a sprawling, outsized conglomerate by buying everything from bakers and homebuilders to Avis and Sheraton. But his crowning acquisition, completed in 1970, was The Hartford Insurance Company. (The Hartford now accounts for half of ITT's revenues and profit.)

The Hartford—its roots trace back to 1810; a mighty stag is the corporate symbol—didn't come into the ITT fold willingly. As a last ditch defense it began plotting its own acquisitions to insulate itself from ITT's advances. So Geneen launched a hostile takeover, and after months of stalking, sighted the stag in his crosshairs and bagged it.

Aside from adding bulk, assets, and what was then considered a stable business, The Hartford gave ITT the ideal vehicle with which to "manage" its reported earnings. What distinguished Geneen from the other bigwigs of his day was that quarter after quarter, year after year, he had turned in a string of increasing earnings and dividends. To a considerable extent, this was accomplished through the creative use of pooling-of-interests accounting. But as ITT got bigger, smaller acquisitions could no longer



give the bottom line the earningsgrowth fix it needed.

Although ITT acquired The Hartford for \$1.08 billion of stock (in a pooling-of-interests transaction, of course), it carried the company on its books at just \$485 million. This figure, which had been The Hartford's historical net worth, understated The Hartford's *real* net worth because it didn't reflect unrealized gains of \$282 million in The Hartford's stock portfolio. Although the price ITT had paid for The Hartford reflected the true value of the stock portfolio, ITT was able to suppress these unrealized gains-legally, we might add. During the five years following the acquisition, however, The Hartford cashed in \$260 million of the gains, which had the effect of increasing ITT's reported earnings. Of course, this was just a bookkeeping entry, not an indication of economic progress. In fact, The Hartford's financial condition had deteriorated significantly, and by year end 1974 its stock portfolio showed unrealized losses of \$240 million.

In a 1974 prospectus, ITT detailed the illusory nature of the "gains" it had taken:

Present accounting rules require the sale of securities in order to record earnings from the investment gains. In 1970 Hartford commenced a practice of selling stocks from its portfolio to realize investment gains each year ... to show income in that year ... The purpose of most sales is to implement the practice rather than to change the makeup of the portfolio, and the proceeds may be invested in the same ... securities.

As accounting critic Abraham Briloff observed in his book *More Debits Than Credits*, "Whenever [ITT] wanted to inject a particular amount of income into [its] statements, the Geneen Machine pulled some security out of Hartford's vault, put it through a wash sale operation, *et voila*!"

Of course, the game ultimately ended. Many of Geneen's acquisitions eventually turned sour and the earnings record was broken. Nonetheless, the dividend kept increasing until 1984, when it was finally slashed 66%.

Since that time ITT has plodded along, and so has its stock. Return on equity has been mediocre, and earnings, which were weak to begin with, peaked in 1987. Despite this sorry performance, Rand Araskog—the dude who's presided over this lagging pile of assets since 1979 and currently holds the titles of chairman, president, and chief executive—has become the Gerry Cooney of the boardroom. Though glass-jawed and unable to deliver the knockout punch, Araskog has raked in more than \$21 million in the last five years.

In March of 1992, ITT sold its stake in Alcatel N.V., thus severing its last links to the telephone business. The sale goosed ITT's stock and whetted Wall Street's appetite. Shareholders—who for the most part fail to see any synergy between between ITT's insurance, automotive component, defense equipment, forest products and hotel businesseswould love to see ITT busted up and its diverse operations sold or spun off, but Araskog has indicated in the past that he doesn't intend to break up the old gang. In ITT's recent annual report he did, however, attempt to pacify his many critics. "Creating value," Araskog wrote, employing the buzzword of the post-Milken era, "is the top financial priority of the 1990s for ITT." One can't help but wonder what the top priority of the 1980s was. Araskog then explained exactly how he intended to create value:

We will pursue growth opportunities in those businesses that demonstrate the greatest potential for value creation. In businesses where long term value is less apparent, we will take steps, including asset deployment, to avoid diluting shareholder value.

