

## ***Insurance Times***

January 23, 2001

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### **Unhappy Insurance CEOs Seeking New Life Directions New Directions Helps Dissatisfied CEOs Find New Careers And Interests**

by Mark Hollmer  
Insurance Times

Kruno Huitzingh was in the middle of a 12-mile run in the mountains of Stowe, Vt. when his neck began to ache and grow stiff.

It was August 1996, and the Dutch-born insurance executive was chief information officer for Allmerica Financial. And in the days after his Vermont run, his neck pain grew worse.

He learned later that the pain grew from an injury he carried with him for years, unaware, after landing on his neck during a rough jujitsu match. The injury was jarring to Huitzingh, who worked six-day weeks and suddenly was faced with taking a few days off to recuperate at home.

With plenty of time to think, Huitzingh came to a realization: After four years at Allmerica and more than 30 years in the insurance industry - including 15 with CNA Financial -- he was ready for something new.

"I was working six days a week and hated coming in four days. After 30-something years in the business, I just wasn't enjoying it anymore," said Huitzingh, now 56.

Today, Huitzingh has a new job in Colorado, as CEO and chairman of Colorado-based QuickStream Software, a start-up company.

He said he likes his new professional life, and that the New Directions executive outplacement firm helped get him there.

"They gave me insight as to what made me happy," he said.

New Directions is a company that specializes in helping executives both working and retired find new careers or interests, and many come to the Boston-based firm from the insurance and financial industries. The company also has offices in Wilton, Conn. and New York City.

Dave Corbett founded the company in 1986 and serves as its president. He's careful to point out that New Directions shouldn't be confused with a job placement firm.

"We call ourselves 'opportunity developers,' a new form of executive outplacement (with a) focus on very senior executives in companies," he said.

New Directions has counseled 1,450 clients in about 15 years; with up to 80 percent usually sponsored financially by their former employers in some sort of a severance/retirement deal. Those not covered by their former companies pay a varying fee, such as 18 percent of their severance. Others pay as they go for individual services from an "a la carte" menu.

#### **Members for Life**

Clients work with counselors and peers to find part-time positions, consulting jobs, pursue hobbies or launch into a new career altogether. They are New Directions members for life, and also serve to help mentor new members find careers.

Among the more unusual switches: Corbett had one client leave corporate America to buy a country inn. Another, who used to run a real estate company bought a chain of hardware stores.

A third former executive found a happier career choice through New Directions and now owns a bird seed store.

Still, not every executive shifts to a new industry entirely.

Wolfgang Friedel, for example, was executive vice president and chief operating officer at Waltham-based Arkwright Insurance.

Friedel, 54, left the company in July 1999 after it merged with two other businesses, and joined New Directions.

Friedel eventually launched IC2, a Zurich-funded management consulting firm where he uses his insurance and risk management skills.

He said he's happy with the change.

"It really helped me significantly," Friedel said. "I stepped back, assessed where I was both personally and professionally and what I wanted to do..."

Friedel said he was offered several insurance industry jobs while he was considering his next move, but he turned them down because they "would have been more of the same."

Taking time to consider his future, he said, was better than just sending out resumes.

"Every individual should have the opportunity to go through the experience I've gone through at New Directions, at some point in their life," he said.

"The earlier you do that the better off you are."

And then there's Bob Gruhl, who worked for Liberty Mutual for 27 years, most recently as the company's executive director of international operations. He often put in 60-hour weeks.

Gruhl left the company in January 1998 after a new CEO entered the picture, and took a few months off.

Four months later, after a vacation and visits with friends and relatives, Gruhl joined New Directions "to find out what happens next."

After some discussions, Gruhl decided to establish his own consulting firm part-time. Nine months later he joined Tillinghast-Towers Perrin, a New York-based insurance and risk management consulting firm.

#### Took a Leave

He worked in New York for a little over a year and then took leave in June.

Right now, Gruhl is working with the principal partners of Wellesley Partners on a financial portal Internet startup.

Gruhl said New Directions gave him "a process to help me reexamine what I wanted to do," which led him to consulting work - a career specialty he initially tried out of college and early at Liberty Mutual.

#### Return to Consulting

His New Directions-fueled change helped him return to consulting, but with a twist.

"My conclusion was not to duplicate what I had, but to apply my experience ... to new areas, (helping) companies grow, diversify and improve operations."

Gruhl is also volunteering at New Directions, helping other new clients "work through what he wants to do in the future."

For Huitzingh, New Directions served as a tool to help return to his roots. Back in the 1980s he helped start up Direct Marketing Technology in Illinois, which he left after three years.

New Directions encouraged him to take advantage of old contacts and networks.

Subsequently, he moved onto two startups.

One was Axonn, a New Orleans-based company that developed patents in wireless technology. Huitzingh helped them establish a subsidiary called Itero to focus on the product side. He served as chairman and CEO for a while, and as an Axonn board member before leaving the latter position a few months ago.

Huitzingh, working through contacts, also helped start up QuickStream software in Colorado, which he joined soon after hooking up with New Directions. He helped the company attract early financing, hired some of its first employees and now serves as CEO and chairman.

QuickStream has been profitable for a year, he said, and has grown every quarter in revenue since 1999.

In the future, Huitzingh hopes to help launch another startup or even a venture fund.

And he said he's using his talents in a much better way than in the past.

"The reality was that I enjoy building things and mentoring people, and really felt better off being in charge of something, then being at the whims of (a) corporate environment."

And that professional enjoyment, Friedel said, is really the point of New Directions.

"Most of us get into the jobs we're in through a variety of circumstances, and not necessarily because that's what we wanted to do with our lives," Friedel said.

"Having the opportunity to step back and really assess that, and (then) move forward is a privilege, and people should really take advantage of that whenever they can."

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### **Networks Proving Option For Smaller Agencies Not Wanting To Merge**

#### **Networks And Observers Expect Them To Continue Their Growth**

by Mark Hollmer  
Insurance Times

In an age of giant corporations and conglomerates, Matt Masiello sees hope for the insurance agent who wants to stay small.

With a hardening market, insurance companies are increasingly terminating their business with smaller, neighborhood agents and shifting premium to their larger rivals. The move makes business sense to companies because a larger agency, after all, maintains a greater premium volume and multiple agents. And higher volume reduces the insurance companies' overhead.

Faced with this and other competition, smaller agencies continue to sell or merge with rivals in order to compete.

Enter Masiello, who is executive vice president of Satellite Agency Network, a New Hampshire-based network of 132 agencies in seven states that together access more markets than they could ever do on their own.

A network, Masiello said, is the solution to help an independent agent remain a little guy but conduct business with the big buys.

"We're giving small, local independent agencies the ability to grow, (and) remain family-owned and operated," he said.

"I see phenomenal growth in what we're doing."

Agency networks - a cooperative of sorts of agencies who share marketing and other resources to increase business - are in a new phase of growth after their initial launch approximately 25 years ago.

Regionally networks are all claiming increased membership as the market hardens and small agencies look toward their collective clout to keep their business growing.

Recently, the Independent Insurance Agents of America released a study revealing that 9 percent of independent agencies belong to a network - with an average network having at least 22 members. (Similarly, about 11 percent of agencies are participating in clusters - a more informal version of a network.)

According to the study, 64 percent of network services focus on packaging risks to meet carriers' minimum production needs - an important function in a hardening market where carriers are focusing their business on larger agencies that can handle the load.

Many networks are geared to agents who handle property casualty business but others also handle life and health products.

Industry consultants and lobbyists seem to agree that networks are good because they can help build business. But agents, they say, must also spend some time shopping around and choosing networks that best suit their needs.

InsuranceTimes recently interviewed some of the more prominent networks operating regionally. All said that they're growing rapidly. Agents who join are able to retain individual ownership of their business, though many networks have profit sharing programs.

A wide range of agencies typically joins a network. New members range from startups with less than \$2.5 million in annual premium in business, to veterans with more than 20 years in the industry and more premium.

#### SAN Group

Masiello's Satellite Agency Network continues to thrive regionally and nationally. SAN Group is a member of the Strategic Independent Agents Alliance, a federation including about 560 agencies that write \$1.35 billion in annual premium.

With benefits including a consumer Web site that pushes leads for member agencies, consultation on mergers, profit sharing and variable fees for members based on growth, Masiello said the SAN Group offers a product ripe for the times.

"We've been adding about 25 new members a year," he said. "And we see that continuing for the next several years."

The appeal, Masiello said, is simple.

"Most of our agencies will join us to first and foremost gain access to companies and receive profit sharing," he said. "After that it's really to be part of something bigger."

Masiello said he sees SAN Group and networks in general as a tool to preserve small independent agencies, whose numbers continue to decline nationally.

"Groups like us give a viable form of insurance distribution," to smaller agents who band together, he said.

#### Gencorp

Gencorp Insurance Group, based in East Greenwich, R.I., is an organization that offers members a practicing network as well as health and financial-services products and other services.

With more than 40 members, Gencorp's handles \$65 million in annual premium with \$4 million coming from the network itself, said Jay Madden, Gencorp's vice president of network/marketing and underwriting.

Similarly, he sees his network as allowing small agencies to join forces and compete with the big guys.

"You have a little bit of a Catch-22 (with) good strong local contacts in New England. Many (independent agency) relationships go back years or decades, but they don't have the ability to capitalize on those relationships simply because they don't have access to products or services to meet the needs of the clients."

Network members cover all lines of business, he said, from personal lines to commercial, life, health and estate planning.

Agency networks, he said, are evolving the independent agency system "to a higher level" by increasing agents' access to products.

Even so, Madden hesitates to emphasize the importance of a network to an independent agent's future.

"We're not out there to save agencies per se," Madden said, adding Gencorp is simply "trying to find good, profitable agencies that have the wherewithal to evolve with a lot of these (market) changes taking place" and thrive in a network setting.

#### Insurance Associates of America

Ben Graves, vice president of Insurance Associates of America, is bullish about his network's expansion into the northeast through Pennsylvania, New Jersey, New York and New England.

Insurance Associates of America has jumped from 15 to 100 members in a little over three years.

The group is based in suburban Milwaukee but is now expanding nationally, with licenses in 48 states.

And Graves, who works out of Shrewsbury, Mass., sees networks as important to the future of independent agents.

"We're probably a long-term key to helping the small agent maintain access to bigger insurance companies, and thus be able to survive," he said, adding: "companies find that doing business with multiple agents through an alliance reduces their overhead."

IAA offers more markets, automation, marketing and perpetuation support, and "high levels" of compensation with split commissions.

Agencies joining IAA include small operations without enough markets to survive long-term, agents who are trying to branch out on their own, and individual direct writers looking to have more market access, Graves said.

#### Iroquois Group

The Iroquois Group is one of the older networks in the country, formed in 1977. Today, the network operates in 25 states with more than 1,100 member agents.

Michael Rice is territorial manager for Iroquois of New England, a division of the network that operates in New England, New York and New Jersey.

Iroquois, like other networks, offers technology discounts, marketing and management services and guidance on how to grow an agency.

Iroquois touts the fact that it allows member agents to "maintain complete control of their agencies" but are also "able to parlay" their books of business "along with 1,100 other agents into a bargaining collective.

"This allows an agent to thrive," he said, and "not just survive."

Members pay \$150 per month but that fee drops as an agency's business grows.

Typical members, Rice said, include customer service representatives launching their own agencies, 10-20 year veterans looking to expand or independent agents simply "looking for additional" tools to succeed in a competitive business world.

Last year, about 45 new members signed up in Massachusetts and 200 joined from New York State, Rice said.

He expects growth to continue up to 20 percent annually, because of the "hardening of the marketplace," the increasing pace of industry change and technological improvements.

"Agency principals are looking for a partner to help bring this together in a strategic manner that allows them to service their clients, and yet remain cognizant with the trending of the industry," Rice said.

Agents who join networks can't expect to be rescued from a tough market, he said, without some effort to work together cooperatively.

"The principal has to want to succeed," he said. "And if he has drive and ambition we can augment him with the tools that he needs."

#### Allied Insurance

Agents Group

One of the newer networks out there is Allied Insurance Agents Group, a Sturbridge, Mass.-based group the formed in 1999.

Today, four Massachusetts agencies are members. The network may expand at some point in the future, said Dennis McCurdy, who runs the network.

The goal of Allied Insurances Agents Group is to help promote standard policies and procedures so members eventually use the same system and software, McCurdy said.

The benefits of joining, McCurdy said, come from the group-negotiated company contracts, profit sharing and shared marketing resources.

Networks, he said, are the wave of the future because they'll "help agents work smarter," by encouraging them to combine marketing, staff management and other tasks, allowing agencies to focus more on selling insurance.

Representatives from the IIAA, the Massachusetts Association of Insurance Agents and the Independent Insurance Agents of Connecticut all appear to be generally supportive about networks and their potential benefits for association members.

Madelyn Flannagan, assistant vice president for research and development for IIAA, said networks are doing well "east of the Rockies," particularly because of the booming economy and the concentrated population.

She said networks are good because they are allowing new independent agencies to start up moreso than in the past.

