

Insurance Times: MASS. BANKS TRIED HOLDING COMPANY ROUTE BEFORE INSURER LIBERTY MUTUAL

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Giant P/C Insurer Wins Approval to Form MHC

by Mark Hollmer
InsuranceTimes

BOSTON — Eastern Bank was once a small mutual savings bank based in Lynn. But then in 1989, the Massachusetts Division of Banks approved the bank's application to reorganize as a mutual holding company – the first in the state to do so.

Andrew Calamare was Massachusetts Commissioner of Banks at the time. He said the change helped Eastern to become a regional powerhouse.

"It has certainly not hurt them," said Calamare, now president and CEO of the Life Insurance Association of Massachusetts.

"Now it is the second largest bank in the ... state chartered system," he said.

Liberty Mutual Status

Twelve years later, Liberty Mutual has become the state's first property casualty insurer to win mutual holding company status.

Insurance Commissioner Linda Ruthardt approved Liberty Mutual's mutual holding company application at the end of November, the first mutual insurer to do so under a 1998 state law.

The approval allows Liberty mutual to form a holding company that becomes the corporate parent of Liberty Mutual Insurance Co. and sister divisions Liberty Mutual Fire and Liberty Mutual Life. DOI approval to merger Liberty subsidiary Wausau Insurance into the mutual holding company and also reorganize Liberty Mutual Fire within the new system is still pending, however.

When all is complete, Liberty Mutual will maintain mutuality but gain the right to offer stock if it chooses.

Shareholders can own up to 49 percent of the company, but policyholders will always own at least 51 percent.

"This is a significant milestone for our company, our policyholders and our employees," Edmund Kelly, Liberty Mutual Group's chairman, president and CEO, said in a written statement.

Liberty Mutual's reorganization will help the company compete better internationally, he said.

Liberty Mutual has long argued that its corporate change would be best for its own independent growth and also protect policyholders.

Opposing Arguments

But opponents of the deal, particularly the Center for Insurance Research in Cambridge, have argued that a mutual holding company is unfair because policyholders aren't compensated and that the board of directors will ignore them in favor of shareholders. (Liberty officials have said they don't plan to seek a stock offering any time soon.)

CIR members and others pushed instead for Liberty's full demutualization, which would then require the company to distribute dividends to policyholders. Ben Geman, a CIR spokesperson, said his group expected the approval.

"The (DOI) has been meeting with Liberty for a long, long time now. We're not surprised they would approve (Liberty's) mutual holding company plan."

Mutual holding company plans, he said, "are generally not in the interest of consumers" because "they deny them compensation, and the structure can shift executive priorities away from policyholders, in addition to negatively affecting policyholder rights.

"The bottom line is that mutual holding companies are potentially harmful structures for policyholders."

The CIR, meanwhile, is focused on two pending lawsuits relating to Liberty's conduct during the mutual holding company process, and the issue of how much records from Liberty's application it has released to the public.

Industry perspective seems to straddle the middle ground on the benefits of mutual holding company insurers versus other models.

A 1998 A.M. Best report (End of a Life Insurance Mainstay? The Conversion of Mutual Companies) looked at mutual

life insurers and their conversion to mutual holding companies and reflects that balance. It lists nearly equal pluses and minuses of demutualizing outright compared to converting to a mutual holding company.

On the one hand, demutualizing lets companies raise capital publicly, encourages management to work harder and make a company more attractive to a buyer because they can buy the whole thing outright, according to the report. But conversion to a stock company, the A.M. Best report argues, is expensive and stock offerings are limited in when they can be offered.

Mutual holding companies preserve mutuality and companies can still place policyholder needs at the top. And capital sought in a stock offering can also be tailored for specific needs, the A.M. Best report says.

But management of a mutual holding company may also be distracted between addressing policyholder/stockholder needs, the report says.

Mass. Bank Law

The concept of mutual holding companies isn't a new one to Massachusetts.

Then-Gov. Michael Dukakis signed a 1987 law that allowed mutual banks to reorganize into mutual holding companies.

Since then, more than 20 out of at least 300 mutual banks have taken advantage of the law, Calamare said.

Mutual banks have also had the right to convert to stock companies since the mid-1980s, Calamare said, and many did so.

Many of the banks that went public, including First American Bank in Dorchester, Workingmen's Cooperative Bank, Andover Savings Bank and Grove Bank of Brighton, are no longer here.

As public banks, some merged with larger rivals, Calamare said, and others failed during the economic downturn.

Which isn't to say that a public company is better or worse than a mutual holding company, Calamare said.

"That's a judgment for a company to make," he said.

"The theory is that if mutual holding companies elect to sell shares, they are in the ultimate control of their own destiny," he said, because policyholders will never own less than 51 percent of the company, theoretically trumping stockholders.

But "we really haven't had any examples of mutual holding companies being acquired."

On the other hand, he said, "there are stock companies that believe that they can control their own destiny and have."

The Foxboro Savings Bank and the Hingham Institute For Savings, for example, went public and have been able to thrive independently, he said.

"The fiduciary obligation of the (boards of) directors are the same no matter what form you are in," he said.

Speaking on behalf of LIAM, Calamare said his association supports Massachusetts domestic life insurers having the option just like banks to convert to a public company or a mutual holding company.

They should also have the right to remain mutual if they choose to, he said, just like Massachusetts banks do.

What's more, he said, very few bank mutual holding companies elected to sell stock.

And Eastern hasn't, he said.

Insurance Times: Agents Fear Return To Troubling Times In Mass. Auto Market

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Worry that Rate Cuts, Stock Market, CAR Squabbles Will Discourage Insurers

by Mark Hollmer

InsuranceTimes

Veteran Massachusetts auto insurers know the late 1980s was a tough time with harsh market conditions forcing many companies to leave the state because of inadequate rates.

