Insurance Times: Nation's Auto Rates, Down In '99, Under Pressure As Costs Creep Up

May 23, 2000, Vol. XIX No. 11

NEW YORK - Automobile insurance rates fell by 3.2 percent in 1999, only the second decline since 1973. In 1998, automobile insurance rates fell by 2.8 percent. Among the factors driving the deceleration include competition between insurers, more skilled drivers on the road, safer vehicles, diminished tolerance for driving under the influence, falling car prices and anti-fraud efforts on the part of insurers and states, according to the Insurance Information Institute (I.I.I.).

While motorists with good driving records may see even bigger savings in 2000, many drivers may see increases.

"Costs associated with settling automobile claims are on the rise," said Dr. Robert P. Hartwig, vice president and chief economist, I.I.I.

Hartwig says rising medical costs, bigger jury awards and a recent Illinois court decision that essentially bars the use of aftermarket (generic) parts in automobile repairs could force policyholders to pay more for their insurance.

"The pace of medical inflation is up nearly 50 percent since 1997 while the median jury verdict in vehicular accident cases is up 23 percent," said Hartwig. "In addition, insurers are now effectively prohibited from using generic parts of like kind and quality in the repair of damaged vehicles -- a factor that could ultimately add $4 to $5 billion annually to the cost of automobile insurance," he added.

Auto insurance expenditure, which measures what the average consumer actually spends for insurance on each vehicle, continues to fall at a slower pace than auto insurance rates, which reflect the price of specific types of coverage. Average auto insurance expenditure fell by an estimated 1.0% in 1999 compared with a drop of 0.4% in 1998 and an increase of 2.3% in 1997.

"The small decline in auto insurance expenditure is attributable to record new car sales," said Hartwig. "New cars are more expensive than old ones and so is the insurance. Moreover, new cars have loans or are leased and require full comprehensive and collision coverage. These coverages may have been dropped on older vehicles."

According to Hartwig, the typical two-car family in the suburbs is probably paying more for auto insurance than they were a few years ago because they likely purchased a new car during that period. "Expensive SUVs and trucks are accounting for an ever higher share of vehicle sales -- nearly 50% today vs. 32% in 1987."

Hartwig noted that despite rising costs, aggressive competition between insurers will likely keep a lid on the cost of automobile insurance, leading to an expected increase of just one percent in this year's average expenditure for auto insurance.

Insurance Times: Agents In Search Of Brand Image Major Effort Being Planned; Most Agree It'll Take More Money

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by Mark Hollmer

InsuranceTimes

How do you create a brand?
The Walt Disney Company placed its label on well-marketed Mickey Mouse cartoons, amusement parks and warm-and-fuzzy TV movies. The branding worked, and Disney now personifies family, quality entertainment and traditional values all over the world.
The American Automobile Association, and its "AAA" stickers are also almost universally recognized. Tow-trucks from a wide variety of privately-owned garages carry the AAA label when coming to the aid of a member. And whatever the garage, each carries a universal AAA message of credibility, 24-hour roadside service, convenience and safety.

Compete with GEICO
That kind of brand familiarity is where independent insurance agents would like to be nationally, to compete with direct-writers like GEICO and Allstate.
But they're a long way off.
Independent agents are trying to create a unified brand for themselves. The Independent Insurance Agents of America is working to develop a national branding campaign, but some state and local agencies are getting there first with separate, regional branding or advertising efforts.
The need for a recognizable brand identity is certainly there. Independent agents don't have a consistent brand identity, and there is a misunderstanding right now between what consumers want, and what some independent agents believe they want.
For example:
A recent IIAA study revealed that nearly 90 percent of personal lines buyers want 24-hour customer service from their insurance provider. But only 1/3 of independent agents believe this is important.
Only one-in-five consumers recognize the "Big I" logo used by many independent agents to set themselves apart. (About 70 percent recognized State Farm's logo.) But the image is well-recognized and liked within the industry.
And the IIAA has taken notice.

Big 'I' Logo Status
The association is tentatively planning to keep the "Big I" logo for the industry, but "run a vacuum through it" and modernize the image for the industry, said Maureen Wall, vice-president of communications for the IIAA.
"It has a high recognition among agents, company people and other industry professionals," Wall said.
In addition, the IIAA is looking at developing a new "marketing brand" that agent members will use "to advertise the value they bring to consumers."
"We want to convey (that) we offer competitive pricing we offer advocacy to consumers in a way that no other distribution channel can offer because we don't represent any one company We offer customized policies and we offer a choice of companies," Wall said. " All of these (qualities were) found in our research to be very important to consumers and yet they don't necessarily know that independent agents deliver on all of these elements."
But agreement on a marketing brand is a long way off.
At this point, an agency working with the IIAA has come up with three tentative brand names and corresponding marketing slogans, according to

Larry Acord, vice president of marketing with Main Street America Group, a Keene, New Hampshire regional insurer. Main Street America is part of the IIAA's national communications program, and is one of several companies giving the "Big I" feedback on its branding project.
Acord wouldn't give away details, but offered general descriptions of the brand proposals.
"They're a couple of words that would capture the essence of the value the independent agent would provide to consumers like Intel Inside, or that type of thing.
"Agents are going to need to insure that their agencies are set up to deliver what this brand image would dictate to customers"
The IIAA held an executive forum meeting the week of May 9 in Baltimore that focused on the branding progress. They decided to have the agency conduct more research with larger commercial customers, he said, and make sure their information reflects suburban, urban and rural markets.
The final suggestions will be tested with consumer focus groups and surveys. But agreement must be hashed out through various board and committee members before a concept can be unveiled later this fall.
"It is so preliminary at this point," Wall said.
So how do you create an Independent Insurance Agent brand?
The creation of any brand first involves the evaluation of "every single thing that you're doing," said Peter van Aartrijk, a former vice president of communications for the IIAA who jointly began the IIAA branding initiative with Wall. He now runs his own public relations/branding company in Alexandria, Va.

Promise Kept
"Branding is really good management," he said. "It's the personification of everything your company does It's a promise that you keep with every interaction with the customer, and advertising is a tool to deliver brand message."
Creating a marketable IIAA brand involves similar steps, but the industry at large and the public won't get to see the results until the end.
Wall explains: "We don't really want to dilute the power of that by throwing out possible options before we've researched them thoroughly."
The final IIAA effort will be a collaboration between the national and state associations, local boards, insurance companies and independent agents, Wall said.
"I don't think any of us can do this alone," she said. "The national depends very heavily on state partners and we can't do anything without our member agents."
The branding and marketing initiative that emerges will be the first major one since the 1980s. That's when the IIAA used Raymond Burr to promote its brand with the slogan "Your more-than-one-company agent," emphasizing choice.
And according to van Aartrijk, the late actor made quite an impression in the industry.
"A lot of agents would like to bring Raymond Burr back, but we have to remind them that he's dead," he joked.
Meanwhile, independent agent-associations in a number of states are launching their own branding or marketing campaigns (SEE RELATED STORY PAGE 30).
Insurance agent groups in New Hampshire, Rhode Island, New York, Massachusetts and Connecticut all said they hope to coordinate with the national effort once it's launched.
In the interim, some offered general thoughts about how independent

agents can promote themselves better, and what's their greatest challenge toward reaching that goal.
Frank Mancini, executive vice president of the Massachusetts Association of Insurance Agents, said television is probably the best way to get the message out, but it's a "very expensive" advertising tool.
Whatever the medium, Mancini said agents need to tell the public there is "an added value of doing business with them."

More Money

Stan Burbank, executive director of the Independent Agents Association of New Hampshire, said more money must be spent to promote independent agents, what they do and who they are.
"For a long time our logo was one of the best-recognized in the industry, back in the time when Raymond Burr was doing our advertisements," he said.
"But due to budget crunches the advertisements pretty much stopped. Now we're seeing what has happened because of that I don't think collectively we've done a good job promoting the logo as a group and the GEICOs of the world are spending millions."
James McCampbell, communications manager of the Independent Insurance Agents Association of New York, agreed.
"Agents can be overwhelmed by the message of a lot of their competitors just because they're being totally outspent," he said.
Independent agents, he said, can respond creatively, whether they use stickers that say "This policy comes with an agent" or some other "low cost, effective way of getting across our message, that a policy which comes with an agent actually means something."
Whatever the marketing campaign, van Aartrijk says independent agents must collectively be clear on their identity first, and reinforce that image with their current customers.
"There's a lot of (advertising) money being spent that would be difficult for independent agents to match," he said. "My contention is if agents are doing a better job of communicating to customers, when that GEICO flyer comes in the mail it is going to be tossed in the trash."
After that, he said, agents should focus advertising efforts on cable television and "drive-time" radio, and also cultivate referrals from existing customers.

Combine Nostalgia with Hi-Tech

Agents could improve their marketing, he said, by combining nostalgia about their old-fashioned person-to-person business with today's modern technological service standards.
Such localized efforts will pay off, he said.
And those same efforts will work with the national IIAA, he said, as long as the association can market the brand traits of an independent agent: reliability, value, independence and personal customer service.
"People often don't know what kind of insurance products they have, but they do understand a very personable customer service person at the other end of the phone."
That interaction, van Aartrijk said, reflects the essence of branding -- a relationship between a customer and company.
He also points out that a successful branding relationship can reap dividends.
Van Aartrijk points to Starbucks and its high-priced coffee as an example. Today, the Starbucks name is as well-known as Disney, and the chain does brisk business selling its cool and trendy image along with

its $3.50 cups of coffee.
"Who would (have thought) about spending $3.50 for a cup of coffee," van Aartrijk said.
"People thought it was lunacy."

Insurance Times: NY Court Rejects Ban On Insurer Referrals

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NEW YORK - The state cannot block insurance companies from recommending auto repair shops to its customers after an accident, a federal judge ruled on May 5.
U.S. District Judge Richard C. Casey found that a section of the state's insurance law violated the First Amendment in a case brought by insurance giants Allstate Insurance Co. and Geico Insurance Co.
The judge's ruling does not affect the state's ban against companies requiring repair work to be done at company-sponsored shops. It nonetheless may invite future challenges to the law.
``It is plain to the court that the statute at issue regulates speech, not action or conduct,'' Casey said.
He said that the statute, challenged after both companies were threatened with fines for referring customers to auto repair shops in what is known as a tie-in arrangement, seeks to control the dialogue insurance companies have with their customers.
Casey also criticized a part of the law which prevented insurance companies from handing a copy of the law to their insured customers. He said it ``in effect keeps insureds in the dark about their rights and provides them with a half-truth.''
Insurance companies have long been barred from requiring customers to get their cars repaired at specific auto shops. However, the portion of the New York law struck down as unconstitutional was challenged by the companies as an infringement on their right to free speech and harmful to programs that they say lower costs for both themselves and their consumers.
The New York State Insurance Department had contended that the insurance companies were not making it clear to consumers that they actually had a choice whether to go to a recommended shop or pick one of their own.
The law prohibiting referrals was originally enacted in 1974. t was intended to prevent companies from steering customers to specific repair shops and to prevent the companies from giving consumers unsolicited referrals to repair shops. It was amended in 1983 to allow insurance companies to recommend auto glass repair shops, although the change was not extended to general repairs
Immediately following the ruling, Superintendent Neil D. Levin issued a Circular Letter advising all insurers that write motor vehicle physical damage coverage in New York State that they may now recommend or suggest particular repair shops to their policyholders. However, the regulator reminded insurers that they may not require policyholders to use specified repair shops.
Levin said that insurers may now recommend or suggest that repairs to a damaged vehicle be made in a particular place or shop regardless of whether the policyholder requests a recommendation.

Trade Group Reaction
Insurer trade groups welcomed the court ruling as a victory for

consumers.
Robert L. Zeman, vice president and assistant general counsel for the National Association of Independent Insurers, said consumers "will now be able to benefit from the expertise and direction the companies are able to offer."
Zeman maintained that the overruled provision never made much sense. "The law prevented insurance companies from providing their customers the benefit of simply recommending repair facilities that have a track record of quality repairs at affordable prices. It's like not allowing an architect to recommend a contractor."
"Judge Casey's decision is important because it recognizes that free speech rights need to be preserved in the commercial arena because they are protected by the Constitution and enable the better functioning of the free marketplace," said David Snyder, assistant general counsel for the American Insurance Association (AIA). "As Judge Casey ruled the law was intended to punish speech, even though that speech is not deceptive, misleading or illegal."

Commercial Speech
"Over the years well intended, but counterproductive regulation, has grown up to cover insurance products. For every other sector of the economy this kind of regulation has been discredited and reduced or eliminated. We hope this decision will send a clear signal that there are limits to insurance regulation and that the Constitution protects the commercial speech of all businesses," added Snyder. "When this kind of commercial speech is protected, consumers benefit through more competition and lower product costs."

Insurance Times: NH Car Rental Rule Faces Court Challenge
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LONDONDERRY (AP) - The wife of a Londonderry man seriously injured by a rental car is suing the Manchester company that rented the car to the other driver.
Stacey Airoldi says the company should not have rented the car to a driver with a bad driving record and that it should have carried insurance on the car.
Christopher Airoldi suffered catastrophic injuries, including torn brain stem, during an April 17, 1998 two-car crash in Manchester, according to the Rockingham County Superior Court law suit.
Airoldi is hospitalized at the Crotched Mountain Rehabilitation Center in Greenfield, according to the lawsuit.
Stacey Airoldi claims Merchants Rent-A-Car should have researched the driving record of the man operating the rental car involved in the wreck, and should provided insurance on its vehicle.

Own Insurance
The driver of the rental car had his own insurance, said Paul Kleinman, the Airoldis' lawyer.
``We believe Merchants has some obligation, beyond just looking at a person's license, to determine whether the people who they rent to are appropriate drivers,'' Kleinman said.
There is no state requirement for auto insurance, Kevin Devine, Merchants lawyer said, adding that Merchants received permission from

the state's Department of Safety to offer their cars without insurance to keep rental rates low.
The company's policy is that it rents only to drivers who carry their own insurance, he said.

Numerous Violations
The suit alleges the company should have known that the driver of the rental car had numerous motor vehicle violations, including speeding as well as suspension of license and registration.
The driver is not named in the lawsuit and no criminal charges were lodged against either man, Devine said.

The Airoldis have recovered $25,000 from the insurance company representing the driver of the rental car, but the amount ``pales in comparison to his medical bills,'' Kleinman said.
Devine said the lawsuit has no legal basis. If the Airoldis are successful, it could have far reaching implications for anyone who rents out cars, he said.
``I don't think any citizen of New Hampshire wants that to be the law, because none of us would ever lend a car,'' Devine said.

Illegal to Discriminate
Devine also said it would be illegal for the company, on the basis of driving history, to discriminate against anyone who wants to rent a car and has a valid driver's license.
``Merchants can't pick and choose among the renters and say, 'You can drive, and you can't,''' he said.

The lawsuit also overlooks a state law, passed a couple of years ago, that made driving records private documents. While one can make a written request for the documents if the driver signs a waiver, it would take several days before the history was known, he said.

Insurance Times: HO 2000: ISO Overhauls Homeowners Coverages

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NEW YORK - Insurance Services Office, Inc. (ISO) has unveiled a new homeowners insurance program, Homeowners 2000 (HO 2000), that updates coverages, adds a number of new optional endorsements, and introduces new rules to reflect the changes in coverages and endorsements.
Reflecting the times, HO 2000 policy enhancements include coverage of golf carts used in residential communities, personal effects and personal liability exposures of persons living in assisted-care facilities, and live-in companions of the named insured. ISO's overhaul of the homeowners policy forms reflects court precedents established since 1991 (the last time the ISO homeowners program underwent such sweeping review.
In all, ISO's HO 2000 program incorporates more than 40 changes to the homeowners insurance policy forms, creates a new policy form (HO-5 (and 20 new optional endorsements. In addition, the ISO program introduces 18 new rules to complement new endorsements and changes 29 current rules.
"We came up with the new program after an extensive review of court rulings and lifestyle changes among an expanding and aging population,"

said Michael Fusco, ISO's executive vice president. "With input from insurers and producers, we have expanded coverages for property, raised limits in some categories, revised coverages in a handful of instances, elaborated upon the intent of some of our existing policy language, and developed new optional endorsements," Fusco added.

ISO considers the policy-form changes to be revenue-neutral for insurers, as loss costs for coverages that are broadened will be offset by curtailed coverages in other categories," Fusco added.

Expanded property coverages include structures on residential premises used for storing business property of an insured or the insured's tenant.

The program raises coverage limits for additional living expenses for the insured homeowner who has to live elsewhere temporarily because the home has sustained a covered loss, and for specific categories of personal property including securities, passports, personal records, watercraft, and electronic apparatus and accessories inside or upon motor vehicles; and theft of jewelry and firearms.

Additional coverages include higher limits for removal of fallen trees that damage covered property, or block and prevent the use of a driveway, or block and prevent the use of a handicapped access to the dwelling, as well as losses from electronic fund-transfer cards, and vandalism against grave markers.

The HO 2000 policy form also revises the coverage limit for money, which has been expanded to include scrip, stored-value cards, and smart cards.

The new policy form provides that college students, attending school full-time and living away from home, are insured under the homeowners policy. The new policy form covers a full-time student who is under the age of 24 and is a relative of the insured homeowner.

ISO has started filing the new Homeowners 2000 program with state insurance regulators for implementation beginning in December 2000.