We believe that building shareholder value in our businesses will result in ITT stock price appreciation.... We pledge to work with and for our shareholders to enhance our very valuable franchise.

One way of creating value for shareholders, according to many, would be to spin off The Hartford and sell the other businesses. If ITT were to do that its stock would probably jump 25%. But Araskog, who is sixty, may not want to move too fast. After all, he'd be putting himself out of a job.

Sears, Roebuck and Company—the nation's third largest retailer, after Wal-Mart and K-Mart—is another big, fat laggard that's come under fire recently. Earnings have gone nowhere for a decade and many shareholders are fed up with Sears' management. The giant California Public Employees Retirement System (Calpers) for example, voted against management at the annual meeting.

One proposal, supported by 23% of the shareholders, was a request that Sears undertake an independent investment banking study to determine whether it should divest its financial services divisions: Allstate (which provides half of Sears' net income), Dean Witter and Coldwell Banker.

Sears' management—led by Edward Brennan,who, like Rand Araskog, holds the titles of chairman, president, and chief executive—has its jobs to consider, and is, not surprisingly, opposed to divestiture. "Management has concluded, and the Board concurs," says the proxy statement, "that the businesses owned by [Sears] are more valuable when operating as segments of a single company . . ." Among the com-

The Stuff That Dreams Are Made Of: CEO Compensation 1987-1991

Name	Company	Total Compensation
Saul Steinberg	Reliance Group	\$26,624,000
Sandy Weill	Primerica	21,883,000
Rand Araskog	ITT	21,421,000
R.K. Richey	Torchmark	21,227,000
Peter Lewis	Progressive	12,578,000
Harold Hook	American General	10,915,000
Maurice Greenberg	AIG	9,774,000
Frank Tasco	March & McLennan	8,929,000
Ronald Ferguson	General Re	7,338,000
I.W. Bailey II	Capitol Holding	7,139,000

Source: Forbes

pelling reasons given for keeping the financial services businesses under the Sears umbrella is "the strength of the Sears name."

Although Sears' management was not booted out of office, the large shareholders' vote for proposals opposed by management is a resounding vote of no confidence.

We'll make a prediction. Unless Sears, ITT, and other big, underperforming companies start getting results—that is, unless the earnings, return on equity, and stock price start moving up—shareholders, who are already mad as hell, won't take it anymore.

Not all big companies are under the gun. Metropolitan Life, which has no shareholders, only policyholders, reported that 1991 was "a great year." Because of its strong financial condition, it was a beneficiary of insurance buyers' flight to quality. Indicative of this was a 40% increase in sales of annuity products.

The Chubb Corporation also reported good results—a combined loss ratio was 99.5%—although operating earnings were down slightly. Still, business isn't easy. Chubb says that in today's climate of low interest rates and underreserved carriers, "there is little margin for error."

Chubb has achieved a combined loss ratio under 100% four out of the last five years primarily as a result of its Fidelity and Surety book of business, which generates about \$500 million in volume with a combined loss ratio in the neighborhood of 80%. In 1991, Fidelity and Surety produced an underwriting profit of \$85.8 million. The rest of Chubb's business produced an underwriting loss of \$70.2 million, on a combined ratio of 102.6%, which is still pretty good.

Last year we remarked how well 20th Century Industries—one of the premier auto insurance underwriters in the country—was doing. Much to our surprise we received an outraged letter from an insurance agent requesting that we cancel his subscription. Why? It seems he felt that nice comments about a direct writer are a

slap in the face to the independent agent. We took the time to give this misguided hick a call, and tried to explain the facts of life to him: competition won't go away just because you ignore it, and there's no point in shooting the messenger. He didn't 🛃 buy our argument, saying that we were merely clouding the issue with facts. Any-

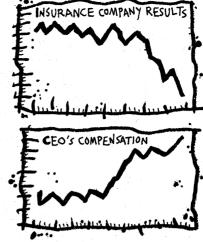
way, out of deference to our former reader we won't dwell on 20th Century's attributes this year. After all, why belabor the point that it is, quite simply, the low-cost producer of auto insurance in America, with an expense ratio of 10%; that it has a 95% policyholder renewal rate and that 80% of its new business comes from referrals?