Twenty years later, after an auto rate cut for 2001 and a zero increase for 2002, some insurance industry insiders see the specter of the late 1980s looming on the horizon.

In other words, they're wondering if the personal lines market is returning to those tough times and unprofitable market conditions when many companies left the Bay State.

"I'm scared to death we're going to lose more companies," said William Hofmann, executive vice president of Provider

Insurance Group and the IIAA's outgoing president.

"I don't want to reach a point where companies have to squeeze so much they can't write here."

Charles Downey III, president of the Downey Insurance Agency, also echoed somber predictions about the future.

"It kind of sounds like we're there already," he said.

"Next year you're going to see some big maneuvers with some of the big companies."

Hofmann and Downey were among those who sounded off on a number of issues facing insurance agents and the industry at large, during a Nov. 15 panel discussion held at the Wyndham Hotel in Westboro.

The South Middlesex and Worcester chapters of the Massachusetts Association of Insurance Women sponsored the event. Panel members also included Richard Davis, chairman of the board for InsurBanc; Charles Boynton III, chairman of the CAR Governing Committee and Daniel Foley Jr., director of government affairs for the Massachusetts Association of Independent Agents.

Panel members covered a variety of topics, from InsurBanc to the long-debated topic of building a uniform computer system agents could use for all of their insurance companies.

But the issue of rough markets, inadequate pricing and property casualty insurers potentially fleeing the state drew particularly candid discussion from Hofmann, Downey and Boynton.

Hofmann said he's troubled because there are about 23 property casualty insurers now conducting business in Massachusetts, "fewer than any other state."

The fact that three companies in 2000 and 2 in 2001 either collapsed or ceased doing business in the state is a troubling sign, he said.

"We need to, as agents and companies, do something about the viability of the auto market," he said.

Downey said the market is already close to the breaking point, especially with the collapse of the stock market leading to companies "not making money."

At the same time, however, Downey sounded an optimistic note.

He said Massachusetts is lucky because the state continues to "have some strong regional carriers" that can grow and take over market share.

But even if companies don't leave outright, Downey said agents will suffer in the current market as companies either cancel contracts or offer tiered commissions based on profits from the auto market. CAR market share will only increase, he said.

"We all know this industry goes in cycles," he said. "Hopefully we've hit bottom."

Some of the stresses in the market have manifested themselves, Boynton said, as companies have bickered recently about how to better distribute exclusive representative producers through CAR – the state's high risk auto insurance system also known as the Commonwealth Automobile Reinsurers.

"It show there's a lot of stress right now in the personal auto market in the state," Boynton said. "We've got fewer insurance companies actually writing auto insurance (with) the top five writing 80 percent of the market.

"We're in for another tough year (and) insurance companies will be more closely scrutinizing applications."

Among the other topics covered by the panel discussion:

InsurBanc. The bank's products will be available to the general public as early as December, Davis said. Agents and their employees have served as the bank's early customers so they could familiarize themselves with the products and how the IIAA-sponsored bank worked.

SEMCI, also known as Single Entry Multiple Company Interface. A proposal to let agents use a single computer system to deal with many companies has been circulating for years. Right now, Hofmann said SEMCI is "alive" but not well."

Hofmann helped create an agents' council on technology at the IIAA level to help pursue the idea. But Hofmann said more needs to be done.

"We've got to get a way to ask companies to go to standardization," Hofmann said. "It's got to be one system, the same way a travel agent operates."

Hofmann reminds agents that surveys have shown that most clients want "24/7" service and that automation and a standard SEMCI computer system will help the industry reach that point.

Legislation. State legislators hadn't hashed out a tentative 2002 state-budget until just before Thanksgiving. On Nov. 15, Foley, of MAIA, didn't have anything to report because agent-supported legislation was trapped in limbo due to the state budget delay.

"We are the only state in the country without a state budget," he said. "As a result the legislature has really not been very active as far as insurance legislation or any legislation for that matter."

That being said, Foley added that agents are still hopeful about a number of bills, including one that would establish reciprocal producer licensing so the state complies with the federal Gramm-Leach Bliley financial-services reform law.

Agents also want to change the private passenger automobile timetable, he said, so new rates become effective on April

1 instead of January 1.

In addition, Foley said, MAIA is supporting legislation that would establish when sole proprietors can buy workers compensation if they get hurt on the job.

Insurance Times: MASS. GROUP AUTO DISCOUNTS BEING FILED; COMMERCE RENEWS AAA
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Massachusetts 2002 auto insurance discounts have begun to trickle in.

Commerce – with the state’s largest auto market share – once again filed a 6 percent AAA discount, the same as for 2001. The discount applies to groups in AAA Pioneer Valley, AAA Southern New England and AAA Berkshire County – affecting 361,000 members in the Southern New England region alone.

Group discounts range from 2 percent from Farm Family for the Massachusetts Farm Bureau, to 15, 10 and 15 percent discounts from MassWest Insurance for Channing L. Bete Company, Congregation B’Nai Israel and Kollmorgen Corp. Electro-Optical Division, respectively.

Plymouth Rock is offering about 60 group discounts for a variety of organizations, ranging from 3 to 15 percent.

Insurance Times: CONN. WC RATES GOING DOWN AGAIN
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Plan for a 3.5 percent overall rate decrease for the Connecticut workers compensation voluntary market in 2002.

Insurance Commissioner Susan Cogswell approved the increase on Nov. 29, which takes effect Jan. 1. and covers voluntary market advisory pure premium loss costs. Individual rate increases and drops are included in the average number.