Insurance Times: State Agent Groups Get Jump With Own Branding Campaigns

May 23, 2000, Vol. XIX No. 11

by Mark Hollmer
InsuranceTimes

Though a national brand marketing campaign by the Independent Insurance Agents of America (IIAA) is at least months away, some regional state and local associations aren't exactly sitting and waiting.

A few are pursuing their own modest marketing and advertising campaigns. Others, like New York, are gearing up with a state-level branding effort. At the same time, the state associations say they'll coordinate with the national IIAA branding effort once it gets off the ground.

Here's a rundown of some of those efforts in Massachusetts, New Hampshire, Rhode Island and New York

Massachusetts

Marketing promotion of independent agents will come through three television advertisements and a series of print ads in the coming months, according to Frank Mancini, executive vice president of the Massachusetts Association of Insurance Agents.

It's no small undertaking. Mancini said the advertising budget will run

in the six-figure range. He's hoping the ads will begin with the fall television season,
The association plans to announce details during a series of meetings through the summer with independent insurance agency companies.
So what's the theme?
"The theme of the campaign is that independent agents' service is person-to-person rather than very indirect service through the Internet, telephone, mail-ins and so forth," he said.
The association will finance the campaign, in part, through member and independent agency company support. Participating members can place their own taglines at the end of both print and television ads.
"Our members have been telling us for a number of years that it's imperative for the association to be out front on their behalf advising the public that independent insurance agents provide a value added" element while buying insurance, he said.

New Hampshire
Efforts to promote Granite State independent agents began about three years ago, according to Stan Burbank, executive director of the Independent Insurance Agents of New Hampshire.
Their state campaign even prompted the national IIAA to create similar ads for use around the country, Burbank said.
The New Hampshire campaign has involved a three-week television and radio push in the fall and spring -- each year costing about $34,000. Member agencies pay for the ads through donations. The ads alternate between venues, Burbank said, so "the listening public perceives they've seen the message more times."
New Hampshire's campaign focuses on "The value of service" and "The value of trust," promoting the independent insurance agent as the brand that offers choice. The "Big I" local also is displayed.
Some of the ads play on the state's reputation for stubborn independence. Here's a sample:
"America was built by people fighting for independence: the right to live the life you want, and answer to no one but yourself. Nobody understands that better than (insert agency name.) As independent insurance agents, we're not tied to any single big insurance company Call us independent. We take it as a compliment As independent insurance agents, we don't work for some big company, we work for you."
Burbank says the ads help communicate "there is a difference in where you purchase insurance and that difference is the independent agent."
The association has added additional radio stations each year of its advertising campaign. Participating companies will match member-agency donations.

Rhode Island
The Independent Insurance Agents of Rhode Island launched a 25-week cable campaign in January, using two commercial advertisements created by the national association: "The meaning of service" and "The meaning of value."
Each commercial included an additional tagline that directs the consumer to contact the IIARI for more information. They ran initially on ESPN, TNT, CNBC, MSNBC, CNN Headline News and on the local Rhode Island news station. Later, the IIARI added the commercials to The Weather Channel, ESPN 2, The Travel Channel, The History Channel and the Fox Sports Network.
Everett "Fred" Federici, the IIARI executive vice president, said his

association is now talking about renewing the campaign, which initially cost $30,000. It expanded to print as more companies joined a cooperative advertising program and contributed extra money.
The goal has remained a simple one: "To make the public aware or more aware of the independent insurance agent, and provide an easy method to contact an independent agent."
For now, independent agents are encouraged to use the "Big I" logo in their promotions, until the national IIAA unveils its new brand and marketing campaign.

New York
Something unique is going on in New York.
The Independent Insurance Agents Association of New York and the Professional Insurance Agents of New York recently announced they will pursue a joint branding project for their combined state membership.
"What prompted this is a call from our members to do more in the area of branding," said James McCampbell, the IIAANY communications manager.
"We didn't want to wait for the national to do its own agent-branding campaign. We wanted to get started on one sooner."
The New York effort is in its early stages and cost estimates aren't available yet, McCampbell said. The venture could cost between five and six figures, he said.
They've hired the Tobol Group of Long Island to design the state-wide branding effort - the agency that launched an advertising campaign in the metro-New York/New Jersey area two years ago.
Tobol founder Mitch Tobol said the local campaign didn't use the "Big I" logo and the state wouldn't either, because both involved associations not connected with the IIAA.
The local campaigns have included radio, print and web ads, Tobol said. Most are variations promoting the value of the independent agent, ranging from playful or more serious approaches.
About 150 agencies participated in the early Long Island ads, he said. That number has grown to more than 2,000 - encompassing a much larger metropolitan area.
For the state, Tobol said every branding option is "open" for consideration, and his campaign will focus on how the marketplace has changed. He'll use focus groups and other research tools, to compile a complete brand image.
The state brand could also include its own logo, he said, with coordination between local groups.
On its own, early last year, the IIAANY created a promotional sticker that agents can place on each policy, which reads: "This policy comes with an agent." They mailed out 232,000 to member agencies and they've proven to be very popular. Many agencies have taken advantage of their option to order more, McCampbell said.

Insurance Times: The Year 1999 Was Expected To Be A Boom Year For Merger And Acquisition Activity In The Insurance Industry

May 23, 2000, Vol. XIX No. 11

HARTFORD -But that never happened.
In fact, the total dollar value of merger transactions fell by almost 75

percent compared to the previous year, according to a new Conning & Company report. Also, the total number of merger transactions in 1999 decreased by more than 15 percent compared to 1998. The less than anticipated M&A pace has continued into the first quarter of 2000.
The Conning study, "Mergers & Acquisitions and Public Equity Offerings: 2000 Edition," reports that even though the economic climate was seemingly propitious for M&A activity in 1999, companies were more likely to acquire insurers' individual business units to refine their position in specific markets, than to purchase entire companies for the sake of scale. This is a reversal of the trend of 1998 and before in which much of the M&A activity was characterized by companies seeking to add to their businesses by acquiring size and/or scale.
"Few companies involved in big mergers in 1997 and 1998 were able to make their investments pay off for them as quickly as they had hoped," said Clint Harris, CPCU, assistant vice president, insurance research and publications at Conning & Company. "Perhaps they were unrealistic in their expectations. But clearly insurers in 1999 were much more wary of this kind of quick fix."
In 1999, the number of total M&A transactions in the insurance industry dropped from 565 in 1998 to 471 in 1999. Aggregate transaction value dropped even more sharply, from $165 billion in 1998 to just under $42 billion in 1999. While 23 of the 1998 transactions in Conning's M&A database exceeded a billion dollars, there were just 14 such transactions in 1999. Only in the distribution center was there an increase, where the number of transactions grew from 183 in 1998 to 202 in 1999.

Top 10 Transactions
Among the top10 insurance-related transactions, six were in the property - casualty sector and two (including the largest) were in the life sector. None of the top 10 deals in 1999 involved a health/managed care company, although many industry analysts speculate that a number of potential transactions in this sector are imminent.
In 1999, foreign companies continued to acquire U.S. insurers while U.S. purchases of foreign companies declined. Three of the top ten transactions involved European buyers of U.S. firms, and a fourth involved the purchase of a U.S. firm by a Bermuda based company. Only one of the top 10 transactions involved the purchase of a foreign insurer by a U.S. buyer.

10 Insurance IPOs
While the market for public equity offerings was relatively strong in 1999, there were few insurance-related transactions. In 1999, there were 10 insurance-related IPOs, versus 15 in 1998. There were only two insurance-related secondary offerings in 1999, versus 13 in 1998. The IPOs raised $659 million - - down 57% from the $1.5 billion raised in 1998 and down almost 90% from the $5.9 billion raised in 1997. Secondary offerings raised $1.8 billion in 1999 - - down 60% from the $2.7 billion raised in 1998 and down almost 90% from the $18 billion raised in 1997.
"Except for the demutualizations, the IPO market came to a dead halt for the insurance industry during 1999," said Guy Yeakley, Associate, Conning & Company. "Last year the market valued insurers very low. The insurance industry was considered Old Economy and was cast aside in favor of technology offerings."
Contact Conning & Company at (888) 707-1177 or (860) 520-1245 or visit web site at www.conning.com.

Insurance Times: NY Dissolves Medical Malpractice Association
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NEW YORK - The New York Insurance Department has approved a dissolution plan of the Medical Malpractice Insurance Association (MMIA), transferring all old liabilities to the Medical Liability Mutual Insurance Co.
"The department's approved plan succeeds in privatizing the obligations of MMIA and does so through the largest writer of private medical malpractice insurance in New York State," said Superintendent of Insurance Neil Levin.
The department was required to approve a dissolution plan by April 30 that maximized the value of MMIA to the state, without impairing or impeding the operation of the voluntary medical malpractice insurance market or limiting the access to medical malpractice coverage for health care practitioners or facilities insured by the MMIA.
The department held a public hearing to review proposals for the dissolution on March 29.
In addition, the department is reviewing proposals regarding distribution to authorized medical malpractice insurers for the insureds of MMIA and health care practitioners and facilities, which will otherwise be unable to secure coverage in the voluntary market. A regulation prescribing a plan for this equitable distribution, which will be the subject of a public hearing to be held at a later date, must be promulgated prior to July 1.

NJ newspaper sues to make settlements public
TOMS RIVER, N.J. - A newspaper is suing two joint insurance funds and two municipalities for settling lawsuits in secret.
The Press of Atlantic City filed suit earlier this week in Superior Court against the Ocean County Joint Insurance Fund and the Municipal Excess Liability Joint Insurance Fund, as well as Ocean and Lakewood townships.
Publicly operated joint insurance funds in New Jersey have secretly settled at least nine lawsuits in the past two years.
The newspaper wants the court to ban the practice, claiming the funds ``do not have the luxury nor the liberty to conduct themselves as a private corporation,'' said Nelson Johnson, the newspaper's lawyer.
``They are answerable to the public for their actions and decisions on the public dollars they spend,'' he asserted in a legal brief.
The newspaper cited a secret settlement in Ocean Township of a case involving former Mayor Maria Szczech, who was accused of having police falsely arrest a political opponent.
``To this day, we still don't know what it cost to settle the Szczech lawsuit and are very much interested in finding out,'' said township attorney Gregory McGuckin.
Steven Zabarsky, the attorney for the Ocean County fund, said the fund will release information on its actions only if a court orders it to do so.

Maine law clarifies uninsured motorist limits
PORTLAND, Maine - Gov. Angus King recently signed into law a bill designed to clarify new rules relating to auto liability limits.
Last year, the legislature passed L.D. 1258, a law requiring auto

insurance policyholders to have uninsured and underinsured motorist coverages equal to their liability limits.

"We opposed the bill because it's just another form of mandatory auto insurance in disguise," said Gerald L. Zimmerman, associate counsel for the National Association of Independent Insurers (NAII). "However, L.D. 2043 corrects many of the issues and concerns we raised last year and makes it very clear what insurers have to do to comply with the new law."

The new law requires Maine drivers to have uninsured and underinsured coverages equal to their liability limits. Insurers must notify their policyholders about the requirement, and get them to sign a form to change their coverage limits.

L.D. 2043 clarifies several issues that were left unaddressed in L.D. 1258, including:

· Making the limits of liability provision, by which policyholders accept or reject the maximum amount, applicable only to personal policies;
· Changing the effective date to October 1;
· Including the language of the notification form in the statute, so insurers are clear about wording and adequate notice;
· Establishing a two-year limit for insurers to retain completed forms; and
· Determining that renewal within 30 days of policy expiration is continuous coverage.

"While NAII opposes any form of mandatory auto insurance, we feel that the changes set forth in L.D. 2043 will make an otherwise bad situation a little better," Zimmerman said.

Insurance Times: Trust Reduced To 'Shell' As Ruthardt Cancels All Of Mass. Insurer's Policies

May 23, 2000, Vol. XIX No. 11

by Mark Hollmer
InsuranceTimes

BOSTON - Trust Insurance Co. will be reduced to a shell if the Supreme Judicial Court follows a recommendation to cancel the company's remaining policies.

But no one seems to know how much the shell - the charter and licenses - are actually worth, and a serious buyer hasn't stepped forward yet.

"The value of the shell is undetermined," said Christopher Goetcheus, spokesman for the Massachusetts Division of Insurance and Commissioner Linda Ruthardt, who placed Trust in receivership in February.

Worse Than Thought

Ruthardt - in her second Trust receivership update filed on May 10 - suggests the sinking insurance company's financial situation could be even worse than previously thought. She cites Trust's negative policyholders' surplus of $3.4 million, other related losses and unclear records regarding Trust's financial and property assets as reason to cancel the company's remaining policies.

"There is substantial risk that Trust Insurance may be insolvent I believe it is in the best interest of (Trust's) policyholders, other creditors and the public that the insurance exposures be promptly terminated, their liabilities runoff and their true financial condition thereby determined," she said.

As a result, Ruthardt has recommended canceling the company's 99,300 personal automobile policies by Oct.1, and ending its 36,000 homeowners policies by Aug. 1 -- before the hurricane season begins.

She said the cancellation is necessary because of the "additional risk" added by the loss of "significant portions of the reinsurance program." The company reinsurance programs will be gone by July.

The $3.4 million negative policyholders' surplus number already has real estate and electronic data processing assets factored in, Ruthardt said. The company's $8-million Taunton headquarters owned by Trust Group Inc. - the company's parent -- is among those assets. But Trust defaulted on a $20 million loan from Fleet Bank -- which is challenging Trust Insurance's transfer of the headquarters to its parent company last year.

In the beginning, Ruthardt said the company's surplus may have dropped to about $12 million. Some industry insiders had said the number could be lower than $10 million (which would give the company a 9-to-1 net premium-to-surplus ratio; a healthy ratio is 3-to-1).

Ruthardt also said the company's net clash flow from January through April was "negative by over $9.6 million." The negative cash flow would have been much higher, she said, "the refund during the period of the unearned premiums previously paid for the reinsurance programs (and) terminated by the reinsurers."

Ruthardt said it will be necessary to liquidate fixed income securities at a loss to maintain available cash to meet operating needs.

At the same time, Ruthardt is still looking for prospective buyers of the company's charter and licenses. In her report, Ruthardt said she hasn't received any proposal yet "in the best interests of the company's policyholders and other creditors."

Receivership managers have taken several steps since February to work through Trust's financial crisis, including firing Craig Bradley, Trust Insurance Co. president, CEO and founder. They also axed Andrea and David Brandeis, Bradley's daughter and son-in-law. Andrea Brandeis was the senior vice president of administration. Her husband served as Trust's senior vice president of marketing and commercial lines underwriting.

Frustration

Paul Cantiani - the Trust Group's new president, CEO and chairman of the board, said he's frustrated with Ruthardt's latest decision.

Cantiani invested $100,000 toward start-up of the company 11 years ago - about a 3- percent stake. He's now trying to organize investors to save the company and its 260 or so remaining jobs (he said he has nothing to gain financially in doing so).

"What I think is unfair, is that the independent agent who is very loyal to Trust has to suffer with this," he said.

At the same time, Cantiani said, he understands Ruthardt's actions are necessary.

"She's forced into this because of the financial mismanagement of Trust Insurance," he said.

About six individuals or companies reportedly expressed interest in purchasing the company, Goetcheus said. But he would not identify those companies because they signed confidentiality agreements "and it is proprietary information."

Rumored interested parties included American International Group, Rutgers Property and Casualty and at least one other financial group.

David Massad of Commerce Bank, who tried to buy the insurer before it was seized, may still have interest, Cantiani believes.
Cantiani said he has at least four interested investors (who he would not name). None, he said, "are willing to buy the company outright, because nobody knows what the liabilities are." But they may be willing to buy the shell, building or land, he said.
"Nobody is going to say 'here's $50 million. I'm taking over this company.' Nobody knows that the liabilities are including the commissioner and that's what's scary."
Goetcheus agreed.
"It's been hard for people to get an accurate read on the financial condition of the company," he said, "given the fact that they don't have a qualified opinion for (their) 1997-98-99 financials."
Trust's precarious condition is a far cry from its launch 11 years ago. The auto insurance company began with the investments of about 30 individuals, with Bradley holding an approximate 30 percent stake, Cantiani said. Together, the founding investors put up approximately $1.2 million to launch Trust in Massachusetts.
That venture led to many successful years for Trust, and Cantiani said he's exasperated with the company's current state because of its early success.
"I'm not blaming anyone here," he said. "I just don't understand how an $180 million company is all-of-a-sudden broke. Where did all of the money go?"
Cantiani said Bradley is a "brilliant man" and he has no ill will toward him.
"But I don't know how anybody so brilliant could allow this to happen. He's recognized in the industry as a very brilliant man but he has to take the blame because he's the head of it."
Bradley could not be reached.
Cantiani is additionally upset, because about 70,000 of Trust's 146,800 remaining policyholders will be canceled in mid-term if the Supreme Judicial Court approves Ruthardt's recommendation. That will leave insurance agents, he said, scrambling to shift clients to new policies.
Policyholders would be notified of their cancellations by mail. Customers would receive a check or credit in the mail if they're entitled to any premiums.
And the 260 or so employees who remain will continue to receive 3.5 percent retention pay per month as the companies operations continue.
"There is still plenty of work to be done," Goetcheus said. "If, in fact, the (Supreme Judicial Court) approves this recommendation claims will still have to be paid..."