Since all 20th Century's business is in California, it's been under the gun as a result of Proposition 103. Still, earnings have been solid and the return on equity has been exceptional. We believe that one way or another the Proposition 103 situation will be resolved in some sensible manner, and that when that happens, 20th Century will prosper. In the meantime, at about $9^{1/2}$ times earnings, the stock seems mighty cheap. (We recently bought more shares.)

AIG once again turned in respectable results, although the company is so damn big and its operations so far flung and complex that it isn't easy to analyze. Chairman Hank Greenberg's letter to stockholders is confident and outspoken—but then, he's certainly earned those rights. AIG's earnings per share have grown at a 13.7% compounded annual rate over the last eleven years.

Greenberg goes against the grain of the industry and favors federal, rather than state regulation, for commercial insurance. He writes:

The current state-by-state regulatory system is an expensive anachronism with little relevance for today's global insurance industry.



... In the new European Single Market, home country regulation and "mutual recognition" will be the rule. This is a model well suited to the commercial insurance sector in the United States where most of the business we write for the large national and multinational companies crosses state lines. Such customers hardly need the advice of state regulators or the safety net of guaranty funds designed to protect small and unsophisticated buyers. In

our view, a Federal charter for commercial insurers, with regulation limited to solvency only, is a preferred option.

We'd be willing to wager that federal regulation along these lines will come to pass, probably sooner than you think.

Every now and then we read an annual report that really annoys us. A couple years ago it was USF&G's. Last year it was Continental's. This year's winner of the Alfred E. Neuman award for worst annual report is the Progressive Corporation, whose missive to shareholders was an unbearably pretentious looking thing filled with a variety of conceptual art images. For some reason, Progressive eschewed traditional punctuation and opted not to use paragraphs. The company's words were obfuscatory, too. Writing about its "Core Values," it said, "We . . . report completely, encourage disclosing bad news and welcome disagreement." Although Progressive's earnings declined 66% last year, it reported the following cheery but misleading "highlight"-"Investment income increased 9% to \$152.2 million, reflecting realized gains on security sales."-even though income from dividends and interest actually *declined* in each of the last two years. We rate Progressive's annual report R for Regressive.

AVEMCO Corporation—which is 34% owned by GEICO, which in turn is 48% owned by Berkshire Hathaway—is a fine company. It's a direct writer of aviation and marine insurance and has achieved an underwriting profit for seventeen consecu-

tive years, and for twenty-eight of the last thirty-one years. The combined ratio averaged a remarkable 84.8% over the past decade. Nonetheless, Chairman William Condon describes the insurance climate as "one of the longest aviation rate cutting cycles in our history." President Ray Hall, however, anticipates that "the present turmoil in the reinsurance sector will lead to a more rational marketplace towards the end of 1992." (He's not alone in that opinion. AIG's Hank Greenberg also detected "strengthening" in the U.S. aviation and marine markets.)

AVEMCO's reaction to irrational pricing is different from most companies. Rather than paying lip service to the nuttiness of the market, AVEMCO actually *does* something about it: it cuts back. Earned premiums have declined from \$96 million in 1987 to \$52 million last year.

When there's fear in the marketplace and rates are high, AVEMCO will, no doubt, come charging back into the market, as evidenced by the 1985 to 1987 period when premiums grew 125%, yet the combined ratio dropped significantly.