The National Council on Compensation Insurance had recommended the overall rate decrease.

Cogswell, in a written statement, said the new overall rate was “good news” for Connecticut because it is the “ninth straight year of no overall increase for the voluntary market loss costs.”

Rates decreased, she said, in eight of those years.

Here’s a breakdown of the voluntary rate changes per category: manufacturing, -5.2 percent; contracting, +5.5 percent; office and clerical, -8.1 percent; goods and services, -7.9 percent; miscellaneous, 1.5 percent.

At the same time, however, Cogswell didn’t approve the NCCI’s recommendation to replace a 25 percent surcharge applied to assigned risk plans with annual premiums more than \$5,500.

Cogswell approved replacing the surcharge with 15 percent assigned risk plan rate differential for all policies, instead of the NCCI recommendation of a 25 percent rate differential.

Insurance Times: Pataki Vetoes Bill On No-Fault Overage For Drunk Drivers
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ALBANY, N.Y. — Drunken drivers will not be extended no-fault insurance coverage for injuries suffered in automobile accidents because of a bill vetoed by Gov. George Pataki.

The measure would have extended such coverage to drunken drivers for medical services they receive within 48 hours of accidents. Currently, state law expressly exempts them from getting coverage under the no-fault insurance system. Sponsors of the bill said it would prevent health care providers from being stuck with the cost of emergency care they provide to intoxicated drivers.

But Pataki said the measure was fraught with potential problems. For one thing, the bill would not only cover emergency room services but all medical care within 48 hours of an injury. Pataki said that could potentially lead to people rolling up thousands of dollars in fraudulent charges.

The governor also said the extent of the problem is not clear and that medical providers are still free to pursue payments from drunken drivers’ insurers or directly from the drivers themselves.

Pataki said in a veto message that if the situation is going to be addressed, it should be done so in the context of a larger

reform of the no-fault insurance system.

In other action, Pataki rejected a bill that would have extended three-quarters accidental disability pensions now enjoyed by New York City law enforcement officials, corrections officers, EMTs and firefighters to a host of other city job categories.

The bill would make the presumption that if the employees contract HIV, tuberculosis or hepatitis, they did so in the course of duty.

Pataki said he does not think that the members of the other professions would come in contact with those carrying infectious diseases enough to justify the new benefit. The other professions would have included parking control specialists, campus peace officers and New York City Taxi and Limousine inspectors.

Insurance Times: Lloyd's Raises Loss Estimates From World Trade Center

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LONDON (AP) — Lloyd's of London has raised its estimate of net losses from the World Trade Center attacks by 47 percent to \$2.8 billion, the insurance market said.

"The increase in World Trade Center estimate is due to new property and business interruption claims and increasing reinsurance exposures as other primary insurers recently revised their loss estimates upwards," Lloyd's said in a statement.

On Sept. 26, Lloyd's had estimated WTC losses at \$1.9 billion

Lloyd's said its total net losses for 1999 are estimated at \$2.42 billion, up 21 percent from the previous estimate in August, and \$2.16 billion for 2000, more than double the previous figure.

"Lloyd's is confident in its ability to manage the losses from Sept. 11," said Lloyd's chairman Sax Riley.

He said its increased estimate was "consistent with the adjustments made by a number of Lloyd's managing agents, and other insurance companies, over the last six weeks" and includes provision for reinsurance failure.

"Our financial performance is turning the corner rapidly with a 40 percent increase in premium income written this year, and the significant rate rises we were witnessing well before September," he said.

Insurance Times: STUDY TRACKS HOME INSURERS' WRITINGS IN URBAN MARKETS

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For the second year in a row, the same four companies are writing more insurance in underserved Massachusetts neighborhood than statewide.

But the state's largest property insurers still fall short, according to a new study.

Vermont Mutual, Arbella, Hingham and Liberty Mutual each write "proportionately more business" in underserved neighborhoods like Dorchester, Roxbury, Mattapan, Lawrence, Chelsea, Lynn and Worcester, the Massachusetts Affordable Housing Alliance has concluded.

Massachusetts' top four insurers – Andover, Commerce, Travelers and Commercial Union – continue to write less business in underserved neighborhoods compared to their market share in the Bay State at large, MAHA said.

Travelers, however, increased the number of policies it wrote in underserved neighborhoods from 1998-1999, according to the MAHA report.

MAHA, as part of its report, also issued a number of recommendations.

Among them: end redlining of flat roof triple-deckers, encourage DOI officials to use market conduct exams to scrutinize insurer activity in underserved neighborhoods and train and appoint more neighborhood agents.

Insurance Times: House Bill Insuring Terror Attacks Facing Tough Ride In Senate

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by Marcy Gordon
Associated Press

WASHINGTON (AP) — The House passed legislation last week to help the insurance industry cover the cost of claims from any future terrorist attacks. Passage came amid a partisan dispute over restrictions on personal lawsuits seeking damages.

The vote was 227-193, mostly along party lines, as Democrats withdrew their earlier support after restrictions on terrorism-related litigation were added to the bill. The changes clouded prospects for agreement with the Senate on compromise legislation.

The bill would commit the government, for at least a year, to covering 90 percent of losses from another major terror attack; insurance companies would pay the rest. The measure would require insurers to reimburse the government for the aid.

Companies that write policies protecting property were hit hard by the Sept. 11 attacks, with losses estimated at \$30 billion to \$70 billion. The industry remains healthy overall.

Provisions pushed by Republican leaders would restrict the ability of individuals to seek further damages in court. The measure would bar suits against companies, building owners, security firms or other businesses on the grounds that those entities were negligent and failed to protect people against a terror attack.