Agent E&O Problems?
Agents have moved more than 20,000 automobile and homeowner policies to other carriers since Trust went into receivership, but some agents have stuck with Trust.
Could those remaining agents be vulnerable to legal action under their errors and omissions policies?
That depends on what happens next, said Edward Donahue, an attorney with Morrison, Mahoney & Miller, who has been advising Cantiani in his effort to organize an investment plan to revive Trust.
Agents, he said, aren't necessarily liable if they don't move their business. Someone has to be harmed first, he said. For now, policyholders are still covered, and Trust hasn't been declared insolvent.
If it is declared insolvent, the Massachusetts Insurers Insolvency Fund

would step in to pay claims-- but only up to $300,000 per claim. A homeowner could be harmed, for example, if his or her Trust policy has higher limits.

Insurance Times: RI Agent's Faith In God, Insurance, And Community Survive Agency Fire
May 23, 2000, Vol. XIX No. 11

by Mark Hollmer
InsuranceTimes

John Clarke was still sleeping when his phone rang at 5:10 a.m.
It was April 30, and a police officer called with bad news: Clarke's business was on fire.
Clarke, 63, is the owner of The Insurance Store in West Warwick, R.I., which sells property, casualty, life, accident and health insurance. For years, he's been in the business of helping his 1,500 clients protect themselves in case of a tragedy or disaster.
But now it was his turn, and Clarke -- a devout Christian -- stayed calm in the face of his own oncoming disaster.
"I said a prayer of gratitude for the many blessings that I've enjoyed, the business that I have, and for the tribulation -- which is an opportunity to grow and learn."
No one was injured in the fire. But four businesses in the Main Street building -- including Clarke's -- burned to the ground. The roof collapsed, destroying everything.
But despite his losses, Clarke was able to find another location and reopen his business within the week. He credits his professional training, in part, with helping him move so quickly.
"As a Certified Insurance Counselor, one of the things you learn in risk management is to have something of a prepared disaster plan as well as alternative service providers and items of that nature right along with the need for time-element types of insurance.
"We had that in place and that's what accounted for being able to (re)open so darn quick," he said.
At the same time, creativity and a little luck also helped.
Even as the fire was still burning, Clarke walked up and down the business district scouting out available spaces. He ran into a building-owner watching the fire who happened to have some available space to rent - 200 feet away just across the street.
They made their deal right on the spot, and Clarke acted quickly.
First, he evaluated the damages: the company lost all of its equipment including desks, filing cabinets, postage meter, photocopier and five computers. But Clarke maintained a computer back-up system at home, so all of his necessary files were saved.

Reopen Within Week
He and his two full-time employees also contacted policyholders, and took out a newspaper advertisement telling customers The Insurance Store would reopen within a week. The ad asked customers "to be patient and bear with us."
Meanwhile, Clarke's insurer, Fitchburg Mutual, came through.
"We (have) both direct damage to the contents and extra expense coverage and business interruptions insurance," he said.

The company issued Clarke a check for start-up money to wire his new office for computers, phone and electronics. Part of his coverage will also include a calculation of loss of business (almost 100 percent) and total damage, which Clarke estimates at about $20,000.
Immediately after the fire, Clarke worked out of the offices of Pearson Cronin & Jacobson. The competitor insurance agency also donated some filing cabinets, desks, chairs and a storage case for Clarke's new temporary office.
Clarke obtained cell phones for the business, and his phone company forwarded calls to them from the regular business number, so customers or potential clients could reach The Insurance Store at its same number.
Clarke reopened on Monday, May 9 at 8:30 a.m. with a customer already waiting at the door.
He said the initial transition was "a little disorganized, but the competent staff that I have jumped in and got (the job) done and (is) continuing to get it done."
In addition to having a working disaster plan, Clarke said he was "enormously impressed" with the support that came from other independent agencies.
"Nine other independent agents called and offered us whatever kind of support we could take advantage of or make use of," he said. "They were just enormously supportive. I was very impressed to have my competition come to my aid to that degree."
He also thanked the "exceptionally fine" response of Fitchburg Mutual in dealing with his agency after the fire hit.
"It's everything I could have possibly ever wanted," he said.
He's also learned another important lesson. "Faith in God is not misplaced," he added.

Insurance Times: Vermont CE Law

May 23, 2000, Vol. XIX No. 11

by Penny Williams
InsuranceTimes

MONTPELIER - Vermont has passed legislation that brings the state into line with almost all the other states requiring insurance agents to complete continuing education requirements as a function of licensing.
Vermont agents from both the property/casualty and the life/health sides have squabbled for years over the necessity of requiring continuing education but they set aside these concerns in the face of pressure to go along with the majority of other states.
"It was time for it to happen and it is good for the industry," said the president of the Vermont Insurance Agents Association (VIAA), Jon Shea, who is with Paige & Campbell in Barre.
The legislation (H 610) was passed by both branches on April 21 and signed into law by Gov. Howard Dean on April 27.
The bill deals with two separate issues. It changes Vermont insurance agent and broker licenses from a one-year to a two-year term. The new law also requires agents to complete 24-hours of approved continuing education during the preceding two years in order to qualify for renewal of their license.
The Department of Banking, Insurance, Securities and Health Care

Administration must promulgate regulations to implement continuing education. The department is expected outsource administration of the program.

Shea said that some agents worry that requiring continuing education will add to agencies' expenses. "But the flip side is that it is a good thing," Shea maintained.

Robert Coyle, executive director for the agents association, said the new licensing requirements relative to the two-year term for insurance agents take effect January 1, 2001. The continuing education portion becomes effective on licenses or license renewals on or after October 1, 2002.

Insurance Times: Vermont WC Benefits Law Clarified

May 23, 2000, Vol. XIX No. 11

MONTPELIER - Governor Howard Dean has signed into law a measure (H 844) designed to correct a state Supreme Court decision allowing an injured employee workers compensation benefits for an off-the-job injury.

The bill was in response to the state Supreme Court decision in Grather v. The Gables, Ltd. A "ski bum" employed by the lodge was awarded workers compensation benefits for a skiing accident that happened after working hours.

The new law clearly defines injuries that occur beyond or outside the parameters of the job description and employment requirements. The law went into effect on April 19, the day Gov. Dean signed it.

Insurance Times: States Are Moving On Reforming Agent Licensing, IIAA Tells Senate

May 23, 2000, Vol. XIX No. 11

WASHINGTON, D.C. - It is unlikely that the National Association of Registered Agents and Brokers (NARAB) proposal will ever come into existence, Independent Insurance Agents of America (IIAA) spokesman Ronald A. Smith, CPCU, told a Senate hearing last week.

The Senate Banking Committee's Securities Subcommittee was hearing public testimony from IIAA and other industry groups about the impact NARAB is having on reform of state-based agent licensing.

"IIAA is optimistic that the states will achieve the level of reform required by Congress and implement a licensing system that is in fact better than that offered by the NARAB provisions," testified Smith, president of Smith, Sawyer & Smith, Inc. in Rochester, Ind.

"There are some very real problems with the current multi-state licensing process. As agents and brokers obtain growing numbers of nonresident licenses, our members increasingly struggle to stay on top of the required paperwork and clear the logistical and bureaucratic hurdles that are in place today," said Smith.

The NARAB provision, designed to streamline the multi-state licensing process, was included in the Financial Services Modernization Act (also called the Gramm-Leach-Bliley [GLB] Act) that was enacted last November. The provision requires the creation of the insurance agent-licensing clearinghouse if a majority of states-(29 states) do not enact licensing

reciprocity by Nov. 12, 2002.
"In essence, the NARAB provisions put the ball in the states' court. The threat of NARAB creates a strong incentive for the states to reinvent and streamline the multi-state licensing process," said Smith.
Smith told the panel's members that individual state insurance departments are making progress, citing the National Association of Insurance Commissioners' (NAIC) new Producer Licensing Model Act that will serve as the starting point for agent licensing reform.
"The NAIC model contains provisions that allow a state to become NARAB-compliant by establishing the requisite level of reciprocity," described Smith.
Kentucky recently enacted licensing reform based on the NAIC model, becoming the first state to satisfy the NARAB test.
While there has been progress, there also remain obstacles to heading off the creation of NARAB. The foremost concern is the fast-approaching deadline, which limits states' ability to consider licensing reciprocity.
While states have 31 months to implement licensing reciprocity, this is not necessarily a lot of time.
"Practically, this means that each state has only two legislative sessions to address licensing reform. In addition, states must not only enact the statutory revisions by the November 2002 deadline, but must have the reciprocal system operational as well," Smith noted.
Other challenges confronting the states include the 29 state benchmark, questions about whether the law applies to so-called "limited lines" licenses, and concerns about how states can implement effective, uniform background check requirements on people who apply for an insurance license.
Despite these possible obstacles, Smith said IIAA believes the states are up to the challenge and will take the steps necessary to forestall establishment of this new federally created entity.

Insurance Times: Clinton Address Agents On LTC Tax Credit And Health Care Reforms

May 23, 2000, Vol. XIX No. 11

WASHINGTON, D.C. - President Bill Clinton told independent insurance agents from around the nation that a tax credit for long-term care, Medicare prescription drug coverage and improvements in health care that will result in Americans living longer, will all have an effect on the insurance industry.
In remarks before the Independent Insurance Agents of America's (IIAA) 24th annual National Legislative Conference, President Clinton said he supports a $3,000 annual tax credit to help Americans pay for long-term care for a family member.
More than 800 IIAA member agents attended the National Legislative Conference and met with members of Congress during the three-day event to discuss managed care reform and other insurance, tax and small business issues.
Noting that 60 percent of senior citizens lack prescription drug insurance coverage, the President endorsed a voluntary prescription drug program as part of Medicare. While he did not advocate any particular proposal being considered on Capitol Hill, he said retirees with incomes

up to $50,000 annually should be eligible to take part.
President Clinton said independent agents should follow the issue because they don't want to be "left holding the bag" if they have insurance policies that don't sell because of policy coverages that consumers don't want.
When coupled with improvements in gene therapy that will enable Americans to live longer, "that will completely change insurance," he said. President Clinton said that with the strong economy, now was the time to tackle issues such as prescription drug coverage and a tax break for long-term care.
"I don't think we want to squander this enormous opportunity," he said. "How well we did with prosperity is a great measure of a great country."
President Clinton said he didn't always agree with Sen. Orrin Hatch (R-Utah), on Medicare reform. Hatch, chairman of the Senate Judiciary Committee, spoke to the IIAA National Legislative Conference immediately prior to the president.
Hatch strongly urged reform of the Medicare and Social Security systems and criticized the Clinton Administration and Congress for not taking on the issues. "Congress doesn't have the guts or the ability to do it, especially when the President demagogues it," he said.
President Clinton thanked IIAA for supporting him on various issues during his seven years as president, most notably its support of the landmark Kassebaum-Kennedy health care reform bill in 1996.
When he was opposed by the largest and most politically powerful insurance agent lobby in America, President Clinton said he has "always been impressed with the straight talk" of the organization.

Insurance Times: Maine Group Seeks To Air Execs' Pay If Blues Sold To Anthem
May 23, 2000, Vol. XIX No. 11

PORTLAND, Maine (AP) - The Maine Medical Association wants to force the state to release confidential agreements showing how Blue Cross and Blue Shield of Maine executives would be compensated if the nonprofit is sold to Anthem Insurance Cos. of Indiana.
The 2,000-member doctors group said it will file a Freedom of Access request to compel the Maine Bureau of Insurance to release the information. The bureau agreed to a BCBS request to keep the documents out of the public eye.
Motivating the request is sale opponents' belief that top managers were influenced by lucrative agreements and steered the insurer's board of directors to agree to merge with Anthem, a for-profit insurer.
``I can't say what motivated them,'' Gordon Smith, the MMA's executive director, said Friday. ``But people should know whether management compensation was a factor.''
Other opponents may join the legal action, which comes as the Blue Cross board of directors prepares for its monthly meeting in South Portland on Wednesday, Smith said.
Judy Chamberlain, an assistant attorney general assigned to the insurance bureau, said the state agreed that the agreements cover trade secrets and aren't subject to disclosure in court. They also appear to be exempt from Maine's Freedom of Access law, she said.
Making the agreements public would benefit other health insurers in a

tight labor market, said Beth Shorr, a senior BCBS vice president.
``There's competition for skilled people,'' Shorr said. ``It wreaks havoc when a company recruits away senior management.''
The compensation provisions, called change of control agreements, typically outline salary, stock options and benefits that will be provided after a company is sold.
Shorr confirmed last month that change of control agreements for a dozen executives were updated by the board in February 1999 to reflect current industry practices.
Board Chairman William Ryan has stressed that directors, not management, made the decision to merge. He also said the board and outside consultants created the compensation agreements.
Sale opponents hope to pressure the board to rethink the merger. Approval now rests with Insurance Superintendent Alessandro Iuppa, who must decide in the next few weeks. Because the public comment period is closed, the release of the agreements would not influence his deliberations.
Maine Blue Cross has lost millions of dollars in recent years. But opponents question whether the best solution is to sell the company to Anthem. They want Blue Cross to remain local and nonprofit with the help of a regional partner, such as Blue Cross and Blue Shield of Massachusetts, which initially offered to partner with the Maine plan. The Maine plan insures about 400,000 Mainers.
Smith said MMA lawyers plan to cite Iuppa's ruling that salaries and other compensation are public information. Figures released in February showed managers got big raises while the company was losing millions. The company defended the raises and said they were in line with what competitors pay.
Ryan said the compensation in the agreements is not excessive and that it is needed to keep the management team in place to negotiate terms with Anthem.
If the agreements are fair and necessary, Blue Cross should make them public, Smith said.
``We're not going to take it on faith,'' Smith said. ``It's too big a deal. We're going to take whatever legal action is necessary to get these agreements.''

Insurance Times: Critics' Poll Says Public Opposes Sale

May 23, 2000, Vol. XIX No. 11

AUGUSTA (AP) - Organized opponents of the proposed sale of Blue Cross and Blue Shield of Maine to Anthem Insurance pressed their criticism of the pending deal by releasing survey results they said bolstered their position.
The opponents, who say the sale would render Blue Cross a for-profit subsidiary of Indiana-based Anthem, said statewide polling suggested that about three in five people familiar with the pending sale were against it.
They also said the polling showed that about two-thirds of those familiar with the pending sale thought it was very important that Blue Cross remain a Maine-owned company with local decision-making power.
The polling, conducted between April 25 and May 1 by Strategic Marketing Services/Pan Atlantic Consultants, was commissioned by Consumers for

Affordable Health Care and the Maine Medical Association.
Both sponsors oppose the sale.
The polling firm said its results were based on a telephone sampling of 400 Maine residents who said they were ``very'' or ``somewhat'' aware of the proposed sale.
A spokeswoman for Blue Cross said concerns among Maine people about the deal tend to diminish as they learn more about Anthem.
``When people understand that Anthem is a Blue Cross and Blue Shield plan and that it is the Blue Cross and Blue Shield plan in seven states, their comfort level becomes much higher,'' Beth Shorr said.
Shorr also said Blue Cross had concerns regarding the methodology of the survey.

Insurance Times: Opinion Exchange

May 23, 2000, Vol. XIX No. 11

Most in the industry still agree that state regulation should be preserved, although it needs improvement. It is more responsible and responsive than federal regulation, and will always be.
Many were left with the impression that all the skirmishing over the financial modernization act (the Gramm-Leach-Bliley Act), last year resulted in a clear victory for state regulation.
Not exactly.
In fact, the threat of federal regulation is most obvious in the so-called NARAB section of the Gramm-Leach-Bliley Act. This act reasserts the primacy of state regulation on one hand, while undermining its future by creating the National Association of Registered Agents and Brokers -- a centralized agency to police producers.
However, the NARAB proposal includes an escape hatch. If 29 states adopt uniform licensing standards on their own within the next 36 months, the federal agency will never come into existence.
Getting states to act will require a major effort. But this anti-NARAB effort could be the start of something even bigger.
The National Association of Mutual Insurance Companies (NAMIC) recognizes the need for a broad-based effort to not only block NARAB, but also save the best of state regulation and improve what needs to be improved.
In a recent report, entitled Accepting the Challenge: Redefining State Regulation Now, NAMIC calls upon state insurance regulators, state legislators and insurance industry leaders to commit to a collaborative "systematic strategy" to enact uniform insurance regulatory standards and stop a federal takeover.
NAMIC sees NARAB as a serious threat to state regulation but also as an opportunity:
"What does this tell us? Uniform practices, creating consistency between states, will make federal regulation unnecessary. Or said another way; failure to redefine the state regulatory system through more uniform practices will ultimately invite the federal government to step in."
The effort should not stop at agent licensing. NAMIC member companies have identified nine regulatory practices that should be redefined through more uniform procedural insurance standards:
  Producer licensing
  Company licensing

Rate and form requirements
Commercial rate deregulation
Electronic commerce requirements
Desk audit funding
Annual statement filings
Financial examinations
Market conduct examinations

Seven of the nine points in the National Association of Insurance Commissioners' (NAIC) Statement of Intent are also addressed in the NAMIC report. NAMIC believes that this "suggests a high level of consensus between regulators and a large segment of the property/casualty industry, increasing the potential for enactment of a uniformity agenda by individual states."

State legislatures hold the key. "Once state regulation is working the way it can, it will be very difficult for anyone to convince Congress that a federal system is superior," the NAMIC report notes.