"In our last survey we saw that 8 percent of agencies surveyed had just started in the last four years," she said. "And we have never seen that kind of growth in the industry."

Networks will continue to grow, she said, because companies have found network management to be productive for its members.

"Networks keep an eye on the bottom line and keep agents in check," Flannagan said. "Every agent I talk to that belongs to (a network) is quite happy."

#### Agencies That Join

Lori Carvalho, director of agency services for MAIA, said agencies that resort to networks have "exhausted the possibility of obtaining a direct appointment with the carrier," so networks make sense.

"A lot of carriers are not appointing in the state right now, or they are asking for voluntary commitments that small agents cannot commit to," she said.

MAIA doesn't feel competitive pressure with networks either, she said, because her association focuses on opening markets for members and lobbying on their behalf.

"We actually work very closely with all of these people and don't consider them a threat to our association at all," she said.

Warren Ruppap, the IIAC executive vice president, said he doesn't see much network growth in Connecticut. But at the same time, he said, "it's a great way to move.

"It's an opportunity for an agents to be in the position to have markets they typically wouldn't have had," he said.

#### Proceed with Caution

Agents should know all they can about a given network before joining one, industry consultants caution.

"You need to read the fine print," said Carol Hammes of The Middleton Group in Colorado.

For example, some networks promote agency ownership independence and others own a stake of agencies that join.

"Some of them do take control of your business, and that's not necessarily bad as long as you know that that's what happening," Hammes said.

"But a lot (of agencies) go into these things and think 'I can still make all the decisions myself,' but don't really understand they have signed away certain rights.

Murry Kaftan, vice president of Business Management Group in Hartford, Conn., said agents should determine if a network has enough value before joining. And that value, he said, comes from members working as a group rather than "doing their own thing" in terms of marketing and other tools they could share to better benefit.

Members must also realize that even if they retain ownership of their agencies they aren't working alone anymore, he said.

"They have to start taking on an "us" mentality," he said.

Networks focused on simply increasing market share don't provide agents with a good enough reason to join, he said.

#### Networks' Value

Virginia Bates, owner of VMB Associates, Inc. in Melrose, Mass., said networks have value only "if they create operational efficiencies and benefits" for members who want to work together.

But networks can even be dangerous to members, she said, if they're only formed to increase business for carriers.

"If the agencies who join are just trying to find markets and fill production quotas with their co-cluster partners, without any overall management or coordination, they are subterfuges," she said.

Bad networks operate "as a separate island," she said, "where nothing changes other than they tell the companies they can put more volume with them."

The network representatives all said they expect membership to continue to rise. Graves, of Insurance Associates of America, for example, said long-term plans call for 100 new members a year through 2003.

Rice, of Iroquois of New England, sees a day where more independent agents are network members than not.

"Gone are the days when the independent agent does not form some type of association (with a network)," he said.

"An independent agent cannot access everything he needs without some type of assistance."

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#### **Multi-Million Dollar Contamination Lawsuit Settled For \$35,000 In Maine**

#### **Gas Companies Followed State Law In Mixing Gas Later Found To Harm Ground Water**

PORTLAND, Maine (AP) - A multi-million dollar lawsuit against companies responsible for the use of MTBE in gasoline has been settled for \$35,000, most of it coming from a motorist's car insurance.

The suit was filed in Cumberland County Superior Court in 1998 by five homeowners from Standish, Litchfield, Casco and Cumberland. It grew out of the sale of gasoline containing methyl tertiary butyl ether, a chemical additive designed to reduce smog.

Maine began requiring the sale of the reformulated fuel to meet federal clean-air mandates in southern Maine in 1995. The state discontinued the sale of the gas three years later after MTBE began turning up in groundwater.

Plaintiffs in the lawsuit included several people whose wells were contaminated with the chemical. Others were concerned about the threat of contamination and wanted chemical companies to foot the bill for testing.

The defendants, including Arco Chemical Co., Atlantic Richfield Co., Lyondell Chemical Co., the American Petroleum Institute and the Oxygenated Fuels

Association, were accused of negligent misrepresentation, civil conspiracy and fraud for failing to warn of the potential for water contamination.

But the plaintiffs failed to win certification as a class, meaning they could not sue on behalf of other people affected.

William Kayatta, a lawyer who represented Arco Chemical Co. and Lyondell Chemical Co., said the defense was able to show that state and federal environmental regulators were aware that MTBE mixed easily with water and could spread in groundwater. But regulators determined that the benefits to air quality were worth the potential harm to groundwater, he said.

Plaintiff Michael Millett of Standish was one of the first in Maine whose well was found to contain high levels of MTBE contamination. The source of the chemical was traced to gasoline that spilled from a car involved in a rollover accident.

That led to Commercial Union, which insured the car, to pay \$25,000 toward the settlement. The remaining \$10,000 came from Atlantic Richfield Co., an oil company that once manufactured the chemical.

Kayatta said the defense insisted the settlement be open to public inspection to demonstrate that his clients, the current manufacturers of the chemical, did nothing wrong.

"Their position nationwide has been we did absolutely nothing wrong," Kayatta said. "The government and the refiners asked us to make this ingredient for gasoline that would clean up the air and it behaved exactly as we said."

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### **Regional Agency Networks**

Insurance Associates of America  
Shrewsbury, Mass. - 508-795-0096

This network launched several years ago with eight members and now has about 100. IAA is based in suburban Milwaukee but is in the process of expanding nationally. Local offices are based in Shrewsbury. Agents who join pay \$5,000 at first and then "a small maintenance fee" each month, said Ben Graves, vice president of the network. Members also sign a contract but it isn't long term; they must give 30 days notice if they want to leave the network. Services include insurance company markets, and support in agency automation, marketing and perpetuation. Also offers "high levels of compensation" toward splitting commissions with agents, Graves said. The network does not take ownership of members' agencies. Looking to expanding New Jersey, New York and New England.

### **Satellite Agency Network**

Swansey, N.H. - 1-603-430-0055 ext. 11

SAN Group counts 132 member agencies in seven states in New England and New York. SAN Group is part of a larger network called the Strategic Independent Agents Alliance which includes 560 member agencies nationally. SAN Group is about 18 years old, and has added about 25 new members each year, according to executive vice president Matt Masiello. Services include access to markets, automation discounts, agency management consultation and assistance with placement and pricing. Membership fees are individually negotiated based on a percentage of growth at an agency. But in the end Masiello says SAN Group pays "back to our agencies greater amounts than they pay us ... because of profit sharing, bonuses and overrides, and because of access to additional companies." SAN Group is not actively purchasing agencies, and agencies that join can retain

ownership of their business. Typical new member agencies have less than \$300,000 in annual revenue and are often one-person agencies.

#### Allied Insurance Agents Group

Sturbridge, Mass. - 1-800-696-8873

Formed in 1999, this network includes four member agencies but may expand at some point. Dennis McCurdy says Allied is trying to focus on policies and procedures an agency can use and standardize, such as software, so all members of the network can visit each others' office "and could start working," McCurdy said. Group benefits include profit sharing and common marketing efforts, and monthly meetings as the network expands. Members pay \$2,500 to join, with a monthly fee schedule based on revenue. Fees decrease as agency grows. Typical members are agencies with at least \$1-2 million in premium volume with 10 years or more experience.

#### Iroquois of New England

Olean, N.Y. - Wakefield Mass. - 1-877-497-7690/914-213-5292

Iroquois of New England actually conducts business in New England, New York and New Jersey. But the network is a division of the larger Iroquois Group, which operates in 25 states and has more than 1,100 member agencies to date. Formed in 1977, Iroquois offers a number of benefits to members, including access to standard carriers, central placement capabilities, technology discounts, guidance and assistance in agency development and marketing and growth incentives. Agencies can also take advantage of profit sharing incentives and retain ownership. There's a monthly \$150 fee to start.

#### Gencorp Insurance Group, Inc.

East Greenwich, R.I. - 1-800-232-0582

More than 40 agencies throughout New England have joined Gencorp since the network launched several years ago. Agents who join have access to retail products and services including commercial lines, life, health and financial services. Agencies pay \$2,500 to join and an annual \$1,500 administration fee. The network makes money on the commission splits but takes no ownership stake in member businesses. Gencorp emphasizes its "interrelated" products and services "that transcend the old property and casualty agents," said Jay Madden, Gencorp's vice president of network marketing and underwriting. Typical members write \$2.5 to \$5 million in annual premium, with many agencies being family-owned.

#### Telamon Insurance Network

Newton, Mass. - 1-888-349-0659

Telamon launched in 1981. Twenty years later, the network has about 300 agency members throughout New England. Typical agency membership benefits include access to standard insurance companies, excess and surplus lines and financial services. Telamon also offers members marketing and underwriting and some consulting work regarding agency perpetuation and automation. Telamon CEO Mike Susco says his network has a broader product selection than many networks, such as the access for agents to the excess and surplus lines market. Agents can also use exclusive programs, such as a nursing home program through Fireman's Fund and Healthcare Underwriters Mutual. Agencies don't pay any fee to join, and are only charged for consulting services. Those fees are "priced by the job," Susco said. Agencies aren't required to sign a contract, either, Susco said.

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## Allied American Buys Lumber Renewals In Run-Off Plan

by Mark Hollmer  
Insurance Times

BOSTON - Two agencies will buy the rights of renewal for Lumber Insurance policies in California and on the East Coast -- a move that will lead to the run-off of the financially strapped Framingham, Mass.-based company.

Massachusetts Insurance Commissioner Linda Ruthardt outlined details of the plan and other developments in her first status report since she placed the company in receivership Nov. 1.

The receivership agreed to sell the rights of renewal for Lumber Mutual's former eastern U.S. business to the Arbella-owned Allied American Insurance Agency in Massachusetts.

Similarly, Bowermaster & Associates Insurance Agency of Downey, Calif., will handle rights of renewal for Lumber's old California business.

The deals were reached on Dec. 4 and 8, respectively, after the receivership explored "extensive efforts" to find merger partners or buyers for the company, contacting "approximately (20) other insurers," Ruthardt said in her Jan. 4 report filed with the Supreme Judicial Court.

So far, it looks like Lumber Insurance will be run-off rather than liquidated, Ruthardt said.

"I have concluded that Lumber, although very thinly capitalized, is solvent," she said, adding that "it is appropriate for Lumber to continue to meet all of its obligations in the normal course."

Lumber Insurance was formed in 1895 and includes a number of divisions. Lumber Mutual and North American Lumber handled lumber industry insurance, and Lumber's SEACO Insurance offered commercial insurance in New England.

The company was ordered to cancel its policies by Jan. 1, as well as a reinsurance agreement between Lumber and Forest Products.

All SEACO Insurance policies handled were by independent agents, who moved the policies to other carriers after the receivership.

That didn't happen for Lumber's East and West coast business because it was directly written, which allowed the DOI receivership to sell rights of renewal. Lumber Insurance also wrote mid-western business, through Forest Product Exchange. The company tried unsuccessfully to sell its business to a purchaser in the months before the receivership order, so that business was canceled and taken on by other carriers.

Among the updates outlined in the receivership status report:

- Allied American will acquire rights of renewal for Lumber Mutual and North American Lumber in Massachusetts, Connecticut, Maine, New Hampshire, Rhode Island, Vermont, New York, New Jersey, North Carolina, South Carolina, Georgia, Tennessee, and some accounts in Maryland, Pennsylvania and Virginia.

The deal calls for Allied to share with Lumber part of its commissions from rewriting the business over five years; 10 percent for the first year, 15 percent for years 2-4 and 5 percent for the fifth year.

Allied has also hired 13 former Lumber sales people and is looking to hire more. In addition, Allied will pay a percentage of management fees gained from running a New York workers compensation safety group once covered by a Lumber affiliate.

- To acquire rights of renewal in California, Bowermaster will share from between 15 and 30 percent of its commissions with Lumber, depending on the total amount. The California agency may also hire three Lumber salespeople.

- The receivership has begun an "employee retention program" that will run through next year. Any Lumber Insurance employee who stays at the company until his or her job is cut will earn an additional two percent of total salary each month. Lumber Insurance employed 236 people in its Framingham headquarters, and

offices in California and South Carolina before the receivership order came down. The plan to run-off Lumber Insurance allows for gradual staff cuts through the year, with 103 positions cut this month, and the closing of two regional offices by mid-March.

- Carruth Capital has agreed to buy Lumber Insurance's 65,974-square foot corporate headquarters in Framingham for about \$10.5 million. As part of the deal, Carruth would lease back the third floor of the building to Lumber for up to three years.

- Lumber Insurance had a projected surplus of \$10.9 million as of Dec. 31. That number is expected to drop nearly \$2 million by the end of this year.

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### **Mass. Agents' Auto Commission To Be 12.3%**

BOSTON - Massachusetts agents will earn a 12.3 percent commission this year to sell private passenger automobile insurance, a small increase over last year. The number comes from an established 2001 commission of \$111.50 and is based on 2001 average premium of about \$906.

Last year agents earned an 11.8 percent commission on each average sale, or \$110.50.

Conversely, the average rate announced by DOI Commissioner Linda Ruthardt is \$862.01.

