Insurance Times: Trust loses over CAR pool formula

October 30, 2001, Vol. XX No. 22

BOSTON — Massachusetts' Trust Insurance entered liquidation more than a year ago, but the company's battle against CAR's residual market reimbursement formula remained unresolved until Oct. 19.

Trust lost.

CAR's method of calculating what insurers owe the pool is a fair one, ruled First Deputy Commissioner of Insurance Julie Bowler and Presiding Officer Susan Anderson.

"The disbursement method followed by CAR is fair; and the proposal put forth by Trust would be unfair, contrary to public policy and administratively burdensome," Anderson said in the decision, which Bowler affirmed.

Trust Insurance Corp. began its fight against the Commonwealth Automobile Reinsurers – the state's high-risk automobile reinsurer – back in 1992.

That's when the company argued for changes in the formula CAR uses to redistribute money auto insurers pay when they leave the state, insisting the system is unfair.

The CAR system requires a company that withdraws from the market to pay CAR its share of the deficit contribution over three years or in a lump sum.

That money then goes back to the remaining members based on the most recently calculated deficit share for each remaining member.

Trust, in previous hearings, said the method is unfair because it doesn't take into consideration the share of the withdrawing insurer's business each remaining insurer acquires.

Trust proposed distributing settlement funds based on the redistribution of the withdrawing company's business.

Trust founder and former CEO Craig Bradley pushed aggressively for the change.

Insurance Times: Complex insurance issues emerge in wake of World Trade Center tragedy

October 30, 2001, Vol. XX No. 22

- SR International seeks declaration of crashes as a single insurance loss
- Bush proposes alternative to industry's federal reinsurance pool formula
- Reinsurers insist government help needed to underwrite terrorism

NEW YORK (AP) — When two planes crashed into the twin towers of the World Trade Center, was the ghastly destruction one attack or two?

Billions of dollars in insurance liability depend on the definition, which has sparked a lawsuit.

A company responsible for 22 percent of the $3.5 billion in insurance covering the World Trade Center filed a lawsuit last week in New York to head off any plans by the building's owners to define the assault as two attacks, thus doubling the coverage to $7 billion.

SR International Business Insurance Co. Ltd., a British company, said it was "prepared to honor its insurance obligations" for the Sept. 11 attack that demolished the pair of 110-story buildings, but won't pay twice because two planes were used in the attack.

Not Multiple Losses

SR International said it sought a declaration from the courts that the damage to the trade center is one insurance loss and not multiple and unconnected losses.

It also asked the court to decide whether it owed its $770 million solely to the investor group or rather to other entities including businesses harmed by the disaster.

According to the court papers, the Port Authority on July 16 entered into a 99-year lease with each of the trade center buildings and with a separate company for the retail mall.

The $3.5 billion insurance purchased for the properties was far below the projected $5.05 billion necessary to replace the buildings and cover the group's rental income losses after a catastrophic loss, the lawsuit said.

It added that a failure to rebuild the trade center towers and two other buildings would mean the Port Authority and lenders would be entitled to any insurance proceeds and Silverstein “would likely obtain only a fraction of the total insurance recovery."

The lawsuit sought to deflate any expectations that an investor group led by Larry Silverstein might be entitled to the $7 billion if the crashes by separate planes are considered separate terrorist attacks.

Silverstein through his company, Silverstein WTC Properties, manages World Trade Center Properties, which owns each trade center complex building.

Bush Alternative

Meanwhile, the Bush administration offered up a plan to help insurance companies withstand a future terrorism shock while keeping the government out of the insurance business.

The proposal would split between the government and the insurance industry the costs of property claims from future terror attacks. Taxpayers would pick up 80 percent of the first $ 20 billion in costs next year and insurers the rest.

The government's share of costs would decrease gradually through 2004 and end after that, senior administration officials told reporters Monday, speaking on condition of anonymity.

U.S. insurance companies that write policies protecting property could face payments of $ 30 billion to $ 50 billion for the Sept. 11 attacks in New York and outside Washington — the biggest insured loss ever. Major reinsurance companies, which assume part of the risk covered by insurance firms, have said they won't renew terrorism coverage after Dec. 31, when many contracts expire and must be renewed.

Without terrorism coverage, it would be very difficult if not impossible to get bank loans to fund construction projects, such as building pipelines and bridges, putting a damper on the economy and the rebuilding effort, the officials noted.

The administration's plan is being presented as an alternative to legislation drafted by lawmakers and supported by the insurance industry, which would create a government-backed insurance industry pool to cover future terrorism losses.

The industry-supported measure is modeled after a government-guaranteed insurance pool, funded by the industry, established in Britain in response to attacks by the Irish Republican Army. If insurance losses were to exceed the amount in the pool, the government would cover the difference.

That proposal is too complex and would put the government in the position of directly regulating the insurance industry and possibly rates charged for coverage, administration officials said. American insurance companies are regulated by the states in which they do business, without federal intervention.

The administration plan would put a d$100 billion cap on the Treasury's liability for terror claims. If losses were higher, the Treasury secretary would ask Congress for guidance. The plan would apply only to claims for terrorist attacks on U.S. soil, not damage to property abroad owned by U.S. citizens.

Under the White House proposal, the insurance industry's maximum costs would be $ 12 billion next year, $ 23 billion in 2003 and $ 36 billion in 2004.

Also:

• Next year, the government would pay 90 percent of claims exceeding $ 20 billion.

• In 2003, taxpayers would pick up all the first $ 10 billion in costs. An amount over $ 10 billion but equal to or less than $ 20 billion would be split evenly between the government and the industry. The government would pay 90 percent of costs over $ 20 billion.

• In 2004, the industry would cover all the first $ 20 billion. An amount over $ 20 billion but equal to or less than $ 40 billion would be evenly split, while the government would pay 90 percent of costs exceeding $ 40 billion.

Reinsurance Leaders

In other news surrounding the September 11 attacks, Germany insurance leaders said they expect governments to help protect companies in the future from staggering losses from terrorism, saying the industry can no longer shoulder the full risk after the Sept. 11 attacks in the United States.

“We have come to the conclusion that terrorism, in itself, cannot be underwritten," said Arno Junke of Germany's GeneralCologne Re, one of dozens of senior insurance officials gathered in this German spa town to assess the impact.

The meeting included both insurance companies and reinsurers — firms that sell coverage to the insurers themselves.

The suicide attack on the World Trade Center's twin towers brought an abrupt end to a period of lower premiums and easy coverage, when some insurers tossed in terrorism coverage without extra premiums or limits, company officials said.

Now the industry faces its largest loss in history, draining up to $75 billion from the roughly $210 billion in world insurance reserves.

In response, a group of six German insurers and reinsurers — among them Munich Re, the world's biggest, and

insurance giant Allianz — will present the German government with a proposal to set up a fund to help insure against terrorism risk, Junke said.
Britain and Spain —which have long faced losses from attacks by the Irish Republican Army and the Basque separatist group ETA — already have similar systems in place. Britain's Pool Re, set up in 1993 by the government and insurers, covers damage beyond a fixed limit for private-sector insurance.
The German government, like its European counterparts, already is offering interim war and terrorism coverage for airlines, after insurers canceled war liability policies.
U.S. legislators are also drafting a proposal to create a so-called “homeland" fund, which would protect against extraordinary events like terrorist attacks.
“There needs to be an insurer of last resort," said Mark Burbridge of Britain's Euclidean Plc, which designs alternate forms of coverage.
In previous years, the annual meeting in the elegant resort of Baden-Baden provided insurers and the reinsurers who shoulder their risks with a tranquil setting to negotiate the following year's contracts.
This time, though, the industry is having to rethink long-standing insurance practices, such as terrorism coverage that was thrown in without extra premiums. If that continues, Junke said, “you will lose control of your exposure."
The Sept. 11 destruction in New York went far beyond industry worst-case scenarios. The most costly event before Sept. 11 was Hurricane Andrew in 1992, at nearly $20 billion.
If insurance companies can't get reinsurance, they'll begin narrowing their risks, said Donald Watson, an analyst with Standard & Poors in New York.
“Then you'll see things like sporting events that have to be canceled because they can't get insurance, and airlines that can't fly," Watson said.
Reinsurers in Baden-Baden made it clear to insurers they will have to raise premiums in areas unrelated to terrorism in an effort to replenish their reserves, although they didn't specify by how much.
“Everything is going up in multiples," said David Pease, director of London-based insurance brokerage PWS International.

Insurance Times: Advocates of Vermont civil unions voice how their lives have changed

October 30, 2001, Vol. XX No. 22

MONTPELIER, Vt. (AP) — Four Vermont couples out of 531 who have been joined in civil unions told a commission of the ways large and small that their lives have changed since the law was enacted.
Their insurance rates have plummeted because they're viewed as legal spouses. They've found it easier to get health care as a couple because doctors have to recognize their legal relationship. Their friends and families even interact with them differently, affording their relationship greater emotional recognition.
“I am very grateful for the opportunity to have a civil union," Elizabeth Novotny told the Civil Unions Review Commission.
That panel is reviewing the law that grants most of the rights, benefits and responsibilities of marriage to gay and lesbian couples. It is charged with reporting back to the Legislature how well the law is working and particularly whether a separate section that grants some limited marital benefits to blood relatives should be expanded.
House Judiciary Committee Chairwoman Peg Flory, R-Pittsford, told the commission that the House chose earlier this year not just to expand that part of the law but to get rid of civil unions and offer marital benefits to any couple who otherwise cannot legally marry.
The so-called reciprocal beneficiaries provisions included in the civil unions law, she said, did not go far enough. ``That was progress but I think it still has a lot of inequities," Flory said.
The four couples who testified said they appreciated civil unions but believed there were inequities in it, too, because only full marriage would give them the possibility of obtaining the federal benefits that flow to married couples.
Nonetheless, they said they had been pleased over the past year and a half to have their relationships recognized as they'd never been before.
Holly Puterbaugh said her colleagues had known for 27 years that she and Lois Farnham were a couple. But she felt a broader acceptance of her relationship after she and Farnham were among the first couples to enter a civil union on July 1, 2000.
“There's a difference about how they talk about Lois and Holly that I couldn't explain," Puterbaugh said. “There is a difference in the way they treat us, the way they view us."

Novotny said she and her partner were pleasantly surprised when their insurance agent helped them get lower rates on home, auto and other insurance.

And Tom Robinson and Brian Moore said they felt greater security when Moore needed medical care and they had a civil union certificate to show the hospital, proving their relationship.

“The symbolism of marriage is so strong and the symbolism of civil unions is so strong," Robinson said.

Civil unions have not worked out so well for all couples, though. Family Court Administrator Sally Fox told the commission that nine couples had filed for dissolutions since July 1, 2000.

Insurance Times: Eastern CEO eyes new opportunities

October 30, 2001, Vol. XX No. 22

by Mark Hollmer
InsuranceTimes

BOSTON — Even as the man behind Eastern Casualty pulls his company out of the Massachusetts workers compensation market, he’s already looking ahead to opportunities both inside and outside the insurance industry.

“Some may be and some may not be” insurance related business ventures, said Jim Radley, Eastern’s chairman and CEO.

Eastern – the state’s third largest workers compensation insurer -- decided to pull out of the Massachusetts workers compensation market earlier this fall after Division of Insurance Commissioner Linda Ruthardt rejected the company’s proposed 11.6 percent rate hike.

Recently, the company also announced it would stop writing all of its other insurance lines.

“What we’re doing,” Radley said in an InsuranceTimes interview, “is stopping underwriting at the moment and evaluating other alternatives for the company…”

In the interim, of course, Eastern will continue to be in business “for some extended period of time,” Radley said, as the company gradually winds down its workers compensation business.

The company’s surplus lines brokerage operation, known as Eastern E & S, meanwhile, will continue unaffected by Eastern Casualty’s change of business, Radley said.

The company formed its brokerage operation in 1999, which was used to purchase Custom House Marine and Rice Limited.

Insurance Times: ACLI backs changes to ERISA to inform workers

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Washington, D.C. – The American Council of Life Insurers (ACLI) applauded the House Education & the Workforce Committee for approving “The Retirement Security Advice Act of 2001” with a 29-to-17 vote.

The measure would reform federal pension law to help workers get the advice they want and need on retirement savings plan investments.

“The Retirement Security Advice Act of 2001” would allow life insurers and other financial services companies that already are providing retirement plans and educational materials to plan sponsors and participants to also provide them with investment advice. Presently, conflict of interest rules in the Employee Retirement Income Security Act bar such activity. Boehner=s ERISA reform bill maintains the conflict of interest rules, but relies on a disclosure approach – modeled on federal securities laws – to replace the ERISA prohibitions against providing investment advice,” said ACLI Senior Counsel Angela Arnett.

Congressman Boehne’s bill gives workers the option to avail themselves of the investment advice offered by the life insurers and others.

ACLI also lauded Boehner for changes he made to the legislation recently to ensure that all the information disclosed to plan participants – information that will help them decide whether to seek advice through the workplace– is written in plain English.

“The plain English language added to the bill ensures the disclosure information provided to plan participants is user friendly,” Arnett said.

Insurance Times: Appeals court says Liberty National can be sued in race bias sales case
October 30, 2001, Vol. XX No. 22

by Bob Johnson
Associated Press

MONTGOMERY, Ala. (AP) — A federal appeals court has ruled that an Alabama insurance company can be sued for allegedly selling policies to blacks for higher premiums and lower benefits than to other customers.
John Stoia of San Diego, Calif., an attorney representing those claiming racial discrimination, said the class-action lawsuit covers thousands of policies sold by Liberty National Life Insurance Co. of Birmingham, some dating as far back as the 1940s.
Liberty National had claimed the case violated a legal principle that prevents lawsuits from being filed more than 20 years after a person was allegedly wronged.
But the 11th U.S. Circuit Court of Appeals said the law cited by Liberty National does not apply to cases where a person's civil rights may have been violated. Attorneys for the plaintiffs charge that Liberty National officials conspired to keep clients from knowing they were being overcharged.
"Our clients never knew they were being discriminated against,'' Stoia said.
Attorneys for Liberty National withheld comment until they had a chance to review the ruling.
The federal court lawsuit was originally filed in Birmingham on behalf of Ellen Gayle Moore of Collinsville and three other plaintiffs.
Stoia said the case will now be returned to U.S. District Court in Birmingham for trial.
Stoia said the case involves policies sold "door to door'' by agents of Liberty National. He said the premiums were also collected in person by agents.
"They would sometimes collect a dime or a quarter a week,'' Stoia said. "They were charging minorities in the south 20, 30 or 40 percent more than for the same policy to whites or they were providing poorer benefits. This had been going on in the South since the 1940s or before.''
The Alabama Supreme Court is currently considering whether Bullock County Sheriff Charles Hudson and his wife can sue Liberty National in a similar case involving several burial insurance policies. The Hudsons, who are black, claim they were charged higher premiums than whites who bought the same policies.
Hudson said he bought the policies more than 20 years ago when he was working at a funeral home in Union Springs. He said agents from the insurance company would come by the funeral home once a month to collect premiums.
"That sort of thing was popular back then,'' Hudson said. He said he had no idea he was paying more than white Liberty National customers were paying. He said he found out several years ago from news stories about the practice.
"It was unfair for me to be paying more for the same thing,'' Hudson said.
Hudson's attorney, Jere Beasley of Montgomery, said the practice of insurance companies charging higher premiums to minorities was once called a ``skin tax.'' Beasley said he believes the 11th Circuit ruling may have a positive effect on his case and other similar lawsuits.
"I thought this was a very significant and very important decision for the policy holders,'' Beasley said.