Attorneys' Fees

At the White House's request, provisions barring payment of punitive damages and capping attorneys' fees were inserted. Democrats in the House and Senate oppose such limitations and there are no related provisions in a draft version in the Democratic-controlled Senate.

Republicans long have sought to curb trial lawyers, traditionally major donors to the Democratic Party.

Rep. Louise Slaughter, D-N.Y., said the liability provisions were "a heavy-handed attempt to curtail victims' rights."

Lawmakers warned that the dispute could sink the insurance legislation. The changes led the Consumer Federation of America and Consumers Union to withdraw their support for the bill.

Proponents of the legislation want to send it to President Bush next month. Many insurance contracts expire on Dec. 31, and insurers generally must give policyholders 30 or 45 days' notice before cancellation or major changes in coverage.

Insurance companies have asked state regulators for permission to exclude terrorism coverage from policies next year.

The White House urged prompt House passage of the bill "to ensure the continued availability of insurance for terrorist-related acts."

The Bush administration also said in a statement it is concerned that requiring reimbursement of the government could put a heavy burden on the insurance industry at a time of economic strain.

The legislation is moving more slowly in the Senate. The draft version — endorsed by the administration — would not require reimbursement. It would have the Treasury help cover costs of future attacks for two years, with the industry paying the first \$10 billion each year.

Economic Disruption

Supporters of the legislation say it is needed to avert major economic disruption. They say it is not an industry bailout and contend it would be difficult to get bank loans for projects such as building construction, pipelines and bridges without terrorism coverage.

"We cannot let the terrorists win by disrupting our economy because we failed to do our job," Rep. Michael Oxley, R-Ohio, chairman of the House Financial Services Committee, said during House debate.

Before the attacks against the World Trade Center and the Pentagon, nearly all property insurance policies, both commercial and residential, covered terrorist acts without additional charge.

Now, because insurance companies cannot calculate risks associated with potential future terror attacks, they are unable to determine premium levels. Many insurers are sharply increasing their rates or even withdrawing coverage, lawmakers say.

Insurance Times: Mass. Short Term Health Plan Bill Advances

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BOSTON— A Beacon Hill committee has approved a measure that supporters say will help unemployed workers and recent college graduates buy affordable, short-term health insurance.

Under the plan, people seeking health insurance could buy non-renewable 185-day policies that backers said would be

more affordable than COBRA, the federal program that provides up to 18 months of coverage for the unemployed. COBRA requires workers to pay the full cost of their health insurance premiums, plus two percent for administrative costs.

Supporters say the proposed short-term coverage would cost an individual \$58 to \$118 a month and \$110 to \$183 for a family of four. Recent college graduates would pay \$28 to \$60 a month. Under COBRA, a family of four could pay as much as \$900, said Jennifer Lawrence, an attorney lobbying for the measure.

Lawrence said COBRA is simply too expensive for many unemployed workers and one in five eligible people choose not to buy the plan.

But the bill has many powerful opponents, including the state's largest business trade group, Blue Cross and Blue Shield, and health maintenance organizations, along with the American Cancer Society and Health Care for All, a liberal health advocacy group.

The unusual coalition argued the plan would entice young, healthy people to abandon their non-group insurance policies, leaving behind people with health problems, and ultimately driving up insurance costs. And, critics said, it would be difficult to enforce the provision forbidding renewal of the short-term policy with another insurance company.

Sen. Therese Murray, the bill's chief sponsor, disagreed.

"This is stopgap coverage," said Murray (D-Plymouth). "It's 180 days. That's all it is, so you're not going to be drawing them out of long-term policies."

There was also disagreement about the extent to which medical conditions like cancer, heart disease, and AIDS would disqualify a person from the plan.

Forty-five other states offer some form of short-term coverage, and insurance salesmen here are frustrated that they can't offer similar plans. Brian Garrity, a South Shore insurance agent, said customers often ask him for month-long coverage. His reply, "I'm sorry you live in Massachusetts and I can't help you."

The bill, approved by the Legislature's Insurance Committee, is headed to the Senate first.

Insurance Times: Liberty Mutual, Premier Fail In Bid To Delay Horace Mann ERPS
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by Mark Hollmer
InsuranceTimes

BOSTON — A Massachusetts judge rejected a second attempt by Liberty Mutual Insurance Co. and Premier Insurance Co. to delay the reassignment of Horace Mann former ERPs.

"This Court concludes that there is insufficient evidence of irreparable harm to the plaintiffs to grant the ... relief sought here," Superior Court Judge Allan van Gestel wrote in his Dec. 3 ruling.

Both companies filed their Superior Court suit seeking a temporary stay of an order issued by Insurance Commissioner Linda Ruthardt. She rejected a first appeal filed by both companies and Arbella Insurance seeking to stay the reassignments and hold a hearing on the fairness of how they were handled.

The controversy began when Horace Mann negotiated a deal to leave the Massachusetts auto market but keep its license to write auto insurance.

Horace Mann formed an alliance with Commerce Insurance to have the company write auto insurance for Horace Mann policyholders in Massachusetts.

Horace Mann agreed to pay \$6.4 million to cover its CAR obligations over three years. As well, a CAR Governing Committee reassigned Horace Mann's four ERPs to Liberty Mutual, Arbella, Premier and National Grange – the first four undersubscribed servicing carriers.

Commonwealth Automobile Reinsurers, the state's high-risk auto insurer, handles business through agents known as exclusive representative producers (ERPs).