The Massachusetts Association of Independent Agents, in its Jan. 9 "Flash Bulletin," explains the difference between the two.

Average premium is determined by predicting what cars will be insured and what type of insurance will be purchased for the year.

Average rate for this year is based on what insurance coverage was purchased and vehicles insured for 1999.

### **Delay in Liberty Mutual holding company sought**

BOSTON - A Massachusetts state legislator has filed a bill that would delay mutual insurance holding company conversions for a year.

The bill, filed by Rep. J. James Marzilli of Arlington and West Medford, would impose the moratorium to give the state Legislature time to evaluate the current law to see if it's "fair an equitable to mutual insurance company policyholders."

A study on the matter would also be authorized by the proposed legislation.

Mutual insurers have been allowed to convert to mutual holding companies in Massachusetts only since the enactment of a 1998 state law.

Liberty Mutual is the first company in the state that submitted an application to switch to mutual holding company status.

If regulators approve the deal, Liberty's three divisions will be reorganized under a centralized umbrella management structure, allowing it to compete more effectively with financial services companies and international insurers.

### **IIAA, RIMS sue to stop OSHA standards**

WASHINGTON, D.C. - The Independent Insurance Agents of America (IIAA) and several non-insurance, Washington-based trade groups have filed a legal challenge of the ergonomics standards released by the Occupational Safety and Health Administration (OSHA) last November, announced IIAA President William F. Hofmann III.

The lawsuit was filed Jan. 12 in the U.S. Court of Appeals for the District of Columbia. Joining IIAA as petitioners are the Independent Lubricant

Manufacturers Association (ILMA), National Juice Products Association (NJPA), Outdoor Power Equipment Institute, Inc. (OPEI), and Specialty Steel Industry of North America (SSINA).

In related action, the Risk and Insurance Management Society, Inc. (RIMS) has filed a petition to join a similar lawsuit brought against the OSHA standards by the National Association of Manufacturers.

"The diversity of the organizations involved in this petition shows just how important the ergonomics issue is to small businesses, including independent insurance agents, and how it could cause considerable damage to small businesses," says Hofmann, a partner in Provider Insurance Group, Inc., with offices in Belmont, Brookline and Needham, Mass. "IIAA will work with these new partners to overturn these onerous rules through legal or other means."

The OSHA ergonomics rule was published Nov. 14 in the Federal Register and went into partial effect on Jan. 16; it will be fully implemented later this year on Oct. 15.

IIAA expects that the group petition will be consolidated with the numerous other legal challenges the U.S. Court of Appeals for the District of Columbia has received in opposition to the ergonomics rule and will establish a schedule for briefing and oral argument. These oral arguments normally begin within 12 months of filing of petitions.

**NH weighs credit scoring restrictions**

CONCORD, N.H. - Proposed restrictions on the use of credit history in insurance underwriting were criticized by insurers at a recent hearing.

In testimony at a hearing held by the New Hampshire Insurance Department on proposed Regulation 3300, the American Insurance Association maintained that while the regulation is well intended it contains conflicting requirements and poses specific limitations on insurance companies that may not be in the best interest of consumers.

"The use of credit scoring in insurance underwriting has proven to be an accurate predictor of loss," said Donald Baldini, AIA assistant vice president, northeast region.

In testimony before the National Association of Insurance Commissioner, AIA provided evidence indicating that there was no correlation between credit score and income. "That means that low-moderate income individuals are just as likely to have a high credit score as high-income individuals," Baldini said.

The AIA cited four areas of concern with the proposed regulation: in some instances the language does not provide a meaningful standard to guide insurers in complying with the requirements; in other situations, the language is too specific, precluding flexibility where it may be in the best interest of the insured or it may be impracticable for insurers; at times, it appears insurers may be asked to supply information outside of their control; there are places where the provisions potentially conflict with one another or use different terms, which may lead to confusion.

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### **Mass. Court Holds Agent Has Client Duty During Claims Process**

by Mark Hollmer  
Insurance Times

BOSTON - An insurance agent has some legal responsibility to a client after a policy is sold - specifically during a claim settlement process, a Massachusetts Appeals Court judge has ruled.

The conclusion is contained in a decision that otherwise affirms a lower court ruling rejecting a policyholder's suit against his insurance company for denying most homeowner's coverage after flood and storm damage.

"There is no reason to exempt the claims settlement process from the duties for which insurance agents could be found liable, as a result of special circumstances," Judge Andre A. Gelinas wrote in his decision.

In the initial case, Robert Schwartz sued Traveler's Indemnity Co., his homeowner's insurer. He alleged that the company breached its contract by denying damage coverage after a 1991 New England storm that inspired the movie "The Perfect Storm."

Schwartz accused Traveler's of unfair claim settlement practice. He also alleged that his broker, Mazonson, Inc. of Peabody, Mass., breached its contract by violating its agreement to work on Schwartz's behalf in settling his claim against Travelers.

Gelinas affirmed the Superior Court judge's decision in the 1996 case that ruled the claim didn't make a four-year statute of limitations in time.

Travelers didn't pay any flood or storm damage claims inside the home, but covered "a small amount of damage" to outside structures. A separate flood insurance policy covered other damage.

Gelinas' decision also supports a lower-court ruling that "Schwartz has no reasonable expectation of proving" that harm occurred as a result of any breach of contract by Mazonson.

"The record does not support any theory under which a jury might find that Schwartz was damaged by any failure of Mazonson to process his claim or to assist in the settlement process," Gelinas wrote.

Gelinas, agreed, however, that there was a valid relationship between Schwartz and his insurance broker during the claims settlement period, which made it fair to at least consider if the agent was liable.

"There was sufficient evidence ... as to whether Mazonson's actions, and the long-standing business relationship between the parties ... (gave) rise to an obligation to process Schwartz's claims under the insurance policies, and if such an obligation existed, whether there was a breach."

Schwartz had been a client of Mazonson or an earlier version of the agency since 1976, Gelinas wrote.

And "when Schwartz called Mazonson to report the loss, he asked, and Mazonson agreed, to assist in processing the claims. Mazonson's representatives reported the loss, both verbally and in writing to Travelers..."

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### **Mass. SJC: Bartenders Beware Of Serving Drunk Patrons**

by Mark Hollmer

Insurance Times

Massachusetts bartenders can be more easily sued now if patrons who appear drunk leave a pub and cause an automobile accident.

That's the apparent consequence of a recent Massachusetts Supreme Judicial Court ruling, which overturned a lower court decision that a neighborhood bar was not liable in a car accident caused by one of its patrons.

The SJC, in a decision written by Judge Martha Sosman, has returned the case of Robert Douillard vs. LMR Inc. back to Superior Court for trial. Douillard originally sued the bar for negligently serving alcohol to Steven Gagne on March 25, 1994 at Breaker's Billiards & Brews, which was owned by LMR, Inc.

Gagne left the bar later that night and crashed his vehicle into a car driven by Douillard, and both were seriously injured. According to the SJC decision, Gagne was later charged with and convicted of driving "while under the influence resulting in serious bodily injury and" negligent driving.

Gagne testified he drank a little over four rum and Cokes during the four hours he was at the bar, but that it took at least seven drinks to make him drunk. Tests later that night revealed a blood alcohol concentration of .149 percent. Sosman wrote in the SJC decision that the court did not "need to decide whether expert testimony on the average drinker's response to alcohol would be sufficient to demonstrate that a particular drinker more probably than not appeared intoxicated."

It was enough, Sosman wrote, that Douillard's case against LMR -- including affidavits and deposition testimony -- showed he "had sufficient evidence to permit the inference that Gagne was visibly intoxicated at the time he was served his final drink..."

An expert testified on Douillard's behalf at the initial trial, surmising "that Gagne's blood alcohol level would have been .154 percent" after his last drink before the accident ... and anything over .12 percent is considered intoxicated. A Superior Court Judge granted summary judgment in 1997 to LMR, ruling that "the plaintiff's evidence of negligent service of alcohol was insufficient" to prove the case.

Sosman, in the SJC decision overturning the lower court decision, wrote that "apparent intoxication" at the time of an incident must be proved when alleging that a bartender knew or "should have known that the patron is intoxicated." But there is some leeway, she said, to reach that goal.

"The plaintiff may seek to prove that element by direct evidence, circumstantial evidence, or a combination of the two," she wrote.

"The only burden on the plaintiff here is to show that it is more probable than not that Gagne appeared intoxicated at the time he was served his last rum and Coke he does not have to establish this element to any greater degree of certainty"

According to the SJC ruling, four of Gagne's friends testified that "he had shown no signs of intoxication" the night of the accident.

One friend, however, testified that Gagne showed "outward signs" of intoxication when he did drink too much, and would "[h]ug [ ] people," engage in [l]oud behavior," "[v]omit," and "laugh inappropriately."

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### **Tax Group Estimates Clinton's Lifetime Pension At \$7.3 Million**

by Christopher Newton  
Associated Press

WASHINGTON - Because he's only in his 50s, President Bill Clinton could receive the biggest federal pension in history - an estimated \$7.29 million during his lifetime, according to a tax policy group that believes presidents get too sweet a deal after they leave office.

The National Taxpayers Union estimated Clinton's lifetime pension payout based on an insurance actuarial formula that predicts that someone of his age, health and profession should live to the age of 82.

His first year out of office, Clinton's pension check will total \$161,200, the tax policy group said in a report.

Clinton earns \$200,000 a year as president. Congress voted last year to double that salary when the next president takes office.

If Bush, now 54, serves four years, his projected lifetime pension payout would be \$6.6 million. The estimate is lower than that for Clinton because Bush would be older when he leaves office. The taxpayers' group did not estimate what Bush's pension would be if he serves two terms.

Even though Vice President Al Gore lost to Bush, he, too, will receive a hefty pension - \$5.96 million if he lives to the age of 81, the taxpayers' group estimated. His first year on the pension plan, his check will be \$94,800. Gore receives a pension under the congressional pension plan based on his eight years as vice president and 16 years in Congress. It takes effect the day he leaves office.

The main reason Clinton and Gore will make much more than their predecessors is that they are leaving office younger and thus are likely to receive pensions longer. Clinton is 54 and Gore is 52.

Even adjusted for inflation, Clinton, Bush and Gore can be expected to surpass the previous record-holder, former President Gerald Ford, whose projected pension payout is \$4.5 million.

Checks of that size are not what the founding fathers had in mind, said David Keating, a spokesman for the National Taxpayers Union.

"When they started this off, they were thinking of keeping the president from winding up in poverty," Keating said. "That's not going to happen today or in the foreseeable future. The amount of money we're giving them means they are wealthy, without ever having to raise a finger" after leaving office.

Clinton's pension is provided for under a presidential pension law. His yearly pension is linked to the salary of Cabinet members and begins the day he leaves office.

Presidential and congressional pension plans are protected from inflation, a feature offered by less than 10 percent of private plans. The pension plans also kick in as soon as the politician leaves public office - not when they reach the federal government's standard retirement of age of 65.

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### **CPCU Offers New Member Category**

Insurance professionals seeking CPCU designation can now apply for a new membership category: candidate membership.

To be eligible, candidates must have finished at least five out of 10 exams needed to earn CPCU designation. They must also continue "active" status as outlined by the American Institute for CPCU, which runs the program.

Previously, membership was only open to professionals who attained CPCU designation.

Candidates who qualify for the new category will be entitled to some Society of Chartered Property Casualty Underwriters benefits at reduced rates.

Bruce Williams, 2000-2001 president of the CPCU Society, said the candidate membership will give candidates working toward their CPCU "encouragement and support from other Society members."

National candidate membership dues are \$70, which is half of the full membership fee. Candidates can also join their local chapters at half price. Candidate members will also receive CPCU News for free and gain the right to buy the CPCU Journal at a discount.

For more information , call 1-800-932-CPCU (2728).

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### **Supreme Court Avoids NY Social Security-Medicare Rule**

by Laurie Asseo  
Associated Press

WASHINGTON (AP) - The Supreme Court stayed out of a New York dispute over how to count some Medicaid applicants' Social Security income in deciding whether they have too much money to qualify for government-funded health care.

The court, without comment, turned down appeals by the state and an upstate couple who applied for Medicaid to pay for the husband's nursing home care.

The state counted the couple's income - including the husband's pension and Social Security income - in a way that would require the wife to give up more than half of her assets for the husband to be eligible for Medicaid.

Thirty-five other states, including Alaska, have policies similar to the New York rule for counting spouses' income in Medicaid cases. New York's appeal said a lower court ruling would cost it large amounts of money.

Robert H. Robbins went to live in a nursing home after suffering a stroke in 1997, and his wife, Nova, applied for Medicaid coverage for him through the Monroe County Department of Social Services.

#### **Certain Assets and Income**

The spouse of a Medicaid-covered nursing home patient is allowed to keep only a certain amount of assets and income, and any excess must be contributed to the cost of care.

Nova Robbins' monthly income was \$1,136 less than the \$2,019 limit set for her, but her assets exceeded the \$80,760 limit by another \$88,520.