Insurance Times: Commerce inks marketing pact with Horace Mann for Mass. Auto
October 30, 2001, Vol. XX No. 22

by Mark Hollmer
InsuranceTimes

BOSTON — A few weeks after announcing plans to stop writing Massachusetts auto insurance, Horace Mann Insurance says it will instead offer coverage indirectly -- through a marketing alliance with another company.
Horace Mann will offer its Bay State customers Commerce Insurance auto policies beginning Jan. 1. But the company will continue to offer Massachusetts elementary and secondary school teachers its own coverage for homeowners, life, annuities, single life and group life products.

The marketing alliance kicks in at first with new Horace Mann auto policies.
Existing 2001 Horace Mann policies will remain through the length of their policy term, the company said in a written statement. Any of those policies written by voluntary agents will convert to Commerce when 2002 renewals begin.
Horace Mann is a Springfield, Ill.-based insurer that relies on exclusive representative producers employed by the company to sell its products around the country rather than independent agents. But the company needed to use independent agents (ERPs) assigned to the company to handle its auto business through Commonwealth Automobile Reinsurers – the state's high-risk auto insurer.
The company insurers about 22,000 Massachusetts automobiles through its agents and nearly 40 percent belong to agents, Horace Mann said.
The company said its initial announcement that it would stop writing Massachusetts auto policies was based on marketing decisions rather than any concerns over the state of the Bay State market.
In related news, the company has agreed with CAR's Governing Committee to pay $6.4 million to cover its CAR financial obligations over the next three years. Horace Mann will also continue to comply with CAR's data reporting requirements.
CAR Governing Committee, during a special meeting held Oct. 17, also reassigned Horace Mann's four exclusive representative producers to the first four under-subscribed servicing carriers – Liberty Mutual, Arbella, Premier and National Grange.
Seven members voted for the redistribution and four were against. Arthur Remillard Jr., the Governing Committee vice chairman, abstained.
Remillard also heads The Commerce Insurance Company.
Liberty Mutual is already fighting the decision. Liberty Mutual Assistant Vice President and Senior Counsel Steven Rusconi filed a notice of appeal and request for a public hearing with the Division of Insurance the same day.
Rusconi wrote that the Governing Committee decision to let Horace Mann buyout its future CAR obligation violates CAR rules and state law because the company can avoid ERP business "without surrendering its license to write motor vehicle policies or bonds in Massachusetts."

Insurance Times: Insurers seek maximum penalty against Frankel associate

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NEW HAVEN — Insurance companies that have claimed they were looted by financier Martin Frankel asked a federal judge to impose the maximum sentence on a Frankel associate.
David Rosse, 46, was Frankel's bodyguard and adviser and was involved in an alleged scheme to steal more than $200 million from small insurance companies in southern states, including Tennessee, federal prosecutors said. Frankel is a native of Toledo, Ohio.
Theft from insurance companies is not a victimless crime, the companies' lawyers said. Family businesses were ruined, jobs were jeopardized, some claims were not paid and taxpayers ended up paying some of the freight.
"There are thousands and thousands of individuals affected by this," said Alan F. Curley, who represents the receivers for insurance companies in Mississippi, Arkansas, Oklahoma, Missouri and Tennessee.
Rosse, a former San Jose, Calif., police officer, is scheduled to address the court at the continuation of his sentencing hearing Nov. 5.
Curley asked U.S. District Judge Ellen Bree Burns to impose the maximum sentence on Rosse and to make the maximum restitution allowed by law.
Lawyers for Rosse, who pleaded guilty to a charge of racketeering conspiracy, are fighting for a lesser sentence. They said Rosse was a bit player in Frankel's schemes and mostly provided security for the eccentric Greenwich financier, his girlfriend and her children.
Frankel is in a Connecticut prison awaiting trial on charges of racketeering, fraud and money laundering. Jury selection for his trial is scheduled to begin in October 2002.

Insurance Times: OpinionExchange

October 30, 2001, Vol. XX No. 22

In the aftermath of September 11, many insurance companies made announcements that they would forego consideration of their policies' "war risk" exclusion to World Trade Center related claims. The insurers decisions were rightly applauded as the recognition of the need to respond to a national emergency. Moreover, with the blame for September 11 being placed at the feet of Osama bin Laden and his al- Qaeda terrorist network, the "war risk" exclusion was in any event quickly dismissed as being inapplicable, since the generally required "state sponsorship" element was lacking.

But now Randy J. Maniloff, an insurance coverage attorney at Philadelphia-based Christie, Pabarue, Mortensen and Young, cautions that as new facts and theories emerge about the perpetrators of September 11, insurers must be very careful when paying such claims, or risk waiving the "war risk" exclusion for its use in the future.

"As the investigation of September 11 moves forward, as well as the on-going anthrax situation, other countries are beginning to emerge as possibly having involvement in these actions," Maniloff states.

Maniloff points to two editorials in last week's Wall Street Journal, as well as a lengthy piece by former CIA director James Woolsey in the October 18 issue of The Wall Street Journal, as making compelling arguments for Iraq's potential complicity in September 11 and the anthrax mailings.

Maniloff believes that insurers in the process of paying September 11 claims should take these new developments in the investigation very seriously.

"If it is determined that Iraq - a "state sponsor" - was in fact involved in the events of September 11, then one of the key factors in determining the applicability of the `war risk' exclusion may have been present," Maniloff notes. For this reason, Maniloff cautions that insurers that are paying September 11 claims under a policy that contains a "war risk" exclusion should do so under a reservation of rights and pursuant to a statement of non-waiver, to prevent a potential argument that they "waived" the "war risk" exclusion for future claims.

"Given that the investigation of September 11 is so fluid, as well as likely going to take a long time to complete, insurers should make clear that they are paying claims without regard to the potential applicability of the `war risk' exclusion," advises Maniloff.

"We are at war and face a real possibility for future attacks in this country. At some point, the insurance industry may determine that the `war risk' exclusion is applicable, and face pressure from their shareholders and/or reinsurers to deny claims accordingly. To prevent a `waiver' argument, and essentially becoming a victim of their own good deed surrounding September 11 claims, insurers must take care to pay these claims now with the necessary procedural safeguards," says Maniloff.

Maniloff first raised the issue of the potential for waiver of the "war risk" exclusion in an article published in the September 25th issue of Mealey's Litigation Reports: Insurance titled "The War Risk Exclusion - Looking Beyond the Events of September 11th".

Insurers must walk a fine line in these unusual times. Maniloff may have come up with one way to do this while still honoring current commitments to policyholders.

For more information, contact Maniloff at (215) 587-1632 or RJManiloff@cpmy.com. For additional information about Christie, Pabarue, Mortensen and Young, see http://www.cpmy.com.

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The solvency record of the domestic surplus lines industry continues to mirror that of the total property/casualty industry, according to a study by the A.M. Best Co. for the National Association of Professional Surplus Lines Offices (NAPSLO) and reported in this issue.

Since 1971, surplus lines company insolvency rates have mirrored that of traditional insurers, with an average annual failure frequency rate of less than 1 percent, according to the A.M. Best study. The similarity of failure frequency rates between the non-admitted and admitted markets attests to the pricing discipline of the surplus lines market, according to Best.

A.M. Best said that "despite the challenges faced by these insurers, the surplus lines market continues to maintain a high level of financial strength and solid operating results, which are supported by sound underwriting guidelines and effective risk management techniques."

The future bodes well for surplus lines too. Over the near term, A.M. Best expects that the surplus lines market will benefit from the re-underwriting initiatives being taken by the standard market.

The goal of the surplus lines industry and its regulators should be to maintain and even improve upon this impressive record.

As part of its study A.M. Best made the following recommendations to lawmakers, policy makers, regulators, and insurance executives:

• Establish consistent eligibility requirements from state to state by the adoption of minimum surplus standards outlined in the National Association of Insurance Commissioners’ Non-admitted Insurance Model Act. A.M. Best also

encouraged states to established a stamping office, if they have not done so.
• Stiffer punishment and fines. Stronger and more effective laws should be passed by state legislatures and federal legislatures that would more severely penalize management of insurance companies (domestic or alien) and brokers that operate illegally or with gross negligence.
• Greater access to information. Information that would enhance the industry’s ability to detect problematic brokers or companies should be made more readily available by state insurance departments, the NAIC, and other insurance related entities. A.M. Best said that lists, such as the California Unacceptable Non-admitted Carrier List, the IID Alien Insurer or "White List" and the "Black Lists" generated by many states should be distributed more widely.

Insurance Times: Reinsurance contract upheld in key NY court ruling

October 30, 2001, Vol. XX No. 22

ALBANY, N.Y. — The New York Court of Appeals recently ruled that an insurance company cannot combine multiple pollution claims in order to tap into its reinsurance policy.
In addition, the ruling is significant in that the court addressed the "follow the fortunes" wording in reinsurance contracts, upholding the final word of the reinsurance contract.
"This case holds that the 'follow the fortunes' concept does not change the terms of the reinsurance contract," said Michael G. Koziol, senior director and counsel of the National Association of Independent Insurers (NAII).
NAII and the Reinsurance Association of America filed an amicus brief arguing that very position in the appeal of Travelers Casualty and Surety Co. v. Certain Underwriters at Lloyd's of London.
In the original case, Travelers was sued by a corporate policyholder seeking coverage for environmental claims at more than 150 sites throughout the country. Travelers eventually settled with the firm for $140 million, treating each site as a separate occurrence under its own policies.
Meanwhile, Travelers had purchased reinsurance for some of its policies from some Lloyd's reinsurers. However, in determining how much of the settlement to allocate to its reinsurance, Travelers treated the entire settlement as a single "disaster and/or casualty," rationalizing that Koppers' waste-disposal practice comprised a "common origin," or single event.
Lloyd's disputed the claim, Travelers sued Lloyd's, and both the New York trial and appellate court rejected Travelers' cession.
The concept in question is the "follow the fortunes" clause in the reinsurance contracts that requires the reinsurer to pay for losses that are allocated reasonably and in good faith. Travelers argued that this clause obligated the reinsurers to pay, in spite of reinsurance contract wording addressing "series of disasters/and of casualty." However, the Court of Appeals held that the follow-the-fortunes clause does not override the language of reinsurance contracts.
"The New York Court of Appeals decision is a clear-cut, unequivocal statement in support of the supremacy of the reinsurance contract," Koziol said.
It was not immediately clear what, if any, effect the unanimous ruling by the state's highest court might have on claims stemming from the Sept. 11 terrorist attacks.
The court ruled that settlements “not linked by common origin" should not be treated as a single loss.
The ruling came on an appeal by Travelers, which was seeking reinsurance settlements on $212 million that had been paid to the Koppers Co. and E.I. DuPont de Nemours & Co., to cover environmental claims at more than 150 sites.
The reinsurance agreement said the London reinsurers would reimburse Travelers for each “loss" it sustained under the Koppers and DuPont policies more than a certain amount, which ranged from $150,000 to $10 million.
A ”loss" is defined as “all loss arising out of any one disaster and/or casualty under coverage" of those insured by Travelers.
The reinsurance agreement said all loss that was a result of a series of accidents or incidents would be treated as though it resulted from a single accident or incident.
Travelers paid Koppers $140 million to settle all claims at the chemical manufacturing and waste sites that Koppers operated. DuPont was paid $72.5 million to settle claims at its sites.
Travelers then asked for $13 million in reimbursement for the Koppers settlement, saying the entire settlement constituted a single loss. It made a similar claim for the DuPont settlement.
The reinsurers said that if the claims from each site were treated as separate occurrences, they would owe Travelers just $2.9 million for the Koppers settlement and nothing for the DuPont settlement.
The Court of Appeals, in upholding a lower appeals court ruling, agreed with the reinsurers.

Insurance Times: Mass. highlights health premium subsidy for jobless
October 30, 2001, Vol. XX No. 22

BOSTON (AP) — Acting Governor Jane Swift last week touted two programs to help workers hurt by the current downturn by encouraging employers to reduce workers' hours, instead of laying them off, and by subsidizing laid-off workers' health insurance.
The WorkSharing program allows employers to cut workers' hours by 10 to 60 percent for up to 26 weeks. The state then pays unemployment benefits to the workers for those hours that have been cut.
Swift also highlighted a program in which the state pays up to 80 percent of the health insurance premiums for workers who lose their jobs, so that they and their families can keep their health care.
Neither program is new.

Few Know
But Swift, who held a Statehouse news conference to promote the programs, said few employers and laid-off workers have known about them because the economy has been so strong for so long.
'We've been doing the economic development policies for the last 10 years that have put us in the right position," said Swift, a Republican who was preceded in office by fellow Republicans William Weld and Paul Cellucci.
The jobless rate in Massachusetts was 3.9 percent in September, up from 2.5 percent a year ago. Officials say job losses from the Sept. 11 terrorist attacks won't be fully reflected until next month.
Phil Johnston, the state's Democratic Party chairman, said Swift was trotting out old policies to mask her administration's lack of a more comprehensive job-creation policy.
In fact, Johnston, who served as the state's health and human services secretary under former Gov. Michael Dukakis in the late 1980s, said the health insurance program Swift is championing is so old that he helped draft it over a decade ago.
"I find it ironic that she's now taking credit for something that was enacted by a Democratic governor and a Democratic Legislature," Johnston said.
"I don't think we should be penalized for the fact that we already have the right programs in place to deal with economic dislocation for our workers," Swift said.
Adding to the irony, Johnston said, is that the health insurance program was part of broader legislation that would have guaranteed universal health care in Massachusetts, but Weld refused to implement that aspect of it in 1991.
"I don't see anything new here," Johnston said.
Jack King, director of the state's Division of Employment and Training, said what's new is the amount the state is now reimbursing for health care premiums for laid-off workers — up to $532 per month toward their monthly premium, up from $210 last year.
That increase took effect last month, King said.
Johnston said a group of business leaders led by venture capitalist and former Democratic congressional candidate Chris Gabrieli was formulating an economic policy to be announced in coming weeks that would highlight inadequacies in Swift's economic policies.
Swift, who announced last week she is running for governor next year, said during her news conference that she's not surprised the partisan criticism has ratcheted up, now that her campaign is official.
"It wasn't lost on me that by letting folks know what I intended to do next November it might have some implications in the day-to-day political conversations that happen in this building," she said.