Accepting the Challenge makes five specific proposals for immediate action:

1. Regulators, the industry and state legislators should come together to reach agreement on an aggressive state legislative strategy to pass uniform producer licensing standards;
2. NAIC committees working on other aspects of producer licensing should complete their work so as not to delay implementation of uniform standards;
3. Regulators, industry and state legislators should commit on the front end to participating actively in the NAIC Statement of Intent process to reach consensus on a comprehensive program of uniform insurance regulatory provisions and an interstate framework which preserves state authority;
4. Building upon the cooperation necessary to enact uniform producer licensing statutes, regulators, industry and state legislators should commit on the front end to a formal systematic strategy for securing enactment in the states of a comprehensive program of uniformity insurance regulatory provisions and an interstate regulatory framework which preserves state sovereignty; and
5. The NAIC should convene an advisory group consisting of regulators and the industry to recommend ways to streamline its processes, helping to combat negative perceptions that fuel the call for federal regulation.

NARAB gives state regulation proponents a window in time of no more than 36 months. If the states and all parties respond, NARAB could be a blessing in disguise -- a key to securing the future of state regulation.

Insurance Times: Ethics Commission Defeat In Court Could Boost Appeals By Mass. Insurance Lobbyists
May 23, 2000, Vol. XIX No. 11

BOSTON (AP) - The State Ethics Commission failed to prove that a veteran state lawmaker returned favors from lobbyists when given free golf and meals, the state's highest court ruled May 5.

Rep. Angelo Scaccia, D-Boston, was fined $3,000 by the State Ethics

Commission in 1996 for getting too cozy with lobbyists from the insurance and tobacco industries in the early 1990s.

The Supreme Judicial Court, citing a U.S. Supreme Court decision from last year, said a link must be established between the golf and meals and Scaccia's official actions - and the commission hadn't drawn those links.

Scaccia's attorney, Morris Goldings, said the court's ruling that the gratuities and the official acts must be linked was ``a significant victory a total vindication of our position with regard to the gratuities statute.''

He also said it called into question other prosecutions and investigations in recent years for gratuity law violations.

Carol Carson, a spokeswoman for the Ethics Commission, didn't have a comment.

The SJC said it recognized it could be hard to find direct evidence that an official was influenced to do a particular act. But it left the door open for circumstantial evidence, noting that ethics regulators could point to the timing of the gift, what the giver stood to gain from a bill, and what the lawmaker's vote on the bill was.

In the case of Scaccia, the court said the commission had essentially failed to be specific enough in linking the gifts to official acts performed by Scaccia.

``In short, there are no findings and no evidence in the record, that the gratuities influenced any specified official act by Scaccia,'' the court said in a 14-page opinion written by Justice Roderick Ireland.

The court upheld other commission findings that Scaccia broke ethics laws by simply accepting the gifts, failing to disclose them, and giving the appearance of a conflict of interest.

The SJC sent the case back to the Superior Court for a new hearing regarding the penalty to be assessed against Scaccia.

In a related case, the SJC ordered new Superior Court hearings in the appeal of the Life Insurance Association of Massachusetts, which the State Ethics Commission fined $13,500 for providing meals and other gratuities to Scaccia and others.

The court said the commission, in that case, had concluded that the offer of the meals by the association didn't need to be linked to the intention to influence any specific official act.

So ``the commission failed to make adequate findings on whether there was such a link'' _ and those were needed, the SJC said.

Goldings said the ruling could have an impact on the continuing federal prosecution of F. William Sawyer, a former lobbyist for the John Hancock Mutual Life Insurance Co., who was convicted in federal court of using the mails to violate the state gratuities law.

Sawyer's conviction was thrown out late last year. But the U.S. attorney's office is planning to pursue the case in an appeal.

Insurance Times: Love Hurts At Conn. Insurance Department

May 23, 2000, Vol. XIX No. 11

Love shut down the Connecticut Insurance Department's e-mail system on May 4.

The ILOVE you computer virus affected about 180 people in the department after someone opened the ILOVE you message attachment which contained

the virus early that morning.
By then, it had already whipped through computer networks around the globe.
Soon after, office technicians shut down the mail server as a precaution, according to Susan Cogswell, the department chief of staff.
Computer support staff checked all computers of individuals who opened the e-mail attachment, she said.
"Other than our mail server we don't appear to be affected," she said.
A quiet farewell party for departing Insurance Commissioner George Reider, Jr. apparently wasn't affected by the disruption. Staff members joined him for marble cake and coffee the same morning, Cogswell said.

Insurance Companies
The bug also spread to some Hartford insurance companies and even the submarine base in Connecticut, but there were no reports of serious damages.
Aetna spokesman David Carter said a systems manager spotted the bug soon after it arrived during the night and shut down incoming and outgoing Internet-based traffic. The company still had internal e-mail and outgoing Internet e-mail resumed the next day.
Some companies like The Hartford and Marsh Inc. of San Francisco offer insurance coverage for damage that computer viruses can cause.
But the Insurance Information Institute had no reports of claims relating to the ILOVEYOU virus.
Still, even The Hartford saw some moderate affects from the bug, which used the Microsoft Outlook e-mail program to spread to other systems.

Insurance Times: Principals In Bank-Owned Agencies Share Experience At Boston Forum

May 23, 2000, Vol. XIX No. 11

by Mark Hollmer
InsuranceTimes

BOSTON - One man represented a giant and revered insurance agency recently snatched up by a rapidly expanding regional bank.
His corporate adversary sat next to him - the president of a small, old-fashioned community savings bank whose company recently bought a neighborhood insurance agency.
Both men are treading into new territory, blending banking and insurance services under one corporate roof. They reported recently that their respective trail-blazing ventures are doing just fine.
"We are with a bank that understands what we're doing," said Richard Hubbard, vice chairman of Brewer & Lord, which is now owned by Citizens Bank.
"It's working very well," said Joseph C. Cioni, chairman and CEO of Stoneham Savings Bank, of his company's recent purchase of the Robert F. O'Neil Insurance Agency.
Hubbard and Cioni were featured speakers at a seminar held May 12 at The Seaport Hotel in Boston - which included discussions about how new federal and state laws allowing the banking and insurance industries to integrate are affecting the industry.
The Morrison, Mahoney & Miller law firm sponsored the three-hour seminar

with The Insurance Library Association of Boston.

Brewer & Lord, one of the largest independent agencies in Massachusetts, was purchased by USTrust in June 1999 (which was, in turn, purchased by Citizens Bank in January).

Hubbard explained that Brewer & Lord officials began to realize such a blending of resources simply made sense in light of increasing pressure for financial growth.

"We decided (this) was the best way to grow and still be an independent agency as a wholly-owned subsidiary and still a good way to give young people an incentive" to invest in the company as new employees, he said.

Devoted to Cross-Selling

Citizens Bank respects what Brewer & Lord is doing, Hubbard said, and the company is "devoted to cross selling" each others' products.

And while their cross-selling effort is just getting started, Hubbard said he's looking forward to more growth as a result -- as each company draws on the others' customers to expand its business. He also expects the bank and his insurance company to be "in an acquiring mode" for further expansion.

"We're looking forward to growth and getting into the nooks and crannies of various large bank outlets," he said. "Hopefully we'll be successful.

By contract, Cioni, as chairman of a small community bank, said he opposed the concept of banks acquiring insurance agencies "until recently."

"There seemed to be a whole lot of reasons why you wouldn't want to get involved in the insurance industry," he said. "Banking is complex enough - you wouldn't want to add an additional layer of" regulation.

But his thinking turned around because "it became more and more evident we couldn't be a traditional lender competing against organizations that have a multitude of products."

Cioni's board of directors concluded that "we wanted to be the community's first choice" for financial products. Changes in the state law in 1997 and then the new federal law helped make that happen.

Bank Survey

The move made sense, according to Cioni. Stoneham Savings Bank's 1997 survey showed at least 26 percent of its customers "would like to think they can come to us and buy insurance the threat of larger banks offering (insurance) product got us in."

The Robert F. O'Neil Insurance Agency is now a wholly-owned subsidiary of Stoneham Savings Bank, and it's maintained at a separate location.

Cross-selling just began two months ago, Cioni said and he added that it is working well so far.

Meanwhile, Cioni said, Stoneham Savings Bank is looking to acquire more insurance agencies.

Insurance Times: Plymouth Rock Helps Mass. Agency Land New Producer

May 23, 2000, Vol. XIX No. 11

Independent agents today face a "Catch-22" when it comes to hiring new producers.

Few can take on the cost of hiring and training a rookie producer. But without an additional salesperson, the agency won't grow fast.

This is the biggest obstacle to growth, says William D. Grinnell, president of Webber & Grinnell Insurance Agency in Northampton, Mass.

"There's incredible start-up expense and big risk," he says. "You just don't know if the person you're hiring is going to pan out. And once you have someone on board, it's difficult to get rid of that person if he or she isn't meeting sales goals."

Even if the new producer meets sales targets, it takes a few years before commissions offset salary and benefits.

What about hiring an experienced producer? Today most have non-compete agreements and can't take their customers with them. As a result, it's "almost impossible" to hire a producer from another agency, Grinnell says.

Another choice is to hire and train an underwriter or other specialist from an insurance company. But that's also more difficult today. Company branch offices have been closed because of downsizing.

"The talent pool has dried up," he says.

Webber and Grinnell is a 15-person agency with more than $10 million in premiums, split evenly between personal and commercial lines. Bill Grinnell and his partner, Rich Webber, bought the agency from Bill's father, Fred Grinnell, Jr., in October 1998.

Grinnell is 38 and Webber will soon turn 44. "We have many more years in the business ahead of us. We're in the growth mode." Grinnell says.

Focusing on commercial lines sales, the partners juggle serving current customers and selling. "Once you have a certain amount of business, plus the responsibilities that come with running an agency, it's very difficult to continue to produce a level that grows your business, versus just replacing what's lost through attrition," Grinnell says.

Additionally, the partners can't spend a lot of money on sales and marketing because they have a tight budget in the early years after the buyout.

Grinnell calls personal lines "the rock of our agency" because of its stability. However, because the partners focus on commercial lines, producing more personal business can get shortchanged unless someone's dedicated to it. "You can't just wait for the phone to ring. To really grow, you've got to go out and get it," he says.

Grinnell decided to try to get help. He approached his lead personal lines carrier, Plymouth Rock Assurance Corp. in Boston and asked if it would consider subsidizing a new producer at the agency.

"We've had a strong relationship with Plymouth Rock over the years-a real partnership," he says. He met with Mark Sweeney, vice president of marketing, and found a receptive ear.

In 1999, Plymouth Rock struck an agreement with the agency. The company pays the bulk of the rookie producer's salary for three years while the agency provides employee benefits and covers travel expenses.

Grinnell estimates the subsidy covers 70 percent of the producer's total compensation package.

In return, the producer must meet the production goals the agency and company agreed on. After three years, the new producer should be self-sufficient, and the subsidy ends. The agency agrees to keep the business with Plymouth Rock three more years.

With the financial assistance in place, Grinnell could hire a producer. He chose Suzanne Walker, who was the executive director of the local YMCA and the former president of the Northampton Chamber of Commerce. A mother with children in elementary school, Walker wanted a career that would give her more control over her time. After getting her property-casualty broker's license, she joined Webber and Grinnell in March 1999.

Grinnell feels fortunate to have found someone who's well known in the community and motivated. "She brings an element of professionalism. She represents us very well," he says.

Walker exceeded her sales goals for the first year. "A trickle of many areas and efforts," brought success, Grinnell says.

Webber and Grinnell writes several group auto programs with Plymouth Rock, the largest being the Cooley-Dickinson Hospital. "She was instrumental in putting that group together, and it's really been a home run for her and for us," he says. "She's got several other large groups in the fire now and expects to close on them soon."

Additionally, the agency uses a telemarketer who provides homeowners leads to Walker. "The easiest way to sell auto insurance is to first write the homeowners. Homeowners is an easier product to sell because there's more variation," he says. "Auto is more price-focused."

She often uses Bunker Hill Insurance Co. - Plymouth Rock's sister company that writes Massachusetts homeowners insurance - because it has a high-quality product. After getting the homeowners business, she usually can write the family's autos.

She also takes advantage of her many contacts in the community to write personal lines business and refer businesspeople she knows to Bill Grinnell and Rich Webber.

Now that she has completed her first year, Grinnell can say that the program has worked for both the agency and the company.

"There's no question the investment is paying off for us and Plymouth Rock," he says. "That spirit of teamwork and cooperation between us has made the program worthwhile."

Subsidizing a producer "makes a lot of sense," for companies, he adds. Companies often pay bonuses to agencies that roll over books of business from other carriers. That gives them an immediate return. In contrast, Plymouth Rock is investing in a program that will "blossom" over the years, bringing more business to it and into the independent agency system, he says.

Pleased with the success of the pilot program at Webber and Grinnell, Plymouth Rock is looking to expand the producer-development program to more of its independent agencies across Massachusetts.

"By helping our independent agencies bring on new talent, we're supporting both our and their future growth," says Plymouth Rock's Sweeney. "We see this as a crucial investment."

Insurance Times: AAIS Offers CL Property Damage Endorsement

May 23, 2000, Vol. XIX No. 11

A new commercial liability endorsement developed by the American Association of Insurance Services (AAIS) is designed to do for property damage what "med pay" provisions do for bodily injury.

Under the new Voluntary Property Damage Coverage option filed for the AAIS Artisans Program, insured contractors are reimbursed for what they pay or do to compensate others for (1) damage to property of others in the insured's care, custody, and control; and (2) damage to property of others arising from the insured's work. The coverage would apply no matter who is legally liable for the damage, a critical distinction from standard liability coverages for similar losses.

"By 'voluntarily' assuming responsibility for certain losses, the

insured and his insurer avoid disputes over liability that could lead to ill will and larger claims," says Janice Nieman, AAIS manager for commercial liability.
In this way, the voluntary damage coverage is analogous to standard "med pay" provisions, which pay a certain limit for bodily injury claims regardless of fault, in hopes that a claim can be resolved quickly. But while med pay provisions are generally established at $1,000 per claim in the base form, the insurer can designate the amount of voluntary damage coverage by entering both per occurrence and aggregate limits on a schedule that accompanies the AAIS endorsement.
Several other new endorsements have also been filed for the AAIS Artisans Program. These provide: liability coverage for employment related practices such as discrimination, sexual harassment, and wrongful termination; an extended period for reporting employment related claims; and inland marine coverage for contractors' equipment and contractors' tools (owned, leased, or rented), and "installation floater" coverage for materials, supplies, fixtures, and equipment intended to become a permanent part of a structure.
Call 800/564-AAIS, or visit www.AAISonline.com. p

CertificatesNow.com entering New England
San Diego-based CertificatesNow.com, an Internet-based certificate process, has entered the New England market. The product, endorsed by the Independent Insurance Agents of America, promises to cut certificate management costs by more than 80 percent and give insureds the ability to self-serve their insurance certification needs 24 hours a day, seven days a week. The New England sales effort will be under the management of Keith LeBlanc' formerly of American Management Services, Fortis Inc. and several other insurers. Visit the company's Web site at www.ConfirmNet.com or call 877/669-8600. p

ISO buys into clickNsettle.com
NAM Corp., a Great Neck, N.Y. provider of Web-enabled and in-person dispute-resolution services including clickNsettle.com, announced that Insurance Services Office, Inc. (ISO) has acquired 16 percent of the company for $4 million. In addition, Frank J. Coyne, president and chief operating officer of ISO, will be nominated to NAM's board of directors.
Besides investing in NAM Corp., ISO will market the online dispute-resolution service, clickNsettle.com, NAM's President and Chief Executive Officer Roy Israel said.
"This alliance provides ISO with a unique opportunity to leverage its role as the property/casualty industry's premier information source to help insurers put a lid on large and growing indemnity and legal costs," said ISO's Coyne.
Coyne said the rise in legal defense costs, which now account for 15 percent of insured losses, is a serious concern to liability insurers and policyholders. "We know from careful examination of closed insurance claims over time that the costs of legal defense and indemnity increase, the longer it takes to close a claim. By substantially shortening the time it takes to settle claims, clickNsettle.com significantly reduces legal costs, and insurers can reflect those savings in their premiums," said Coyne.

Travelers adds boiler coverage to marine policy
Travelers Property Casualty Corp. has added boiler and machinery coverage to its Inland Marine Builders Risk product. The new policy,

called IM PAK Builders Risk with Specified Machinery, now includes the same broad coverage as a stand-alone comprehensive boiler and machinery policy, with the testing exclusion removed, from Travelers' boiler and machinery division.

"Adding the option of boiler and machinery coverage to builders' risk policies allows us to recover all first party insurance needs for construction projects under one comprehensive, yet very easy to understand, policy. Customers who need both types of coverage no longer need to review separate endorsements or multiple policies in order to understand their insurance coverages," said Tom Pecka, director, Travelers Marine.

The new product is targeted towards general contractors, owners and developers in the mid-to-large-sized commercial construction market.

Call 860 277-8292 or visit www.travelers.com.

Insurance Times: Internet Threatens Company Employees More Than Agents: Slocum: Internet Will Help Agents Cut Waste And Duplication

May 23, 2000, Vol. XIX No. 11

by Penny Williams
InsuranceTimes

The Internet promises to reduce waste and duplication in the insurance industry and while this has insurance agents worried about their futures, it's company level underwriters and administrators who should feel most threatened, a Rhode Island agency automation advocate told a national industry group recently.