Instead of allowing her assets to generate additional income to bring her closer to the income limit, state officials decided to count her husband's Social Security and Eastman Kodak pension income to raise Nova Robbins' income to the limit. As a result, she would not be allowed to keep the extra \$88,520 in assets.

The couple sued, saying the policy violated the "anti-alienation" provisions of federal pension and Social Security laws that seek to protect recipients from having their benefits diverted to someone else. If the husband's pension and Social Security benefits were not counted toward the wife's income she could keep her assets, the lawsuit said.

#### **Ruled for State**

A federal judge ruled for the state. The 2nd U.S. Circuit Court of Appeals agreed last June that the pension benefits could be counted toward Nova Robbins' income, but the court said it would violate federal law to do so with Social Security benefits.

The state's appeal to the Supreme Court said the 2nd Circuit court's ruling would allow such couples to "shelter substantial amounts of resources" that otherwise would be used to help pay for nursing home care - about \$105,000 per case.

The Robbins' appeal said it violates federal pension law to divert pension benefits from the beneficiary.

According to New York's brief, the states without similar policies are Alaska, Massachusetts, Rhode Island, Connecticut, Pennsylvania, North Carolina, Texas, Ohio, Illinois, Iowa, South Dakota, Nevada, Hawaii and Florida.

The cases are *Novello v. Robbins*, 00-489, and *Robbins v. Novello*, 00-651.

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### **House Committee Change**

WASHINGTON (AP) - Reflecting the entry of banks into new financial territory, the House Banking Committee will be given expanded authority over insurance and securities, areas formerly under the Commerce Committee.

The change opens the way for Rep. Michael Oxley, R-Ohio, to take over as chairman of the banking panel, renamed the Financial Services Committee, resolving a struggle between two GOP congressmen.

Banking Committee spokesman David Runkel said the major reason for the change was passage in 1999 of far-reaching legislation allowing banks to get into securities and insurance businesses. "No longer are these separate industries," he said.

He said it would bring the House panel in line with the Senate Banking Committee, which already has jurisdiction over securities matters.

"In the post-financial modernization world, we would expect that the House would look into jurisdictional issues" following the passage of the 1999 law, said Floyd Stoner, deputy director of government relations at the American Bankers Association.

Some Republicans have been trying to trim the authority of the Commerce Committee since the GOP captured the House in 1995. Under Rep. John Dingell of Michigan, the chairman for more than a decade before his party lost power, the committee became one of the most powerful in Congress, responsible for communications, energy, transportation, finance, health care and solid waste disposal.

Dingell, in a statement, said the move was "misguided and asinine. I hope the securities and insurance industries do not suffer the same fate as the saving and loan industry, but I won't be holding my breath."

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### **Amica Betting Claimants Will Like Credit Card**

by Mark Hollmer  
Insurance Times

A New England insurer is betting customers will love saying "charge it!" after disaster strikes.

Amica Mutual Insurance of Rhode Island launched a new Visa card in mid-December to handle emergency claims for clients in Rhode Island, Connecticut, Washington State and Texas. The product's availability should expand nationally over the next few months.

"Every personal lines insurer in this country and other countries ought to have one of these things," said Peter Reid, Amica's senior assistant vice president in charge of property insurance nationally.

"The only thing better would be to hand them a bag full of cash."

Amica is apparently one of the first insurance companies nationally to launch a Visa debit card to cover general property/casualty claims.

Reid said the desire to help clients handle late-night emergencies "was our driving force to use this card" to provide "immediate service to policyholders when they are in the most need."

In short, "it's easier to use a credit card then to cash a check at night..."

Amica plans to limit use of the card to "larger losses," Reid added.

Reid said the company envisions the card working under simple circumstances.

For example, an insured may suffer some sort of disaster, like an early morning house fire that makes the home unlivable.

Right away, the homeowner would contact the company and an adjuster would be sent to the home with a Visa card -- known as a ClaimCard - that he or she can issue on the spot, knowing how large the loss will be by general observation.

To activate the card, the adjuster would either call a 1-800 number on a cell phone or use a portable computer to connect to a secure Web site managed by WildCard Systems, a Florida technology company that offers the card through Amica.

Next, an adjuster will use the Web site to activate the card, and inform the company that money is being added to it. From that point on, a customer filing a claim would be granted more money on the card as needed, over time, as the claim is evaluated.

Customers aren't restricted to where they can use the Visa debit cards, which will expire about 12 months after they're issued.

As of early January, Reid said, Amica issued three Visa cards to three different families in Rhode Island who suffered large fire or water losses.

Clients used the cards successfully even though they don't have customer names typed on them as credit cards usually do.

"Every retailer we've asked, every use the card has been put to, no retailer has had any problem" because the card has always been approved, Reid said.

It is unclear how many other insurance companies nationally have begun to issue debit cards to handle claims.

The Insurance Information Institute is aware of two: Amica and the employee benefits division of The Standard Insurance Company, which is a subsidiary of Oregon-based StanCorp. Financial Group.

Standard began offering "The Standard SecureCard" on Jan. 1 - a debit card with a Visa logo that substitutes for disability checks and is credited by the insurance company each month in lieu of mailing out payment.

Standard, in a press release announcing the new service, said it's disability claims staff will offer the card option to any eligible employees.

Monthly payments will be automatically credited to the card, or clients can call a number and transfer the money to either checking or savings accounts as needed.

Alejandra Soto, an III spokesperson, said using a credit card to handle claims is "great" for the industry.

"No other companies we know of besides these two do this," she said. "It's very beneficial for everybody ... a lot less paperwork, transactions are done faster, and in the time of an emergency and catastrophe when you have to make repairs right away, you can do so."

Soto said the product also helps both insurers and consumers keep better records when dealing with an insurance claim.

"People can get their claims dollars early and then everybody knows what transactions are taking place," she said.

Laura K. Krauss, vice president and general counsel for the Insurance Fraud Bureau of Massachusetts, said she sees the use of a credit card to settle claims as "a very positive step," in part, because it help policyholders recover more efficiently after they've suffered a loss.

But, she said, switching to an electronic system of tracking claims - such as the use of credit or debit cards - is a potential "cause for concern" for fraud investigators.

The reason, she said, is the act moves from hard copy documents to electronic data.

At the same time, "this will add a new twist onto an old story," Krauss said, because "the chain of evidence you are retrieving isn't lost, it's just diverted slightly" to the Web.

The potential for fraud abuse exists whether checks or credit cards are issued to settle claims, she said.

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### **AIA Seeks Changes In NY Privacy Rule**

Albany, N.Y. - New York insurance companies are seeking changes in the state's proposed financial services privacy Regulation 169 they say will achieve uniformity of regulation among state and federal regulators.

The American Insurance Association (AIA) is arguing that a model regulation adopted by the National Association of Insurance Commissioners be used as a model.

"The NAIC model is the best chance for states to achieve uniformity in regulating financial services privacy. The New York Department has recognized this and played a leading role in trying to establish uniformity across the nation," said Michael Murphy, AIA assistant vice president, northeast region.

"The changes AIA is recommending will bring Regulation 169 into conformity with the NAIC model without changing the intent of the regulation," said Murphy.

#### **Differs from NAIC Model**

AIA is recommending changes where the proposed regulation deviates from the NAIC model:

- Treatment of certain claimants as "customers." Most significantly, AIA claims that Regulation 169 fails to treat all claimants similarly. Those claimants who elect to receive settlements via periodic payments stand on a different footing than those claimants who select a lump sum payment. Like the NAIC model, regardless of the settlement option elected, claimants should not be treated as "customers," AIA says.

- Exclusion of provisions regarding privacy compliance in states without implementing legislation or regulations. Regulation 169 omits Subsection 2C of the NAIC Model regarding the privacy compliance of New York-domiciled licensees in jurisdictions without laws or regulations meeting the GLBA privacy standards. Its omission leaves these domiciled entities with uncertain compliance obligations outside New York.

- Definition of health information. Regulation 169's definition of "health information" departs from the NAIC Model by including "member[s] of the individual's family" within the definition's scope. It creates unclear privacy obligations that could extend to individuals that do not qualify as consumers under the Regulation.

- A reference to the federal Fair Credit Reporting Act. Appendix A' differs from the model's reference to the federal statute and fails to properly describe the federal statute.

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### **Putting Clients First For 43 Years**

by Penny Williams

The following is an Agency Profile conducted by Insurance Times with Hirsch Wolf, of Hirsch Wolf & Co., located in Brooklyn, New York, a community of approximately three million.

How long has your agency been in business?

Hirsch Wolf & Co. has been in business for 43 years in Brooklyn, New York. What began as a one-room office in 1958 is today a most prestigious office, enjoying an excellent reputation, offering all insurance products and professional risk management services.

Describe the local community and any target markets your agency serves.

Hirsch Wolf & Co. is located in the Midwood section, which is today one of the most affluent neighborhoods in Brooklyn. We provide all personal and commercial insurance for many of the Brooklyn residents. However, we developed a niche whereby we provide all the insurance products and services for the health care industry for the entire Northeast of America. We have become one of the most prominent insurance experts in this industry.

What do you think are the major reasons for your agency's success?

We place an emphasis on pleasing our existing clients. Our employees are courteous, and offer professional service, and we make sure to offer the best insurance products, with competitive premiums, underwritten by the best companies.

What do you think makes your agency different or sets it apart from others?

Because we put our clients' best interests ahead of our own, we generate loyalty. Each client, whether a small business or a corporate giant, is provided the same degree of professional service and care.

How does your agency attract new business?

Our loyal clients are the best producers. Because of our integrity and professionalism, our clients have become our best ambassadors, and a source of referrals to their friends and associates.

In what community and/or industry activities are you, your agency or employees involved?

We are involved predominantly in the Jewish Orthodox community and we specialize in the health care industry. We are actually supporting many of the community non-profit organizations. In addition, we are strong supporters of various nursing home associations, both local and national. We attend annual industry conventions and support their activities.

How long have you been in the insurance business and how did you happen to get into the agency business?

I've been in the business for over four decades. In the late 1950's as a student of young age, I miraculously survived a plane crash. I was inundated by many attorneys looking to represent me. I was fascinated by the intricacies of insurance, and decided to become an expert in this area.

Describe your own role in the agency how you are involved with clients with employees with insurance companies.

As President and Chief Operating Officer, I am involved in almost every facet. I consider myself a people's person, and I enjoy my communication skills and I use them with clients, employees and insurance companies. I enjoy putting together partnerships, commitments and profit sharing incentives between companies and clients with good loss ratios.

What parts of your job do you like best; which the least?

I most enjoy servicing and communicating with clients and working with insurance companies. The dynamics of personal relationship make the agent's job unique.

Least enjoyable is the necessary, but never-ending paper pushing (back office).

As an agency owner or principal, what is your biggest challenge your greatest reward?

My biggest challenge is to consistently upgrade our staff's knowledge so we can continue to offer higher standards of professional service.

My biggest reward is when we have a high rate of longevity with our clients and our employees. That reinforces the knowledge that we are doing a good job.

Briefly describe your office in terms of furnishings, equipment, decorations, etc.

Our office consists of modern furniture, yet has a simple modest look. The visitors, whether clients or companies, get a clear impression that we run a professional office. I try to keep the walls free of posters, and encourage displaying only family pictures.

Is there one maxim, guiding principle or piece of advice that has guided you in your career? What is it?

Perseverance! Never give up, and always strive to exceed the clients' expectations by servicing them with professionalism and integrity. In addition, aim for continuous growth and set your goals high.

If you were not an insurance agent, what other career or job would like to try and why?

Fundraising. All around us people need assistance. I spend a tremendous amount of time sponsoring/participating in fundraising drives, and I thrive on knowing I am making a difference in someone's life.

What advice would you give someone entering the agency business and hoping to own an agency someday?

Be very knowledgeable about the insurance products that you are trying to sell. Know all the lines of business and exclusions. Offer professionalism and integrity. Develop a trust and a good relationship with insurance companies and underwriters. For an insurance agent to replace an existing agent, the prospective client must realize that the new broker is not just another salesman, but a professional reliable person that is able to offer better service than he is currently receiving.

In what areas do you think the insurance industry today does a good job serving the public and in what areas do you think it needs to do a better job?

Insurance companies service the public by removing a client's worries. By the insurance company giving the insured peace of mind, the client is free to concentrate on the growth and expansion of his business.

Insurance companies can improve their job by providing risk management that will include claims prevention and control, help prevent accidents, keep employees on the job, and give the client peace of mind.

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### **Property/Casualty & Risk Management**

#### **Iroquois, Northeast In Strategic Alliance**

OLEAN, N.Y. - Northeast Agencies, Inc. and the Iroquois Group announced a strategic alliance between their networks of independent insurance agents. The two organizations, former competitors, will share increased product line markets and marketing strategies while reducing administrative overhead expense.

"We've been good competitors over the past 15 years," said William (Twig) Branch, Iroquois Group president, "and this alliance makes sense because everyone wins! Insurance companies can have a singular point of entry into a significant distribution force, while still retaining the right to pick or choose individual locations. The combined value of our personal lines books provides greater leverage in negotiating contracts and commissions for our members. And by utilizing the Iroquois's existing infrastructure we are able to reduce operational expenses."