Insurance Times: Farmers Insurance pays $4.3 million in bias case
October 30, 2001, Vol. XX No. 22

COLUMBUS, Ohio — Farmers Insurance Group will pay $4.3 million as part of a settlement following claims that the company refused to insure homeowners in minority neighborhoods, Attorney General Betty Montgomery announced.
The Los Angeles-based company will spend $3 million for grants and low-interest loans to develop, build and repair owner-occupied homes throughout the state and will pay a total of $1.3 million to the Ohio Civil Rights Commission,

the Toledo Fair Housing Center and Housing Advocates of Cleveland.
Montgomery said she is confident the settlement will ensure that all of the company's future customers and applicants are treated fairly.
The settlement stemmed from a 1999 Lucas County lawsuit that accused the company of discriminating in its insurance practices.
The Toledo Fair Housing Center sued the company after two black women said it wouldn't sell replacement insurance policies for their homes because they were built before 1950. The policies pay for the replacement of a home if it is destroyed.
The company through its Ohio division or corporate headquarters in California instructed agents to apply these restrictive guidelines, said Lisa Rice, the Fair Housing Center's executive director.
Agents “were given the message over and over again, over a protracted period of time, that they were used to supposed to use these guidelines, and they did," she said.
Andy Sandler, a Washington, D.C., lawyer representing Farmers, said agents followed underwriting rules approved by state insurance commissioners.
He said Farmers eliminated the rules years before the lawsuit but is happy the matter is resolved.
“We agree with the attorney general's office that the new rules are better and saw no reason to litigate over the old rules, but we deny that Farmers committed any discriminatory practices," Sandler said.
The Ohio Civil Rights Commission said in 1999 that the guidelines of not selling replacement policies on older homes isn't discriminatory, but it has the same effect because a disproportionate number of black people live in older houses.
The company changed its guidelines in 1998, officials have said.
The case is similar to one the housing center brought against Nationwide Insurance, which was settled in 1998. In that $5.3 million settlement, Nationwide denied it had discriminated but agreed to change its policies.

Insurance Times: MetLife to layoff nearly 1,900 workers

October 30, 2001, Vol. XX No. 22

NEW YORK — MetLife Inc. is cutting nearly 1,900 jobs to help trim costs and boost earnings amid losses in its auto and home insurance business.
The insurance giant also said it will incur insurance losses of $210 million after taxes following the Sept. 11 terrorist attacks, dragging third-quarter earnings estimates to about 29 cents to 31 cents per share.
Still, the company's estimate was well above analysts' earnings of estimates of 19 cents a share, according to Thomson Financial/First Call. Excluding the insurance losses, MetLife expects earnings of 56 cents to 58 cents a share when it reports results Nov. 6.
“The initiatives we are announcing today are difficult but necessary steps to position us for enhanced profitability in the future," said Robert H. Benmosche, chairman and chief executive officer, in a statement.
MetLife said the job cuts are part of an effort since April to streamline operations following losses in auto and home insurance.
A rise in claims in the first two months of the year caused those MetLife divisions to lose about $22 million after-tax because of adverse weather, dragging down earnings and sparking rate hikes to help cover costs.
The job cuts will result in a $12 million charge to the third quarter and a $356 million charge in the fourth quarter, but should reduce expenses by $100 million next year, the company said.
Among the jobs being eliminated are 253 officers and directors; 640 non-sales positions; and 340 workers in operations and technology. The company also plans to cut 200 MetLife Auto & Home jobs following consolidation in claims processing and customer service, and discontinue 401(k) record keeping services, which employ about 450 workers.

Insurance Times: Uncharted territory Liberty Mutual and state officials -- and their critics-- are well aware they are going where no other Massachusetts insurer or department has gone with Liberty’s mutual holding company bid

October 30, 2001, Vol. XX No. 22

by Mark Hollmer
InsuranceTimes

BOSTON — It almost felt like a party, with the loud, animated early buzz of conversation filling the hearing room and spilling outside.
And in some ways it was.
The executives and their attorneys gathering at the Massachusetts Division of Insurance on Oct. 10 represented a major milestone for Liberty Mutual – the start of the company's long awaited public hearing to address an application to change its corporate status.
After more than a year of preparation and lumbering through the bureaucratic process, Liberty Mutual is now waiting to hear if DOI Commissioner Linda Ruthardt will grant its application to reorganize as a mutual holding company.
She has 60 days from the hearing to issue her decision.
Beyond that, at least one more step remains before Liberty can move ahead and reorganize.

Nov. 9 Meeting
The company plans to hold a special policyholder meeting on Nov. 9., the last day allowed for policyholder voting on the transaction. Assuming Ruthardt and policyholders both sign off on the measure, the company hopes to complete its reorganization by January 2002.
Liberty Mutual is the first Massachusetts property casualty mutual to take advantage of a 1998 law allowing a mutual to reorganize as a mutual holding company --- a hybrid where mutuality is maintained but the company can offer stock at some point if it chooses.
As planned, Liberty Mutual Insurance, Liberty Mutual Fire Insurance and corporate sibling Wausau would be regrouped under one unified structure.
The company says it needs the switch to allow it to compete and grow. Policyholder needs, Liberty Mutual officials testified, would be protected with the change and the company plans to remain mutual.
But opponents of the deal, including some policyholders and consumer advocates, said the company should just demutualize so policyholders can receive dividends, because they would not after a mutual reorganizes into a mutual holding company.
In the end, regulators completed a process without precedence.
The DOI appointed a special review team to handle Liberty Mutual's application. Regulators, meanwhile, testified that they took extra steps to help shape a modified mutual holding company plan more attuned to policyholder and consumer needs, and beyond what the law requires.

Lived Up to Law
Liberty Mutual officials say the process seems to have lived up to the law as spelled out by the legislature.
"It's been an open process (and very thorough," Spokesman John Cusolito said.
"Would we have liked it to move along quicker? Probably. But I think at the end of the day, upon review, people will see that this has been a very accurate, thorough, complete process."
But consumer attorney Jason Adkins, founder of the Center for Insurance Research, said the process is flawed and allows for an unfair, preordained approval of Liberty's application.
"As in the (former) Soviet Union its outcome is predetermined," he said.

* * *

Liberty Mutual was among many in the insurance industry to support the 1998 mutual holding company law, because it gives companies flexibility to grow and expand.
Subsequently, the company became the first in Massachusetts to take advantage of the law when its board of directors approved mutual holding company plans in September 2000 and filed an application with the DOI a short time later.
Liberty Mutual amended its application on June 13, 2001. The changes reflect recommendations from consumer groups solicited by the DOI during the application process, Cusolito said.
DOI Spokesman Christopher Goetcheus said that many of the changes "were at the urging of the (DOI) review team and most were aimed at further safeguarding policyholder interests and were designed to protect policyholder interests."
The review team also solicited feedback from consumer groups like the CIR, Goetcheus said, and those suggestions were considered during the application process.
Daniel Judson, the DOI's deputy commissioner of legal and regulatory affairs and acting general counsel, lead the

review team that handled Liberty Mutual's application. He also testified during the hearing about how regulators helped modify the application to more clearly address consumer interests.

Among the areas the DOI review team helped shape:

• The requirement that policyholder interest in a mutual holding company never falls under 51 percent. State law includes the provision but the DOI team helped delineate the requirement to make sure policyholders always own a 51 percent majority no mater what companies mutual holding companies acquire throughout their existence.

• The mutual holding company law says the DOI can review any securities offerings up to a year after a reorganization is approved, but the Division of Insurance strengthened the right to 10 years.

• The law does not detail how property casualty insurers can demutualize. Liberty Mutual has said it has no plans to demutualize but the company could pursue that course after it becomes a mutual holding company. As a result, the DOI review team recommended that the company be required to maintain policyholders data "in sufficient detail," which would allow the company to calculate policyholder equity interest if demutualization ever happens.

No formal statute exists dictating how long insurance companies must save policyholder data.

Adkins, when asked if the changes to the Liberty Mutual holding company plan better addressed consumer needs, said the improvements made the plan "slightly better than atrocious.

"The original plan was so bad," he said, "that it needed some life support, otherwise it wouldn't pass even the face test … it still can't pass any normal review."

Adkins said the process was a flawed one because "the company met for a year in private with regulators.

"No one else," he said, "had access to their documents or their conversations."

He also discounted the effectiveness of the meetings CIR representatives and other consumer advocates with DOI representatives.

"The usefulness of that one meeting is virtually nil compared to a year's long meeting with the company. Under (Ruthardt's) own rules, policyholders, even if they maximize what they can do under her own rules … have no right to cross examine Liberty's witnesses in the public hearing nor do they have a right to discovery.

"The net result," Adkins said, "is the proceedings fail the most fundamental right of fairness. One side has all the rights and policyholders have none."

Adkins also criticized the questioning of Division-hired actuaries and other during the public hearing … "none of which probed to the core questions that should have been in dispute.

"Literally," he said, "there was not one person in the room who (thought) the Commissioner did not approve the transaction, which tells you about the credibility of the process."

Adkins said precedent, such as denial of full intervenor status in the John Hancock demutualization, encouraged him not to petition to intervene in the Liberty Mutual mutual holding company application.

For now, the CIR is still pursuing two related lawsuits. One is against Liberty Mutual Adkins said, "alleging that the proxy soliciting policyholders (about the plan) is deceptive and fraudulent."

The other suit, against Ruthardt, seeks to have all documents exchanged between the DOI and Liberty made public, and to stop "private" meetings during application processes like Liberty Mutual's. Some of documents were produced after the lawsuit, Adkins said, and placed in a document room at DOI offices that is open to the public.

*   *   *

Goetcheus said allegations that meetings between Liberty Mutual and DOI officials were "secret" don't make sense.

"Of course the review team, over the course of work, would need to meet with Liberty Mutual about aspects of the plan, as review of the plan went along.

"Clearly that kind of consultation is allowed. How one could do a review of the plan without consultation … is beyond me," he said.

No Independent Counsel

But in reference to Adkins' complaints, Goetcheus pointed out that state law "does not require an independent counsel" (like Adkins) to participate during the application process.

The State Legislature, he said, determined that the Insurance Department serve as consumers' protectors, and "we do that day in and day out and we did it through our review team's work over the last nine months."

Goetcheus said policyholders could have and did speak up during the public hearing as well, or visit the Liberty Mutual document room established late in the summer at DOI offices.

What's more, he said, Liberty Mutual made public details of its mutual holding company application on its Web site "long before the court suits."

Adkins could have petitioned for limited participation or full intervenor status for the public hearing, Goetcheus said. He added, "we never received any such petition."

"If you're really interested in winning, you can't play without a ticket."

Insurance Times: Smith, Bell & Thompson add CNA lawyers program
October 30, 2001, Vol. XX No. 22

CNA, a leading writer of insurance for lawyers, has named Smith, Bell & Thompson, Inc., as an exclusive program administrator.
The Burlington, Vermont agency will administer the CNA Lawyers Professional Liability Insurance Program for law firms of one to 34 attorneys in Vermont, New Hampshire and Maine.
Smith, Bell & Thompson is Vermont's largest agency

Insurance Times: Travelers bring information to injured workers
October 30, 2001, Vol. XX No. 22

HARTFORD — Travelers Insurance is now sending information about workers compensation to injured workers via the Internet at www.mywcinfo.com.
Injured workers can locate state workers compensation benefit explanations, print forms, get answers to frequently asked questions, find a local claim office, obtain medical self-care tips for selected injuries, and receive home delivery of pharmaceutical needs.
Travelers is planning a second phase that will allow workers secured access to their claim information with direct email capabilities to the claims adjuster.

Insurance Times: SafeEmail protects small businesses using email
October 30, 2001, Vol. XX No. 22

Safeonline, a digital risk insurance distributor, has launched SafeEmail, an insurance product dedicated solely to protecting small and medium sized businesses against the growing financial risks created by the use of email for business communication.
SafeEmail protects businesses specifically against third party claims from inadvertent transmittal of a computer virus to a third party email; defamation of a company or individual by email; violation of another's privacy via email; and unlawful use of information held in electronic form.
Companies with up to 250 employees can sue SafeEmail. Premiums are based on the number of employees with email, access and start at $498 for up to five email users. Coverage levels range from $100,000 to $1 million.
Visit www.safeonline.com or call 517 349-5874 for more information.

Insurance Times: PIA offers certificate program for new employees
October 30, 2001, Vol. XX No. 22

GLENMONT, N.Y. — The Professional Insurance Agents of New York, New Jersey, Connecticut, New Hampshire and PIA Alliance have designed a certificate program aimed at insurance professionals who are new to the industry.
The Fundamentals of Insurance certificate program, combining online and classroom study, is derived from the PIA Alliance's regular schedule of seminars. The program provides new employees with a solid foundation in personal lines, commercial lines or multi-lines.
The certificate program will be available beginning in January, 2002. Call 800 424-4244 for more information.

Insurance Times: Chubb introduces EPL loss prevention program

October 30, 2001, Vol. XX No. 22

Simsbury, Conn. — The Chubb Group of Insurance Companies is rolling out a comprehensive loss prevention program to help more than 100,000 customers protect themselves against employment-related lawsuits. The program offers state-of-the-art policies and practices, training vehicles, analytical tools, and access to an array of employment practices experts. It is designed to help give companies the tools they need to reduce the likelihood of a lawsuit occurring, as well as to help strengthen their defense if an employment-related lawsuit is brought.

"Employment issues make up 30 percent of all civil litigation in the United States today," said Michael J. Maloney, vice president and worldwide Employment Practices Liability Insurance (EPLI) underwriting manager for Chubb. The number of discrimination cases filed in federal courts tripled between 1990 and 1998. Charges filed through the Equal Employment Opportunity Commission (EEOC) resulted in a record $245 million in benefits paid to claimants in 2000.

"The question today is not whether you will be sued, but when," Maloney said. "Therefore, we want to help our clients reduce the likelihood of complaints occurring, and assist them in mounting a strong defense when a lawsuit does hit."

The program is tailored to meet the needs of publicly traded corporations, privately held companies, non-profit organizations, health care clients, temporary staffing firms, as well as mortgage brokers, banks and other financial institutions. Program components include a dedicated Web site, an employment practices loss prevention manual, a proprietary newsletter, loss prevention consultant services, and a toll-free hot line providing callers with immediate answers to most employment-related questions.