Attorney Thomas Kiley, representing Liberty and Premier, argued that the assignment of Horace Mann ERPs was unfair and contrary to CAR rules, which allow ERP reassignment once a carrier leaves the market. The process would cause both companies to lose money, he said.

What's more, Kiley added, Horace Mann isn't technically inactive because it's still keeping its license to write auto insurance in Massachusetts.

Ruthardt also had no jurisdiction to rule in the matter, he said.

Attorney Robert Mahoney, speaking for CAR during the Nov. 30 Superior Court hearing, said the ERP reassignment could not be stayed because the process already had taken place. He said that any monetary loss Liberty Mutual and Premier faced could be addressed through normal grievance procedures through CAR and ultimately by the court. Van Gestel, in his decision, also acknowledged that both options were not "wholly satisfactory under the circumstances."

Insurance Times: GEORGIA HIGH COURT SAYS Insurer To Pay For Auto's Diminished Value
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ATLANTA (AP) — The Georgia Supreme Court has ruled that State Farm Mutual Automobile Insurance Co. must pay for the diminished value of cars damaged in collisions, as well as repairs.

In a unanimous ruling, the Supreme Court also upheld a decision by a Columbus trial judge who certified a class-action lawsuit against Bloomington, Ill.,-based State Farm.

And it upheld Superior Court Judge Doug Pullen's order that the insurer must begin compiling information needed to begin reimbursing clients for the diminished value of their repaired cars.

"This means folks are going to start getting paid what they should have been paid over the years," said Columbus lawyer C. Neal Pope, who filed the suit against State Farm.

"In the past, the insurance companies have said, 'We've fixed your car and that's it.' Not anymore," said Pullen, who has filed similar lawsuits on behalf of clients against numerous insurance companies, including GEICO, Progressive, Cotton States, MetLife and Allstate.

State Farm is still reviewing the decision to determine what affect it will have on the case and future claims in Georgia, spokesman Dave Hurst said.

"But our general feeling about claims for diminished value is: If insurance companies are required to pay them on a widespread basis, premiums would have to go up eventually," Hurst said.

Dennis Howard, executive director of Arizona-based Insurance Consumer Advocate Network, said it a "groundbreaking ruling."

I-CAN, through consumer surveys, has found that wrecked cars that require repair bills totaling 25 percent of the value also suffer a 16 to 17 percent loss in value.

Howard said that, in the future, insurance companies may provide collision and comprehensive coverage and give policyholders the opportunity to pay a separate premium for diminished value coverage.

In the State Farm case, two policyholders contended that no matter how well a wrecked car was repaired, the insurer was liable for the amount of any diminished value. State Farm said there was no objectively discernible diminution in value, and if there was such a loss, it would not be realized until the car was resold.

Supreme Court Justice Robert Benham noted that State Farm's promise to its clients is to "pay for loss to your car," minus any deductible. Benham cited State Farm's own documents in which the company acknowledged there is a common perception that a wrecked vehicle is worth less simply because it has been wrecked.

Pope noted that the State Farm case is far from over. This summer, Pullen issued an order requiring the company to access 500,000 past claims, dating back to 1993, over the diminished value of repaired vehicles. State Farm also is challenging that decision before the state Supreme Court.

Insurance Times: OpinionExchange
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A bill that would empower independent agents and brokers to provide counsel to participants in employer-provided investment plans holds significant potential benefits for millions of American workers.

The Retirement Security Advice Act (H.R. 2269) was approved by the House by a 280-142 vote. The measure is sponsored by House Education and Workforce Committee Chairman John Boehner (R-Ohio).

Independent Insurance Agents of America (IIAA) CEO Robert A. Rusbuldt says IIAA supports the measure because it opens the door for independent agents and brokers who manage retirement plans to provide advice to workers

participating in a plan without having to become a registered investment advisor (RIA), notes Rusbult.

“The Retirement Security Advice Act will provide incredibly important benefits to untold millions of U.S. workers,” says Rusbult. “For the first time, workers who have been left on their own to make choices in their employer-provided retirement plan will be able to call on the professional counsel of an independent agent or broker to walk them through the best investment options that will help them reach their goals.”

Under current law, the Employment Retirement Income Security Act (ERISA) prohibits retirement plan participants from receiving investment advice from the financial institution managing the plan’s investment options or acting in other fiduciary or service provider capacities.

Because of ERISA many workers, who may not be investment savvy and thus desire assistance in making the best investment choices, are not being provided individualized professional advice and their retirement investments are not building a sufficient nest egg for their golden years, says Rusbult.

H.R. 2269 reverses the ERISA prohibition by allowing retirement plan participants to obtain personalized investment assistance from a plan manager to help them manage retirement savings while also protecting workers from potential abuses. To protect retirement plan participants, the bill includes provisions mandating that advisers must disclose to plan participants fees and conflicts when giving investment advice.

As long as the plan manager discloses any potential remuneration conflicts, plan sponsors are freed from concerns related to fiduciary issues, notes IIAA Senior Vice President of Federal Government Affairs Maria L. Berthoud.

“This bill would institute a new approach to retirement planning that will be beneficial to literally millions of American workers,” says Berthoud. “The Retirement Security Advice Act will create access to professional counseling that will help workers sift through often-confusing investment choices and help them select the right retirement investment.

A similar measure—the Independent Investment Advice Act (S. 1677)—pending in the Senate is expected to be taken up early next year. Sponsored by Sens. Jeff Bingaman (D-N.M.) and Susan Collins (R-Maine), S. 1677 would allow an employer that sponsors a defined contribution retirement plan to designate and monitor a qualified investment adviser for plan participants without being liable for any breach or loss with respect to the provision of advice.