Iroquois claims to be the oldest and largest network of independent insurance agents in the country, totaling nearly 1100 agencies in 22 states with annual revenues exceeding \$20 million. Northeast, formed in 1984, represents over 200 additional agents in 5 states generating over \$7 million in personal lines premiums.

"It has always been evident that both of our organizations were built upon strong commitments to quality performance and products," said Mike Rand, Northeast Agencies President. "Our concentration on small commercial lines and workers compensation in recent years had diminished some of our prior emphasis on personal lines. This alignment with the Iroquois Group will enable us to grow the personal lines, while continuing to increase our presence in commercial. By shifting personal lines administration and underwriting overhead to Iroquois, we will be able to recruit a marketing specialist to maximize the benefits of this alliance and reinvigorate personal lines sales."

Under the alliance, Northeast will adopt the Iroquois method of allowing agents to deal directly with the insurance companies, rather than sending everything into a central processing center for placements. Both groups have focused on assisting mid-size suburban and rural agents to build their businesses with access to insurance companies, reduced operational expense and higher levels of commission.

#### **Hartford To Offer Coverage To USAA Small Businesses**

HARTFORD - USAA, an association that insures military families, and The Hartford Financial Services Group have formed an exclusive alliance that offers insurance coverage to USAA members who own small businesses.

Known as the USAA Business Insurance Program, the new exclusive alliance replaces the USAA General Agency's previous small business insurance program in which USAA brokered commercial coverage for its members with nine carriers,

including The Hartford. Currently, USAA members own about 16,500 policies through that program.

Under the new program, USAA will perform sales operations through commercial insurance representatives. USAA will also market the insurance to its members. The Hartford will handle underwriting and service, claims processing and billing. The policy jacket will be co-branded to display both the USAA and The Hartford logos.

The centerpiece of the program is the Hartford's Spectrum policy, which is available to more than 700 classes of businesses.

### **Hartford Steam Boiler Underwrites Online Warranties**

HARTFORD - The Hartford Steam Boiler Inspection and Insurance Co., a leading insurer of equipment and mechanical breakdown, has become the first insurance company to underwrite limited warranties for used industrial equipment sold through online equipment marketplaces such as electronic exchanges, brokers, auction houses and dealers.

Hartford Steam Boiler will pay to repair or replace used machinery and equipment such as CNC lathes, milling machines and presses for 90 days after online purchase.

The warranty gives buyers a level of protection that helps business-to-business equipment marketplaces provide customers with greater assurance about making large used equipment purchases on the Internet.

The total large-scale manufacturing and industrial equipment market in the United States alone is estimated at more than \$100 billion annually. Many online used equipment marketplaces have been operating for less than a year, according to HSB. These marketplaces are used by sellers and buyers to move anything from machine tools to high-tech equipment and everything in between, including machinery used in automobile and aircraft manufacturing plants to power generation equipment.

Under the program, Hartford Steam Boiler will underwrite the online marketplace's warranty for 90 days and handle claims made during this period. Depending on condition of the equipment being sold, Hartford Steam Boiler will pre-approve selected assets as eligible for warranty. The warranty will cover the cost of repairs and necessary replacement parts.

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### **Industry Urged To Help Stop Rise In Motorcycle Deaths, Injuries**

With motorcycle-related deaths and injuries on the rise, a recent analysis by several individuals associated with motorcycle safety stakeholders is urging the insurance industry to take an active role in addressing the problem.

"There are many factors that affect motorcycle safety, and the insurance industry is in a pivotal position to affect several of them," said Kathleen N. Jensen, insurance services counsel for the National Association of Independent Insurers (NAII), who served on the technical working group for the analysis.

The recently published "National Agenda for Motorcycle Safety" (NAMS), sponsored by the U.S. Department of Transportation (USDOT), the National Highway Traffic Safety Administration (NHTSA), and the Motorcycle Safety Foundation (MSF), states that motorcycle-related deaths and injuries are on the rise after a decade of declines. In 1998, there was a 5.9 percent fatality rate per 10,000 registered vehicles, and a 126 percent injury rate per 10,000 registered vehicles. While the increase in deaths seems small compared with the 5.5 percent

fatality rate in 1997, the 1998 number represents an increase after three consecutive years of declines.

Although there is a lack of research on motorcycle accidents - the last detailed study was conducted in 1981 - the report cites several trends that may be contributing to the increase:

- Motorcycle design has changed, with types like sportbikes and cruisers, models that didn't exist in the '70s, now comprising the majority of bikes on the street.
- Mandatory helmet use laws, often with widely varying requirements, have been enacted, repealed, or both in many states.
- Motorcycles now share the roads with vehicles like sport utility vehicles (SUVs), which are larger and higher than most autos - and can do more damage.
- Motorcyclist demographics have changed dramatically since 1980, when the average biker was 24 years old. Today, the average motorcyclist is 28 years old, and more women are riding bikes than ever before.

#### Safety Factors

NAMS indicates that there are many factors involved in motorcycle safety:

- Human factors, which can include vehicle operation, education and training, and alcohol or substance impairment;
- Vehicle factors, such as design, equipment, modification, and performance;
- Environmental factors, like road and natural hazards, road design, and driver distractions; and
- Social factors, including law enforcement, rider peer pressure, and insurance incentives.

Currently, insurers use limited methods to enhance and encourage safety, the report states. Some companies offer premium discounts for motorcyclists who have taken a MSF-recognized rider training course; others require motorcycle operators to have a motorcycle license or endorsement.

However, insurers can do more, Jensen pointed out. "One of the most effective things insurers can do is to use their wealth of loss data for analysis or use in a safety-related database, as they do with autos," she said. "By using this information to develop safety countermeasures, the industry would both reduce losses and save lives."

NAMS also recommended that insurers offer incentives for rider training; encourage proper licensing for motorcycle operators of insured vehicles, and discourage use by unlicensed operators, and offer insurance discounts for remaining crash-free.

## ***Insurance Times***

**January 23, 2001**

**Vol. XX, No. 2**

### **Florida Lawmakers Eye Changes In Windstorm Rates**

TALLAHASSEE, Fla. (AP) - Windstorm insurance rate hikes for some coastal residents that averaged 90 percent last summer may spur change in how the Florida Legislature lets the state's wind pool determine rates, a group of lawmakers said recently.

While lawmakers have targeted insurers before, this effort to limit the Florida Windstorm Underwriting Association's ability to raise rates may have a better chance because it's backed by Republican Insurance Commissioner Tom Gallagher.

And Gallagher should have some pull in the GOP-controlled Legislature.

The FWUA is a state-created insurance pool providing coverage to some 430,000 people in 29 counties where private insurers refuse to cover wind damage. Most of the policies are in Monroe, Miami-Dade, Broward and Palm Beach Counties.

Officials at the windstorm association argue the provider's rates have long been too low, and a 1999 legislative study found its rates were below those of insurance companies that voluntarily provide coverage.

Then, FWUA rate increases averaging 90 percent came along in July 2000. Then Insurance Commissioner Bill Nelson denied the increase, but was overturned by a state arbitration panel.

"People cannot afford these types of rate increases," said Sen. Ron Silver, D-Miami Beach. "Something must be done."

Now a group of lawmakers are pushing a bill (SB 182, HB 75) that would eliminate that arbitration panel that overruled Nelson, giving the new insurance commissioner, Gallagher, final veto power over the association's actions.

Gallagher supports the bill in general, his deputy, Kevin McCarty, said.

Nelson, a Democrat, was blocked by the Republican-controlled Legislature in his fight against the FWUA, but Republican Gallagher may fare better.

The bill also would prohibit the FWUA from basing rate increases on computer hurricane models until the state is finished developing its own model to check on those loss projections. The state's model is being developed by the public university system, and is at least a year away from completion.

The bill, too, would cut the number of insurance company representatives on the FWUA board - who now number 12 out of its 15 members.

"We cannot sit by and watch the FWUA act as an insurance cartel exercising unchecked power in setting rates and sticking it ... to consumers," said Rep. Sally Heyman, D-North Miami Beach, the bill's House sponsor.

Rep. Gus Barreiro, R-Miami Beach, joined the Democrats and said he thought Republicans would go along with the measure.

FWUA officials, though, argued arbitration is a better way to settle rate disagreements.

"The commissioner has the right to deny rate proposals, but insurers also have the right to appeal those decisions," said FWUA spokesman Ron Natherson.

"There's got to be a fast, fair and final way to do that."

Customers of other Florida insurers are hit with assessments to make up the FWUA's losses, if the pool finds itself without enough money to pay claims. Those sorts of assessments topped \$230 million in the 1990s.

That makes the rate increases necessary, association officials argue.

Natherson said the association doesn't oppose a state computer model as long as it meets the same standards as the industry models, which are approved by state regulators.

Industry representatives on the board, he said, are required to act in the best interest of the people, adding he does not believe they favor their own industry over customers that same industry refuses to insure.

## ***Insurance Times***

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### **World's Disaster Losses Reported**

Catastrophes continued to wreak misery and material havoc in 2000.

According to preliminary Swiss Re estimates, major events worldwide claimed 17 000 lives and caused losses totalling \$38 billion - not including indirect economic losses. As there was only one billion-dollar natural catastrophe loss, the cost to the insurance industry - \$11 billion worldwide - was relatively low. In the record-breaking year of 1999 it had been \$31 billion.(1)

More than 17,000 people died in large loss events in 2000; almost half of them perished in natural catastrophes.

Total losses of \$38 billion roughly correspond to the average for the 1990s and, according to the statistics, are predominantly due to natural catastrophes. Particularly noteworthy were the floods in Asia in late summer and autumn, and in Western Europe in late autumn.

The number of fatalities from man-made disasters - almost 9000 - was significantly above the average for the past decade. That two-thirds of these fatalities resulted from traffic catastrophes on land, water and in the air testifies to increased mobility.

#### Insured Losses

The year 2000 cost insurers \$11 billion, with \$7.6 billion resulting from natural catastrophes; floods alone accounted for \$2.5 billion - a reference to the often underestimated flood loss potential. As only the Tokai floods in Japan reached the billion-dollar threshold, the claims burden from natural catastrophes was relatively low. This is in stark contrast to the preceding year in which seven billion-dollar storm and earthquake events brought the second-highest losses in insurance history. The accumulation of storms and earthquakes striking highly populated areas in 1999 was purely random - as was their absence in the year 2000. It is assumed that the trend towards high losses will continue uninterrupted, particularly as many risk factors will persist: higher population densities, higher concentrations of insured values, especially in endangered areas.

The heavy cost of man-made disasters to the insurance industry (\$3.5 billion) continued in 2000: \$1.4 billion was due to explosions and major fires and \$1.3 billion to aviation and aerospace accidents. Worthy of particular mention were an explosion in a Kuwaiti oil refinery (\$400 million) and an explosion in an American chemical factory (\$300 million).

### ***Insurance Times***

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#### **Vermont Eatery Wants To Rebuild**

SPRINGFIELD, Vt. (AP) - A local restaurant that was destroyed by fire over the summer would reopen if it reaches settlement with its insurer.

But the insurance company and state police are continuing to investigate the cause of the July blaze at B.J. Bricker's.

Restaurant owner Gertrude Holl said she would like to rebuild the restaurant, but her insurance company hadn't paid off on the claim.

"I haven't seen a penny from my insurance company," said Holl, who added that the company paid to clean up the site immediately after the fire. "I would love to open another business again, but because of the circumstances, there's no way I can do anything right now."

At about \$1 million in coverage, Holl said she was underinsured at the restaurant and remainder of the building, which included a laundry and a car parts store.

Holl said the insurance company was still investigating the fire. She said they had requested financial information about her, but she had refused.

Holl also operates a Bricker's restaurant in Claremont, N.H.

Detective Lt. David Tetrault said there had been little progress in the investigation since the summer. Tetrault said the Holl family had been cooperative with police during the investigation.

Tetrault would not discuss specifics about the fire itself or about exactly why the case remains open.

"It's suspicious enough where we feel it still warrants the case being open," Tetrault said. "The origin gives cause for suspicion and the cause itself is still being looked at."

## ***Insurance Times***

**January 23, 2001**

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### **Life Insurance & Financial Services**

#### **Software Guides Financial Planners' Advice**

Forefield, Inc. of Marlboro, Mass. has introduced ForeMost Advice 2.0, a financial advice software that it says guides a financial advisor to deliver high quality advice on virtually any financial planning topic.

"Foremost Advice is the first software that empowers financial advisors to provide their clients with consistent, legal-approved, NASD-compliant information on virtually any financial topic<" said Ronald E. Newton, founder of Forefield.

The software provides expertise on 1,700 financial topics in 10 categories, including six used by certified financial planners (CFPs): basic planning, investment planning, protection planning, retirement planning, estate planning and tax planning. The four additional categories are business owner, education planning, government benefits and special situations.

Information is updated quarterly by attorneys, CPAs, ChFCs, CFPs and other trained professionals, assuring compliance with regulatory requirements.

In addition to being a knowledge bank, ForeMost Advice is also a planning tool. Advisors can search by table of contents, key word or goal. When an advisor enters one of 175 potential goals, the program provides all of the possible strategies for reaching that goal.