Insurance Times: AgentSecure promises small agency contracts

October 30, 2001, Vol. XX No. 22

by Mark Hollmer
InsuranceTimes

A Texas company with a product that helps small independent agents land business with large carriers is making a major New England marketing push.

AgentSecure executives are discussing possible exclusive co-marketing endorsements with state level IIAA-affiliated associations in 10 states, including Massachusetts, New Hampshire, Vermont and Maine.

There’s no deal yet, but the company is hoping to cement a similar arrangement it already has with Independent Insurance Agents of America organizations in nine states, including New York, Virginia and Arkansas.

“It’s win-win,” said Ed Gillman, president of the company, a wholly owned subsidiary of InsureZone.

Gillman describes AgentSecure as an “electronic managing general agent” that offers policies for business owners including workers compensation, automobile umbrella and “ancillary” products like errors and omissions and employment practices liability.

Small and Rural Agents

Agents in small or rural markets are the targets of the program because they can use it to access “national top rated carriers” that they ordinarily couldn’t reach because of minimum commitments of premium volume.

Here’s how it works:

Agents must first qualify for the service and pay a $200 qualifying fee --- this lets the company gather data about the agency and agent.

Once qualified, agents will gain the right to enter a password-protected Web site and fill out an application for coverage they want to offer their clients.

The company then lets agents know which carriers they have qualified to have contact with. (Seven are carried on the AgentSecure Web platform so far, including The Hartford and Zurich North America Small Business.)

The arrangement lets agents access policies and take advantage of a generous commission structure without premium volume requirements, the company said.

46 States and D.C.

Aside from its co-marketing arrangements with a number of state trade associations, AgentSecure does business in 46 states and the District of Columbia.

About 400 agents or agencies nationally are part of the system so far, Gillman said, with a per agency premium average of "roughly" $30,000.
AgentSecure was created in 1999 and the company launched its Web site a year later, in September 2000.
Its parent company, InsureZone, gives Web capabilities to financial services/insurance businesses and also a Web portal so companies can sell insurance to small businesses.
The company relies on some venture capital, primarily funding from Buena Venture Associates – headed by Texas financier Sid Bass.
The company's corporate structure is a complex one.
InsureZone merged into Higginbotham & Associates in North Texas – a large broker -- in July 2000.
But InsureZone is also a holding company of sorts with four subsidiary businesses: Higginbotham, AgentSecure, BrokerSecure and InsureZone (the operating company).

Insurance Times: 90% of CPCU Society grads have college degrees

October 30, 2001, Vol. XX No. 22

MALVERN, Pa.-The American Institute for CPCU's 2001 class of 1,244 graduates of the Chartered Property Casualty Underwriter (CPCU) program brings the total number of CPCU designations conferred since 1943 to nearly 53,000.
Approximately 2,500 CPCUs, CPCU designees, and guests attended the combined opening ceremonies of the CPCU Society's Annual Meeting and Seminars and the American Institute's CPCU conferment ceremony.
Conducting the conferment ceremony were Terrie E. Troxel, Ph.D., CPCU, CLU, American Institute president and CEO, and Vincent J. Trosino, chairman of the American Institute's board of trustees and president, vice chairman of the board, and chief operating officer of State Farm Mutual Automobile Insurance Co.
The conferment speaker was Dr. Benjamin S. Carson, director of Pediatric Neurosurgery at the Johns Hopkins Medical Center in Baltimore, Md. He first came to national attention in 1987 when he successfully separated Siamese twins connected at the brain, a medical first. In August, he was included in Time magazine's "America's Best" series as one of the premier doctors in the country today.
He urged the audience to use their full intellectual potential to achieve success in life.
A profile of the 2001 CPCU class being honored at the conferment ceremony reveals that 34 percent work in claims; 27 percent in underwriting; 12 percent in marketing and sales; 5 percent in finance, accounting, and statistics; and 18 percent in other areas.
The youngest designee is 25, the oldest, 63. Men represent 57 percent of the designees and women, 43 percent. Years of work experience range from 3 to 30. About 90 percent of the 2001 CPCU graduates have completed some level of collegiate education, with roughly 85 percent having earned a baccalaureate or higher degree.
New designees come from 48 states plus the District of Columbia; only Wyoming and North Dakota are not represented. Graduates also come from Bermuda, Bulgaria, Canada, England, Germany, Hong Kong, Japan, Pakistan, Qatar, Saudi Arabia, Singapore, Switzerland, the United Arab Emirates, and Zambia.

Insurance Times: Texas mold coverage proposal irks both consumers and insurers

October 30, 2001, Vol. XX No. 22

by Natalie Gott
Associated Press

AUSTIN (AP) — Consumer groups do not like a proposal by the Texas Department of Insurance staff to limit mold coverage by insurance companies. The insurance industry does not like it either.
Insurance Commissioner Jose Montemayor heard their concerns at a hearing as he tries to decide if the plan should be adopted.
The proposal would set a cap of $5,000 for mold coverage in all homeowners insurance policies. Homeowners would be allowed to purchase added protection for an additional premium.
The state's largest insurers, State Farm, Farmers and All State, are no longer selling comprehensive policies to new customers. State Farm is not selling any news policies to new customers, and smaller insurance companies are

following their lead.
Sen. Carlos Truan, D-Corpus Christi, urged Montemayor to call the insurance industry's bluff.
“The insurance industry is engaging in its usual blackmail. We may as well call it what it is, threatening to stop writing homeowner's insurance as it has hysterics over being asked to do its job of controlling and limiting risk."
He said it was highly unlikely that the insurance companies would be able to sustain a boycott of the Texas insurance market.
Denise Ruggiero, a lawyer for State Farm, said the proposal would not solve the availability and affordability crisis that mold has been created in the homeowner's insurance market.
“The state's proposed solution requires every policy holder to pay for coverage they may not want or be able to afford and eliminates consumer choice with regard to mold coverage," Ruggiero said.
Janet Ahmad, president of Home Owners for Better Building, said Montemayor should try to recover losses from the manufacturers of materials that predispose homes to mold growth and from the homebuilders who use the defective products.
She also said that Montemayor should encourage companies to approach the mold issue from the standpoint of prevention and he should take disciplinary actions against insurance companies that do not handle claims in a timely manner.
“When we had a problem with asbestos, that was a health problem," Ahmad said. “The solution to that crisis was to simply get rid of asbestos. In this case, they simply want to drop people from insurance, not solving the problem of mold."
Limiting coverage would be a disaster, she said.
But mandating coverage for mold claims also is unacceptable to most insurers because it eliminates a person's ability to choose whether they want the coverage, said Jerry Johns, president of the industry trade group, Southwestern Insurance Information Service.
“We feel like the entire issue boils down to consumer choice," Johns said. “If people want to purchase mold coverage then that option should certainly be available but to ask people to pay for a $5,000 cap in the form of higher insurance rates is not a customer-friendly approach to this issue."
The Texas Department of Insurance held three public meetings on the issue before the staff made its recommendation.
Montemayor said he has heard from some 900 people at the public hearings and through written comment on the issue of mold coverage.

Insurance Times: Gencorp adds 6 agencies

October 30, 2001, Vol. XX No. 22

Gencorp Insurance Network, based in East Greenwich, Rhode Island, recently announced the addition of six new affiliate agencies to its New England-wide agency network.
In Massachusetts Gencorp added Coonan Insurance Agency in Oxford and Richard St. Germain Insurance, Ware Insurance and Amherst Insurance in Amherst.
In Rhode IOsland, the network now includes Thorp and Trainer of Westerly and Goodrich-Blessing in Cranston.
Tolland County Insurance of Stafford Springs is the most recent affiliate agency from Connecticut.
Gencorp and its affiliates now have more than 50 offices across New England.

Insurance Times: NCCI hunting for new CEO

October 30, 2001, Vol. XX No. 22

The head of the National Council on Compensation Insurance resigned earlier in October, weeks after a flap over American flags in the workers comp rating organization.
It is not clear, however, if both incidents are connected.
NCCI announced the resignation of President and CEO Bill Schrempf in an Oct. 5 press release posted on its Web site.
Board members are already looking for a replacement.
“We will look for a seasoned executive with strong working knowledge of the workers compensation insurance industry,” said Judith A. Blades, chair of the NCCI board of directors.

“We want an executive who will take full advantage of NCCI’s superb platform, perpetuate NCCI’s leading position in the industry, and increase the value of our services for our affiliates and regulators … the Board will move expeditiously but we will take the time needed to find the right person.”
NCCI, in its press release, gave no reason for Schrempf’s resignation.
Earlier in September, a few days after the World Trade Center bombings, NCCI tried to keep its workers from displaying a flag on the Sept. 14 National Day of prayer, in violation of a ban on displaying political messages
On Sept. 17 and after substantial publicity, NCCI changed its position, announcing that it had reversed itself on the policy.
“President & CEO Bill Schrempf said he was meeting with employees this morning to explain the company’s change and apologize for not permitting them to display the American flag on Friday during the national Day of Prayer and Remembrance,” the NCCI said in a press release announcing the reversal.
The NCCI also offered employees free flags if they wanted them.
NCCI is licensed as a workers compensation rating organization in 38 states including most of New England.

Insurance Times: That mutual feeling: Can the region’s mutuals retain their form and still function in a today’s market? More than a few think they can and are proud of their mutuality.
October 30, 2001, Vol. XX No. 22

by Mark Hollmer
Like a relationship that’s gone stale, some mutual insurers insurers have looked to spice up their business in a competitive market by reevaluating the relationship they have with mutuality.
Some – like John Hancock or Prudential – came or have come to the conclusion that demutualization and stock offerings are the only way to go.
Others, like Liberty Mutual are pushing ahead instead with plans to change their corporate status to a sort of hybrid, where mutuality remains but the company also gains the right to sell stock to raise money for growth and acquisitions.
The truth is that most mutuals haven’t and aren’t planning to take such drastic steps, experts say. Many mutual insurance executives, they add, are just as happy to keep their mutual framework and modernize within it.
“There are a relatively small number of mutual insurance companies who have actually gone through a full demutualization process,” said Robert Hartwig, vice president and chief economist for the Insurance Information Institute.
Larry Forrester, president of the National Association of Mutual Insurance Companies agreed.
“The bottom line is… here we sit with hundreds of mutual insurance companies. And the structure of mutual insurance companies is extremely viable today and to a great extent even more viable then a few years ago,” Forrester said.
Historically, Hartwig said, insurers have either become mutuals or stock companies.
On the one side, mutuals reflect “that pooling of common interests among businesses or individuals,” Hartwig said. Policyholder interests are paramount because they essentially own the company.
On the other, a stock insurance company functions for investors with the goal of generating a return on investment.
Demutualized and mutual companies both offer logical business plans, Hartwig said.
“One commonly cited reason for demutualization is (it) ultimately leads to stock offerings, and that is money that becomes viable to make acquisitions because stock today is really the currency that is used to finance acquisitions,” Hartwig said. “Many deals are done for stock or at least in part for stock and you don’t have stock when you’re a mutual insurance company …”
But mutuals that choose to stay mutual can also remain successful “in their current market niche,” Hartwig said.
“There are pros and cons to each … you have theoretically easier access to capital as a stock insurance company but that means you need to answer to owners of capital (stockholders) on a regular basis,” he said.
“But if you’re a mutual insurance company your only master is the policyholder.”
And some mutuals, like State Farm, Hartwig said, have had no trouble leveraging existing assets to grow and expand their products.
“It is using its size to leverage other financial products,” he said, “but by and large the vast majority of revenues are still derived from traditional insurance products.”
Forrester, of NAMIC, said many former mutuals in the 19990s felt that demutualization was the only way to obtain additional capital to grow and compete.
But the trend has had unexpected consequences, he said, with companies finding that their “rush to capital” and a

hoped-for boost of underwriting results has lead to new problems.
What those companies found, he said, was “if the underlying business premise and underwriting results continued to be negative you have compounded your problems because now you have to respond to investors and equity markets and explain why earnings per share continue to decline and results are not positive…”
Subsequently, Forrester said, companies who pursue demutualization or mutual holding company status today are less driven by capital concerns than careful strategies thought out in advance.
Liberty Mutual, for example, has decided it wants to reorganize as a mutual holding company , which preserves mutuality but gives it the right to offer stock.
That action, Forrester said, is driven by a need to leverage business opportunities and not just a desire to raise capital.
Still, Forrester is quick to say that mutual insurers can remain perfectly fine just as they are.
“The mutual company structure gives them more time,’ he said, “in a more deliberate fashion to implement long-term business strategies because (mutuals) are not faced with” demands to issue quarterly reports and show immediate financial progress.

The numbers
Both stock insurance companies and mutuals continue, of course, but the number of mutual insurers has declined in recent years.
About 1,350 life and health and property casualty mutuals were up and running as of October 2000, according to the National Association of Mutual Insurance Companies.
But that’s 180 companies less than in 1995, according to NAMIC.
Forrester said the numbers do not daunt him because the change largely reflects mergers and acquisitions between smaller mutuals rather than their decline because of financial instability.
It’s “rarely a capital or surplus issue,” Forrester said.
What’s more, he said, the bulk of demutualizations have focused on life and health companies, those with “equity based products”
Recent events have also focused on the importance of mutual insurance companies, Forrester said. In the wake of the terrorist attacks in Washington and New York, the industry promoted plans to create a reinsurance company to respond to acts of terrorism.
As proposed, the reinsurance entity would be a mutual insurance company, where member companies would in essence serve as policyholders, Forrester said.

Insurance Times: History is on the side of region’s mutuals As merchants went to sea, farmers ventured to the city and travelers replaced their horses with motorcars, they counted on mutual insurers for protection
October 30, 2001, Vol. XX No. 22

by Mark Hollmer
InsuranceTimes

It was June 25, 1914 when fire sparked at a leather manufacturing plant in Salem, Mass. Carlos Faunce watched from two miles away as flames spread quickly across the city fueled by the hot, dry and windy day.
“…In less than a half-hour from the first sound of the alarm, dwellings a quarter of a mile or more from the start of the fire had burned absolutely flat,” Faunce, then president of Holyoke Mutual Fire Insurance Company, wrote years later of what he saw.
A day later, Holyoke Mutual staff began processing claims from the catastrophic blaze that destroyed 1,300 buildings, left 15,000 people homeless and caused $15 million in property losses – a tremendous figure at the time.
The account comes from Salem State College Professor John J. Fox’s compilation of a history of Holyoke Mutual he wrote to celebrate the company’s 150th anniversary in 1993 – Insuring the Future: The Holyoke Mutual Insurance Company in Salem. It illustrates a simple example of why mutual insurers historically formed – to protect member policyholders in times of tragedy.
Today, Holyoke has removed “fire” from its name and offers a diverse selection of coverage beyond its initial roots. But the company’s board of directors has resisted the larger trend to change further and demutualize, or reorganize so the company can gain the right to offer stock.
“Our board felt mutual policyholder ownership is … the right way to keep going,” said Douglas C. Ryder, Holyoke

Mutual's president since 1990.
"That was our tradition and where we came from."