Myth of Disintermediation

"The myth of disintermediation is that agents are no longer needed when in fact every study I've seen says exactly the opposite; in fact 85 percent of consumers want to do business with an agent. The disintermediation will be at levels other than the agency - that is, at the company.

"Most of the cost savings will come from the elimination of processors and underwriters at the company level since most will use expert systems which eliminate duplicate data entry and review," said Robert Slocum of Warwick, R.I.'s The Slocum Agency.

Slocum recently addressed the IVANS Conference in Tampa Florida.

On the other hand, the Internet -- and an Intranet-- allows agents to improve their customer service and business relationships while reducing costs, waste and duplication, Slocum said in remarks touting the advantages of the new technology.

"Those who embrace the new technology and leverage it to everyone's advantage, who find innovative ways to meet the unique needs of the individual customer, will survive," he said. "The professionals who serve the customer when, where and how the customer wants to be served, will succeed.

Minimize Expense

"Utilizing the Internet will not only reduce duplication it will also minimize expense," he maintained. "What the Internet does is enable an agency and agents to custom tailor their services to their customers' needs. This is the true meaning of relationship marketing, which is what will spell the difference between those that thrive and those that don't survive.

"Absent the Internet," he said, "agents really aren't given the tools to do their job efficiently. The Internet provides the time-sensitive tools necessary to resolving issues and reacting in the timeframe the customer demands."

To take full advantage, agencies should have every employee wired with fast and easy Internet access, he advised.

"To really capitalize on the opportunities offered by the Internet, high speed access must be available at every desktop. The dial-up connections of today are too slow and cumbersome. Access must be quick and easy or it won't get used," advised Slocum.

He suggested that at a minimum, there are things agents can do right now using the Internet. Among these are:

Getting new business leads-

Providing information to customers and others-

Using e-mail to communicate with clients, partners, prospects and intra-agency-

Finding niche markets and other specialties-

Accessing Company websites to service agency clients more efficiently-

Downloading information using proprietary systems-

Locating needed information quickly.

As an example of the value of being able to access a company website to provide more efficient customer service, Slocum used EMC Insurance Cos.' website where an agent can access billing information.

"Almost 70 percent of the inquiries we get at our agency are billing related. But we don't have that information because it is direct bill even though the customer expects us to have that information. With access to websites similar to EMC we can call up the client's billing information on-screen while they're on the phone. This way we can give them the information needed immediately instead of having to tell them that we will get that information and call them back."

Accessing a claims experience report on the Beacon Mutual Insurance Co. website. Slocum commented, "Again "it is enabling for the agency to be able to access a client's information and be able to provide that information immediately. It is more efficient and provides better service.

His own website provides information on his insurance agency, Slocum Realty, and Consulting Services. There is a map and directions on how to find the agency, along with hyperlinks to specific industry information.

While making information about the agency available to customers and business partners is important, Slocum also recommended using the Internet for internal agency directories, calendars, memos, manuals and e-mails -- as an Intranet. He uses Intranet Essentials (www.intranetessentials.com), a free Intranet tool on the Internet that allows agency members and staff to share information easily by posting or e-mail. A calendar allows tracking and provides reminders for staff and agency members of meetings. I

An Intranet also allows an agency to make documents available to all agency members and staff. "We have uploaded the policies and procedures manual for the agency," he observed, "but an agency can put any sort of document up there."

Insurance Times: States Rejecting Curbs On Aftermarket Auto Parts
May 23, 2000, Vol. XIX No. 11

Fewer states weighed bills
this year than in past: NAII

Despite the fallout from the State Farm class action lawsuit, fewer bills to limit or ban the use of competitive auto replacement parts were introduced in state legislatures this year and none of those bills have been enacted.
"When the State Farm verdict was handed down in October 1999, we thought the issue would be radioactive in the 2000 state legislative sessions," said Robert Hurns, associate counsel for the National Association of Independent Insurers (NAII).

Negative Media
"Body shop organizations and original equipment manufacturers (OEMs) jumped on the State Farm bandwagon and tried to generate negative media coverage of the competitive parts issue across the country. However, only 16 state legislatures considered bills to restrict the use of generic parts in 2000, compared to 23 states in 1999. More important, half of those bills have already been defeated and time is running out for the remaining proposals," said Hurns.
Bills that would restrict the use of competitive parts died this session in seven states including New Hampshire,
Similar legislation is still alive in California, Massachusetts, Missouri, New Jersey, New York, North Carolina, Pennsylvania, and Rhode Island.
"The bottom line is that state legislators are reluctant to support bills that would create a monopoly for any business," said Hurns.
In spite of these victories, however, Hurns expressed concern that the threat of litigation has caused several large insurers to stop using competitive parts ñ a trend that will ultimately affect pricing. For example, in the first month after State Farm stopped using competitive parts, the company's actual repair costs were $4 million more than anticipated.
"These legislative victories have to be coupled with laws that curb the abuse of class action lawsuits," said Hurns. "

Insurance Times: Risk Managers Cite Internet, Rising Costs And Mergers As Top Concerns: Liberty Mutual Survey Finds Focus On Disaster Planning
May 23, 2000, Vol. XIX No. 11

A survey of risk managers by the Liberty Mutual Group reveals that virtually all risk managers use the Internet in their jobs.
Interestingly, one quarter of respondents reported that they spend more than five hours a week online.
The survey also found that risk managers have a strong focus on disaster preparation and protection of global operations.
These are some of the findings of Liberty Mutual's fifth annual Risk Management Survey, released at the recent 2000 Risk and Insurance Management Society Conference in San Francisco.

In conducting its survey, Liberty Mutual asked 200 risk managers for their opinions on these topics as well as the major issues they face today and will continue to face in the future. The respondents represent a variety of industries and business sizes.
Asked to name the single biggest issue they will face in 2000, risk managers replied:
  the changing insurance marketplace including the cost of insurance, and insurance company mergers and acquisitions;
  workers compensation cost containment;
  claims/claims management; and,
  e-commerce, including the Internet and risk management information systems.
Asked to cite what they expect to be their top risk management issues during the next two years, respondents said:
  their corporate growth and associated risk management challenges;
  the changing insurance marketplace including the cost of insurance, and insurance company mergers and acquisitions;
  workers compensation cost containment; and,
  e-commerce, including the Internet and risk management information systems.
The findings were presented at the conference by John F. Ryan, Liberty Mutual's vice president of commercial marketing. According to Mr. Ryan, "The issues raised underscore the need for a strong focus on technology to help inform, service and control risk management programs. With so much changing in the marketplace, technology is a strong tool to build effective risk management programs."

Internet Use
According to the survey, 98 percent of risk managers said they have used the Internet in the past year for their job. Research is the primary function used during the renewal process on the Internet by risk managers, followed by communication with their broker and insurer, and claims handling.
Four-out-of-five risk managers also said they spend at least two hours a week on the Internet, and 25 percent reported that they spend more than five hours a week online. Eighty-three percent of risk managers cited using the Internet to gather risk management information, up nine percent from 1999. Seventy-five percent said they obtain regulatory information using the Internet, up 17 percent from 1999, and 73 percent of respondents research product and service information over the Internet, up 16 percent from 1999. Sixty-five percent of risk managers also said they research safety information on the Internet.
Of those respondents who renewed their insurance programs recently, 16 percent said they used the Internet as part of the renewal process. Going forward, 27 percent of risk managers said they will use the Internet as part of the renewal process.
According to the survey results, more than twice as many risk managers receive certificates of insurance online today versus last year. In addition to receiving certificates over the Internet, 56 percent respondents said they can review claim status online.
In terms of information transfer with their carrier or third-party administrators, half of the risk managers said they receive loss information online. Thirty-eight percent of risk managers reported that they receive notification of reserve changes over the Internet, while 32 percent of respondents said they use the Internet for filing a claim.
The survey results show that risk managers from companies with 5,000 employees or more use the Internet for information transfer to a greater

extent than risk managers from smaller companies.
In the future, half of the respondents said they would like to file claims online. Also, two out of three risk managers would like to receive certificates of insurance electronically. Interest in filing claims and receiving certificates online is strongest among risk managers from companies with 5,000 employees or more.

Disaster Recovery Planning
Liberty Mutual's survey also asked risk managers about their disaster recovery planning. According to the results, 84 percent of respondents regularly identify operational hazards and risks that could have a catastrophic impact on operations. Eighty-nine percent of respondents said they have a disaster recovery plan in the event of a catastrophe. In addition, more than half of the respondents (57 percent) have quantified the dollar impact that a catastrophic event would have on the company's bottom line.

Insurance Times: Cross Marketing: Today's Urgency

May 23, 2000, Vol. XIX No. 11

by Dave Goodwin
President
Dave Goodwin & Associates

There's no doubt any more: Today's property/ casualty agency is no longer in just the P/C business. It's a segment of the financial services industry. Insurance is no longer a free-standing product or service; it's part of a professional package. CPAs are selling insurance. So are stockbrokers, publishers, department stores, gas companies, and, of course, banks.
This could all be seen coming years ago. But now there's more. Insurance buyers can go to computers to learn as much as they want about the major insurance lines-and with little trouble, apply for coverage and pay electronically.
Three things, though, are still missing from all these new marketing sources. These three things are what distinguishes professional independent agents from the rest:

1. Expertise and professionalism. OK, we don't have a lock on these. The others may also get people with those qualities.

2. Personalized interest and service. These, too, are not exclusively ours, but independent agents are more likely to deliver these qualities.

3. Development of cross-marketing potential. In this area, you-the agency agent-can be the winner, hands down. No computer and no other insurance marketers (or marketers who also handle insurance) can match the agent who is tuned to the potential for cross-selling. Or can do it more professionally.

VAST POTENTIAL
Cross-marketing is not a casual matter, and should not be treated as

one. The implications are crucial: profits, client retention, producer retention, carrier retention-agency survival. To some, "cross-marketing" means selling another P/C policy to existing insureds. To others, it's broader: selling life, health, benefits. To still others, it may mean getting into risk management, premium financing, or other profit centers.

All these and many more are legitimate functions of the P/C agency. But consider the total picture. Even as the insurance buyer has changed-getting smarter, becoming better attuned to alternatives, and expecting more service-so too have carriers changed. Companies are more demanding, less generous, and more inclined to compete with their own agents. They may have pressing reasons for these changes, but that's almost irrelevant. The changes are here, and more are coming.

MOMENT OF DECISION

Each agency must decide, on the highest management level, whether its goal is to be a hub or a spoke. Hubs recognize that the most valuable part of a book of P/C business is not the profit it will generate but its cross-marketing potential. A commitment to selling life insurance can double the agency's bottom line, just for openers. Annuities, long-term care, critical illness, and charitable-contribution programs are just a few of the programs that can fatten even the usual run of life products.

On the two-legged base of P/C and life, related lines can be added one by one to build a rounded house of services. Real estate, mortgages, travel, and loss prevention can all come together, each service providing leads to the others in the family. This is not theory; many agencies are doing so.

Although the P/C book produces a smaller percentage of the much larger revenue, its principals control the P/C and overall operations. Being the spoke, on the other hand, puts control in the hands of non-P/C people. About a decade ago, for example, three life producers decided to buy a P/C agency simply to use its Life leads. It worked so well that they expanded into mortgage banking, then stock brokerage, and then other financial services. These life agents recognized what many P/C principals don't see: the cross-marketing potentials in a P/C book.

THE CROSSROADS

The P/C agency has three choices:

1. Keep the status quo
2. Become a hub
3. Become a spoke

Cross-marketing is essential to each. Agency management should-must-make a firm commitment to chart a cross-marketing course-and do so now. Without going into more reasons for doing so, let's look at just a few ways to go at it.

1. Commit to a full-time, professional, in-house life/benefits producer.

2. Establish a lead system for the producer. Just being there with a P/C agency is not enough.

3. Take advantage of what's new, good, and salable in related fields. For example:

Annuities. Annuities aren't dull back-page-of-the-rate book products any more. They provide half the income of life companies. Your insureds are buying lots of them. Ask each insured, "When does your next CD mature? Would you like to see a great alternative?" Your life producer should do well with such leads.

Critical Illness Survivor. This new product has many attractive features and is ideal for professionals, executives, mom-and-pop businesses, and mid- and high-income markets.

4. PUP - Pick Up Policies. You do this routinely in P/C. Extend the same professionalism to life. No one in the world is better positioned than you to pick up life policies from your insureds. Do it! Almost without exception, reviewing existing Life programs leads to business and referrals.

5. Use mail and mail stuffers with response cards. Nearly every piece of outgoing mail should carry a compact cross-marketing message or question.

6. Participate in seminars. Sponsor your own or share with others. Some examples:

Travel. "How insurance savings may pay for your trip to Exoticland."

Reverse Mortgages. "How you can put lots of money in your pocket and never pay it back-and here are some important policies you can buy with just a little of the money." (One possibility: a life policy to cover the mortgage so that the home can be given to a relative, friend, or charity.) If you don't know enough about travel or mortgages to discuss them, bring in an expert. In fact, most people don't know enough about reverse mortgages, critical illness survivor, long-term care, or annuities-so straightforward presentations will be beneficial to them, to your associated specialist, and to you.

Banks, of course, may represent another big category of cross-marketing potential, and you needn't be acquired by a bank to work with them. But that's a big subject for another article!

SUMMARY

Cross-marketing in insurance remains virtually untouched, and its potential is as unlimited as the principals' creativity. But to ignore its potential is, in effect, to invite competitors to sell to your client base and eventually to own it. Many product lines and marketing methods are available. Agency commitment and professional execution are the essential ingredients to a successful cross-marketing program.

Goodwin specializes in consulting on marketing and cross-marketing of life, benefits and financial services products by property/casualty agencies. Goodwin can be reached at Dave Goodwin & Associates, P.O. Drawer 54-6661, Surfside, FL 33154-0661. Phone: (305) 993-1800 or (800) 622-0576; fax: (305) 861-3696; e-mail: dsgoodwin@juno.com.

Insurance Times: SBLI Of Mass. Maintains Top Sales Position

May 23, 2000, Vol. XIX No. 11

The Savings Bank Life Insurance Co. of Massachusetts (SBLI) has maintained its ranking as the number one writer of ordinary life insurance in force in Massachusetts as a result of achieving record sales for the fourth consecutive year.

In 1999, SBLI's premium income from ordinary life, the company's core product, increased 10 percent to $112.7 million. Total revenues grew to $222.2 million in 1999, up from $208.4 million in 1998. First-year premiums associated with new business grew by 20 percent over 1998. Total assets reached $1.26 billion.
SBLI issued 9.3 percent more ordinary life policies in 1999 than the previous year, with a record face amount of $4.7 billion, increasing the total insurance-in-force to $26.1 billion at year's end. SBLI insurance is offered through 170 Massachusetts financial institutions, through independent agents affiliated with Plymouth Rock Assurance Corp. and by telephone through the home office sales staff. It is also available in New Hampshire, Maine and Rhode Island.p

Limra offers recruiting and retention technologies
Limra International and Wonderlic, Inc., a leading provider of employment solutions, have entered into a partnership offering innovative recruiting, assessment, and retention services to LIMRA members. According to the announcement, the following products, designed to maximize the results and cost-effectiveness of employee recruiting and retention efforts, are now available for use in the United States, Canada, and the Caribbean:
  PhonApp(r) Automated Telephone Application Service
  WebApp(tm) Automated Internet Application Survey
  Wonderlic Employee Opinion Survey(tm) (telephone and Internet)
  Wonderlic Exit Interview (telephone and Internet)
  Hire Learning Interviewer Training and Certification
"With unemployment reaching all-time lows our members are finding it increasingly difficult to attract and retain talent. Wonderlic technologies make it significantly easier and more convenient for job candidates to apply for jobs and for employees to provide critical ongoing feedback," said Steve Brown, vice president and director, Limra Assessment Solutions.
PhonApp and WebApp provide a fast and easy way for job seekers to apply for your open positions at their convenience - 24 hours a day, seven days a week. The Wonderlic Employee Opinion Survey and Wonderlic Exit Interview help you reduce turnover and increase productivity by gauging employee attitudes on important topics such as supervision, compensation, job attitudes, and career opportunities. The Hire Learning self-study program gives your recruiters and managers the information and advice they need to comply with laws and regulations governing the hiring process, such as the Civil Rights Act, the Americans with Disabilities Act, and the Age Discrimination in Employment Act.
Contact Limra at selection@limra.com.

American Skandia tops in variable life sales
American Skandia, Inc. was number one in total variable annuity sales for the first quarter of 2000, according to two leading industry trackers, The Variable Annuity Research and Data Service (VARDS) and Tillinghast's Value Survey.
This marks the first time that American Skandia, Inc. -- which started distributing variable annuities 11 years ago -- has been ranked number one in gross sales in the industry for a quarter period.
American Skandia marked total variable annuity sales of $2.679 billion in the first quarter of 2000, topping The Hartford by more than $76 million and TIAA-CREFF by $127 million. This was an increase of 45 percent over the fourth quarter of 1999 and 89 percent over the same period last year.

American Skandia's variable annuity portfolios now total 48 sub-accounts covering 25 distinct asset classes, all managed by among the best known names in money management including Scudder Kemper Investments, Inc., Janus, Alliance Capital Management, LP, Marsico Capital Management, LLC and T. Rowe Price Associates, Inc.