ForeMost Advice also prepares customized presentations.

Forefield also a content solution for web sites called Knowledge Bank, which is used by Fidelity Investment's affiliate financial web site, Insurance.com.

The program costs \$495. Contact Lee Pinover at (508) 630-1148 or visit [ww.forefield.com](http://ww.forefield.com).

#### **Carequest Bringing LTC Training Online**

"Walk into an insurance commissioner's office and within days, you can be government approved to sell long-term care insurance," says Robert Pearson, president of CareQuest University in Madison, Wisconsin.

"Being licensed is certainly an important part of selling something as complex as long-term care, but it's really only half the picture; being qualified to sell it is the other."

CareQuest U graduates are awarded the designation of Long-Term Care Group Specialist (LTCGS).

New this year, CareQuest is bringing its class room to the home room - and the home office of insurance companies - with @HomeStudy.

"From around the country, we used to bring people into The U," Pearson said, "Now we're bringing The U to you. Our new @HomeStudy program with on-line testing saves of time and expense for agents interested in earning the LTCGS designation - as well as for insurance company training departments interested in sponsoring the designation."

Enrollment applications are being accepted through February 28th for the April 2001 semester.

Agents, employee benefit professionals and insurance company training departments who wish to enroll may do so on-line at [www.carequestU.com](http://www.carequestU.com) or call (800) 327-7138 for an enrollment information packet.

#### **American Skandia Offers Mutual Fund Wraps**

SHELTON, Conn. - American Skandia has introduced a suite of mutual fund wrap products designed to help financial professionals move from commission-based compensation to fee-based compensation.

The American Skandia Asset Management Portfolios (ASAMP) allow financial professionals to convert to a fee-based business while providing services with a wide array of choice to their clients. ASAMP offers three programs that vary in their degree of customization, level of investment guidance and fee structure.

To date, mutual fund wrap programs throughout the industry have been limited to packaged mutual funds where investor profiling has determined asset allocation, usually fulfilled with a limited selection of "in-house" mutual funds. ASAMP, in contrast, gives the investor a choice of three product solutions with a wide range of mutual fund choices that are among the top 200 mutual funds.

In addition, ASAMP provides the tools and process to easily convert assets that previously may not have been available to financial professionals. These include advanced Web-based record-keeping and monitoring systems as well as the support of American Skandia's wholesaling team.

With one of the three programs, there is no need for the financial professional to be registered as an Investment Advisor; American Skandia Advisory Services, Inc. assumes that role.

Call 1-800-SKANDIA.

#### **John Hancock Life Insurance Co. Has Introduced Its First Bank**

Owned Life Insurance (BOLI) product for small-to-medium sized banks.

The single premium universal life policy complements Hancock's large bank BOLI product, which requires a minimum first-year premium of \$15 million.

Small bank BOLI is available in three premium bands: \$500,000 to \$4.99 million; \$5 million to \$9.99 million; and \$10 million to \$15 million.

The interest earned on the contract is tax-deferred and can exceed a bank's returns on comparable taxable investments, while meeting a bank's need for a predictable earnings stream.

Small bank BOLI is available for both fully underwritten and guaranteed issues. Guaranteed issue underwriting may be available with 15 lives and is paid via a slightly lower policy-crediting rate.

The product is available in all states except New York and New Jersey.

### ***Insurance Times***

**January 23, 2001**

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#### **Consumer Reports Cautions Buyers Of Life Settlements**

While Consumer Reports finds there are troubles, the publication also finds the viatical industry fills a real need in helping critically ill and retired persons

Increasingly common insurance products, called viatical settlements or viaticals, allow for terminally ill insurance holders to get a percentage of their policy for immediate use. The word viatical comes from a Latin word meaning provisions for a journey. For some terminally ill patients and seniors,

making these provisions requires money they don't have. Desperate times may call for desperate solutions, but for many terminally ill patients and the investors they attract, viatical settlements can compound their difficult situations, the magazine Consumer Reports says.

At first glance, viatical settlements look like the type of agreement in which both terminally ill patients and investors alike could gain, Consumer Reports says.

Terminally ill patients facing devastating medical expenses could sell an interest in a life insurance policy they own and with this settlement receive cash to help see them through their final days. Investors who became the beneficiaries of those policies would be rewarded with a tidy return from a sure bet. Such attractions are the wellspring of a growing business. In 1998, the 40 to 50 small companies that make up the industry exchanged about \$1 billion in life insurance policies, up from just \$50 million in 1991. Now the industry is moving to extend the marketing of viatical settlements to healthy seniors through so-called "life settlements," a market potentially worth \$108 billion. Many viatical insiders believe that eventually Wall Street companies will sell shares in large pools of "used" insurance policies.

#### How It Works

A policyholder who can demonstrate that he has been diagnosed with a terminal illness will sell his policy to a settlement company for a fraction of its face value, depending on estimated life expectancy. The purchasing company later solicits investors. After the insured (or viator) dies and the insurance company pays off, investors receive their share of the claim.

Out of its portion of the investment, the viatical company pays premiums on the policy to keep it in force until the viator dies. In some cases, the company may require that investors or even viators pay the premiums. Any type of insurance can be used in a viatical settlement; whole life, universal, term, or group life. The viator must have owned the policy for a minimum of two years before he sells it.

However, Consumer Reports cautions that there are legal and ethical dilemmas involved. Insufficient consumer protection has left many viators with inadequate payments and investors stung after promised returns of up to as much as 30 percent fail to pan out. Fraud has been a common problem, prompting the North American Securities Administrators Association to name viaticals one of the top 10 investment scams of 1999, along with telemarketing schemes and get-rich-quick seminars.

Thirty-three of the 73 viatical companies Consumer Reports found in operation in 2000 had been in trouble with regulators in the past two years. Among their problems: failure to register with securities or insurance authorities, misuse of investor funds, misstatements about the medical condition of patients, and a fraudulent practice called "cleansheeting." Under that scheme, viatical companies solicit patients with life-threatening chronic or terminal conditions to lie about their health and apply for life insurance policies, which are then resold to investors.

But for all its troubles, Consumer Reports finds the viatical industry fills a real need in helping critically ill people pay for medical care. They could also help retired people who didn't manage to save enough for their old age.

#### Consumer Beware

Until state and federal regulators can establish the necessary safeguards, Consumer Reports advises that viators and potential investors can protect themselves by following these tips:

- Potential viators should investigate the alternatives before accepting a viatical settlement. They should check for early distribution provisions in the

insurance policy. Also, they should explore borrowing from family and friends, using future proceeds from the insurance policy as collateral.

- Check first for companies affiliated with one of the two industry trade groups if a viatical settlement is their only option. The National Viatical Association (1200 G St., NW, Suite 760, Washington, D.C. 20005; 202-347-7361; [www.nationalviatical.org](http://www.nationalviatical.org)); or the Viatical and Life Settlement Association (2025 M St., NW Suite 800, Washington, D.C. 20036; 202-367-1136; [www.viatical.org](http://www.viatical.org)) can verify a company's credentials. They should also check with local insurance regulators and get bids from several companies before accepting an offer.

- Consult with a financial advisor before signing over a policy. Collecting a viatical settlement can disqualify a patient from Medicaid benefits. Settlements paid to those with less than two years to live are free of federal taxes.

- Exercise extra caution before going the viatical route. Due to lack of regulation viators have no protected right of privacy and may be subject to a hefty tax bill.

- Don't accept less than the cash value for a whole-life policy.

- Investors should approach viatical settlement investments with great caution, as they are high risk-investments that could take years to pay off.

- Do not use this type of investment for Individual Retirement Accounts. IRA holders must start withdrawing funds no later than April 1 of the calendar year after they turn age 70 1/2. If the cash isn't there, they will face a penalty equal to half the sum they were required to withdraw but didn't.

The February report on viatical settlements, "Betting on Death," was to be posted online at [www.ConsumerReports.org](http://www.ConsumerReports.org) as of January 10. The February issue of Consumer Reports will be available on January 16 on newsstands.

## ***Insurance Times***

**January 23, 2001**

**Vol. XX, No. 2**

### **Zurich Financial Buys Stake In China's Biggest Life Insurer**

ZURICH, Switzerland (AP)- Switzerland's Zurich Financial Services has acquired a stake in Beijing-based New China Life Insurance Co. along with three other foreign investors.

New China Life Insurance is China's biggest private life insurance company and its fourth largest life insurer.

Zurich said it invested \$39 million for its stake of about 10 percent and said the other investors were the World Bank's International Finance Corp., Japan's Meiji Life Insurance and Netherlands Development Finance Co. FMO, who together own 14.9 percent.

Zurich also entered an agreement with New China Life to send senior executives to provide technical assistance and training.

New China Life, which started business in 1996, has some 500 employees and more than 2,500 agents.

Zurich board member Malcolm Jones noted that Zurich "is among the first foreign insurers to be allowed to have a shareholding in a nationwide operating Chinese life insurance company."

"We expect that the economic and social reforms such as the deregulation of medical care and pension business will increase the potential of the Chinese life insurance market tremendously," Jones said in a statement.

In November another Swiss insurer, Winterthur, said it had bought an undisclosed equity stake in China's Tai Kang Life, becoming the first foreign insurance company to enter such an alliance.

## ***Insurance Times***

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### **LIMRA: Ceos' Optimism At All-Time High**

Windsor, Conn. - LIMRA's CEO Outlook Index that measures the relative optimism of U.S. and Canadian CEOs. rose for the second quarter in a row, reaching an all-time high of 722 out of possible 1000 points in fourth quarter of 2000 -- an increase of 15 points since the third quarter.

While optimism increased over third quarter for both company and industry measures, life insurance chief executive officers continue to be more optimistic about their own company's future than that of the industry as a whole. Last quarter, LIMRA reported the largest gap ever between the company and industry measures. This quarter the gap widened even further to 225 points, with company measures averaging 834 points and industry measures at 609.

#### Results Gap

There is a dichotomy this quarter between industry and company results: The statement, "The future outlook for my company looks good," received the highest score in the index, a score of 8.83. This is the highest this company-oriented index component ever scored.

At the same time, some of the industry-oriented components received their lowest scores. Specifically, "The current economic climate is good for insurance", went down to 7.48, which is its lowest since second quarter 1999 when it scored 7.43. Also the statement, "Overall, the industry outlook for the future is bright," went down to 6.93 - its lowest ever.

According to Donna Ericson, project director for the survey, fourth quarter results seem to confirm earlier suspicions that the regulatory environment continues to foster uncertainty for the CEO. The index component, "The regulatory climate will be friendlier three years from now than it is today," received the highest percent disagreement of all the components - 34 percent.

Ericson says "A number of CEOs expressed concern with sales levels, profitability, and with the ability to achieve adequate rates of return in the financial services industry. As the consumer demand for life insurance products shift from protection to accumulation, margins will shrink and critical mass will be more important than ever. This is emphasized by the index component, "My company's profits will be higher than last year."

This scored 7.40 in fourth quarter, its lowest score since the index began in second quarter 1999.

## ***Insurance Times***

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### **Homeless Will Use Insurance If They Have It**

SAN FRANCISCO (AP) - Homeless people with insurance have better luck obtaining outpatient care and sticking with prescription regimens than those without coverage, a study found.

The University of California, San Francisco released a report analyzing health care barriers among a national sample of urban, suburban and rural homeless people. Previously, research had targeted only urban homelessness in specific cities.

The study found that 55.6 percent of respondents were uninsured and about 26.7 percent reported not having any contact with a medical provider in the last year.

The report also found that those with insurance were more likely than uninsured homeless people to seek health care that wasn't in an emergency room.

"Homeless persons too often reach a point at which they have little choice but to seek emergency room care," said Dr. Jennifer Haas, UCSF assistant professor of medicine. "They seek emergency room care whether or not they have insurance."

The findings back up prior research that found insured people are likely to seek medical attention for chronic problems if they're given the option.

The survey was performed by the Census bureau of 2,974 homeless people across the nation. Of those, 663 veterans were surveyed and nearly half of those said they were not receiving medical benefits to which they were entitled.

## ***Insurance Times***

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### **Agent Stock Compensation Programs Come Of Age**

by Jack Ladley  
Ernst & Young

The use of company stock to compensate producers is a growing trend among larger insurers in the U.S. Within the last year, a number of publicly traded insurers have initiated stock grant or stock option programs, while others have adopted the existing stock plans of smaller companies they have acquired. Lincoln National, Jefferson Pilot, and Allmerica are among the companies that most recently have introduced or refined such programs.

With the general rise in the U.S. stock market, and with producers themselves focused increasingly on equity-based products, some insurers have concluded that stock plans make sense. They believe such plans can ensure the agent-company partnering that should be good for both the insurer and their producers. But while stock plans have tremendous upside potential, producers and industry analysts also see significant risk in these programs.

#### **The Ties That Bind.**

Generally targeted at independent producers and sales management, stock programs seek to build the loyalty of larger producers and to attract new agents. Typically, these programs encourage new production, although they sometimes incorporate incentives for building assets or enhancing the persistency of business as well. The impact of recently adopted plans is not yet clear. For some older agent stock plans, results have been mixed.