In the beginning

Mutual insurance has a long history in the United States, going back to the founding of The Friendly Society in South Carolina in 1735, according to the Insurance Information Institute.

While the fledgling insurer went out of business five years later, the concept of mutuality continued to grow. And even though the overall number of mutual insurers has declined in the wake of demutualizations and mergers, the mutuals that remain continue to flourish, industry insiders say.

The reason for their success stems in part from a mutual insurer's basic concept, said Robert Hartwig, vice president and chief economist of the Insurance Information Institute.

"Historically …. Most (insurers) were mutual in origin," Hartwig said, "because what you got together was a group of people or businesses that had something in common.

"They recognized the fact that if you pooled risk the likelihood that an adverse effect would put anyone out of business was diminished."

Many property mutuals like Holyoke and Quincy began their existence by simply offering fire protection for property and business owners.

Other companies like Atlantic Mutual originally covered ships and marine trade, or, like MassMutual, began operations as a life insurer.

A group of New York City ship owners formed Atlantic Mutual in 1842 to give themselves improved insurance protection, according to the company Web site.

Atlantic Mutual claims to be the oldest mutual marine insurance company in America.

At first, Atlantic Mutual insured merchant sailing ships as they traded throughout the Far East, the West Indies and South America. Atlantic Mutual also insured the Titanic and the Andrea Doria, according to the Web site.

Today, Atlantic remains a mutual insurer but with a national reach offering lines including commercial, marine, surety and property casualty.

MassMutual Financial Group began its history 150 years ago in Springfield, Mass. as the Massachusetts Mutual Life Insurance Co.

Writer J.F. Fenster details the company's history in an article featured in the June 2001 edition of American Heritage magazine.

George Washington Rice, a Springfield entrepreneur, founded the company after working for Connecticut Mutual Life Insurance Co., one of many mutual start-ups at the time.

Fenster cites legend that Rice launched the company in Springfield "partly out of a feeling of rivalry with Connecticut common to southern Massachusetts in those days.

"He didn't see why Hartford should have two insurance companies (Aetna and Connecticut Mutual) while his hometown had none," Fenster wrote.

The era saw increasing change as farmers left their livelihoods to take jobs in the city. Rice formed Massachusetts Mutual to tap into this market and give workers a means to care for their families if they did, according to a 150th-anniversary publication released by the company this year.

Rice died unexpectedly, according to MassMutual, so his cousin, Caleb Rice took over and served as the company's first president.

Within a year, according to the company's historical timeline, MassMutual had 341 life insurance policies in force worth more than $370,000.

The company paid its first claim -- $1,000 – out to a man who died on a ship heading to San Francisco to look for gold.

Within five years, Massachusetts Mutual had opened offices in 12 locations in Massachusetts, Rhode Island, Portland, New York, Ohio, Illinois and Michigan.

Today, the company calls itself MassMutual Financial Group with more than 8.5 million clients including policyholders, $15 billion in annual revenues and over $220 billion in assets under management.

Its business divisions include OppenheimerFunds, Bermuda-based MassMutual International, and MassMutual Trust, a federal savings bank.

Among the company's more high-profile actions in recent years? MassMutual helped save New York's Chrysler building in the late 1970s and spearheaded a multi-million dollar renovation project.

Former rival Connecticut Mutual became part of MassMutual in 1995 when both companies merged.

* * *

Quincy Mutual Fire Insurance Company formed 150 years ago, in 1851, and like Holyoke Mutual, offered fire protection to member policyholders.

“The only peril that companies back then typically insured against was peril of fire,” said Kevin Meskell, Quincy Mutual’s executive vice president.
The company’s seal contains a Latin message that refers to Quincy’s early philosophy.
“We leave the rest to fate,” Meskell said is the rough translation.
Quincy kept its original name, but has diversified its product line over time to include homeowners, automobile, personal umbrella liability, boat and personal property (individuals and business owners).
Today, Quincy remains a mutual insurer but has grown in financial strength.
Quincy Mutual expects to finish 2001 writing $230 million in premium, Meskell said, writing 280,000 policies in the New England states plus New York and New Jersey.
In recent times, Quincy has pursued expansion plans of its own, however.
In 1997, Quincy purchased Patrons Oxford Insurance Company in Maine. Patrons was a mutual but has since been reconstituted as a stock company that writes business just in Maine. Quincy owns all the stock, Meskell said.
In addition, Quincy launched a reinsurance operation in London, England a few years ago and also opened a branch office in New Jersey.
As well, Quincy mutual purchased the Burgin Platner and Hurley insurance agencies in Quincy, merging them into a larger agency.
With 300 employees and 500 agencies working with Quincy Mutual, Meskell said the company plans to stay mutual for some time to come.
At the end of the year, he said, “we will probably have something just shy of $400 million of surplus and that’s a very adequate level of surplus for a company of our size to do the things that we’d like to do.”
*   *   *
P.T. Barnum – the famed showman and circus operator – added a dash of flair to Middlesex Mutual’s early history.
Barnum, who was from Bridgeport, Conn., served on the Middletown, Conn. company’s board of directors from 1884 through 1892.
A centennial history of the company published in 1936 and compiled by N.E. Davis – with a low-key approach -- only hints at that element, however.
The account says Barnum “brought an interesting perspective to the board,” as well as “a good deal of levity,” said Middlesex Mutual CEO Jim Matschulat.
Barnum aside, however, the Middlesex Mutual Assurance Co. focused on a conservative business philosophy for much of it history.
The personal lines mutual began writing automobile insurance only in 1986 and has pursued expansion just in the last decade.
The company, Matschulat said was “firmly rooted in the land of steady habits.”
Hartford, Conn. developed as the state’s center of commerce in the 1800s, and business leaders launched a number of insurance companies there to take advantage of the growing economic life.
Hartford’s boom essentially planted the seeds for Middlesex Mutual’s birth, said Matschulat, CEO for 18 years.
Middletown, Conn.’s business leaders formed the insurer in 1836 so their community could have its own insurance company, too, Matschulat said.
“They felt the need to have a company of (their) own.”
In its first century, company managers watched as major disasters like the San Francisco, Chicago and New York fires hit and taxed the resources of larger insurers in nearby Hartford.
Middlesex Mutual’s board of directors reacted accordingly by remaining conservative and keeping their focus on insuring homes and small businesses, Matschulat said.
The company now writes about $100 million in annual direct premium and offers homeowners, private passenger auto, small pleasure craft, main street commercial, contractors and small habitational exposure business.
Today, Middlesex Mutual conducts business well outside of its boarders, having expanded into Maine, Vermont and New York. Future plans call for expansion into Massachusetts, Maryland, Delaware and Pennsylvania, Matschulat said.
All of this growth is possible because of Middlesex Mutual’s creation of a reinsurance pool with Country Companies Group in Bloomington, Ill. in 1998.
“Middlesex Mutual on its own would not have been able to spread its reach geographically or (develop) new niches,” Matschulat said. “But with the strong strategic, operational and financial support we received from the pool we’re able to live our strategic dreams.”
Small mutuals and other similarly sized insurance companies used to be able to achieve adequate premiums or spread of risk largely on their own, Matschulat said.
But today, with a global economy and increased mergers and consolidation, smaller companies can no longer do so on their own, he said.

That's why Middlesex Mutual joined the Country Companies, pool, he said. Demutualization or converting to mutual holding companies may be two options for mutuals to raise cash and expand, he said.
But the Country Companies' pool helped Middlesex address its premium and risk needs as well as expansion without having to change its corporate status.
"Sound strategy, sufficient resources and cogent leadership is not a monopoly held by stock companies," he said.

*   *   *

Holyoke Mutual began in 1843, in the back of John S. Williams' law office in downtown Salem, according to Fox's history of the company. He also served as Holyoke's first president, from 1843-1848.
Holyoke issued three of its first four policies to Williams, and the fourth went to resident Stephen Osborne, Fox said.
Williams and other founders named the company as a tribute to Dr. Edward A. Holyoke, one of Salem's early 18th-century residents and "most prominent citizens."
Holyoke was born in 1728 and attended Harvard at age 14, according to the company's history listed on its Web site: www.holyokemutual.com.
The Salem doctor lived to age 100, ran his medical practice for 80 years, and "understood the strong value of community," according to the Web site.
He also stayed very close to home.
"In fact, Dr. Holyoke never once traveled more than 50 miles from Salem in his lifetime," according to the Web site.
Holyoke Mutual focused almost solely on personal and small business coverage in the beginning. But the company dropped "fire" out of its title in 1975 after entering the auto market, thus reflecting its more modern and diverse product focus.
Today, the company also offers homeowners, automobile and commercial insurance. Holyoke does business in New England and New York, has 92,000 policyholders and $70 million in written premium.
But the company has essentially stayed the same course, with some occasional twists and turns to accommodate a changing market along the way.
In 1958, Holyoke Mutual merged with Salem Mutual Fire Insurance and the company helped run off the policies of a failed competitor a decade before.
In the 1990s, Holyoke formed a pooling affiliation with Country Companies Group, joining Middlesex Mutual in preserving mutuality but also taking advantage of a pool with more than $1 billion in writings.
That arrangement gave Holyoke the means to ink a marketing arrangement with North Country Insurance Company in Watertownj2
, N.Y. – a small regional mutual.
"We would not have been able to do that without Country Company's backing," said Susan Cook, Holyoke's assistant vice president/marketing department manager.
Ryder said Holyoke plans to keep growing and "will review any strategic opportunity that comes along," but through the "quality of our own products and services" rather than "mergers and acquisitions."
The board of directors decided a long time ago that any growth will come within the context of mutuality, Ryder said.
"As a mutual," he said, "you're under much less pressure quarter to quarter for performance. You can take a longer strategy that may not really be profitable for a little bit of time."
Stock companies, he said, "are traded under much more pressure in making their plans and setting their strategies."
Mutuals, he said, offer the best of both worlds.
"While most mutuals want to grow," he said, "you can (still) maintain that small company, high-service kind of attitude without feeling high pressure that you have to do something about it."
Mutual insurers, he said, "can stay that way and continue to serve agents and insureds very satisfactorily."

Insurance Times: Veteran association volunteer prepared to lead association Worcester's Powers takes charge at MAIA
October 30, 2001, Vol. XX No. 22

by Mark Hollmer
InsuranceTimes

Bob Powers was there at the beginning almost 10 years ago when Massachusetts' two independent agent associations merged into one big group.

He served on the original merger board of the new Massachusetts Association of Independent Agents and helped agents negotiate their way through “a few rough bumps.”

Smoother days soon followed, Powers said, adding that MAIA has worked hard ever since to meet agents’ professional needs.

“I think it solidified the agency association program in Massachusetts,” said Powers, 61, owner of the Robert P. Powers Insurance Agency in Worcester.

“It allowed us to speak with a single voice and basically heightened everybody’s awareness” of what an association can do, he said.

As the MAIA’s incoming president, Powers will be in an ideal position to promote the 1,700-member-strong association and its professional and legislative goals.

And Powers, who succeeds Kim O’Neil on Jan. 1, said he appreciates fellow agents’ support.

“I look at it as a real honor to be elected to this position,” he said.

Powers brings more than 37 years’ experience to the industry.

He began working for insurance companies in 1964 and started as an agent in 1973 with the old Stark, Johnson & Stinson Co. agency.

Powers and other investors bought the company in the 1980s. They sold it in 1993 to Arthur J. Gallagher in Chicago.

A business decision by Gallagher to divest itself of its personal lines business brought Powers back to insurance.

He bought the personal lines business himself and formed his self-titled agency from those seeds in 1995.

Today, Powers’ agency employs four people, writes about $5 million in annual premium and works with between 8 and 10 carriers, including specialty companies for coverage like medical malpractice.

Powers has been active in trade associations since the mid-1970s and pledged to work hard over the next year focusing on agents’ needs through MAIA.

Put simply, Powers said he’ll work to carry on MAIA projects and an ongoing plan developed by the MAIA board of directors, such as the agents’ awareness consumer advertising campaign.

In addition, he said, MAIA will keep working to “enhance our relationship with the carriers in the state, to make sure that there is a viable ongoing market for the … consumer.”

Among MAIA legislative goals: to move up the date of the annual auto rate case to avoid provisional billings if it runs long, and asserting state jurisdiction regarding the sale of insurance products by banks.

Recently, agents, the state and insurance companies negotiated a 0-percent overall change in auto insurance rates for 2002, months ahead of schedule compared to past, contentious rate cases. Agents, as part of the negotiations, also saw their 2002 average auto commission rates stay unchanged compared to last year. Powers said the decision to work toward a rate stipulation rather than a contentious hearing seemed to come from a sense of practicality on all sides.

“I think everybody understood that to reach an agreement without a hearing was probably in everybody’s best interest,” he said.

Still, with the auto insurance industry having pushed for a rate increase, especially after last year’s 8.3 percent rate cut, Powers said it will be interesting to see how companies react to unchanged rates for 2002.

This year, smaller companies like Horace Mann and Berkshire Mutual have either withdrawn from the auto market or passed their book of business onto larger carriers. Powers said the action could point to a trend.

“Financially sound companies will continue to be a factor in the marketplace, he said, “ where some of the smaller writers may choose to withdraw.”

At the same time, Powers said, he doubts the state will see anything like last year’s collapse of Trust Insurance any time soon, “unless we see some very poor results over the next year or two.”

Powers is also looking ahead at the workers compensation market and sees some accelerated changes in the wake of Eastern Casualty’s decision to withdraw from the Massachusetts market.

“It will basically send more businesses to the workers compensation pool,” he said.

“We were experiencing a hardening of the market prior to the withdrawal of Eastern Casualty and now I think you’ll see an accelerated move for more business going into the pool.”