Insurance Times: Conn. Agents Told Slumping Economy Could Mean Fewer Comp Claims
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by Mark Hollmer
InsuranceTimes

PLANTSVILLE, CONN. — A booming stock market, legislative reform and fierce competition helped keep workers compensation rates low for years.

But with the good times over, insurers have had to make up the gap by increasing rates even on good risks.

So what’s an agent to do when conveying the bad news?

John Mastropietro, chairman of the Connecticut Workers Compensation Commission, offers simple, stark advice.

“The reality is that you’re going to have to respond by simply saying, ‘it’s not your fault. But it is the way it is and there’s nothing positive we can do about it at this stage of the game.’”

Mastropietro spoke about the economy and workers compensation during the Independent Insurance Agents of Connecticut midyear convention, held Nov. 14.

Premium increases shouldn’t be surprising, he said, because they are “really coming back up to where ... (they) should have been during the years that insurance companies were undercutting themselves.”

Though premium increases will likely continue, he said, companies should take heart in the fact that a slowing economy will likely decrease the number of workers compensation claims.

“Bad economic times generally bring a downturn in the number of claims being filed,” he said. If “the unemployment rate goes up there are less people at risk ... obviously there are less people working (and) less claims come from that. Employees, Mastropietro said, are watching co-workers receive pink slips and thinking twice before filing claims.

“The fears associated with what the economy is doing to their employer now causes (those employees) to take a step back and say ‘maybe I won’t file that claim.’”

Fewer claims are good news for the state’s Workers Compensation Commission, Mastropietro said.

The commission has eight offices around the state, and 15 trial commissioners who heard nearly 44,000 cases last year – representing about 10 percent of the state’s total workers compensation business.

Among the other issues Mastropietro covered:

How agents should counsel clients considering hiring workers with preexisting injuries: Mastropietro said agents should simply use the Americans with Disabilities Act as a guide rather than simply advising if the worker’s risk is a safe, coverable one.

Focusing on employee risk with a previous injury can lead to a client withdrawing a job offer for a worker because “my agent told me not to hire you,” he said. This, he added, can lead to lawsuits.

When is an independent contractor an independent contractor? The definition is relative, he said, when determining which workers are employees -- who companies must include in workers compensation coverage -- and which ones are independent contractors not covered by employer plans.

“The legal principal that determines an answer to that question is the issue of control,” he said. “How much control does this particular individual have over the work he or she does, versus how much of it is directed by their employer.

“Ultimately it is going to be my job or the (insurance commissioner’s) job to determine whether the control aspect has risen to the level where we’re talking (about) an employee,” he said.

“Or whether (the work site and routine) is so out of the control of the employer that this person is truly an independent contractor.”

When in doubt, Mastropietro said, agents should err on the side of caution and recommend workers compensation coverage.

Insurance Times: Information Risk Management Assumes Higher Priority For Businesses

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by Mark Hollmer

InsuranceTimes

Insurers didn’t always consider protecting business information – from interoffice communication to computer files – as important as other kind of risks.

But this is the information age, where the successful dissemination and protection of data over the Web or through a network can make or break a company.

And so the rules have changed, a local security expert says.

“Information security risks are becoming as important as other (kinds) of risks (and) businesses are recognizing this,” said Bill Campbell, security director for Storage Networks in Waltham, Mass.

Campbell spoke about the role insurance places in information risk management during the Nov. 8 Industry Day at the Boston Sheraton, an annual meeting held by the Boston Chapter of the CPCU Society.

Risk Management

Insurance coverage of information technology is always written to cover new or missed risks, Campbell said – factors that aren’t necessarily accounted for by risk management practices.

But, Campbell cautioned, many technological tools or policies companies use to manage their risks aren’t exactly 100 percent effective.

Among his points:

- Firewall computer technology and anti-virus software must be updated regulatory because the programs evolve so frequently, he said.

- Virus protection can especially be “a waste of time and money” because it quickly becomes out of date.
 - Companies are also foolish to believe that only certain employees have access to crucial information.
- “In my experience,” he said, “it’s rarely true.
“There are relationships with vendors (and relationships) with customers that inevitably lead to information being shared with other folks.”
- Company managers focusing on staff reductions are wrong to also reduce security staff.
- Rather than reducing risk by reducing staff, Campbell said, layoffs or staff reductions can actually increase risk by leading to “disgruntled employees.”
- Penetration testing — where companies hire a consultant to try and break into their internal network – ultimately falls short. Campbell said the system is flawed because consultants use “automated tools” and software that isn’t “very intelligent” and can reveal “false positives.”
- A human consultant isn’t much better here, Campbell said, because the person usually works under constraints and supervision.
“The constraints avoid legal liability so you’re never going to see what a hacker sees,” Campbell said.
Before seeking insurance coverage, Campbell said, managers should use employees themselves to identify and address vulnerabilities within a company.
Good company information-risk management focuses on even the little details, prioritizes potential risks and helps establish limited access to and control of information systems, he said.
Company managers should also make sure they’re up on any software patches and program updates.
Whatever happens, an executive commitment to good risk management is a crucial factor for any company, he said.
“If an executive of the company is not willing to step up to the bar and make things happen,” then risk management will be futile, he said.