The insurance brokerage business has been going through a difficult spell, and the question on people's minds is whether this downturn is a cyclical occurrence or a secular one. For as long as anyone can remember, the insurance brokerage business has been a remarkably lucrative business, at least in terms of return on capital. Back in April of 1907, Cornelius DuBois, a partner in the insurance firm of Frank & DuBois, delivered an engaging report on the history of the insurance brokerage business in New York, in which he said:

I know of no other business that is capable of producing such satisfactory results—in return for such a small investment of money as the insurance brokerage business. One can conduct a modest business on little or no capital, and an exceedingly large business on less capital than it would take to run an insignificant factory of very modest pretensions.

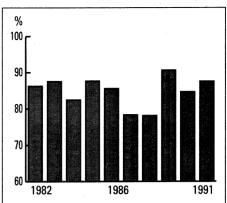
If the rapidly expanding insurance brokerage firm of Hilb, Rogal and Hamilton is any indication, DuBois *overestimated* the amount of capital—equity capital, anyway—necessary to run an insurance firm. Hilb, Rogal has demonstrated that what little is needed to run an insurance business (see chart) can be borrowed. On the surface, the company's financials look impressive. Cash flow has been heading in the right direction, debt has been paid down, and dividends have risen rapidly.

Hilb, Rogal has pursued a staggeringly aggressive acquisition strategy. Since 1984, it has bought 107 firms, including 28 in 1990, 18 in 1991, and 7 so far this year. In recent years, most of the acquisitions have been for stock. Since 1989, Hilb, Rogal has issued 6,259,124 shares worth \$87.6 million (assuming an average share price of \$14). Although it's impossible for an outsider to know exactly what Hilb, Rogal got for its shares, by piecing together a few numbers from the footnotes to the annual report, it appears that it bought nine agencies generating a total of \$13.5 million in commissions, for \$18 million of stock in 1991.

Hilb, Rogal has been able to be so acquisitive because its stock has been reasonably high because Wall Street

Capital? We Don't Need I Hilb, Rogal and Hamilton	December 31, 1991		
Assets		Liabilities	·
Cash, Investments, Receivables		Current Liabilities	\$73,478
and other current assets	\$ 72,155	Short Term Debt	4,016
Property and Equipment	13,479	Long Term Debt	14,720
Other Intangible Assets:	1,209	Other	2,338
expiration rights, goodwill etc.	44,784	Shareholders' Equity	<u>\$37,075</u>
Total	\$131,628	Tangible Capital Tangible Net Worth	10,757 (7,979)

Totally Awesome: AVEMCO's Combined Loss Ratio



thought the company would be able to grow rapidly. Of course the growth came from acquisitions, and the acquisitions were made, for the most part, for stock. Lately, however, the stock has been weak, which could prove to be something of a problem. At a recent price of \$12, which is 33% off its high, Hilb, Rogal is trading at a rich twenty times earnings (earnings have been impacted by the amortization of intangibles) and twelve times cash flow. Neither figure strikes us as cheap.

We wonder how feasible it is to throw so many firms together without experiencing some significant problems. What happens when the former owners retire or sell their stock? What happens when the acquisitionrelated growth slows down—as it inevitably must—or sours (remember ITT)? If problems do indeed develop they will be compounded by the fact that Hilb, Rogal has 47 offices in 21 states. Finally, what happens if the insurance business isn't as good a business in the future as it has been in the past?

Returning to an earlier thought, we believe the difficulties in the insurance brokerage business are secular (long term) rather than cyclical (short term). Although the industry pretty much sailed through the Great Depression unscathed, rode the coattails of the post-war boom, and managed nicely during the inflationary 1970s, it ran into a brick wall in the mid-1980s. The problems go beyond soft or hard markets. The industry has consolidated and competition is in-

6

tense. Brokers are being called upon by their risk-manager clients to provide a greater array of services, often for fees instead of commissions. Direct writers have continued to gain market share.