Insurance Times: Survivor Relief Fund

October 30, 2001, Vol. XX No. 22

Contributions to America’s Survivor Relief Fund, created by the Independent Insurance Agents of America, and the Independent Insurance Agents Association of New York, to benefit victims and surviving families of the Sept. 11 terrorist attack, have surpassed the quarter million dollar mark.
One hundred percent of the money raised will go to aiding victims and survivors.
To contribute, visit www.independentagents.com

Insurance Times: Reverse mortgages now available in New York

October 30, 2001, Vol. XX No. 22

IRVINE, Calif. — Financial Freedom, the nation’s largest reverse mortgage lender, announced the availability of the Financial Freedom Cash Account in New York and Illinois. The Cash Account is a special reverse mortgage designed with an equity release structure that may benefit seniors with home values in excess of $400,000.
“Reverse mortgages have proven to be an excellent financial management tool for most seniors but have not been widely utilized by those who possessed homes with higher values,” said Jim Mahoney, CEO of Financial Freedom. “The Financial Freedom Cash Account was specifically created to provide affluent seniors with a versatile tool to assist with estate or retirement planning.”
The Cash Account provides seniors the security of knowing they have money in reserve by converting a portion of the equity in a home into a line of credit. There are no income qualifications and no required repayment until the loan matures upon permanent move out.
For more information visit www.financialfreedom.com.

Insurance Times: Prudential clears final hurdle for demutualization

October 30, 2001, Vol. XX No. 22

NEWARK, N.J. (AP) — Prudential Insurance Co. of America has cleared the final hurdle in its course to convert to a stock company from a mutual firm.
The demutualization plan approved by the state Department of Banking and Insurance means the Newark-based financial powerhouse is on track to complete its initial public offering by year's end “depending on market conditions," the company said.
When it goes public, it is to be known as Prudential Financial.
Policyholders, who now own the company, in August overwhelmingly approved demutualization, which the company said would allow it to compete with an insurance industry increasingly filled with consolidating companies.
Prudential is to become one of the most widely held U.S. stocks. It plans to distribute 454.6 million shares to its 11 million policyholders and sell 89 million shares to the public when it converts.
Prudential had more than $606 billion in assets under management as of June 30, making it among the largest financial services institutions in the world.

Insurance Times: Conn., Indiana LTC plans announce reciprocity pact

October 30, 2001, Vol. XX No. 22

The Connecticut Partnership for Long-Term Care notes that reciprocity now exists between its program which makes long-term care coverage available to Connecticut residents and a similar program in Indiana.
Under this agreement, Indiana Partnership policyholders who move to Connecticut will be able to receive dollar-for-dollar Medicaid Asset protection if they apply to Connecticut’s Medicaid program. The same is true for Connecticut

Partnership policyholders who relocate to Indiana and apply to that state's Medicaid program. This portability agreement is the first of its kind in the nation.

Insurance Times: Women's need for disability coverage stressed
October 30, 2001, Vol. XX No. 22

WASHINGTON — The Women's Institute for a Secure Retirement (WISER) says every woman of working age should be carrying disability income insurance, an important form of financial protection that's designed to replace employment income lost to illness or injury. But the fact is that most working women either have no disability coverage at all or are underinsured.
"Most of us are aware of how important life insurance is to our families," says WISER Executive Director Cindy Hounsell. "A good case can be made that disability insurance ought to be at least as high a priority as life insurance, especially if you're a single mother or you are bringing home a substantial chunk of total household income."
To educate working women about their disability risks and about how to evaluate disability insurance policies, WISER has released a Special Report on Disability Insurance. The Special Report is available by writing to WISER at 1920 N St., NW, Washington, D.C, 20036. Include $1 for postage and handling.
"The fact is that at age 35, people have about a one in four chance of suffering a disability that will prevent them from working for 90 days or longer sometime during their working lives," Hounsell says. "The risk of facing a disability that keeps you from providing for your family is a very real one."
WISER's Special Report on Disability Insurance was funded by a grant from the American Council of Life Insurers (ACLI).
A survey by ACLI and the Consumer Federation of America (CFA) shows that the overwhelming majority of American workers - 82 percent - either have no long-term disability income coverage, or coverage they believe is inadequate. The survey also shows employees do not understand their disability income benefits at work nearly as well as they understand health and life insurance, pension and other benefits.

Insurance Times: How to support financial goals under new tax act: Society of Financial Service Professionals panelists air views
October 30, 2001, Vol. XX No. 22

BRYN MAWR, Pa. – Although the new tax act has created no small measure of confusion and uncertainty – especially with the "Sunset Provision" that takes effect on December 31, 2010 – careful planning and effective use of existing strategies can still ensure that clients achieve their financial goals.
That message was delivered in resounding fashion in a televised video teleconference entitled: "Waiting for Sunset...What You Need to Know about the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001," recently presented by the Society of Financial Service Professionals.
In an informative three-hour presentation, an expert panel of insurance and financial advisers and attorneys reviewed the new law and offered a variety of suggestions designed to minimize clients' exposure to unnecessary taxation.
Richard M. Weber, CLU, moderated the panel, which consisted of: Thomas F. Commito, JD, LLM, CLU, ChFC; Andrew J. Fair, Esq.; Thomas J. Kanaley, Jr., JD, and Eva M. Ribarits, JD, LLM.
When Weber posed the question, "What planning techniques can we use to work with the EGTRRA until 2011?" Ribarits was ready with a comprehensive answer.

Maximize Exclusions
"Fully maximize all available exclusions," she offered, "including the annual exclusion by making transfers to Uniform Gifts to Minors Accounts and the Uniform Trusts to Minors Accounts, the 2503(c) Trust, and 529 College Savings Plans. Clients who are just beginning a 529 Plan can 'front-load' up to five years of their annual exclusions, for a total of $50,000, without utilizing any portion of their $1 million lifetime gifting exclusion."
Ribarits added, "Life insurance in an irrevocable trust is still the best leveraged gifting strategy for estate planning purposes. Using life insurance proceeds to offset estate tax obligations or, in 2010, capital gains tax obligations, should remain a sound tragedy."

Commito also found a ray of sunshine in the approaching sunset.
"With this new law, more and more taxpayers will be exposed to Alternative Minimum Tax in the years 2001 through 2005," he said, "but there is ample good news for us in the industry. We can now do retirement planning as an employee benefit. That presents an income opportunity for us, employers will benefit from the deduction and employees receive a tax-free benefit."
He added the caution, "You must provide this benefit to all employees, not just the highly compensated, and you are not permitted to piggyback other services such as tax preparation."
Fair, a strong proponent of qualified plans, stated that "The upcoming changes to employee benefits limits and policies look good. They offer more flexibility, more portability and better deals for the highly compensated." Asked to profile the type of company that might reap the greatest advantage from the new defined benefit plans, Fair responded, "Non-labor-intense, high profit service companies with older owners."
Kanaley explained the changes in federal taxation versus state taxation and the effect it will have on the individual taxpayer. "With the EGTRRA, the federal government is reducing the amount of estate taxes that the states can collect and the Fed will retain more than it has in the past. It's important to point out that the so-called 'reduction' in the estate tax will actually increase an estate's federal estate tax liability beginning in the year 2005. This is particularly true for large estates, because the estate tax credits now granted by the states will disappear, and the reduction in the federal tax rate will not be enough to offset that loss."
At times, the sheer complexity of the EGTRRA prompted a bit of tongue-in-cheek humor. When Weber asked for comment on the generation-skipping transfer tax, Commito stated that "I don't think there's a human being alive who completely understands this."
As the teleconference neared conclusion, moderator Weber asked the panel, "With all of the uncertainty surrounding this new law, and particularly with the Sunset Provision, is all of our planning, all of our strategizing real or illusion?" Commito replied, "It's always very difficult to read the future. It's uncertain and will remain 'hot.' That said, the new tax act will have little effect on life insurance. The benefit of tax-deferred money going in and coming out cannot be overstated." Weber himself predicted that "We probably won't make it to 2010 without substantial pullbacks."
Fair saw an area of stability, stating that "Qualified plans will be unaffected by the Sunset Provision. In fact, the best place for your assets to be when you die is in an IRA."
Ribarits added, "Real or illusion, one positive aspect to all of these changes is that they give us an opportunity to revisit our clients and update their plans." Kanaley echoed that sentiment and said, "The question is not what will or will not happen. The question is, 'What kind of planning can we do with our clients to create, preserve and protect their legacies?'"

Insurance Times: FTC anti-fraud campaign urges consumers to 'ditch the pitch'

October 30, 2001, Vol. XX No. 22

by Laurie Kellman
Associated Press

WASHINGTON — Smack in the middle of the holiday season, the man on the other end of the telephone asked Elaine Foley whether she had bought anything with her credit card over the Internet.
Why yes, she said, she had.
Foley was at risk of being defrauded and would be wise to buy herself some credit card insurance ``for a couple of dollars a month," the man said. That promise turned into a $329 charge on her Visa account.
The Braintree, Mass., resident is one of millions of Americans bilked every year out of $40 billion through fraudulent marketing, according to the Federal Trade Commission.
In court and on the Internet, the FTC and several states are cracking down on the practice with a Web site and lawsuits to help consumers "ditch the pitch."
The commission and North Carolina, Virginia, Wisconsin, Oklahoma, Oregon and Illinois have charged a host of entities in civil suits of defrauding consumers by promising credit card loss insurance, loans and even protecting personal information from being used on the Internet.
The FTC said that American Card Services, which tangled with Foley, has since 1998 charged consumers hundreds of dollars for credit card insurance and debt consolidation loans and has targeted the elderly. An attorney representing the company could not immediately be reached for comment.

The agency and states also filed complaints against seven other companies.
North Carolina joined the FTC and Virginia and Wisconsin in filing a request for a temporary restraining order against American Savings Discount Club, which has operated a call center in Charlotte since last November .
Authorities served subpoenas at the Charlotte operation last week.
“e have struck a blow against fraudulent telemarketing," state Attorney General Roy Cooper said. “North Carolinians have been victimized and those who have preyed on us now know that a knock on their door can mean the end of their scams."
Telemarketers promised loans to more than 1,000 people contacted in North Carolina, Cooper said. They were often enlisted military personnel who had been turned down for loans from traditional lenders, he said.
Many never got loans despite paying a $100 sign-up fee and having their checking accounts debited for $30 monthly membership fees, Cooper said.
The FTC and the states accused ASDC of violating federal and state consumer protection laws. A Virginia judge shut down the business operations of ASDC and its Portsmouth, Va.-based parent affiliate, Tungsten Group Inc., and appointed a receiver to take charge of the corporation's assets, Cooper said.
The FTC also unveiled a new Web site, titled “Telemarketing Fraud: Ditch the Pitch."
From it, consumers can learn what information telemarketers are required to disclose and what schemes they are prohibited from using.
For example, they must make clear the cost of the transaction and any policy on returns. They may not charge a person without express authorization. Consumers, in turn, should be suspicious of a scam if they sense a push for immediate payment or a telemarketer who violates the law by calling before 8 a.m. or after 9 p.m.
The site urges people who receive unwelcome calls to clearly state: ``Please take me off your call list." The telemarketers are required to do so.

Insurance Times: Privatization would cause ‘mess’ in Social Security, official says

October 30, 2001, Vol. XX No. 22

BRYN MAWR, Pa. — Establishing an individual-accounts system coordinated with the current Social Security program "would result in an overwhelming administrative mess" that could lead to "the collapse of the entire program or at least to its not doing an adequate or proper job."
That is the view of Robert J. Myers, who served as deputy commissioner of the Social Security Administration in 1981 – 1982 and as executive director of the National Commission on Social Security Reform in 1982 - 1983. Mr. Myers’ comments appear in an article in the September 2001 issue of the Journal of Financial Service Professionals.
According to Myers, the "mess" would result from the millions of sums that are too small to be administered by an investment company or by the government, if it were to choose to act as an investment company. Because such a company generally charges about $40 or $50 to establish an individual account and about the same amount annually to maintain the account, Myers says that contributions of low wage earners would be partially or completely exhausted in meeting the administrative expenses. The problem would be compounded by the fact that employers of people with low annual earnings would not know how to handle these small sums and the Social Security Administration is not equipped to find these workers and provide investment counsel.
Myers also disputes the notion that the urgency of the program’s financial woes warrants immediate and drastic action, and rebuts the contention that Chile has successfully privatized its counterpart to our Social Security program.
According to Myers, "…only about 70 percent of those who should contribute actually do so, and then on the average pay only about 75 percent of the amount that they should."
His proposed solution to the program’s various difficulties is to "make changes of a traditional nature within the program.
At the same time, Myers offers, "much that is sought by the privatizers could be achieved by broadening the provisions of the existing individual-accounts arrangements," namely Individual Retirement Accounts and 401(k) plans.

Insurance Times: Benefits and assistance to families of Sept. 11 victims vary widely

October 30, 2001, Vol. XX No. 22

by Adam Geller
Associated Press

NEW YORK — Companies that lost employees in the World Trade Center attack have been piecing together benefits packages for the victims' families, but the extent of the relief effort varies widely.
One company is pledging health care coverage for the families through 2006. Another is promising each family at least $100,000, taken from profits usually paid to senior partners.

Insurance Coverage
Many of the plans include some continuation of pay and insurance coverage, as well as assurances that nonprofit foundations set up by the companies will be there to help.
But some firms are drawing narrower limits on continued pay and benefits.
Uncertainty about everything from tax implications to locating records lost in the attack has made the job more complex, executives at some of the companies said.
“It's been not only a difficult time, but a complicated time," said William Pitt, a spokesman for the Marsh & McLennan Cos., which lost 292 of 1,700 employees based in the World Trade Center.
Some firms would not discuss details of benefits packages for survivors, citing not just the need for privacy, but the heated public criticism leveled at one firm, Cantor Fitzgerald, by some survivors angered at its handling of payouts.
“We see a lot of very public stuff between some companies and survivors and not all of it has been very pretty," said Jim Connelly, executive vice president at Fred Alger Management Inc., which lost 35 employees in the attacks. “We want to keep it very private between the families and the firm."
Companies willing to disclose specifics describe varying benefits packages.
Nearly all the companies have offered families an extension of victims' salaries. Companies including Marsh and Sandler O'Neill & Partners, which lost 66 of 170 employees at the center, say they are paying those salaries through the end of this year, but as a lump sum.
Aon Corp., about 200 of whose employees are confirmed dead or missing, say they will continue salaries through most of this month.
With pay on Wall Street often reliant largely on year-end bonuses, some companies say they also intend to make those payments to families. Cantor, criticized for its slowness in making such payments, says it will send out checks matching last year's bonuses to families of administrative workers by Oct. 22. Families of employees working on commission should expect those checks by Nov. 22, the company said.

Bonuses
Sandler also plans to pay bonuses, but is sorting through specifics with an eye toward easing tax burdens on families, said Fred Price, the company's chief operating officer.
Many of the companies also are pledging to cover health insurance costs for families of lost workers.
Cantor says it will donate 25 percent of its profits over the next five years, money that would have gone to partners, to support families of the more than 700 workers killed.
Sandler says it has already arranged health care coverage for the families through December 2006. Marsh says it will cover insurance costs for the next year.
Most of the firms that lost large number of workers also have set up foundations to accept donations on behalf of victims' families, and some have made that a focus of their benefits efforts.
In addition, several companies have matched families with financial advisers or personnel managers to sort through money worries or benefit questions.