Hancock's Signator offers fee-based planning

Signator Investors, Inc. has introduced a new proprietary financial planning program, Financial Perspectives, that allows its advisers to charge for creating comprehensive financial plans. The new program, contracted through KPMG LLP's Acumen Group enhances Signator's extensive fee-based advisory capabilities. Signator, with more than 4,000 registered representatives, is a registered broker/dealer and investment adviser an affiliate of John Hancock Financial Services, Inc.

Th firm's advisory platform offers advisers access to an array of fee-based programs, ranging from mutual fund wraps, separate account wraps and private money manager services to unbundled tools for individual asset management.

Insurance Times: Baby Boomers' Underestimate Risk Of Nursing Home: ACLI Predicts Less Family Caregiving Support In Future

May 23, 2000, Vol. XIX No. 11

A new study by the American Council of Life Insurers (ACLI) finds that the chances they'll end their lives in a nursing home are far higher than most Baby Boomers imagine - and that middle income families are at the greatest risk.

"Middle income Baby Boomers will find that to successfully age 'in place' - that is, in their homes or in the home-like setting of an assisted living facility - they will have to use their retirement savings to pay for increasingly expensive long-term care services," says Barbara Stucki, Ph.D., primary author of the ACLI study, " Can Aging Baby Boomers Avoid the Nursing Home?"

"Without private long-term care insurance, many will face potentially catastrophic costs that could lead to impoverishment and the need to use Medicaid-funded nursing home care," Stucki ads.

ACLI's new study projects that the costs of long-term care services will more than quadruple by 2030:

Adult day care, which currently costs an average of $50 per day (or $12,981 per year), will increase to $220 per day (or $56,100 per year);

Assistance by a home health aide, which now costs $61 per visit (or $15,743 per year at five visits per week), will cost $260 per visit (or $68,000 per year);

Staying in an assisted living facility, which currently averages $25,300 per year, will cost $109,300 per year, and

Nursing home care, which now averages $44,100 per year, will cost $190,600 per year.

The report projects that by 2030, total national expenditures for home- and community-based long-term care will more than quadruple, from $41 billion today to $193 billion.

ACLI's companion study, "Who Will Pay for the Baby Boomers' Long-Term Care Needs?" projects that total national expenditures for nursing home care could reach $330 billion - equal to today's entire Social Security

budget.
These findings "illustrate the importance of taking personal responsibility for your financial future and for your future long-term care needs," Stucki said.
"We found that about half of long-term care policyholders currently receiving benefits report they would have to move to a nursing home without their insurance benefits. And more than 70 percent report that their long-term care insurance policy pays all of the costs of the services they need. And that goes a long way toward reducing the financial and emotional burden on family caregivers."

Fewer Kids, Less Support
Significantly, the new ACLI study found that when they retire, Boomers will have less family caregiving support to rely on. They typically have had fewer children than previous generations and one in five Boomer women have no children at all. High divorce rates among Boomers are likely to take a toll as well, because divorced parents are less likely to receive caregiving assistance from their adult children than widowed parents.
"Without adequate family support, older Americans' need for paid long-term care services increases the risk that they will impoverish themselves while living in the community," Stucki said. "Those costs can be prohibitive. When they run out of funds, middle income elders must turn to government programs, which primarily provide institutional nursing home care. A long-term care insurance policy can help ensure those caregiving costs don't deprive you of the ability to decide where and how you will live your final years.
"Because government programs are biased toward nursing home care, if you rely on government help, the nursing home is where you're likely to end up," Stucki said. "That's ironic, given that one government study says half of the people in nursing homes don't need that kind of intensive care, and could have maintained their independence if they received long-term care services at home."
While the financial benefits to individual policyholders are obvious, the benefits to government - and future taxpayers - of wider purchase of private long-term care insurance are substantial, the new ACLI study shows. Medicaid's annual nursing home expenditures are projected to skyrocket from today's $29 billion to $134 billion by 2030 - an increase of 360 percent. ACLI's research indicates that by paying policyholders' nursing home costs - and by keeping policyholders out of nursing homes by paying for home- and community-based services, private long-term care insurance could reduce Medicaid's institutional care expenditures by $40 billion a year, or about 30 percent.

Tax Revenues
In addition, the ACLI study found that wider purchase of long-term care insurance could increase general tax revenues by $8 billion per year, because of the number of family caregivers who would remain at work. Today, 31 percent of caregivers quit work to care for an older person; nearly two-thirds have to cut back their work schedules; more than a quarter take leaves of absence, and 10 percent turn down promotions because of their caregiving responsibilities. It costs the typical working caregiver about $109 per day in lost wages and health benefits to provide full-time care at home - which is almost as much as the cost of nursing home care.
"When the youngest Boomers reach age 65 in 2030, the nation's elderly population will double to 70 million and the number of severely impaired

elders at risk of needing nursing home care could double to six million," Stucki said. "Because Baby Boomers are expected to live longer than any preceding generation, the likelihood that they will need nursing home and other long-term care services will only increase. The duration of those impairments is also likely to increase as life expectancy rises, as will the risk of outliving one's retirement assets.
"At greatest risk for nursing home placement will be middle income elders unable to afford long-term care services that promote aging in place - that is, in the home or the community," Stucki said. "Aging Baby Boomers who plan ahead for their long-term care needs can potentially postpone or avoid institutionalization. Private long-term care insurance can ensure choice, dignity and security for middle income Americans who want to age in place."

Insurance Times: Firms Get More Time To Comply With New Federal Privacy Rules

May 23, 2000, Vol. XIX No. 11

WASHINGTON (AP) - Federal regulators are giving the nation's banks and other financial services an eight-month reprieve before they have to comply with new rules designed to protect consumers' personal data.
The rules were mandated by sweeping legislation enacted last November that removed Depression-era barriers and allowed banks, securities firms and insurance companies to enter each other's businesses. Published in preliminary form several months ago, they brought a deluge of written comments from affected industries and companies, which said it would be difficult to comply by the November deadline for final rules.
The agencies, including the Federal Reserve, the Treasury Department and the Federal Trade Commission, now have decided to put the regulations in effect in November but make compliance with them voluntary until July 2001, an agency source confirmed Friday. The source spoke on condition of anonymity.
News of the planned delay brought an angry response from an aide to Rep. Edward Markey, D-Mass., who has been active in consumer privacy issues.
``This is an outrage,'' the aide, Jeff Duncan, said in a telephone interview. ``There is no reason why consumers should not get the right to have notice of their financial institutions' policies and practices by November. We see no justification for a delay.''
Ed Mierzwinski, consumer program director for Public Interest Research Group, said the financial industries had won a delay ``from something they knew they would have to do and which is easy to do.''
Under the legislation, the agencies must issue final rules by next Friday to take effect in November.
The new rules give consumers the right, by written request, to stop banks, investment firms and insurers from sharing their personal data with third parties, such as telemarketers. They also apply to a panoply of ``money'' businesses including consumer finance companies, department stores that issue credit cards, money transmitters and money-order businesses, debt collection agencies and credit bureaus.
The banking, brokerage and insurance industries last year had accepted the privacy restrictions because they wanted authorization to expand their activities. But in a score of comment letters in recent months, they complained that it would be difficult for businesses to comply

promptly because of changes they will have to make in their operations.
An extension of the November deadline ``was at the top of our list,'' said Fritz Elmendorf, a spokesman for the Consumer Bankers Association, an industry group. ``There are some real issues that the regulators apparently are appreciating.''

Insurance Times: 40 Years After Sealing, National Life Opens Vermont Time Capsule

May 23, 2000, Vol. XIX No. 11

by Mike Eckel
Associated Press

MONTPELIER - Had the late George D. Aiken been a prophet rather than an influential U.S. senator from Vermont, he probably would have been out of a job.
But he wouldn't have been alone in the prophet unemployment line.
The predictions of Aiken, then-Gov. Robert T. Stafford and Deane C. Davis were revealed May 12, as officials at National Life Insurance Co. opened a time capsule buried in its Montpelier headquarters upon its dedication in 1960.

Newspapers and TV Tapes
Also sealed up 40 years ago in the hip-high copper cylinder were microfilm copies of the state's newspapers, audio tapes from radio stations and a news reel from the state's then only television station, WCAX-TV in Burlington.
National Life President Thomas MacLeay said the capsule was intended to be opened on the occasion of the company's 150th anniversary, this year.
Individualized, personal air transport, a cure for cancer and arthritis, and a Vermont population of 1.5 million and a national population of 400 million were among the predictions Aiken made in 1960 for the year 2000.
``He really was always an optimist,'' said Lola Aiken, the widow of the senator, who died in 1984.
Then-Gov. Stafford predicted Vermont would become the vacation capital of the country by 2000, and that new industries would come into the state. He also predicted Vermont's population to exceed 500,000 people. (At last count, the population was over 590,000 people.)
``All in all, I look forward to the year 2000 as a milestone of the social, moral and economic growth in Vermont and the United States,'' Stafford wrote.
Deane C. Davis - then president of National Life and still nine years away from being governor - offered his predictions on National Life's financial well-being, which he said would have $25 billion in policies, covering one million customers. The company currently exceeds $36 billion in policies, but covers only 300,000 people.
Gov. Howard Dean offered his own predictions, which will be included in a second time capsule to be sealed this year. He said universal health care, 20-story buildings, a three-quarters of a million population with 15 percent made up of minorities would all appear by 2050, and an economic boom driven by new home building would bring more prosperity to Newport and the Northeast Kingdom.

Gov. Dean

``I felt I could be quite specific in my predictions, knowing I won't have to be accountable for them,'' said Dean, who also predicted he wouldn't be around in 2050 to witness the opening of the second capsule.
George Aiken also sounded a somber note in making his 1960 predictions.
``Man has not learned to govern himself very well as yet,'' Aiken wrote.
``Avarice, fear, suspicion still exert powerful influences upon government.
``Spiritually, we have made little perceptible gain during the past 40 years,'' said Aiken, writing as if he were looking back from 2000. ``For this reason I am greatly disturbed about our future; but hope that someday - some way - we may find the key to progress in this direction.''

Insurance Times: IIAA's Hofmann Stresses Need For Incremental Premium Hikes
May 23, 2000, Vol. XIX No. 11

by Mark Hollmer
InsuranceTimes

It was May 5, 10:30 a.m. at Ken's Steak House in Framingham, Mass., and William F. Hofmann III was nowhere to be found.
Members of the 1752 Club -- a regional association of insurance-company field representatives -- were counting on him to be their main speaker.
But Hofmann , a Belmont agent and the incoming president of the Independent Insurance Agents of America, was late.
Hofmann finally rushed in around 12:15 p.m., and apologetically explained what took him so long.
"I sold a half-million-dollar whole life policy this morning."

Successful Ways
Hofmann used the example to launch into his speech about ways that independent insurance agents can continue to be successful in a rapidly changing business world.
"Too many of us are fat, dumb and happy," he said. "We forget we need to remind people what we do for them."
He covered a broad range of issues. Among them:
Competition in the face of financial-services reform law passed last year. "You and I know how many agencies have been bought in the state (by banks) by now don't let people be fooled into thinking banks aren't going to be competitors. They're going for the same fee for service."
Using the Web for business. Hofmann said the IIAA is trying to get every agent wired. He also said one unified computer system is needed to help promote and sell insurance products - similar to the airline industry. "We're got to get at people just like the airline system," he said. "E-commerce is absolutely critical the day is going to come that even the small companies aren't going to be able to afford to do business with anyone who isn't wired."

Branding
Branding. "We need to create a brand that says independent agents bring you value," he said. Branding, Hofmann said, will also help agents

compete with banks.
Hofmann reminded his audience that the IIAA is taking that notion of competition through branding one step further, with its planned creation of InsurBanc, a full-service bank that will make it "so agents don't have to sell out to banks."
Premium increases. Hofmann said insurers should keep their increases to a reasonable level because price jumps in an era of increased competition could hurt them. "Don't get 20 percent in one year. Do it a little bit at a time," he said. "Let's get premiums from the risks we need, but be cognizant that we're going to drive good business off the books if we're not reasonable about it."
Mergers. Hofmann says trade associations for independent insurance agents should merge nationally, in order to consolidate and expand their governmental lobbying power. "We need professional agents' associations to work together collectively," he said.
Trade association membership. Hofmann wants more independent agents to join them to give the industry a larger voice. "Trade associations are extremely important," he said. "It troubles me a lot of agents don't belong to them."
Diversity among insurance agents. "We need to get more Asian-Americans, Latin Americans and African Americans," Hofmann said. "We need agents to reflect the populations they serve."

Insurance Times: Virtual Insurance Agency: The Next Generation of Insurance Agencies

May 23, 2000, Vol. XIX No. 11

by Al Diamond
President
Agency Consulting Group

No one needs to be told that the insurance agency business has changed in the last 10 years. Chances are very good that every reader knows at least one independent agent who has "packed it in" and retired, merged or sold due to the ever-increasing business pressures applied to small and medium sized agencies.

CLUSTERS
Fifteen years ago Agency Consulting Group initiated its first Cluster Group. The concept was right for small agents whose main goal was to consolidate for better (and more) markets. We have assisted in the creation of many more clusters during the past fifteen years and we noticed an interesting trend. Either the agent/owners segmented the cluster's administrative and management workload efficiently or they spent much of their productive time arguing over how the Cluster was supposed to operate. Many of the successful clusters eventually merged into single entities to enjoy all of the benefits of a larger firm.

On the other hand, most of the Clusters in which owners managed by committee either disbanded or are still limping along without great success. And our research reflected another strange trend. The growth of the individual agencies within the clusters studied did not change radically from their historic growth prior to the cluster. This tells us that the benefit of better and more markets did not substantially improve the cluster members abilities to generate more business. Something else was getting in the way.

Eighteen months ago we began gathering data regarding the cause of this problem. The goal of every cluster was to provide improved growth potential for the members. The historical performance of the clusters, however, indicated that the owners, already bogged down in administrative and management tasks, were simply adding more of the same problems in the administration of the cluster.

Complicating this issue were carriers' ever increasing premium demands that were not supportable by the clusters because each agent directed the marketing of his own business.

Finally, as the never-ending soft market continues, rates remain depressed, commissions and contingencies have been reduced and internal costs continue to rise. These issues were the ingredients that resulted in an acceleration of agency mergers, sales and (early) agent retirement. It simply isn't "fun" anymore.

Our research also uncovered a very constructive frustration among many agents interviewed. They still want to sell insurance, but cannot break away from the other duties of ownership. They also feel that they do not have enough leverage with their carriers to compete on accounts (because they do not have large premium volumes with the carriers) even though many agents remain very profitable for the companies. The frustration level is constructive because it means these agents have not given up. Those agents selling their businesses have simply given up on the industry.

THE PROBLEM

The results of our research are as follows -- many of these results are self-evident:

1. Independent agents don't spend enough time actually marketing and selling insurance. During the last ten years, the agents feel that their administrative and management time (including marketing and underwriting issues with carriers) has increased by 50%.

2. Agents feel that they can not provide the growth required by the carriers in their office -- but they also feel they don't have enough carriers to provide the right products to their customer base.

3. A general feeling exists that the carriers have transferred much time consuming processing effort to the agent to lower the carrier's costs. Automation seems to have become an expensive way to handle even more work than before. It was supposed to relieve the agents of administrative burdens to permit more efficient sales and marketing efforts.

4. Marketing competitively to various carriers is becoming more difficult, expensive and time consuming -- both for the agents and for the companies. Our questions to agents and companies alike points to marketing redundancy as a major time user for the agents (often done by the producer, himself) and a major cost for the carriers (who have to quote 10-20 accounts to close one).

5. A vast majority of independent insurance agents have never received training in the art of SALES. The concentration on price simply reflects the fact that most agents have little else to sell when products are similar.

6. The decline of the independent agency system appears to be a "Self-Fulfilling Prophecy." We are no longer seeing large numbers of younger people entering agencies with an eye on perpetuation. If we cannot recruit the next generation, we are dooming our own to be the last generation.

7. Many small and medium size agencies are reaching a critical level of profitability. Decreasing commissions and contingencies, combined with low insurance rates and increased operating costs have turned the boom years of the mid-eighties into "bust" years in the mid-nineties. A great majority of agencies accept that their values have declined and, when they can no longer make a profit in the business, they will have to merge or sell.

THE CONCLUSIONS

When we mixed all of the ingredients identified as parts of "The Problem" in the industry, a set of criteria arose as the most logical to permit the insurance agency industry to survive and even to thrive -- by changing its form and paradigms according to the changed insurance economy.

First, we recognized that the major strength of the insurance agency system were its knowledgeable (and head-strong) insurance agency owners. They are true entrepreneurs, willing to take risks, but desiring an appropriate reward for their efforts. Whatever the answer, the agents must be permitted to remain independent in the operation of their businesses. They must be able to take the responsibility and the rewards for their efforts.

Second, the insurance companies have put the handwriting on the wall -- the agency system will either become a true, efficient sales arm -- or it will be replaced. The carriers do not have to say it -- they demonstrate this intention with their actions. BUT WHAT'S WRONG WITH THAT?? It obviously works for the direct writers -- they've been "eating our cake" for 30 years! The carriers are simply trying to protect themselves against further erosion.