Insurance Times: Chubb Buys Zurich’s Canadian Personal Lines Renewals
December 11, 2001, Vol. XX No. 25

Chubb Insurance Co. of Canada has purchased the renewal solicitation rights to the non-automobile portion of Zurich Insurance Co.'s Preeminence personal insurance book of business.
The book primarily consists of policies written for high-net-worth clients in Quebec, Ontario and British Columbia. As the Zurich policies expire, Chubb will underwrite and quote on those that meet Chubb's underwriting criteria. If a quote is accepted, Chubb will issue a Masterpiece insurance policy. In addition, Chubb has agreed to manage policy maintenance and administration of all Zurich accounts until they expire. Zurich will be responsible for processing all claims on these policies.
"This transaction will further strengthen Chubb's position as the number one provider of property and casualty insurance to high-net-worth families and individuals in Canada," said Janice Tomlinson, president and CEO of Chubb Insurance Co. of Canada. She said Chubb expects to issue policies for the vast majority of the accounts and that the process should be completed by year-end 2002.

Insurance Times: St. Paul Companies To Cover Online Terrorism
December 11, 2001, Vol. XX No. 25

The St. Paul Companies has introduced a host of new insurance products aimed at fighting cyber-terrorism. They are designed to insure businesses against hackers, viruses, information theft, ransom demands and privacy violations. They also provide coverage against related business interruptions and lawsuits.
The new coverages will be added to commercial property and liability policies for additional fees that start at \$5,000. Officials at The St. Paul said deductibles probably will range from \$5,000 to \$10,000.
The move comes after The St. Paul decided to stop insuring physical damage from acts of terrorism.

Insurance Times: InsureHiTech partnering with regional brokers

December 11, 2001, Vol. XX No. 25

InsureHiTech, an online specialty lines property and casualty insurance portal, is partnering with a select number of regional brokers throughout the U.S.

InsureHiTech reports it has completed XML integration projects with The St. Paul Companies, AIG, Royal and SunAlliance USA and The Atlantic Mutual Companies. InsureHiTech also says it will complete a large integration project with Chubb in January and will be working with Kemper in Q1 of 2002.

Richard A. Maloy Jr., founder and CEO of InsureHiTech, said his firm can help agencies looking to access technology clients. "Our issue is distribution. By creating true partners in given territories where we can't justify our own sales force, we expand our reach. The benefit for the local broker is another revenue stream on business they otherwise may have never been able to attract or retain," he said.

Channel partners will have access to the InsureHiTech platform with their own segregated database showing pertinent client information. They will create applications in the system and InsureHiTech marketing teams will place the risk and create the proposals for delivery to the client. After sales servicing will be provided by the InsureHiTech client account managers.

InsureHiTech has immediate partnership opportunities in various areas including Boston, Baltimore, Portland, Providence, San Francisco and the Washington, D.C. area.

Insurance Times: FM Global Awards 18 Arson Grants

December 11, 2001, Vol. XX No. 25

JOHNSTON, R.I. — Eighteen U.S. fire and emergency service agencies are the latest beneficiaries of \$31,159 in arson grants from industrial and commercial property insurer FM Global. The grants will assist the agencies in their efforts to prevent arson-related fires -- a leading cause of property losses worldwide. FM Global specializes in property protection and risk management.

The most recent awards include:

- City of Rochester, N.Y. Fire Department -- \$1,208 for the purchase one desktop computer and monitor for tracking arson incidents.
- Fairhaven, Mass. Fire Department -- \$1,800 for the purchase of a multimedia projector for computer presentations.
- Massachusetts State Police-Fire Investigation Section -- \$3,100 for the purchase of a laptop computers for field investigation use.

Rhode Island State Fire Marshal -- \$4,000 for the purchase of a computer equipment to track arson incidents.

- Stoneham, Mass. Fire Department -- \$3,600 or the purchase of a computer, digital camera and accessories for fire investigations.

For more information, visit www.fmglobal.com/arson.

Insurance Times: Texas Mold Ruling Disappoints Insurers

December 11, 2001, Vol. XX No. 25

Mold Coverage To Stay But It Will Not Cover Costs Of Treating And Disposing Of Mold Beyond Immediate Damage

AUSTIN (AP) — Coverage for removing mold caused by water damage will remain in Texas home insurance policies, the state's top insurance regulator has ruled.

However, state Insurance Commissioner Jose Montemayor also decided that the policies will not cover the more expensive costs for testing, treating and disposing of mold beyond immediate damage.

Montemayor issued the ruling to try to solve a developing insurance crisis for Texas homeowners as some of the state's largest providers have stopped writing new comprehensive insurance policies.

Farmers Insurance Group, Allstate, and State Farm — the three biggest insurers in Texas — have quit selling comprehensive policies to new customers because of rising mold claims. Farmers also has said it will not renew comprehensive homeowners insurance policies for any of its 600,000 customers next year because of mold claims. In approving the order, Montemayor decided against a proposal unpopular with both homeowners and the insurance

industry to cap mold damage coverage at \$5,000 with the option to purchase more. The ruling will allow homeowners to buy additional coverage to handle the more expensive procedures that will be eliminated.

The order provides coverage for removal of mold that results from water discharge, leak or overflow that is sudden and accidental. The order also eliminates "stacking" of claims within the same policy year. Stacking is a process that allows homeowners to collect more than 100 percent of their policy limits by filing several separate mold-related claims.

Insurance companies may begin offering the coverage starting Jan. 1.

Current comprehensive homeowners insurance policies cover mold removal only if the mold results from another covered event, such as a leaking water pipe.

"This decision is a commonsense, middle-ground approach," Montemayor said. "It gives Texas homeowners basic protection plus the stability to purchase additional coverage if they so choose."

Consumer and industry groups were critical of the plan.

Jerry Johns at the Southwestern Insurance Information Service said the proposal could raise homeowners insurance rates as much as 60 percent to 80 percent for those who choose to purchase mold coverage.