Insurance Times: Surplus lines solvency continues to mirror total industry’s
October 30, 2001, Vol. XX No. 22

The solvency record of the domestic surplus lines industry continues to mirror that of the total property/casualty industry, according to a study by the A.M. Best Co.
The Annual Review of the Excess & Surplus Lines Industry was released at the convention of the National Association of Professional Surplus Lines Offices.
Since 1971, surplus lines company insolvency rates have mirrored that of traditional insurers, with an average annual

failure frequency rate of less than 1 percent, according to the A.M. Best study. The similarity of failure frequency rates between the non-admitted and admitted markets attests to the pricing discipline of the surplus lines market, according to Best.
A.M. Best said that "despite the challenges faced by these insurers, the surplus lines market continues to maintain a high level of financial strength and solid operating results, which are supported by sound underwriting guidelines and effective risk management techniques."
Modest surplus size is the leading characteristic of the 65 identified surplus lines insolvencies since 1971. Of those firms, 85% maintained surplus of less than $25 million and more than 50% had surplus of less than $5 million.
Direct premium for the surplus lines industry increased by nearly 10%, This increase reflects primarily the migration of business from the standard market into the surplus lines market. This compared favorably to the 5% growth by the property/casualty industry in 2000.
Over the past five years, operating results generated by the surplus lines market have continued to outperform the overall property/casualty industry, as evidenced by the five-year average pre-tax return on net premium of 27.6% for the composite versus 7.4% for the property/casualty industry. However, the underwriting results achieved by the surplus lines market have weakened in recent years, as a result of competitive pricing pressures and a reduction in the level of favorable loss reserves.
The migration of business into the surplus lines market is largely attributed to a reduction in capacity from the standard market combined with increasing pressure form reinsurers. However, as business moves into the surplus lines market, the increased loss costs are expected to be mitigated by the impact of favorable rate activity.
Over the near term, A.M. Best expects that the surplus lines market will benefit from the re-underwriting initiatives being taken by the standard market. This should have a favorable impact on the surplus lines market's operating performance as well as its balance sheet strength.
The median Best's Rating for the domestic professional surplus lines writers continues to be "A" (Excellent), which compares favorably to the standard market which registered a median rating of "A-" (Excellent). Overall 94% of domestic professional surplus lines companies have secure ratings, compared to 88% of the property casualty industry.
A.M. Best attributed the more favorable ratings to: demands by the market that surplus lines carriers maintain a higher level of capital; surplus lines writers tend to operate with more conservative operating leverage; more disciplined underwriting coupled with strong risk management techniques; and a majority of the leading surplus lines writers are strategic members of large well-diversified insurance organizations.
The excess and surplus lines industry can be divided into five segments: U.S. domiciled companies which underwrite more than 50% of their direct premiums in surplus lines; Lloyd's of London; regulated alien companies; domestic carriers which write small amounts of surplus lines risks; and unregulated alien insurers.

Insurance Times: New York officials, insurers on guard for insurance fraud after attacks

October 30, 2001, Vol. XX No. 22

by Rita Beamish
Associated Press

NEW YORK — The lure of millions of dollars in benefits paid to those affected by the World Trade Center attacks has attracted a few scam artists, and many more are expected.
"We think that frauds are being committed — the question is when the claims will be presented," said Bernie Bourdeau, president of the New York Insurance Association. "If it doesn't happen we'll be pleased, but astounded."
The National Insurance Crime Bureau, which helps companies work with law enforcement to investigate fraud, says money from insurers, the Federal Emergency Management Agency, and some 150 charity groups is bound to attract fraud.
"The potential I think is going to be everything across the board," spokesman Mike Erwin said.
The NICB warns of the potential for false business receipts and insurance contracts; claims for damaged or destroyed cars that were not in lower Manhattan on Sept. 11; employee claims for nonexistent injuries; shady contractors submitting bills for work not done; and claims for nonexistent property.
Insurance companies, trying to quickly meet legitimate claims, girded for fraud after state officials directed them to waive the normal requirements for a death certificate. Claims now can proceed even if a body has not been recovered from the trade center wreckage.

There have been two arrests involving false reports of dead relatives. One man was charged after claiming his wife and daughter were lost; the unverifiable details in his story tripped him up.
A Canadian woman claimed she lost her husband and received $400 in cash toward her expenses while in New York. She was arrested when she came back to a family relief center for more.
“Our experience in natural disasters is that after the initial shock wears off, there are always people out there making a living committing fraud," Bourdeau said. ``Any time there is a loosening of restrictions, expediting payments, the thieves always see an opportunity to move in."
Bourdeau said the industry expects ``a load" of questionable medical claims _ either from medical clinics seeking payment for services never rendered, or from individuals teaming with clinics to inflate or invent injuries.
There are already a few fishy-looking claims for cars allegedly lost in the rubble and for life insurance, said Mike Fella, an agent for the NICB. The NICB also has reports of suspicious claims of auto accidents allegedly caused by the many emergency vehicles on the roads Sept. 11.
Insurance companies can cross-check claims for missing cars with an NICB database of vehicle identification numbers from nearly 700 wrecked cars removed from the trade center rubble.
Other safeguards are being put in place.
A special state investigative task force has been set up for claims related to the World Trade Center attacks, Insurance Department spokeswoman Joanna Rose said. And the state attorney general's office is preparing a database of aid recipients so charities can see if a person is double-dipping.
The Red Cross, the largest relief agency, said its average payment to trade center victims so far is around $15,000, a sum meant to last three months. Some 1,000 families have received payments.
For each applicant, the Red Cross assigns a case worker who becomes ``very involved," one hedge against fraud, said a Darren Irby, Red Cross spokesman.
The National Association of Realtors, which is helping victims with rent payments, seeks landlord verification before a check is paid jointly to the landlord and tenant, said spokesman Sal Prividera.
At Safe Horizon, which has given out $6.5 million in cash to 6,000 families --mostly in increments of around $1,000 to ease loss of wages -- applicants must present proof of employment at a business affected by the disaster.
A few people have applied at more than one Safe Horizon location, but the charity's database identified them before they could get two handouts, senior vice president Elizabeth McCarthy said.

Insurance Times: Mass. approves Safety buyout
October 30, 2001, Vol. XX No. 22

Safety Insurance’s seven top managers and other investors gained Massachusetts regulatory approval earlier this month to buy the company.
Division of Insurance Commissioner Linda Ruthardt and Hearing Officer Richard Cody issued their decision on Oct. 12, eight days after the public hearing held on the $112.8 million sale.
In the decision, Ruthardt and Cody said state law required the DOI to approve the sale unless the transaction hurt competition, jeopardized Safety’s financial stability or hurt policyholders or potential consumers.
David Brussard, Safety Insurance’s president and CEO, is one of seven top corporate managers buying the company along with individuals from The Jordan Co., a New York investment firm, and JZ Equity partners.
Simches and his family owned 70 percent of the company. Employees owned the remaining 30 percent through an employee stock ownership plan.
Safety’s founder, the late Richard Simches, announced plans to sell his company in July 2000. He died of cancer 13 months later before the sale could be completed.
Annual debt servicing for the sale is expected to be $15 million. Ruthardt, in her decision, cited Safety management testimony that the company’s “net annual income will be more than adequate to meet such debt service obligation, without the need for the payment of extraordinary dividends.”
Brussard, in his testimony, said the debt was not much greater than that taken on by Safety’s parent company – the Thomas Black Company – to finance the ESOP in 1995.

Insurance Times: The Internet may have revolutionized how the world conducts business, but the insurance industry has been arguably slow to respond to the new commercial climate.
October 30, 2001, Vol. XX No. 22

by Mark Hollmer
InsuranceTimes

Case in point: Data travels electronically and exists in every way except on paper. But because it can't be touched or held in terms included under most property insurance coverage, it falls into a gap.
"Data is not considered tangible property," explained Patty Nichols of The St. Paul Companies.

Risky Business
Nichols is one of three people who spoke at the seminar "Risky Business: New Risks and Solutions for A Changing World," held last month at the Seaport Hotel at Boston's World Trade Center.
Kae Lovaas, The St. Paul Companies' president for global technology and Aaron Latto, St. Paul's e-commerce underwriting director, also spoke during the seminar, which was sponsored by their company.
The focus ranged from the increasing range and impact of e-commerce risks and how they affect businesses to how to prevent or reduce their frequency through coverage.
E-commerce risks will be increasing, in part because business-to-business electronic commerce is growing so much, Lovaas said.
By 2004, she said, business-to-business e-commerce should reach between $5 - and $7 trillion, she said, citing statistics from both Forrester and the Gartner Group.
Intellectual property, privacy and network security are the three big areas of technology-based risk companies face, Latto said.
Latto said intellectual property risks – on elements like copyrights, trademarks, patents and trade dress -- matter because lawsuits cost so much to defend, and Internet and e-commerce law is uneven, untested or non-existent.
Companies can take a number of actions to minimize intellectual property risk, he said, including developing clear policies and procedures on the matter and requiring employees and contractors to sign non-disclosure agreements.
Privacy risks, Latto said, are important to consider in a technology age because technology makes it very easy and cost-effective to collect personal information.
Citing statistics on an overhead presentation, Latto said that up to 90 percent of Web sites might collect some personal details of their customers.
Also consider, he said, that the information collected could be kept, shared or sold because it has "commercial value."
The risk comes into play, he said, because Web sites can crash or lose their security features protecting customer information like credit card or social security numbers from public view.

Privacy Risk
Privacy risk can be minimized if companies limit access to private information, understand what information contractors or vendors collect for them, and keep track of exposures internationally.
Nichols spoke mostly about network security. She said the matter is a major electronic risk factor because security breaches can happen anywhere in the world on the Web, and are hard to prosecute because of the lack of witnesses or legislation that kept pace with technology.
Exposures can include theft of trade secrets, altered company data, extortion, denial or service or loss of reputation when your company's Web mishaps are reported in the media.

Unsecured Web Sites
"There is nothing worse than having your name publicized because you have an unsecured Web site," she said.
Breaches in network security through sabotage or viruses costs $1.6 trillion, Nichols said, citing Information Week statistics.
Risk reduction can be simple, Nichols said, including the choice of better passwords, limiting network access, creating strong policies and standards, developing a data backup system and improving network design.
Companies can also get a "baseline" assessment as to what's at risk and then address weak spots, she said.

Coverage Gaps
In addressing coverage gaps for electronic business risks, Nichols said companies should consider where gaps in

traditional coverage lie while evaluating their needs.
Among the gaps:
• Computer hacking or “denial of service” attacks don’t necessarily cause “direct physical loss or damage” as defined under traditional property coverage.
• There’s no coverage if you can’t stop a virus from passing through your Web site.
•New ISO changes effective in December would establish exclusions for chat rooms and bulletin boards, an Internet staple.
New e-commerce risks require new risk management techniques

Insurance Times: Conn. department urged to reject Anthem rate hike
October 30, 2001, Vol. XX No. 22

HARTFORD — Advocates for the elderly are urging the state Insurance Department to reject proposed rate hikes by Anthem Blue Cross, increases affecting 77,500 senior citizens.
Rate increases as high as 22 percent have proposed by Anthem Blue Cross and Blue Shield of Connecticut for Medicare supplements for 2002.
“There is no doubt in my mind that seniors cannot afford to pay even one penny more than they are now," said Charlene M. Block, president of the Connecticut Council of Senior Citizens.
Many are on fixed incomes and have other cost increases, Block said during a hearing \ before state regulators.
“I'm afraid," she said, “this will be the straw that breaks the camel's back for a lot of us."
Anthem officials said the higher rates are needed because of increases in use and cost of medical services, and rising Medicare deductibles and doctor payments. Medicare supplements usually pay hospital deductibles and portions of doctor bills that the government program doesn't cover.
Anthem wants rate hikes averaging nearly 22 percent on policies sold before Aug. 1, 1992. Increases on newer policies would average 13 percent and range from 5 percent to nearly 16 percent.
“These rates are necessary to preserve the integrity and continued viability of each of these lines of business," said Linda Masci, Anthem vice president and general manager of government programs.
She said Anthem's spending has been rising 8 percent to 9 percent each year on seniors' hospital benefits. Claim costs are soaring 18.5 percent for nursing home care for members with the newer Medicare supplements.
State Sen. Edith Prague, D-Columbia, a former state commissioner on aging, called the proposed increases “outrageous." She said seniors must be made aware of available policies that are less expensive but offer the same coverage.
Regulators are expected to rule on Anthem's rates by Oct. 29.

Insurance Times: Wal-Mart employee sues for contraceptive benefit
October 30, 2001, Vol. XX No. 22

ATLANTA — A Wal-Mart employee has filed a sex-discrimination lawsuit against the company, claiming that denial of health insurance coverage for prescription contraceptives is unfair to women workers.
The class-action suit was filed in U.S. District Court in Atlanta by Lisa Smith Mauldin, a customer-service manager employed by Bentonville, Ark.-based Wal-Mart since 1996, the National Women's Law Center said.
Mauldin, a 22-year-old divorced mother of two earning about $12 an hour, has been eligible for Wal-Mart Stores Inc. employee health insurance since she started working full-time in March 2000, the Washington-based group said.
It said the $29.84 that Mauldin pays out-of-pocket each month for birth control pills is a financial burden.
“In refusing to cover contraceptives, Wal-Mart is denying basic medical care to its women employees," said Janine Pollack, one of the lawyers who filed the suit.
Wal-Mart spokesman Tom Williams, who said he had not seen the suit , would not comment. “For almost 1 million employees, we offer excellent benefits, and we attempt very hard to assist all of our employees and cover all of them," he said.
Those who are pushing for requirements that group health insurance cover birth control say about a third of traditional health plans cover contraceptive pills, but millions of women still have to pay at least $300 a year out of their own

pockets.
In June, a federal judge declared that it was unlawful discrimination to offer less complete insurance coverage to female workers than to males.
In December, the Equal Employment Opportunity Commission ruled that it was against federal law for employers to exclude contraceptives from their health plans when they cover other preventive treatments.

Insurance Times: MassMutual opens new Springfield office

October 30, 2001, Vol. XX No. 22

MassMutual Financial Group based in Springfield, Mass., announced the relocation of several hundred employees to the Tower Square office building in downtown Springfield, a move designed to accommodate the company's growth. Approximately 350 employees from the David L. Babson & Co., Inc., a subsidiary of the Massachusetts Mutual Life Insurance Co., will occupy 105,000 square feet of the newly-developed building on Main Street. MassMutual already employs 140 people at its broker-dealer, MML Investors Services, Inc. also on Main Street, and it operates a general agency at Tower Square.