Third, while insurance agents have, for two hundred years, been technically trained, they have only sporadically and casually adopted true sales and marketing training. Agents must learn the modern, efficient ways of marketing themselves and must be taught sales skills. The best agents have always been the natural salespeople. However, sales is a learned skill and that skill can be taught (and managed) in a standardized, disciplined fashion. This will tilt the "playing field" back toward the independent agents because they still have the edge over the competition in product knowledge.

Fourth, we must recruit, train and manage our successors. The agency business can be a profitable and satisfying career, but we must convince our children and other talented youngsters to join our ranks.

Finally, we cannot continue to expend the same amounts in the operation of our insurance agencies and expect to earn a profit from the business. We must find economies of scale.

THE ANSWER --
THE VIRTUAL INSURANCE AGENCY (VIA)
The VIA is, in fact, a merger of many small and medium sized independent agencies into one large and professionally managed corporation. The owners of the originating agencies will become the owners of the VIA. No agency will control the VIA. The VIA owners will vote for a Board of Directors who will oversee the strategic development of the company. Professionals will be hired to manage the operation. Each owner will fully control his/her own Profit Center (formerly his/her agency) and will continue to operate it under the same trade name and in the manner that is most comfortable to that owner/Profit Center Manager.
The initial function of the VIA will be to analyze the VIA's marketplace through its marketing research efforts (already in place) and create marketing plans for each market segment chosen for penetration. The goal of the VIA is to penetrate 100% of the selected market segments in the VIA's geographic area.
Since the VIA will bring many agents into one corporation, it will have the clout of between $50 and $100 Million of premiums from day one. The VIA will "Partner" with the carriers who desire to pursue the VIA's marketplace and will commit substantial premium levels to each carrier each year. In return, the carriers will be asked to provide competitive products and rates. The primary change in commitment in both directions will be written commitments with rewards (and penalties) if the production is not generated by the VIA -OR- if the carrier does not accept a high proportion of the submissions that meet the carrier's underwriting criteria. In other words, both the VIA and the carriers will stop "spinning their wheels." Since the VIA will be the centralized marketing arm, it will assure the carriers of completed submissions that adhere to their underwriting guidelines.
Besides the market analysis and market plan responsibilities of the VIA, it will offer sales training to all members to teach insurance experts how to sell against the competition.
One key VIA difference from clusters is the centralized, professional, general management of the company. As in any other corporation, the VIA will be directed by an elected Board. However, the operations of the company will be the responsibility of a Chief Operating Officer and dedicated professionals who are not part of the VIA's component agencies. The profit centers will be responsible for sales and service. The VIA will be responsible for marketing, finance, automation and administrative activities. However, each VIA will be somewhat different because the centralized functions of the VIA will be decided by its owners and is expected to change as the corporation matures.
The size of the VIA will permit it to accomplish many tasks that the originating agencies were never able to afford as small businesses. Active recruitment and sales training are examples. Each VIA will determine a success level for new producers that will permit them to purchase stock in the corporation. Since only stockholders will be permitted to assume control of Profit Centers, this will be a driving force for young professionals. Once owners, they will be eligible to assume management of Profit Centers as the Profit Center managers retire (sell their stock). While this promotion does not guarantee the new owners more stock, it will certainly develop more personal income, thereby making further stock purchases more easily achieved.
Dedicated systems management will replace agency owners and producers

who have had to learn and manage complex computer systems (taking more time away from the sales efforts that pay the bills). Each VIA will, eventually, centralize the acquisition, training, auditing and management of automated systems.

IN CONCLUSION

The handwriting is on the wall! Change or disappear. The VIA is an alternative to selling or merging an agency. But it is not for everyone. Many agents have explained that they have had good careers and would rather sell their agencies and retire than change. Once the VIA's have become operational around the country they will be ready buyers of agencies whose owners do not want to become Profit Center Managers. Other agents have realized that their skills are in administration and management. The VIA is probably not for them. The insurance agency industry is driven from two directions, its suppliers and its customers. Its customers want knowledgeable, efficient agents (and carriers) with fair prices and good products. Its suppliers want a sales arm who can select risks that will not harm the carrier's loss ratio. Agents will soon find that they can not "manage" or "administer" growth -- they must SELL INSURANCE (and retain the customers) in order to grow and profit. Hopefully, many of the agents comfortable in administration and management will re-learn the sales skills that made them (or their predecessors) successful in the first place. p

Diamond is president of Agency Consulting Group which offers agency consulting in strategic and tactical planning, organizational development, mergers & acquisitions, sales and marketing, program development, dispute resolution and compensation plans. He can be reached at 800 779-2430; e-mail:m ACG@mail.com and at www.agencyconsulting.com.
ACG is a member of the American Association of Insurance Management Consultants, the American Arbitration Association and the Quality Insurance Congress.

Insurance Times: Spiro elected IIAANY president; Liberty Mutual's Kelly chairs Alliance of American Insurers; Samoluk returns to Allied American; Witschen joins CyberComp

May 23, 2000, Vol. XIX No. 11

IIAANY

The Independent Insurance Agents Association of New York (IIAANY) has elected officers and installed seven new district directors for the 2000-2001 term.
Steven J. Spiro, president of Spiro Risk Management in Valley Stream, has been elected president.
Other officers elected include President-Elect Patrick C. Moore, of Antalek & Moore in Hopewell Junction and Treasurer John R. Costello, vice president of Costello, Dreher, Kaiser & Associates in Rochester. Edward J. Higgins, Jr. was reelected as state national director, while Paul W. Babbitt, of Niagra National Inc. in Buffalo, will serve as immediate past president.
Mark J. Hagan, of Perry & Carroll in Elmira, was elected regional vice president of IIAANY's West-Central region. Hagan joins IIAANY's regional

vice presidents David R. Bauer, of Robert F. Bauer Agency in Albany, and Maura T. Clancy, of Clancy & Clancy Brokerage in Garden City. Bauer represents the East-North region, while Clancy represents the Metropolitan-Suburban region.

The newly-elected district directors are Steve Rosenberg, of Barry Rosenberg Inc. in Nanuet; Robert C. Taber, of Taber & Taber, Inc. in Jamestown; William C. Oliver, of The Partners, Ellis-Edson-Beaudry-Barrett & Chubb, Inc. in Vestal; Nicholas V. Scarafile, of Day & Scarafile Associates Inc, in Ilion; Sharon Emek, of Metro Partners in New York City; and Marcia J. Bierce, of Rose & Kiernan in Plattsburgh.

Also, Aaron F. Fuller, of Fuller Insurance Agency in Carthage, was elected to fill a mid-term vacancy as a district director.

At its recent annual meeting in New York City, the Independent Insurance Agents Association of New York, Inc. honored a select group for their commitment and contributions to the association during the past year.

Aurelius J. Licata, owner of Licata Management Corp. in Suffern, received the Community Service Award for his professional and civic efforts on behalf of IIAANY.

The Independent Insurance Agents of Westchester County, Inc. received the Charlie Award for its public relations activities.

Peter M. Stevens, president of Edmund D. Stevens, Inc. in Buffalo, received the Outstanding Local Association President Award for heading the IIA of Western New York.

Alliance of American Insurers

Edmund F. Kelly was named chairman of the board of the Alliance of American Insurers at the association's 78th annual meeting recently in Atlanta. Kelly, chairman, president and chief executive officer of Liberty Mutual Insurance Co., Boston, succeeds Thomas W. Crawford, who is president of retail distribution for Prudential Insurance Co. of America, Newark, N.J.

In addition, the Alliance announced that F.W. Purmort III was named chairman-elect. Purmort is chairman and president of Central Insurance Cos., Van Wert, Ohio.

Also, Robert W. Minto Jr. and Richard J. Zick were named vice chairmen of the Alliance board. Minto is president and CEO of Attorneys Liability Protection Society, while Zick is president and chief operating officer of Utica First Insurance Co.

Allied American

George R. Samoluk has rejoined Allied American Insurance Agency, Inc. as a vice president in the Plymouth, Mass. office. In addition to his role as resident manager of the Plymouth office, Samoluk will also be in charge of the company's small business initiative.

Natick-based Allied America is the largest independent agency headquartered in Massachusetts.

AAIS

Michael E. Keyes, president and chief executive officer of Oregon Mutual Ins. Co., McMinnville, Ore., was elected chairman of the American Association of Insurance Services (AAIS) at its recent annual meeting in Arlington, Va. Keyes was vice president and treasurer of Oregon Mutual and its subsidiary, Western Protectors Insurance Co., for 10 years before being named executive vice president in March 1999 and president in November 1999.

Keyes replaces outgoing AAIS chairman Peter R.L. Faber, president of Litchfield Mutual Fire Ins. Co., Litchfield, Conn.

Richard J. Zick, president and chief operating officer of Utica First Insurance Co., Utica, N.Y., was elected vice chairman and Tom Claude, vice president and secretary of Pharmacists Mutual Insurance Co., Algona, Ia., was appointed as a new director.
The other directors staying on as board members are: R. Douglas Haines, president and CEO, Buckeye Insurance Group, Piqua, Ohio; Robert Houlihan, CPCU, vice president of underwriting, Brotherhood Mutual Insurance, Ft. Wayne, Ind.; David L. Lehman, president, Mennonite Mutual Insurance, Orrville, Ohio; Howard C. Stevens, president, Penn Mutual Insurance, West Chester, Pa.; Kenneth Stover, co-president, Western National Insurance Group, Edina, Minn.; and Paul A. Baiocchi, CPCU, president, AAIS.

CyberComp
W. Douglas Witschen has joined CyberComp, the Internet-based workers compensation organization of Reliance Group Holdings, as vice president of workers compensation underwriting at the company's Lawrenceville, N.J. headquarters.
Witschen comes to CyberComp with more than 28 years of experience at Cigna, ACE INA, Continental and Royal Insurance.

Insurance Times: RI CPCU Scholarship

May 23, 2000, Vol. XIX No. 11

Steve E. Deware, right,
president of the Rhode Island Chapter of the Society of Chartered Property Casualty Underwriters, presents a $2,000 scholarship fund donation to Kenneth L. Amylon, president of the chapter's scholarship fund board of directors.

Scholarships are awarded to students who have an immediate family member employed in the state's insurance industry.

Insurance Times: Uniformity In States' E-Signature Laws Urged At AIPSO Meeting In RI

May 23, 2000, Vol. XIX No. 11

PROVIDENCE - Despite studies showing that insurers lag behind other industries in the use of e-commerce, electronic signatures and the need to facilitate their use are topics of increasing importance to the insurance industry, according to a representative of a leading insurance trade association.
"I am here today to tell you that insurers are moving aggressively to integrate the Internet into their marketing and operational strategies. However, regulatory barriers in the form of states that don't recognize e-signatures and lack of uniformity among those that do create uncertainty for insurers seeking to transact business electronically," said Patrick Watts, assistant vice president for the Alliance of American Insurers.
Watts spoke May 3 as part of a panel discussing insurance information

trends at the Auto Insurance Plans Service Office's Annual Leadership Conference in Providence, R.I. His specific topic was electronic signatures and their importance to the insurance industry and consumers. He also reviewed pending legislation related to electronic records and signatures that is aimed at creating uniformity among the states that offers protection to consumers.

By promoting laws like the Uniform Electronic Transactions Act (UETA), the Alliance has been active in assuring that its members and others can conduct electronic business in a secure atmosphere anywhere, both in the U.S. and abroad, Watts said. UETA assures the validity of electronic records and signatures and establishes rules on such matters as when an electronic record is considered sent and received.

Only 11 States Enacted

According to Watts, forms of UETA have been considered in 24 states this year, and enacted in 11.

"Currently, most state laws on electronic records/signatures are inconsistent and raise concerns that a contract entered into through electronic means might be enforceable in one state but not in another," he said. "The Alliance supports UETA-based legislation because it fosters uniformity among state laws, aiding electronic commerce while offering prudent protection for consumers."

Watts added that "continued success of this legislation will bring a higher level of certainty to electronic transactions and encourage insurers and consumers alike to conduct more business electronically," Watts said.

This higher assurance of certainty is particularly important to a service industry.

"Unlike Amazon.com or E-Bay, insurers aren't selling a tangible good like a book or water skis that can be delivered by next-day mail and returned if unsatisfactory," he noted. "Insurers are selling a complicated contract, a promise to protect and indemnify against loss under certain conditions, and consumers need the higher level of comfort secured electronic signatures bring."

Insurance Times: NY Homeowners Market Report: Coverage Available And Affordable

May 23, 2000, Vol. XIX No. 11

NEW YORK - Superintendent Neil D. Levin released the Temporary Panel on Homeowners' Insurance Report, which has concluded that the market for affordable and available homeowners' insurance continues to improve in New York State.

"We are pleased that the report indicates that the homeowners' insurance market is a stable one for New York State consumers," said Levin.

The report specifies that the New York homeowners' insurance market continues to improve as fewer New Yorkers are turning to the New York Property Insurance Underwriting Association (NYPIUA), New York's insurer of last resort. The number of residential insurance policies written by NYPIUA has leveled off and the number of new policies continues to decline. In addition, the Report states that the property/casualty industry is better positioned to withstand catastrophic events than it was during the greater part of the 1990s.

Recommendations from the report include:
Insurers should offer policyholders an option of lower deductible amounts if significant mitigation efforts are undertaken by consumers to help reduce potential losses;
Insurers should offer full and adequate disclosure of deductibles to consumers,
The public should be educated regarding homeowners' coverage both prior to and during the hurricane season; and
A statewide catastrophe insurance fund in New York State is not necessary at this time.
In addition the report noted there continues to be an overabundance of capacity in the reinsurance market, and that additional capacity from the capital markets continues to expand.
In 1996 the Temporary Panel, comprised of members appointed by Governor Pataki and the leadership of the New York State Legislature, was created to study the affordability and availability of homeowners' insurance coverage in the Empire State in response to tightening in this marketplace. This is the fourth consecutive year that the found improving availability of homeowners insurance in coastal communities.

Insurance Times: Guide to Agency NetworksAgency
May 23, 2000, Vol. XIX No. 11

Gencorp Insurance Group, Inc.
16 Main St. East Greenwich, RI 02818
www.gencorp-ins.com
Year started: 1995
1999 premium volume: $80 million
Agencies in Network: 30
States served: New England
Services offered:
Profit Sharing
P&C Markets
L&H Markets
Advertising/Marketing/PR
Agency Planning/Perpetuation
Agency Technology Assistance
Financial/Accounting Services
Legal Services
Human Resources/Recruitment
Education & Training
Description:
Enhancing the entrepreneurial spirit of the independent agent throughout New England by providing access to markets and sales, marketing, underwriting and claims support.

The Iroquois Group
P O Box 806 Olean, NY 14760
www.iroquoisgroup.com
Year started: 1977
1999 premium volume: $2 billion
Agencies in Network: >900
States served: AL, AR, CT, DE, FL, GA, KS, ME, MD, MA, MI, MN, MO, NH,

NY, NC, OH, PA, RI, SC, VT, VA, WV
Services offered:
Profit Sharing
P&C Markets
Advertising/Marketing/PR
Agency Planning/Perpetuation
Agency Technology Assistance
E&O Coverage
Education & Training
Description:
Helps agents build their business by providing direct access to a variety of quality insurance companies. It is a proven, low cost, low risk distribution channel.

SIAA (Strategic Independent Agents Alliance)
P O Box 10129
348 Matthews Rd. Swanzey, NH 03446
www.siaa.net
Year started: 1995
1999 premium volume: $1.1 billion
Agencies in Network: 454
States served: 44
Services offered:
Profit Sharing
P&C Markets
Advertising/Marketing/PR
Agency Planning/Perpetuation
Agency Technology Assistance
Internet/Web Services
Outsourcing
Education & Training
Description:
Dedicated to the creation, retention and growth of the independent agency system. SIAA works through regional agencies, which support their own network of local agencies.

Telamon Insurance Network
154 Wells Ave. Newton, MA 02459
www.telamonins.com
Year started: 1977
1999 premium volume: $40 million
Agencies in Network: 300
States served: Northeast
Services offered:
Profit Sharing
P&C Markets
L&H Markets
Advertising/Marketing/PR
Agency Planning/Perpetuation
Agency Technology Assistance
Internet/Web Services
Financial/Accounting Services
Legal Services
E&O Coverage
Outsourcing
Human Resources/Recruitment
Education & Training

Description:
An open broker network geared to offer smaller to medium sized independent agencies access to preferred, admitted and A-rated carriers.

Insurance Times: Guide to Agency Management Consultants Agency Management
May 23, 2000, Vol. XIX No. 11

Consultants Agency Management Consultants

Agency Consulting Group, Inc.
507 N. Kings Hwy. Cherry Hill, NJ
www.agencyconsulting.com
Al Diamond
Services offered:
Agency Planning/Perpetuation
Mergers & Acquisitions
Financial/Accounting Services
Management Consulting
Sales Consulting
Marketing Consulting
Human Resources/Recruitment
Education & Training
The mission of ACG is to assure growth, profitability, professional development and perpetuation of its clients. Strategic and tactical planning; organizational development; mergers and acquisitions; marketing plans; program development; dispute resolution; compensation programs.

Dave Goodwin & Associates
P O Drawer 54-6661
Surfside, FL 33154-0661
(800) 622-0576
email: dgoodwin@juno.com
Dave Goodwin
Services offered:
Sales Consulting
Education & Training
Marketing and cross-marketing of life, benefits and financial services products, especially through property/casualty agencies. Also appointing GAs for Critical Illness, Life Settlements, Reverse Mortgages and other products.