Producer equity programs seem to be most prevalent among life insurers - especially those selling asset accumulation products- and property/casualty companies. Health insurers have shown less interest so far. International use appears to be limited; for example, insurer stock programs are minimally used in Australia, where previous experience with profit-sharing schemes has not been favorable.

Some insurers in the Netherlands offer phantom options (options not listed on the option market) programs to sales managers. These option grants are related to the realized value of the business produced. In the UK, limited use has been observed with brokers. When options have been triggered by an acquisition, there have been challenges motivating some newly wealthy producers. Finally, there appears to be limited-to-no use of these programs in Canada.

This growing trend in the U.S., where no carrier dominates the market, reflects the intense competition for the attention, allegiance, and control of a limited and declining number of top producers. Historically, insurers have initiated sales incentive plans with similar objectives, including:

- Special accelerated compensation for top-tier agents.
- Agent-owned captives or other ways for producers to participate in the profitability of the business sold.
- Company investments in agencies or full agency buyouts to ensure the alignment of objectives.
- Formation of distribution companies by producers to gain negotiating clout over insurers.

One intriguing variation on this trend that will be watched closely is an initiative undertaken by New England Financial to provide equity ownership in its distribution spin-off. NEF provides equity participation that is focused on the profitability of the distribution function, separate from the overall results of the sponsoring company. This arrangement can also be used to encourage sales of nonproprietary products.

#### How They Work

Some equity plans provide incremental compensation in exchange for expected enhanced results, such as increased production, improved producer retention, enhanced business quality or mix, and better experience (e.g., persistency and mortality). In these cases, actuarial models that quantify the incremental values and establish specific program goals and measures of success are advisable.

In programs that provide equity in lieu of existing compensation, actuarial modeling is not as critical. However, producers are highly skeptical about such plans. Many top producers will not tolerate a reduction in cash compensation, in part because of their ongoing need to make investments in their organizations. In addition, stock grants or options may place a hefty portion of compensation beyond agents' control, making it dependent on the insurer's overall performance and the vagaries of the stock market.

#### Weighing the Risks

One major risk of such programs is that they may create a "reverse partnering" outcome - the risk that agents who own or have options on substantial levels of company stock will become sensitive to insurer performance. In downturns, management/producer conflicts may arise because of disagreements over company decisions. Ultimately, poor stock performance could alienate producers and put a damper on production. Some producers may also be concerned about compromising their independence when accepting stock.

Mutual companies face special challenges. Recently demutualized insurers may lack the performance record to demonstrate upside potential in the stock. Insurers committed to their mutual structure may have to design programs reflecting the performance of operating or financial measures other than stock price.

Equity plans are a potentially effective tool to improve sales efficiencies in insurance markets. But given the risks involved, their objectives and design must be carefully considered. And naturally, successful agent/company relations must start with creative product design, competitive pricing, and attractive basic sales compensation. Producer equity programs will not overcome deficiencies in these fundamental areas. If done right, however, they can meaningfully enhance both producer and insurer results.

Ladley is a partner in Ernst & Young's Actuarial Services Group in Philadelphia. This article originally appeared in the Winter issue of CrossCurrents, (c) Ernst & Young, and is used with permission.

## ***Insurance Times***

**January 23, 2001**

**Vol. XX, No. 2**

### **Insurance Times Tech Update**

by Mark Hollmer

Here's where the Web makes being blue a good thing.

Blue Cross Blue Shield of Massachusetts and Imind Corporation have signed a deal to bring a service called BlueQuote to Blue Cross brokers, through the health insurer's Web site at [www.bluecrossma.com](http://www.bluecrossma.com).

The first phase of the project will be launched by spring 2001, and will let brokers get online quotes for businesses with 50 or less employees almost instantly, according to Blue Cross Blue Shield's recent press release.

The system will also allow brokers to compare product benefits, generate quotes or print or order benefit literature 24 hours a day, Blue Cross Blue Shield said.

Long range, BlueQuote is expected to expand to handle annual renewal quotes for under-50 employer groups already with Blue Cross Blue Shield and also larger businesses. [bluecrossma.com](http://bluecrossma.com) will also be used to enroll new employer groups and members.

Blue Cross Blue Shield of Massachusetts is the largest health plan in New England with more than 2 million members.

\*\* \*

Temporary insurance is coming to the Web.

John Hancock is launching a pilot project to provide temporary life insurance to young applicants waiting for their policies at no extra charge. Applicants between 20 and 49 are eligible for the temporary coverage if they're applying for a policy of \$250,000 term or less. They must also be without any hazardous jobs or hobbies, and have no previous medical history.

Diana Scott, vice president of e-Business for John Hancock, explained that the new temporary coverage is designed "for average applicants who we think will feel more comfortable knowing they're covered during the underwriting process."

The company is also trying to improve its online system that lets consumers obtain term life quotes. It has expanded that part of its Web site by now providing the lowest quote plus those for other rate classes, rather than the lowest quote possible based on information provided.

The sit also gives consumers a short explanation that tells how they may be disqualified from the lowest rate class, and a longer online application questionnaire.

\*\* \*

The 9-to-5 p.m. work day increasingly no longer applies when it comes to shopping for business insurance. That's what InsuranceNoodle has concluded, an online insurance broker that focuses on small businesses. More than 50 percent of small business owners shop for insurance after the traditional business day, the company says. InsuranceNoodle gleamed this number from evaluating customer trends - more than 220,000 visitors a week to its web site. The number breaks down to 41-percent of after-hours visitors during the week, and 15 percent on weekends.

\*\* \*

Many insurance companies still aren't ready to do business online. KPMG, a professional services firm, found this out recently at its 12 Annual Insurance Industry Conference in New York after surveying 175 insurance executives. According to the survey, 40 percent of the executive said their firms "lacked a strategic vision" on e-business planning and 26 percent didn't have e-business skills. Only a little over half of the executive said they were keeping up with competitors on e-business planning, but 30 percent said "they were significantly behind."

\*\* \*

A minority of consumers still use the Internet to compare research rates, but that number is still apparently rising. Ebix.com - which provides the service on its ebix.mall virtual marketplace site, asked consumers about when they last compared rates with their current policy. Of that number, 35 percent had compared rates within the last few months, of which 21 percent did so on the Internet.

In a separate ebix.com poll, almost half of those responding said they want to pay their insurance bills online. Consider that the practice was unheard of less than 10 years ago.

The company says the polls are unscientific and were conducted respectively from late June through early October.

\*\* \*

Here's an online partnership with some teeth in it.

InsureHelp.com and America's Plan will now offer the latter company's dental care package as part of InsureHelp's group of online specialty products. InsureHelp of New York is a business-to-business company that helps insurance agents sell insurance to consumers online. Agencies that sign up with InsureHelp.com can offer the same products through their own Web sites.

## ***Insurance Times***

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### **Mass. Auto Insurers Lower Safe Driver Discounts**

by Mark Hollmer

Insurance Times

BOSTON - Massachusetts auto insurance companies propose either slashing or eliminating their safe driver discounts in the wake of a state-mandated 8.3 percent insurance rate drop for 2001.

The reduction or loss of Step 9 Safe Driver Insurance Plan discounts - which rewards the state's safest drivers with lower rates - is something insurance industry advocates predicted would happen if basic rates were reduced too much. Only Amica Mutual remains in the double-digit discount range. The Rhode Island-based company filed a 12 percent Step 9 discount in Massachusetts for 2001, versus 15 percent last year.

Daniel Johnston, president of the Automobile Insurers Bureau, said he wasn't surprised at the news.

"It indicates that the rate decision ... (Commissioner Linda Ruthardt) came out with was in the extreme, and the only recourse the companies had was to eliminate the discount they had (given) to good drivers," he said.

Christopher Goetcheus, the Division of Insurance spokesman, said the loss of greater rate reductions is unfortunate and not appropriate.

"The Commissioner, in setting rates, sets them for all policyholders," he said. "It's a shame that the industry feels it necessary to recoup what (it) didn't receive in the rate decision through the safest drivers and their books of business."

Standard Step 9 discounts ranged from 6 to 15 percent last year but most new proposed discounts are limited to between 1 and 5 percent.

Ronald Rainer, senior assistant vice president for Amica Mutual, said the company is able to maintain a double-digit Step 9 discount because it's not a publicly held company.

"We don't have to worry about making big profits in Massachusetts to appease stockholders," he said. "What we do instead is try to pass whatever discounts we are able to come up with directly to our policyholders in order to reduce their premiums."

Amica's status as a direct writer also helps, Rainer said, because the company doesn't have to pay agent commissions" and can keep the Step 9 discount higher as a result.

According to the DOI, as of press deadline, seven companies hadn't filed for any step deviation at all: Clarendon National, CGU, Commonwealth Mutual, Fitchburg Mutual, Horace Mann/Teachers, Metropolitan and State Farm Mutual. Jan. 16 was the deadline to file but the DOI was trying to confirm that company's filings weren't in the pipeline after that.

For 2000, State Farm was the only company that didn't make a step deviation filing.

It will be up to Ruthardt to approve the rate deviation filings and hearings will be scheduled over the next several weeks.

Among the highlights of the 2001 step deviation filings:

Commerce Insurance, the state's largest auto insurer, filed a 2 percent rate deviation compared to last year's 6 percent discount. (The company, however, filed a 6 percent group discount for state AAA members who sign with Commerce.) Liberty Mutual and Plymouth Rock are both seeking a 2 percent Step 9 deviation compared to 6 percent last year; Quincy Mutual wants to drop its Step 9 deviation from 7 percent to 2 percent.

USAA - a company with a small amount of Massachusetts business - filed one of the largest reductions, dropping from last year's 15 percent discount to a 2 percent Step 9 deviation for 2001.

Commerce was the first to submit its deviations in early January - less than a month after Commissioner Ruthardt set auto rates 8.3 percent lower than last year.

#### Rate Appeal

The AIB took an unusual step in December toward fighting the rate reduction, by filing a motion to reconsider the 2001 rate decision directly with the Division of Insurance. The AIB claimed the decrease was "not warranted or realistic" because the claims environment began worsening last year.

Ruthardt denied the motion.

"We have considered each ground set forth by the AIB and we conclude that there is no basis to reconsider our decision or to reopen the record to admit new evidence," the decision reads.

Goetcheus, of the DOI, said his office has told Step 9 and 10 drivers in previous years to use the safe driver discount to shop around for the best deal. But with the reduction or elimination of that discount, Goetcheus said, a competitive element to attract consumers is gone.

"Thus far it appears there is no great disparity in what any of the insurers are offering," he said. "For an industry that is often urged to return to full

competition, they've in essence closed down one avenue of competition that does exist within the marketplace."

Ruthardt, in her decision, argued that statistical evidence supported the rate cut she approved.

The AIB has until Jan. 22 to file a formal appeal with the Supreme Judicial Court.

Johnston would not comment as to the AIB's plans on the matter, other than saying "we have announced no plans to appeal at this point."

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### **Personal Lines**

Risman and Smith Buckley & Hunt earn 5 Star Awards; CAR honors Arcadipane; Applied Insurance Research adds 5; Luongo joins Plymouth Rock

Risman Insurance and  
Smith Buckley & Hunt

Two more Massachusetts agencies have been honored with the 5 Star Agency designation which distinguishes them as among the state's best by the Massachusetts Association of Insurance Agents.

Risman Insurance of Medford and Smith, Buckley & Hunt Insurance Agency in Brockton were given the designations by MAIA Executive Vice President Frank Mancini. They are the seventh and eighth agencies to be given the designations. Mackenzie Smith of Smith Buckley & Hunt and Henry Risman of Risman Insurance accepted the awards on behalf of their agencies.

Cigna

Cigna Corp. announced H. Edward Hanway as its new chairman of the board, adding to the responsibilities of president and chief executive officer he assumed last year. Hanway succeeds Wilson H. Taylor, who headed the company for 12 years and has announced his plans to retire.

Hanway said Cigna will continue to focus on building each of Cigna's businesses -- health care, retirement and investment services, group insurance, and international.

Before assuming the position of chief operating officer in January 1999, Hanway had served as president of Cigna HealthCare, the company's largest division. Prior to that, he served for seven years as president of Cigna International.

Plymouth Rock

Paul D. Luongo has been named vice president of information technology and chief information officer by Plymouth Rock Assurance Corp. in Boston.

Luongo has more than 20 years of experience in information technology for property and casualty insurance. Most recently, he was vice president for business engineering and outsourcing with CGI Group, Inc., a technology company serving insurers.

Allied American

Susan E. Haslam has joined Allied American Insurance Agency in Natick, Mass. as an account manager in the risk division of Carlin Insurance. Prior to joining Allied/Carlin, Haslam was insurance manager for the First Church of Christ, Scientist in Boston.

Carnall Insurance

Dennis N. Purnell has been promoted to senior vice president for sales at Carnall Insurance Inc. in Ridgefield, Conn., which is a wholly-owned subsidiary of Ridgefield Bank.