Alas. The insurance brokerage business simply isn't as good a business as it was in Cornelius DuBois' day, or even as good a business as it was fifteen years ago. Nonetheless, it's a better business than most. Capital requirements are still modest, and as DuBois observed 85 years ago, "The [insurance] companies remunerate you for bringing them the business originally, and they keep remunerating you for not taking it away."

Underwriters, eat your hearts out.

The Cardinal: New York To Chicago The Hard Way

From 1881 to the 1950s, the Pennsylvania Railroad's *Broadway Limited* and the New York Central's 20th Century Limited were the best way to travel the New York-Chicago corridor. Before the heyday of the automobile, the building of the interstates, and the advent of regularly scheduled airline flights, the train was the ultimate in luxury and punctuality.

In January of 1992, we went to Chicago to attend the National Housewares Manufacturers' Association Convention. For a variety of reasons, we decided to go by train. In the first place, the services sounded so nice: "Sleeping cars. Deluxe bedrooms and compartments. First Class service includes complimentary meals, bedtime sweet, morning wakeup service with a newspaper . . .? But, as soon became clear to us, the railroad is the road less traveled for good reasons. On the other hand, the millions of travelers who do take it each year also have a good reason: it's cheaper.

It was 9:30 on a cold Sunday morning when we entered New York's hideous Penn Station, took a seat in the waiting area, and looked at the already-weary travelers sitting around us. It gave us a little thrill to hear the scheduled stops on AMTRAK's *Cardinal* called out: "Baltimore . . . Washington . . . Manassas . . . White Sulphur Springs . . . Charleston . . . Cincinnati . . . Indianapolis . . . Chicago."

"All a-booooooaaaarrrrdd," the conductor said.

We walked to the platform and boarded the train. The porter guided us to our roomette. "Roomette," by the way, is perhaps too grand a word for what is nothing more than an old, putty-colored metal compartment approximately three-and-a-half feet by six feet. The roomette was equipped with a Murphy bed, a toilet under the seat, a small closet (too small to fit a coat), a mirror, a folding sink, a metal trash container, a compartment for cups, two built-in metal ashtrays, a shoe locker, and a small but noisy fan near the ceiling. Built into the wall was a disposal unit for

the old fashioned safety razor blades. As simple as the acc o m m o d a t i o n s were, they were nonetheless considered "first class."

Terry, our porter, explained the ropes. We were shocked to discover that there were no showers aboard the train, which meant that at the end of our 1,154-mile, twentysix hour ride, we'd have to go to a hotel to wash up.

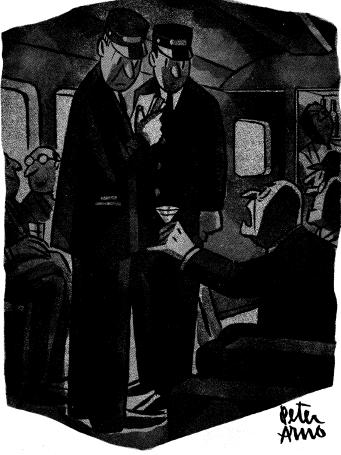
We unpacked, settled in, and looked out the dirty, scratched, paint-flecked window offering a bleak view of American industry.

We strolled to the back of the train to see "second class." Going in the opposite direction was an old black man holding a pack of cigarettes. "Where's the club car?" he inquired. The "club car" didn't exist, except perhaps in his mind, and in the past. There was, however, a smoke-filled observation car, the windows of which were even dirtier than the one in our roomette.

The first-class dining car was the nicest place on the train. It had a higher ceiling and double-height dirty windows. The seating was of the cheap built-in variety, and was covered in red vinyl. The tablecloth was a light red piece of vinyl, and each table had a stainless steel vase with a few fake roses in it. The flatware was "World Stainless" from Taiwan. "WELCOME ABOARD AMTRAK" said our paper napkin.

We took a look at some of the other passengers. There were a couple of college girls heading to West Virginia, an intense looking man jotting down his thoughts in a notebook, and a group of men playing cards.

