SCHIFF'S
INSURANCE OBSERVER
Evening Telegraph Edition
May 31, 2000 *Volume 12e • Number 4*

Requiem for a Heavyweight

The Decline of Saul Steinberg and Reliance

LAST FRIDAY, Leucadia National announced a definitive agreement to acquire Reliance Group, the over-leveraged and questionably-reserved insurance holding company, in a bargain-basement stock transaction at a price approximating $2.55 per share—a price within spitting distance of Reliance's all-time low, and a long ways from its 1998 all-time high of $19.81.

Also on Friday, Sotheby's held an auction of Reliance chairman Saul Steinberg's over-the-top eighteenth-century furniture, which, until it was sold to the highest bidder, had resided in Steinberg's opulent 34-room Park Avenue apartment that had once belonged to John D. Rockefeller. The furniture, it seems, was no longer a necessity, as Steinberg had recently sold the apartment (as well as the collection of old-master paintings that hung on its walls).

At 60, Saul Steinberg is no longer the brash, young financier or the feared corporate raider and greenmailer he once was. Nor do he and his glamorous third wife, Gayfryd, cut the wide and often coarse swath through New York's social scene that they a did a decade ago, when their combination of opulence and vulgarity—ostensibly under the guise of philanthropy—created a spectacle akin to a wreck on the highway (it's horrible, but you slow down to take a look anyway).

Steinberg, at least from our vantage point, is a bundle of complexities and contradictions. He's brilliant and foolish. Analytical and impulsive. A wastrel and a philanthropist.

It's hard to look at Saul Steinberg today and—despite his past arrogance and gross display of greed—not feel kind of sorry for him. He has cast himself as the lead in an insurance tragedy.

A "tragedy," as traditionally defined, is the downfall of a great man. A "great" man in Greek or Renaissance drama was a powerful man—a king or prince, for example. It is the character's fall from great heights that gives the drama the element of tragedy.

That Steinberg achieved a lofty position is beyond debate. The means by which he achieved his wealth are questionable, and his methods aren't exactly admirable. Nonetheless, if one measure of "greatness" is enormous wealth and the chairmanship of a large insurance company, then Steinberg certainly achieved greatness.

As drama—or perhaps the fates—would have it, Steinberg's downfall was brought about by his tragic flaw, the very thing that created his success: his hubris.

The Pomp of Power

Steinberg's arrogance and egotism could be staggering. Despite being one of the worst insurance CEOs in America, he was invariably one of the highest paid. In a speech at the annual Professional Liability Underwriting Society (PLUS) conference in 1994, he addressed 500 underwriters, senior managers, functionaries, and executives, whose average pay was about two percent of his.

"Maybe we need a little more indignation and outrage throughout the ranks of the insurance business—to send a clear ultimatum, a loud wake-up call, if you will—to these senior executives who *just don't get it*," Steinberg declared, seemingly oblivious to the fact that there were few senior executives in America who "got it" less than he did.

"Some companies have done restructuring and downsizing," he said, invoking euphemisms for mass layoffs. "This is welcome and healthy, but it *barely* scratches the surface. We need *more* restructuring, *more* cost-driven downsizing and *more and more mergers*. The *worst* thing we could do is hope that higher prices will bail out inefficient companies and flabby staff once again."

Thus spake the man with the $6 million salary. (Between 1997 and 1999, Steinberg and his younger brother Bobby took home $38 million in salary, not counting perks.)

"We need something else as well," Steinberg said, "and that brings me to the essential point of my remarks today: *it is absolutely critical for all of us to get more involved in the political process*. I am talking about making a *real* commitment to political action, in both time *and* money. We can, we *must* do better."

There was something supremely ironic going on. After telling the rank-and-file that they needed to be downsized and restructured, Steinberg was telling them that they "have got to get more involved in the political process, and go where the danger is today. At the state level, where new laws and regulations are restricting our ability to do business, and when needed, at the national level as well, we are going to have to *roll up our sleeves and get to work*. We are going to have to *put our money—yes, money—and muscle*, behind candidates for public office, from *either* political party, who represent *our* interests, and who will *get the job done*…I believe very strongly that all of us in the property-casualty business must accept this challenge, for the companies who employ us, for the industry of which we are a part, and most important, for ourselves and for our families."

Steinberg was proud of this speech; Reliance made videotapes of it and distributed them. (Today these videos are priceless collectors' items.) Having been present when Steinberg delivered his speech, and having watched it recently on videotape, we can comment that Steinberg's grating, Brooklynese whine sounds better on our VCR than it did in person.)

Based on conversations we've had with Reliance employees and ex-employees over the years, we conclude that Saul Steinberg was resented within his own company. It seems that most people we spoke with (granted, some may have had certain predispositions), felt that Steinberg was only in it for himself.

Did anyone in the audience at the 1994 PLUS conference decide to devote his personal time and money to getting someone elected, so that Saul Steinberg could restructure, downsize, do mergers, then downsize the merged companies and give himself an even bigger salary? Come on!

Long, Slow Decline

Saul Steinberg's downfall was not inevitable, but it's hardly surprising. We've followed his entire career and have written about Reliance Group and Steinberg skeptically (and on countless occasions) since March 1992. Writing about Reliance Group has been like writing about a car wreck happening in slow motion—over eight years.

The company grew too fast, it took on too much underwriting and investment risk, was too leveraged, didn't delever when it had the chance, paid outrageous salaries to the Steinbergs, paid too large a dividend for its own good, and was run by a guy who *just didn't get it*.

Back in 1968, when Steinberg's puny Leasco Data Processing took over the much larger Reliance Insurance Company to take advantage of the latter's "surplus surplus," the worst that could be said of Reliance was that it was a stodgy, highly rated, undermanaged, old-line insurance company that allocated its capital so that it earned a safe but wholly inadequate return on equity.

Compared to the Reliance of today, after 32 years of Saul Steinberg's management, one might say, "Bring back the good old days."

This is the first part of a series on Saul Steinberg and Reliance.

Tomorrow: in 1969, Saul Steinberg, who is Jewish, tries to take over Chemical Bank, a bastion of the WASP establishment. This audacious but meshuggeneh deal created strange, mixed reactions. The "Establishment" doesn't want "Sammy Glick" moving in on "their" bank. Many Jews know for sure that the system is anti-Semitic. Still, some Jews feel that Steinberg is a "shonda fur die goyim." Finally, all but the most reckless depositors must ask: would I keep my money at a bank run by a wheeler-dealer like Saul Steinberg?

Editor and Writer .... David Schiff
Production Editor .... Bill Lauck

Publisher .... Alan Zimmerman
Subscription Manager....... Pat LaBua

Editorial Office
Schiff's Insurance Observer
300 Central Park West, Suite 4H
New York, NY 10024
Phone: (212) 724-2000
Fax: (212) 712-1999
E-mail: David@InsuranceObserver.com

Publishing Headquarters
Schiff's Insurance Observer
SNL c/o Insurance Communications Co.
321 East Main Street
P.O. Box 2056
Charlottesville, VA 22902
Phone: (804) 977-5877
Fax: (804) 984-8020
E-mail: Subscriptions@InsuranceObserver.com

For questions regarding subscriptions please call (804) 977-5877.

Insurance Communications Co. (ICC) is controlled by Schiff Publishing. SNL Securities LC is a research and publishing company that focuses on banks, thrifts, REITs, insurance companies, and specialized financial-services companies. SNL is a nonvoting stockholder in ICC and provides publishing services to it.