McBrien Associates
5 Michael Ave.
Scituate, MA 02066
(781) 545-3420
Tom McBrien
Services offered:
Sales Consulting
Education & Training
Provides sales strategies and services for evaluating, training and coaching insurance agency producers in a "Sales Process" for

successfully obtaining new commercial insurance business.

The Middleton Group
P O Box 459 Pine CO 80470
www.middletongroup.com
Carol A. Hammes
Services offered:
Agency Planning/Perpetuation
Mergers & Acquisitions
Management Consulting
Monthly publication: The Middleton Letter
Provides bottom line oriented management consulting services to insurance agents and brokers including: appraisals, strategic planning, organizational studies, merger planning, perpetuation planning.

Phaze II Consulting Inc.
P O Box 08129
Fort Myers, FL 33908
phazeiiconsulting.com
Judi Newman
Services offered:
Agency Planning/Perpetuation
Mergers & Acquisitions
Management Consulting
Human Resources/ Recruitment
Believes that a consulting service should offer more than an occasional meeting and is committed to providing results-oriented solutions for your agency's management team.

Insurance Times: Employee Benefits & Managed Care

May 23, 2000, Vol. XIX No. 11

Empire Blues offers brokers online quoting, enrollment
Empire Blue Cross and Blue Shield now offers brokers the ability to enroll groups online at empirehealthcare.com.
While brokers can get quotes online from a variety of websites, Empire's website also lets brokers create proposals and enroll a group.
Specifically, brokers will be able to:
Obtain quotes for all of Empire's managed care products. Brokers can compare monthly and annual premiums for different products and benefit options.
Create customized proposals for their clients that include Empire's name and address and those of the broker. The broker can also e-mail it to clients along with an Empire brochure.
Enroll a group online.
Brokers will initially be able to enroll groups of two to 50 members in the 28 counties of eastern New York. In the coming months, Empire plans to expand the site to include groups larger than 50 members. p

BrokersPortal aims to preserve role of brokers
This month marked the debut of BrokersPortal, which provides both online and offline support to independent insurance brokers, at brokersportal.com

The portal was developed by StarNex, Inc., a Wrentham, Mass.-based insurance web and software company.
"The role of the independent insurance broker is being challenged, largely by technology, and we're here to provide technological solutions that will preserve the valuable role the broker plays," says John Unipan, chief executive officer of StarNex.
BrokersPortal is an attempt to provide a marketplace that connects insurance providers, brokers and third party vendors into a single, business-to-business, e-commerce and information sharing environment.
With both online and offline applications, BrokersPortal eliminates much of the paperwork used in quoting and distribution of insurance products.
BrokersPortal also promises to process both small and large employee benefit plan proposals, quoting all types of insurance coverages from multiple carriers.
While it is starting out focusing on the employee benefits market, the company hopes to expand into commercial property and casualty in the near future. p

Bisys expands products for NY Life agents

Bisys Insurance Services will offer New York Life's 1,600 career agents across 17 general offices in New York, New Jersey, and Connecticut a comprehensive group health insurance solution. This group health agreement expands Bisys' life insurance agreement with New York Life, which is the longest standing supplemental product outsourcing relationship in the industry.

Bisys will offer group health, dental, life, and specialty group medical products. The agreement follows New York Life's sale of NYLCare Health Plans to Aetna, Inc.

Cigna joins with Answer Financial product line

Cigna Group Insurance announced the creation of a strategic alliance with Answer Financial Inc., the financial services portal dedicated to helping people make informed decisions about insurance and other financial products.
"Through this alliance, Cigna Group Insurance and Answer Financial will offer a 24-hour desktop insurance and financial services supermarket to consumers at companies nationwide," explained John K. Leonard, president of Cigna Group Insurance.
Cigna Group Insurance will offer its employee- paid life, accident and disability products along with Answer Financial's access to and choice of non-traditional products and services that Cigna Group Insurance does not manufacture, such as long-term care, insurance for home, auto and pet care, on-line banking and legal services.
Life, accident and disability products will be purchased at the time of employment or during a company's open enrollment. Other products, such as auto, homeowners', pet insurance, pre-paid legal services, consumer loans and more are available 24 hours a day and 365 days a year with employees able to shop for competitive quotes in real time, day or night. Employees without Internet access can call a toll-free number and speak to a licensed and salaried insurance agent, whenever they want.
For further information on CIGNA Group Insurance, go to www.CIGNA.com.

Insurance Times: Study: Drug Prices To Continue Rising At Double-Digit Pace 40 Cents Of Every Dollar Of New Spending Due To Pipeline Drugs

May 23, 2000, Vol. XIX No. 11

Spending for prescription drugs is likely to continue to rise at double-digit rates over the next five years, and 40 cents of each new dollar spent on drugs will go for drugs that currently are in development ("pipeline drugs)," according to groundbreaking research sponsored by the Blue Cross and Blue Shield Association (BCBSA) and the Health Insurance Association of America (HIAA).

Total prescription drug expenditures are estimated to double between 1999 and 2004 from $105 billion to $212 billion.

Breakthrough Drugs

Some of the spending for new drugs will be on breakthrough drugs for which no effective treatment currently exists. These breakthrough drugs are likely to be the treatment of choice by clinicians and their patients, and bring valuable benefits to individuals and their families. Other spending will be on new drugs that substitute for existing drug treatments.

The research, conducted by the School of Pharmacy of the University of Maryland, shows that drug spending will increase by 15-18 percent a year for the next five years. It also reveals that 60 percent of future expenditure increases are attributable to continued increases in the price and utilization of drugs on the market today, according to the lead author of the study, C. Daniel Mullins, Ph.D.

"Managed care has been successful in the 1990s in bending the cost growth curve, but unfortunately, the worm now has turned," observed HIAA President Chip Kahn.

"Now, cost drivers such as pharmaceuticals are turning us again toward major cost inflation. We have to be concerned that such cost growth could put premiums for health coverage out of reach for some Americans, and make it more difficult for us to deal with the plight of the 44 million uninsured."

One of the central questions will be how to evaluate the benefits, costs, and risks of new drug therapies that replace existing therapies compared to the benefits, costs, and risks of the drugs already on the market, health insurance leaders maintain.

"It is critical that consumers, clinicians, and government and private payers have information to make wise choices. Prescription drug coverage must be structured to keep it affordable, while ensuring access to these new breakthrough therapies. As a nation, we must make sure that scarce health care dollars are not spent for prescription drugs that are a high cost alternative to equally effective, existing drugs,"said Scott Serota, acting CEO and president of BCBSA.

In another finding of the study, new drugs coming to market are much more likely than older drugs to exhibit price increases. For prescription drugs that have recently been brought to market:

- 70% of the most commonly used show an increase in price
- 28% show no change in price
- 2% show a decrease in price

For the Top 100 most frequently prescribed drugs:

- 37% show an increase in price
- 60% show no change in price
- 3% show a decrease price p

Insurance Times: HMO Heart Patients' Treatments Questioned
May 23, 2000, Vol. XIX No. 11

BOSTON (AP) - Managed-care heart surgery patients in the state are three times more likely to end up in hospitals with higher mortality rates than cardiac patients with insurance that allows them to choose a hospital, a study found.

The study of 7,000 patients who had heart surgery in 1997 in eight Eastern Massachusetts hospitals found that overall, death rates were low, ranging from 1.81 percent to 3.66 percent.

Higher Death Rates

The study found that patients in HMOs were much more likely to have surgery at institutions with higher-than-average death rates, although it did not give the average mortality rate for the patients.

Dr. David Shahian, a Lahey Clinic heart surgeon who presented the results at the American Society for Thoracic Surgery meetings in Toronto, called the managed-care referral pattern ``paradoxical and strikingly counterintuitive.''

Shahian did the study with colleagues from the Harvard School of Public Health.

No Interference

In Massachusetts, managed-care executives say they generally contract with all open-heart programs, and do not interfere with physicians' and patients' decisions on where to have a heart operation.

However the HMOs' hands-off policy does not explain why the study found that managed care subscribers were so often referred to higher-mortality heart units, while subscribers with free-choice health insurance more often ended up at lower-mortality programs.

The most common reasons for sending heart patients to a particular hospital were the facility's reputation, and its proximity to a patient's home.

The study also found that managed-care heart surgery patients were 21/2 times more likely to be directed to programs that kept them in the hospital longer, although those programs were not on average more costly.

Insurance Times: Aetna CEO Vows New Freedoms For Managed Care Physicians
Tells Conn. Doctors Of 'Sea Change' Ahead
May 23, 2000, Vol. XIX No. 11

HARTFORD (AP) - Aetna's chief executive officer says the insurance giant will loosen many restrictions in its managed care system and put more health care decisions back in the hands of doctors.

William H. Donaldson, spoke at an annual gathering of the Connecticut State Medical Society. He promised the physicians a ``sea change in our corporate attitude toward working with your profession.''

Donaldson outlined a series of steps the insurer will take in Connecticut by Jan. 1 to make it easier for patients to see the doctors they want, get lab tests and X-rays without red tape, and appeal company decisions.

The company will pay many doctors for each service they provide rather than continue a much-criticized system that pays a set fee per member each month, he said. In addition, he promised that doctors other than those based at hospitals will be allowed to choose which Aetna plans to serve_ and no longer be forced to serve all the plans.
Aetna also plans to expand programs that allow members with serious long-term illness to see specialists as their main doctors, and permit women to use their gynecologists as their principal physicians, Donaldson said
In addition, members will be able to use Aetna's external appeal program, which uses independent doctors, for decisions involving emergency room treatment and prescription drug coverage. The appeal process now deals mostly with experimental treatments and medical necessities.
``It's a historic first step because they've admitted they've gone too far,'' said Dr. Michael Deren, vice chairman of the state medical society's council.
The Connecticut announcement marks the public start of Aetna's effort to build nationally on an agreement with Texas' attorney general four weeks ago. The Connecticut changes address some of the same issues included in the settlement of the Texas litigation; Aetna plans to tailor reforms to each state.
The nation's largest health insurer has 311,000 members in Connecticut. Donaldson has been Aetna's chief executive and chairman only since late February, when he replaced Richard Huber, whose comments often angered doctors and lawyers.

Insurance Times: NH Orders Tufts To Offer Residents Access

May 23, 2000, Vol. XIX No. 11

CONCORD, N.H. - New Hampshire Insurance Commissioner Paula T. Rogers has directed Tufts Associated Health Maintenance Organization, Inc. of Massachusetts (Tufts Health Plan) to provide complete, full-benefit reimbursement of covered services to its insured members who reside outside its newly defined service area in New Hampshire, even if the member's primary care physician or other providers are no longer in Tufts Health Plan's provider network.
This directive means that New Hampshire residents who live outside the service area will not have to travel great distances to see a new doctor in Tufts Health Plan's new, more limited service area. This directive does not apply to New Hampshire residents residing inside the service area.
Tufts Health Plan, while not licensed in New Hampshire, insures approximately 15,000 New Hampshire residents who work in Massachusetts and are covered under their employers' health insurance policy with Tufts Health Plan. Although Tufts Health Plan previously informed these employees that some would need to select new providers, these New Hampshire residents covered by Tufts Health Plan who reside outside the service area will now be allowed to remain with or return to their previous doctors and hospitals.
The order protects residents covered under existing Tufts Health Plan insured policies and the reimbursement requirement will continue for the duration of the employers' current policy year. After that, Tufts Health

Plan will only provide HMO coverage to those New Hampshire residents working in Massachusetts who live within Tufts Health Plan's current New Hampshire service area. Employees who reside outside of that area will no longer be eligible for Tufts Health Plan HMO coverage.
Tufts Health Plan is in the process of notifying affected Massachusetts employers, New Hampshire residents and New Hampshire providers, advising them of this directive from the New Hampshire Insurance Commissioner.

Insurance Times: Agent's Responsibility For Company Insolvency

May 23, 2000, Vol. XIX No. 11

by The Middleton Group

Up until 30 years ago courts did not treat insurance agents as professionals and as a result agents were usually not held responsible for errors and omissions in situations involving the insolvency of carriers. With "professional" status came the requirement that an agent must live up to professional standards of conduct. Court cases after 1957 have made it clear that an agent who holds himself out as being qualified to procure insurance is required to have adequate knowledge of the different companies and types of coverages available. An agent can be liable to the insured for placing a risk with an insolvent carrier if the use of proper diligence would have revealed the fact before the insurance was procured.
Until 1987 the primary question was whether the agent had used reasonable diligence in ascertaining the solvent status of the carrier. It was at least implicitly acknowledged that the agent was not a guarantor of the continued financial condition of the company from which insurance coverage is obtained. The Higginbotham v. Greer appellate court decision in that year, however, expanded the legal duties of agents. The court warned that agents placing coverage with carriers that are solvent at the time of placement may also be held responsible for damages if "at that time or at a later time when the insured could be protected, the agent knows or by the exercise of reasonable diligence should know, of facts or circumstances" affecting the financial stability of the company and the quality of the insurance protection being provided.
Monitoring the financial condition of carriers has clearly become an on-going legal responsibility. It is also emerging as a public relations issue for agents. Comparisons between the insurance industry and the S&L situation are frequent fodder for the press. And the recent failures of several Life insurance carriers has served to fuel the flames. Insureds are demanding that agents have adequate information on insurance companies. It is part of the package of professional services that they are expecting the independent agent to provide.
Most of the E&O claims charging agents with lack of due diligence in selecting insurers that became insolvent have so far been settled out of court for small sums. But the number of cases is going up and there is every reason to believe that awards will increase also. Some E&O policies provide coverage for these losses, others do not. Even if there is E&O coverage, agents stand to lose the deductible, valuable time, and possibly the E&O coverage if a suit is filed.
When legal action is not initiated by insureds, agents who went through

the Mission or Iowa National debacles will nevertheless attest to the fact that the experience was very expensive and emotionally draining. Some states require agents to continue to pay accounts current to insolvent insureds and yet to stand behind their insureds for unearned premiums. This could add up to 25% or more of the agency's total premiums with that company. Insureds who purchase policies through an independent agent expect that the agent will keep coverage in force as long as they pay the premium on time. In the event of insolvency, the agent has to find alternate coverage, often with agency dollars. There is also a significant amount of personnel time involved in re-placing the coverage, time that could have been spent selling. This hidden cost of insolvency can be devastating. Considering the price that the agency may have to pay when a carrier goes under, insolvency control should be a major function of the management team. One individual should be given clear responsibility for tracking information on admitted and non-admitted markets used. Review all markets once a year (in conjunction with the general evaluation of company contracts), and develop an Agency Watch List. Companies placed on this list should be evaluated every month.

Reprinted with this article is our checklist for standard companies. You should custom fit your particular agency circumstances, adding additional criteria for Surplus Lines as necessary.

There are a number of states in which markets have become scarce for some lines of business. As a result, agents have been forced to take on all willing participates. While it is not inconceivable that one of the older national carriers could get into trouble, your primary focus should be on newer companies. A.M. Best Co. has developed a list of the characteristics of companies that have become insolvent during the last several decades, and 41% of them were under 10 years old.

Other items noted by Best's regarding the nature of recently insolvent insurance companies are:

- 75% were stock companies;
- 62% had under $5 million in surplus;
- 81% had unusual net premium growth;
- 50% of insolvencies were due to a combination of rapid growth, underpricing, and deficient loss reserves;
- 20% were due to fraud;
- 15% were due to change of ownership or type of business written;
- 15% were due to inadequate reinsurance protection;
- Many were companies heavily involved in automobile insurance.

The whole issue of insolvency is so critical to the industry that it transcends the normal competitive guidelines under which agencies and companies operate. There is no other area in which cooperation is more critical. When one carrier goes under, it affects everyone associated with the industry, either in a direct financial way or indirectly through negative public attention.

Agents, whether or not they represented the insolvent carrier, will often take the brunt of the public relations flap and eventually be the ones that have to deliver the higher cost of insurance to the public. Insurance companies must participate in the guaranty funds, but the cost for the funding eventually can be traced back to the customer in all but a handful of states. Some states. Some states permit companies to recoup these assessments directly by increasing rates or surcharging policyholders. Others allow companies to credit the assessments against state premium taxes, which often go to support necessary community

services, and the difference has to made up on other kinds of taxes.
Because all agents are in this together, we see an enhanced role for agents associations in the area of company insolvency protection. State and local groups can and should establish formal "watchdog" procedures. Some associations do this now but many do so only on an informal basis. This should be given top priority, particularly as many of the IIAA and PIA groups are discussing the structure and focus of their new combined organizations.

Members who have reason to suspect problems with a carrier would have an established mechanism for reporting that concern to a central source: perhaps a small committee or specific individual within the association. There would then be a procedure to contact a designated person at that carrier to follow up on items that seem to be coming from more than one agent. For example, five agents report that XYZ Company is becoming very slow in paying claims, is even slower than before in getting policies issued, is losing a large percentage of underwriters, and is issuing incorrect accounts currents. These could all be signs of financial difficulties or they could simply be the results of the installation of a new computer system. Formalizing the grass roots grapevine helps qualify the rumors.

It would be nice if agents could sit back and wait for the NAIC and others to come up with tougher solvency rules and more effective regulation (state or federal-the operative word here is effective). But that is a luxury that cannot be afforded. p

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