We crossed the Delaware River and



"This is a hell of a way to run a railroad! You call that a dry Martini?"

noticed an old bridge with a big sign: "Trenton Makes — The World Takes." We passed decaying brick factories with faded signs, electric power plants, old tires, graffiti, and rusted elevated tramways.

By noon a dozen people were in the "club car." The cardplayers were chatting with the porters and there was lots of noise and laughter. What we really wanted was peace and quiet, but there was no place to go.

In a sense, *The Cardinal* is America's local train. From New York it swoops down through Maryland, Virginia, West Virginia, and Kentucky, then heads north through Ohio and on to Illinois. Unlike *The Broadway Limited*, which follows a direct route, *The Cardinal* is a long, circuitous trip, and there's no reason for a Chicago-bound New Yorker to take it other than a passion for trains or a desire to waste as much time as possible. We fell into the first category.

On a train, conversations often start with a friendly "Where are you going?" At least that's what we asked the woman who sat at our table for lunch. She was a marketing executive whose husband had died recently. Now that her daughter was away at college she felt uncomfortable flying. Her voice had a hollow, faraway tone, and she told us—although not in so many words—that she was letting the days roll by on long-distance trains until the pain of being alone receded and the emptiness was replaced by something else.

Outside Baltimore we saw street after street of dilapidated row houses. In the distance, a few miles away, loomed the sleek downtown skyline. Outside Washington there was a delay on the tracks, but it was quickly resolved and soon we were in Virginia. It was a pretty afternoon, and we had a brew and watched the rolling countryside. The smoking section of what we now called the "club car" was crowded with two dozen beer-swilling, pretzel-eating, chip-munching folks. We spent the afternoon reading a biography of Winston Churchill.

When the sun went down we returned to our roomette and pulled down the bed, which, in its pulleddown position occupied the entire roomette. We lay down and looked out the dirty window and watched the world pass by. The sound of the train wheels was relaxing and sleep soon overtook us.

Dinner, which we almost slept through, was from the stick-to-yourribs school of microwave cooking, and consisted of pork chops, bread, vegetable, salad, and apple pie. It was served on Styrofoam plates. Later, we decided to have a Scotch and soda —Winston Churchill had one every day—but the bartender spelled out the law: "You can't get no booze in the state of West Virginia."

We lay in bed late that night, lulled by the clackety-clack of the rails, watching the grim little towns of West Virginia and Kentucky. We passed a huge Armco steel factory, all lit up and glowing like a Christmas tree. We fell asleep listening to the train speed through the night.

We slept well, and the next morning, after a big breakfast of eggs, grits, bacon, toast and coffee, we arrived in Chicago on time, at 11:15. We rushed to our hotel, showered, and made it to the convention right on schedule.

When we had to go back to New York the next evening, we didn't even think twice about how to do it. We flew.

We flew.

Long Term Disability: Big Growth Ahead

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

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

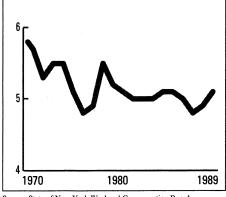
Emerson, Reid has long been recognized as the leading general agent and specialist in the statutory and short-term disability market, and we've carved out a niche for ourselves in the Long Term Disability market as well. So give us a call.

New York DBL: Steady Growth

Primarily because of inflation, the average weekly benefit rate, indemnity payment per employee, and payment per claim, have risen steadily over the past two decades.

The number of claims per one hundred covered employees, however, peaked at 5.9 in 1970 and gradually trended down to 5.1 in 1989.

New York DBL Claims Per 100 Covered Employees



Source: State of New York Workers' Compensation Board

LETTERS TO THE EDITOR

Today I read Emerson Reid's Insurance Observer for the first time (March 1992). I thoroughly enjoyed the content and style of your fine publication.

> Paul E. Forsman, Jr. Somers, N.Y

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

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