Purnell is responsible for the development and retention of business in property/casualty, life, health and employee benefits divisions, as well as for the coordination of all cross-marketing efforts between the insurance agency and the parent bank

#### AIMU

The American Institute of Marine Underwriters has elected Deirdre H. Littlefield chairman. Littlefield, a senior vice president with Swiss Re, is the association's first female chairman. David S. French, senior vice president at American International in New York, was elected vice chairman.

#### Delta Dental of Mass.

Wendy M. Connors has joined Delta Dental of Massachusetts as a new client business manager. She will oversee the company's business relationships with accounts. She comes to Delta Dental from Tufts Health Plan.

#### Delta Dental of New Jersey

Delta Dental Plan of New Jersey, Inc. has promoted Mark Nadeau to the position of vice president of marketing, where he will be responsible for the sales force and sales representatives in addition to assuming other responsibilities within marketing. Nadeau began his career with Delta Dental in 1991 in Connecticut.

#### GAB Robins

R. Paul Hulsebusch, formerly with Homesite Insurance in Boston, has been appointed vice president of catastrophe operations in North America for GAB Robins North America, Inc., based in Parsippany, N.J. Hulsebusch is responsible for revamping GAB Robins' catastrophe operations to create best-in-class services that will be targeted to the company's insurance industry customers.

#### Applied Insurance Research

Applied Insurance Research, the Boston catastrophe and weather risk modeling firm, has added five people to its management team.

Paul Devlin, with has joined AIR as vice president and general counsel. Dr. Roger Grenier has been promoted to manager of AIR's services and analytics group. Dr. Jayunta Guin has been promoted to assistant vice president for research and modeling. Kristen Jones has joined the firm as assistant manager for the service and analytics group. Joseph Lukeman as also joined as assistant product manager for the software services team.

#### AIA

The American Insurance Association (AIA) has named Julie Rochman as senior vice president of public affairs. She joins AIA with more than a decade of public affairs and government affairs expertise representing insurance industry and public safety organizations. Rochman led media, industry and government relations efforts the past four years for the Insurance Institute for Highway Safety, serving most recently as vice president of communications. Prior to that, she worked five years in the Washington, D.C., office of the Alliance of American Insurers as > assistant vice president of public affairs. Other insurance experience includes three years with the Insurance Information Institute in the federal affairs office.

#### NAHU

Janet Stokes Trautwein, director of federal policy analysis and state government affairs for the National Association of health Underwriters, has been asked by the transition team of President George W. Bush to assist with the policy

coordination of the Health and Human Services Department. Trautwein was one of 19 persons selected to provide input on health issues to incoming HHS Secretary Tommy Thompson.

CAR

Joseph R. Arcadipane, a 43-year veteran of residual markets, has been selected as the Employee of the Year by his peers at Commonwealth Auto Reinsurers in Boston, the Massachusetts auto insurance organization. Arcadipane, who serves as CAR office manager, was recognized for his "outstanding performance and commitment to excellence," according to CAR President Ralph A. Iannaco. Arcadipane is the third recipient of the CAR employee award.

Distinguished Programs Insurance Brokerage

Carla Vel and Judy Sigel have been named co-chief executive officers and co-presidents of Distinguished Programs Insurance Brokerage and Distinguished Programs Risk Management in New York. Sigel and Vel will report to Andrew Potash, who is relinquishing his role as president and CEO to focus on strategic planning, acquisitions and the running of the company's reinsurer, Saranac Insurance Co.. Distinguished Programs develops group property and casualty programs for small business.

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January 9, 2001

California Casualty  
Indemnity Exchange  
1900 Alameda de las Pulgas,  
San Mateo. CA 94403-1298

The above company has made application to the Division of Insurance for a license/ Certificate of Authority to transact Fire, Inland Marine, Liability other than auto, Auto Liability. Glass, Water damage/ sprinkler, Burglary, Repair/ replace, Personal property floater, and Dwelling insurance in the Commonwealth.

Any person having any information regarding the company which relates to its suitability for license or Certificate of Authority is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02110 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

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Business Men's Assurance Company of America  
P.O. Box 419458  
Kansas City, MO 64141

The above company has made application to the Division of Insurance for a license/ Certificate of Authority to transact Variable Life and Variable Annuity insurance in the Commonwealth.

Any person having any information regarding the company which relates to its suitability for a license or Certificate of Authority is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02110 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

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Penn Millers Insurance Company  
72 North Franklin St.  
Wilkes-Barre, PA 18701-1301

The above company has made application to the Division of Insurance for a license/ Certificate of Authority to transact Auto Liability insurance in the Commonwealth.

Any person having any information regarding the company which relates to its suitability for license or Certificate of Authority is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02110 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

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USAA Life Insurance Company  
9800 Fredericksburg RD C-3-W  
San Antonio, Texas 78288-3051

The above company has made application to the Division of Insurance for a license to transact Variable Life insurance in the Commonwealth.

Any person having any information regarding the company which relates to its suitability for a license is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02110 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

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**Employee Benefits & Managed Care**

Wausau to sell Hartford Life Group products

SIMSBURY, Conn. - Hartford Life(R) has entered into an agreement with Wausau Benefits, Inc. to provide Hartford Life products to existing Wausau Benefits' customers.

As of Feb. 1, 2001, the Wausau Benefits national sales force will be able to sell Hartford Life group life products while group disability products will be made available shortly thereafter. In addition, Wausau Benefits existing group life business will be transferred to Hartford Life.

"This is an attractive opportunity for Hartford Life that perfectly complements our strategy of developing multiple distribution channels," said Dong Ahn, Hartford Life senior vice president and director of employer markets. "The Wausau Benefits team uses a combination of independent agents, regional brokers and consultants."

"Wausau Benefits is a well-recognized health plan administrator and manager for self-funding employers. To leverage our abilities in that market, we knew it was critical to partner with a strong and progressive carrier for our existing group life business," said Wausau Benefits Chief Executive Officer Fred Moore. "We are very excited that we will be able to sell Hartford Life's quality products and expand in this market."

Wausau Benefits became an independent organization on Oct. 1, 2000, separating from its former parent, Wausau Insurance Companies, a member of the Liberty Mutual Group, through a management-led buyout. p

Maine and hospitals try to reach uninsured kids

PORTLAND, Maine (AP) - The state is teaming up with hospitals around Maine to get more children of low-income families signed up for subsidized health insurance.

The Maine Department of Human Services and the Maine Hospital Association launched the Covering Kids and Teens Campaign early in January. The effort included TV ads and encouraged families to participate in a sign-up day on Jan. 10. One-page applications were to be made available at local hospitals.

"We're telling anyone who is interested to walk in to any hospital in Maine," said Abby Seymour, a spokeswoman for the Maine Hospital Association.

Seymour said that if people who want to complete the applications at the hospital, they should bring identification and a pay stub or income statement.

While Maine has one of the lowest percentages of uninsured children in the country, thousands of Maine children still do not have health coverage. Roughly 140,000 residents are uninsured; about 18,000 are under 18 years old.

The state estimates that up to half the state's uninsured children are eligible for government programs such as Cub Care and Medicaid.

DHS spokesman David Winslow said it isn't clear why some eligible families do not enroll in the programs. He said it might be that they don't realize they are eligible or don't think of it while their children are healthy.

Maine Medicaid and Cub Care were expanded so that parents of children with Medicaid are also eligible for the program. Children are eligible if their parents earn up to 200 percent of the federal poverty level, or just under \$30,000 per year for a family of three.

Computer wrongly cancels NY health policies

BUFFALO, N.Y. (AP) - About 3,000 city employees and retirees were wrongly notified that their health insurance had been canceled following a computer glitch at a health care provider, according to company officials.

Notices from Community Blue went to about 1,200 active city employees and their families, including police officers, firefighters and others, as well as hundreds of retirees who also are covered under the city's policy.

"At first, you don't know who to be mad at, the city or Blue Cross," said Jay B. Duderwick, city director of citizen services, referring to Community Blue's

parent corporation. "When you're employed for all these years, you don't expect to be without insurance."

Buffalo officials issued a computer message to assure all employees there had been no change in health insurance coverage.

According to Linda Soltis, company spokeswoman, the problem occurred when the company attempted to change an internal identification number used for city workers covered under the company's Advantage plan.

"The change, which should have been invisible to the customer triggered a notice that we send out. The notice should not have been sent out because there was no break in coverage. It was merely an administrative change," she said.

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### **Vt. Gov. Dean Seeks Cigarette Tax Hike To Cover Health Costs**

by Ross Sneyd  
Associated Press

MONTPELIER - Gov. Howard Dean wants to more than double the cigarette tax in order to reduce smoking and to help pay for the rising cost of the state's health care programs.

Dean's plan calls for the tax to rise 67 cents per pack of cigarettes to \$1.11. Eventually, the state would have roughly \$33 million in new money available to pay for state health care programs that are provided through the Medicaid insurance system for the poor, he said. The federal government would match the state's contribution to Medicaid in future years.

The money would be used to boost the amount the state pays to hospitals, doctors and other health care providers.

Health care providers have complained for years that they're being paid less for treating Medicaid patients on behalf of the state than they're paid for federal Medicare patients or for people with private insurance.

Dean said his proposal would fix that problem.

"That will bring our cigarette tax up to the New York state level and it will allow us to pay Medicare rates for all the health care that the state pays for over a four-year period," Dean said. "It will allow us to maintain sustainability in the Medicaid program ... until the year 2011."

The leader of a trade group for the state's hospitals was cautiously optimistic about the proposal but said he did not want to tie increased funding for his members to an increase in the tax.

Norman Wright, president of the Vermont Association of Hospitals and Health Systems, said his group supported substantially increasing the cigarette tax to help reduce smoking. The association also supports efforts to pay hospitals and other health care providers more.

"I'm reluctant to tie that to any one program, though," he said. The hospitals fear that Republicans who control the House could refuse to raise the cigarette tax, and the hospitals could be left out in the cold in the funding debate.

Dean's plan for increasing what it pays providers for their services would be phased in over four years so it would not run afoul of complicated requirements of federal Medicaid funding laws.

"So we can't just dump a lot more money and pay a lot more money for the same cases," said Finance Commissioner Sean Campbell.

The administration is not worried that a big increase in the cigarette tax would drive cigarette buyers to other states because Vermont's neighbors either are considering or have implemented tax increases.

"One of the questions is whether we're doing it in isolation," Campbell said. "New York already is there. The six-state coalition of (New England) advocates are pushing for a 50-cent increase all around. If that happened, then it doesn't stand out quite so much. Governor (Angus) King proposed \$1 the other day in Maine."

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#### **States Get More Time To Spend CHIP Money**

WASHINGTON (AP) - Thirty-nine states that stood to lose hundreds of millions of dollars for children's health insurance have been given a reprieve. All states had until the end of the fiscal year in September to use about \$4.2 billion that Congress had approved for 1998 for the Children's Health Insurance Program (CHIP), but only 11 met the deadline. Those that did not had to forfeit the remaining money to the states that used the money.

#### **Congress Acted**

Those states got a break when the fiscal year passed without a new federal budget in place, leaving the funding in limbo. A lame-duck Congress last month finished work on the spending plan and included help for the 39 states.

Congress allowed those states to keep 60 percent of what they did not spend and will give the remaining 40 percent, or about \$800 million, to the other states.

The only states that spent all of their money were: Alaska, Indiana, Maine, Maryland, Massachusetts, Missouri, New York, North Carolina, Pennsylvania, Rhode Island and South Carolina.

The 39 states give a variety of explanations for not using all their funds, including slow starts, a complex application process and difficulty in publicizing the program.

Officials in New York, which spent all its funds, said splitting some of the unused money will help it continue the progress in its children's health insurance programs. New York has enrolled more than 530,000 previously uninsured children.

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#### **Managed Care Backlash Leads To Broadening Of Malpractice, Conning Reports**

HARTFORD - The latest Conning and Co. survey reveals that not only is the size of medical claims on the rise, but also the definition of malpractice is being broadened to include "failure to detect."

Doctors are being held liable for diagnostic tests they are unable to perform based on the existing structure of some managed care companies, giving rise to the "failure to" litigation.

The survey also discusses the increased frequency of million dollar claims, as juries have been desensitized to how large a sum of money this is.

According to the Conning survey, "Medical Malpractice Insurance: Ills Diagnosed, Cures Elusive," 72 percent of medical malpractice insurance writers surveyed believed that the broadening definition of malpractice, particularly "failure to detect," was an important challenge facing the industry. Interestingly, only 53 percent of medical malpractice insurers cited the need for tort reform as an important issue and only 58 percent of medical malpractice insurers reported

that the erosion of ERISA protection (HMO's being cleared from malpractice suits) was an important issue.

"'Failure to detect' litigation is imposing a huge burden on the medical malpractice industry," said Geri Riley, vice president at Conning and Co. and author of the study.

The runaway costs of claims in a market where competition for new policies is already fierce presents a dismal outlook for the medical malpractice industry, according to Conning. The combined ratio has increased substantially since 1994, when it was 98, reaching 128.3 in 1999.

Insurers hope to raise rates and gain market share, but Riley suggests this is an unrealistic goal in the current medical malpractice environment.