Insurance Times: NY pact gives claimants specifics on HMO denials Recent agreement reaffirms current practices, HMOs contend

October 30, 2001, Vol. XX No. 22

by Connor Ennis
Associated Press

ALBANY, N.Y. — Patients of six of the large health insurance plans will now receive specific information when their claims are denied, according to an agreement announced by state Attorney General Eliot Spitzer.
Spitzer said the specific information will allow the patients to better prepare for the possibility of appealing the HMOs' decisions.
The agreement was announced after a two-year investigation by Spitzer's office.
"We are obligating the companies to make their decisions based on a specific examination of the medical file of that consumer," Spitzer said. "If you force the HMOs to do that, you will both force their decision making and you will permit consumers to (submit) appeals that are meaningful, that are timely and the rights of consumers will be vindicated."
Leslie Moran, spokeswoman for the New York Health Plan Association, which represents 31 managed care health plans that serve nearly 6 million New Yorkers, said Spitzer's announcement was essentially "old news" because plans began providing patients with more detailed information following the passage of the state's external appeal law in 1999.
Association president and CEO Paul Macielak said the agreement reaffirms current practices since the investigation by Spitzer's office reviewed cases that predated the external appeal law.

Six HMOs Involved
The six insurance plans involved in the agreement serve about 7.5 million consumers throughout the state. Spitzer said his office will continue to work with other insurance plans that serve New York consumers about similar agreements.
Spitzer's office found that, previously, the companies would often offer a generic phrase — such as ``not medically necessary" or ``care could have been provided in an alternative setting" — to consumers when justifying the denial of coverage. It was found that plans would use the terms when refusing to pay for things like extended hospital stays and recommended treatments for anxiety, depression and substance abuse.
According to Spitzer's office, only one to two percent of people who are denied care actually appeal, but approximately 75 percent of those who do appeal win more care. A little more than half of the cases which are externally appealed are at least partly overturned, according to the state Department of Insurance.
Spitzer said his office will monitor HMOs for two years to make sure they are complying with the terms of the agreement. Spitzer said if insurance plans do not respond to patients' appeals within a certain timeline, the denial will be

automatically reversed. The plans will also have to notify the patient the denial was reversed.
The insurance plans have also agreed to send denial notices to doctors and hospitals when they have submitted claims for medical services or treatments they've provided and to comply with monitoring provisions by Spitzer's Health Care Bureau, which includes keeping complete and accurate records for each denial.
The plans will contribute $1 million to cover the costs of the investigation.
The New York HPA said the agreement is part of a commitment on their part to provide consumers with information to help them make appropriate health decisions.
“Throughout the review of the plans' records and processes, there were no allegations of patients being inappropriately denied care nor questions raised about the quality of care provided or clinical criteria used by plans," Macielak said.
The health plans involved in the agreement are: Aetna/U.S. HealthCare Inc./Prudential Health Plan of Hartford, Conn.; Excellus Health Plans Inc. of Rochester; Group Health Inc. of Manhattan; HIP Health Plan of Greater NY Inc.; Oxford Health Plans of Trumbull, Conn. and Vytra Health Plans of Long Island Inc.

Insurance Times: MedSpan, ConnectiCare finish at top of HMO rankings
October 30, 2001, Vol. XX No. 22

HARTFORD — MedSpan and ConnectiCare had the fewest complaints against their health plans last year, putting them at the top of the state Insurance Department's annual rankings.
The state rankings showed that the most complaints were filed against FirstChoice, Health Net and Aetna.
The agency also released rankings of auto insurers and companies that sell more traditional health, accident, long-term care, disability and Medicare supplement insurance.
Consumers and employers can use the reports to evaluate an insurance company.
“The rankings can be used by insurance companies to evaluate how their customer relations plans are working and how they fare against their competitors," said Insurance Commissioner Susan Cogswell.
More than 4,200 complaints against HMOs were used in the new rankings, which are based on data for 2000. The numbers can't be used to determine whether health plans improved or worsened since 1999 because reporting methodology changed. For instance, multiple complaints by a hospital in one letter, which used to be recorded as one complaint, are now recorded separately.
The department ranks insurers by the ratio of complaints by consumers, doctors, hospitals and other health care providers, to the premiums written by a company. For the ranking, regulators consider only the complaints they consider at least partly justified — usually just a fraction of the total number of complaints filed.
The department found that most of the complaints against health plans last year stemmed from claims handling, and of those, most were due to delays in payment.
Hartford-based MedSpan had nine complaints cited in the report and the best ratio among 10 HMOs in Connecticut. Farmington-based ConnectiCare was next with 64 complaints.
FirstChoice, formerly known as WellCare, was ranked lowest, at 2,847 complaints. Company spokeswoman Kelly Stark told The Hartford Courant the company has brought in new management and restructured its claims operation.
Health Net, previously known as PHS Health Plans, ranked seventh with 890 complaints. The company said it was working with insurance regulators to iron out the claims problems and noted that the number of complaints represents less than 1 percent of the total claims it processes each year for Connecticut members.
Aetna ranked eighth with 276 complaints and said it has engaged in a nationwide effort to improve service to members, physicians, hospitals and employers.
“We have made significant improvements overall," said Aetna spokeswoman Ann Marie Gothard.
She noted Aetna now rewards customer service employees for resolving problems on the first call, rather than for simply answering phone calls.
Cigna ranked third with 20 complaints in the insurance department report, and Oxford Health Plans was sixth with 90.

Insurance Times: Maine weighs Anthem rate hike
October 30, 2001, Vol. XX No. 22

BANGOR, Maine — Chris Brown has turned to the Internet to express displeasure at Anthem Blue Cross and Blue Shield of Maine's request for double-digit rate increases for individual and small group health insurance.
Brown, a 42-year-old software-engineer in Portland, launched a Web site — ww.stopanthem.com — to collect opinions on Anthem's plan, which he plans to submit to Superintendent of Insurance Alessandro Iuppa.
Iuppaschedulkes a hearing last week in Gardiner on the Anthem request to raise rates for about 26,000 Maine subscribers. The increases, averaging 13.6 percent for the insurer's HealthChoice products and 31.7 percent for individual HMO plans, would take effect Jan. 1.
Brown decided not to testify at the hearing because he feels he has little new to contribute to the debate, aside from dislike at the added costs.
“hat else can you say? I can't afford it," said Brown, who signed up with Anthem when his longtime insurer, Mutual of Omaha, recently pulled out of the Maine market.
A growing number of Mainers have been contacting the Bureau of Insurance and advocacy groups like Consumers for Affordable Health Care to voice displeasure over health insurance costs.
“In the last couple of months we seem to be getting more and more calls on the high cost of insurance," Iuppa said. “I don't think the situation is going to be improving anytime soon. There's nothing on the horizon that tells me that's going to be the case."
Anthem spokesman William Cohen said the insurer has been fielding questions from customers who believe they are paying too much for their health coverage. Anthem's request for higher rates stems from greater use of medical services and rising costs, Cohen said. “We're just a reflection of what society is doing," he said.
Iuppa said he's aware of those, like Brown, who simply balk at price increases. “I certainly understand his frustration as well as many other folks," Iuppa said. Iuppa said he will consider as much information as possible in making a decision, but he noted that he can only alter an insurer's file if he finds it to it to be excessive, inadequate or excessively discriminatory.

Insurance Times: Mass. could soon pass women's health bill
October 30, 2001, Vol. XX No. 22

BOSTON — A measure to provide insurance coverage for contraception and hormone replacement therapy for women could pass through the House this year, according to key legislators.
The state Senate has already voted overwhelmingly in favor of the bill, which would require insurers to provide the coverage, and some House members believe this year they have enough votes to pass the legislation.
``We're pretty positive about this bill going through," state Representative Carol A. Donovan, a Woburn Democrat, told The Boston Globe.
Donovan estimated that about 90 House members have voiced support for the measure.
Many insurance providers already cover the cost of Viagra, the impotence drug for men, but do not pay for such female health needs as hormone therapy and birth control. Planned Parenthood says that women pay 68 percent more out-of-pocket costs for health care than men.
The Senate approved the bill 33-0, and passed a similar one last year, but the bill stalled in the House.
This year, however, the demand that insurers include coverage of birth control and hormone therapy is supported by a ruling from the federal Equal Employment Opportunity Commission. The ruling declares that it is discriminatory for insurers not to provide coverage for prescription contraceptives.
The EEOC declaration is not binding until it is approved by the U.S.Supreme Court. But state Senate President Thomas F. Birmingham, D-Chelsea, said the ruling made it clear that states should make sure that women receive equal health care benefits.
Donovan said House Speaker Thomas M. Finneran, D-Mattapan, who controls the House agenda, ``seemed very receptive" about the bill . Insurance providers, however, are not necessarily in favor state-mandated benefits.
“We have to be cautious whenever we mandate a new benefit because it always has the potential effect of increasing premiums and decreasing affordability of health care plans, particularly for small employers," said Dr. Marylou Buyse, president of the Massachusetts Association of HMOs.

Four agencies form customer service alliance
AmeriBen Alliance in Middletown, Connecticut, announced the creation of a high tech customer service center with four participating agencies. By combining forces, these four agencies hope to have combined buying power and easy

service on group insurance for their more than 1,200 clients. Benefit Plans Unlimited in Bloomfield; Paul E. Smith Insurance in East Granby; KGS Insurance Services in Middletown; and Thomson Financial Services in Southington are the participating agencies in AmeriBen Alliance. (www.ameribenalliance.com).

Insurance Times: Moran joins Quincy Mutual; Travelers promotes Clarke, Eliot and Kokulis; PIANY elects Bailey; Boston CPCU elects Hamilton; John Hancock puts Graveline in charge of acquisitions
October 30, 2001, Vol. XX No. 22

Quincy Mutual
James J. Moran, Jr., former president of Eastern Casualty Insurance Co. which is pulling our of the Massachusetts market, has joined Quincy Mutual Fire Insurance Co. as general counsel and vice president.
Moran is a former senior partner in the Boston law firm of Morrison, Mahoney & Miller, where he practiced insurance law for 20 years. Three years ago, he left the law firm to serve as president of Eastern Casualty.

John Hancock
John Hancock announced plans to strengthen the company's merger and acquisition efforts by placing Executive Vice President Kathleen M. Graveline in charge of them.
Graveline shifts from her post as head of the company's retail sector to assume her new responsibilities.
According to David F. D'Alessandro, Hancock chief executive officer, the change was made "because it is time for us, as a stock company, to more aggressively explore new books of business and other outside business opportunities. We will continue to grow our existing distribution channels, but we must look outside current business mix for growth opportunities, both domestic and international."
Michael Bell will replace Graveline as senior executive vice president for the retail sector.
In addition, the retail sector's bank, broker-dealer and insurance brokerage operations are being consolidated under Signator Chairman and CEO Jim Morris.

Travelers
Citigroup Chairman and Chief Executive Officer Sanford I. Weill announced the promotion of three Travelers executives: Charles C. Clarke has been named chairman dna d chief executive officer of Travelers Property Casualty; Douglas C. Elliot has been appointed president of Travelers Property Casualty; and George C. Kokulis has been named chairman of Travelers Life & Annuity, retaining his title of chief executive officer.

Boston CPCU
Douglas Hamilton, an underwriting manager with Andover Companies in Andover, Mass., has been elected the new president of the Boston Chapter of the CPCU Society. He joins the other officers elected: President Elect, Robert Mansfield, Brewer & Lord, Cambridge; Vice President, Michael Weinberg, Donovan Hatem LLP, Boston; Treasurer, Leslie Poole, Arthur J. Gallagher Co.; and Secretary, Douglas Reynolds, Holyoke Mutual.

PIANY
John W. Bailey, executive vice president of George B. Bailey Insurance Agency in Dryden, N.Y., has been elected president of the Professional Insurance Agents of New York State, Inc. Bailey has been active in PIA association affairs, including its political action committee, and is past president of the New York Young Insurance Professionals.
David Isenberg off Rockville Centre has been elected president-elect. Isenberg is president of D.C. White Agency, a member of Lancer Insurance Group, in Long Beach.
PIANY also elected: T.J. Derella, owner of Kingstar Companies in Kingston, as first vice president; N. Stephen Ruchman, president of Ruchman Associates in Rockville Centre, as vice president; David Dickson, a producer with The Flanders Group in Pittsford, vice president; Michael Paluba, owner of Hermitage Insurance Brokerage in Middle Island, as secretary; J. Carlos Viana, an account executive with Marshall & Sterling in Glenville, as treasurer; and Lynne R. Frank, president of L.R. FRank & Associates in Williamsville, as immediate past president.

Insurance Times: Tufts Insurance Company

October 30, 2001, Vol. XX No. 22

October 30, 2001

333 Wyman Street
Waltham, MA 02454-9112

The above company has made application to the Division of Insurance for a license to transact Accident and Health 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 02210 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

Insurance Times: Zurich America
October 30, 2001, Vol. XX No. 22

October 30, 2001

Insurance Company
601 West 26th Street
New York, NY 10001

The above company has made application to the Division of Insurance for a Certificate of Authority to transact Life, Health, and Accident Insurance in the Commonwealth.
Any person having any information regarding the company which relates to its suitability for an application to redomesticate to Massachusetts persuant to Massachusetts General Laws Chapter 175 § 49A is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02210 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

Insurance Times: Providentmutual Life & Annuity Company of America
October 30, 2001, Vol. XX No. 22

October 16, 2001

300 Continental Drive
Newark, DE 19713

The above company has made application to the Division of Insurance for an expanded Certificate of Authority to transact Variable Life 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 02210 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

Insurance Times: Liberty Insurance Corporation
October 30, 2001, Vol. XX No. 22

October 16, 2001

1795 Williston Road,
South Burlington, VT 05403

The above company has made application to the Division of Insurance for a license to transact Commercial Property insurance in the Commonwealth.
Any person having any information regarding the company which relates to its suitability for such license is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02210 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

Insurance Times: National Western Life Insurance Company
October 30, 2001, Vol. XX No. 22

October 16, 2001

850 East Anderson Lane
Austin, Texas 78752-602

The above company has made application to the Division of Insurance for a license to transact Life insurance in the Commonwealth.
Any person having any information regarding the company which relates to its suitability for such license is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02210 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

Insurance Times: First American Property and Casualty Insurance
October 30, 2001, Vol. XX No. 22

September 4, 2001

114 E Fifth St.
Santa Ana, CA 92701

The above company has made application to the Division of Insurance for an expanded Certificate of Authority to transact Property & Casualty insurance in the Commonwealth.
Any person having any information regarding the company which relates to its suitability for an expanded Certificate of Authority is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02210 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.