"We commend the Texas Department of Insurance for its diligence and perseverance but the decision today will do nothing to solve the lingering problem of how insurers will address water-related mold claims in the future," Johns said. Johns said Montemayor instead should allow companies to offer various types of coverage and not force the consumer to buy the maximum type of coverage.

Rob Schneider, a staff attorney for Consumer Union's Southwest Regional Office, was critical of the order because he said it removes "testing and remediation" from the policy altogether, but gives consumers the option of buying it back. "Taking away coverage you have now and charging more if you want to buy it back essentially terminates the coverage," Schneider said.

Schneider said he was concerned that homeowners may have to fight insurance adjusters to get legitimate water claims completely addressed.

Farmers was still reviewing the order, but spokesman Bill Miller said the company applauded Montemayor's decision to give customers more choice in coverage options. But, the company was stopping short of giving the order a full endorsement because it does not offer companies flexibility in structuring coverage.

Insurance Times: Insurers Hoping States Permit Them To Drop Terror Coverage
December 11, 2001, Vol. XX No. 25

WASHINGTON (AP) — Stung with huge losses from the Sept. 11 attacks, insurance companies are asking state regulators for permission to exclude terrorism coverage from policies next year.

Many insurance contracts expire on Dec. 31, and insurers generally must give policyholders 30 or 45 days' advance notice of cancellation or major changes in coverage.

"We have few options with respect to terrorism," Gretchen Schaefer, a spokeswoman for the American Insurance Association, said. "It shouldn't be surprising that insurers are seeking to exclude terrorism as they prepare to deal with the 2002 policies."

Schaefer said companies are requesting the exclusions to deal with the situation they would face if Congress should fail to enact by year's end a workable plan for government help.

Kathleen Sebelius, president of the National Association of Insurance Commissioners, which represents state regulators, said they are not yet acting on the requests and are waiting for Congress to act.

"We feel that it's incredibly important as a short-term solution to have the federal government stand behind the private insurance market," Sebelius said in a telephone interview.

House lawmakers said they expect legislation to be sent to President Bush next month to help cover the industry's costs from future attacks. Proposals have been moving slowly through the House and Senate.

Backers insist the legislation is needed to avert major economic disruption and would not amount to bailing out the insurance industry.

Lawmakers and administration officials warn it would be difficult to get bank loans for projects such as building construction, pipelines and bridges without terrorism coverage. That, they say, probably would be possible only through legislation to guarantee government help in paying catastrophic losses.

Last month, the Financial Services Committee approved a bill to commit the government for at least a year to covering 90 percent of losses from another major terrorist attack, with insurance companies paying the rest. The measure would require insurance companies to reimburse the government for aid received.

A Senate version endorsed by the Bush administration would not require reimbursement. Insurance companies that write policies protecting property could face payouts of \$30 billion to \$50 billion for the Sept. 11 attacks on the World Trade Center towers and the Pentagon (news - web sites). That would amount to the biggest insured losses ever.

Before the attacks nearly all such policies, both commercial and residential, covered terrorist acts without additional charge. Now insurance companies are unable to calculate risks associated with potential future terrorist attacks and what the corresponding premiums should be.

Insurance Times: INSURERS SAY N.Y. DISASTER PLANNING APPROACH SETS EXAMPLE FOR ALL STATES

December 11, 2001, Vol. XX No. 25

NEW YORK — State governments should look to New York's response to the September 11 terrorist attacks as an example of how public and private entities, including the insurance industry, can collaborate for effective disaster preparedness programs.

"The events of September 11 prove that no city or state is safe from natural or man-made disasters," said John G. Eager, senior director of claims services for the National Association of Independent Insurers (NAII). "The New York State Insurance Disaster Coalition (NYSID)'s masterful response to this catastrophe proves that public and private entities working hand in hand can help mitigate even the worst events."

In a recent meeting at Ground Zero in New York, representatives from the New York State Emergency Management Office (SEMO), the New York Department of Insurance, and several insurance companies and trade groups including the NAII discussed how states can use the New York disaster coalition model to formulate their own disaster planning teams.

"State disaster coalitions are long-term partnerships among public-private sector leaders who plan to cooperate, communicate and leverage resources," Eager said. "By using the strongest attributes of each group, the coalition breaks down barriers to best serve the victims of disasters."

The New York coalition, which was formally announced by Gov. Pataki in May, is headed by the governor, a SEMO officer, a New York State Insurance Department officer, and members of the Institute for Business and Home Safety (IBHS). It is comprised of committees and temporary work groups, each dealing with an aspect of disaster planning. These include contingency planning; technology, leadership and continuity; training, exercises and debriefing; reporting and privacy; and communication.

Technology enables the coalition of communication quickly through daily industry e-mail updates and the NYSID's Web site to provide information to the insurance industry and regulators. For example, the team shared information on the buildings destroyed or damaged, the status of utilities, damaged and missing vehicles, claims counts and consumer complaints,

Eager noted.

NAII, which recently joined the IBHS Response and Recovery Committee, supports the adoption of similar programs in all states as a "best practices" response to disaster. Other members include the American Red Cross, the Federal Emergency Management Association (FEMA), insurance claims executives and trade associations.

"For the past two months, we've seen this team at work on the ground at the World Trade Center site," Eager said.

"By linking key decision-makers and promoting widespread two-way communication, the coalition can quickly solve or preempt problems. It's a system that can work in any state."

Several other states are in the process of creating similar coalitions, including Florida, Alabama, Arkansas, South Carolina, Texas, Virginia, Georgia, and Oklahoma.

Insurance Times: 'Positioning' An Agency For Sale Requires Thinking Ahead

December 11, 2001, Vol. XX No. 25

Even Buyers Can Benefit From Positioning By Maximizing Their Own Value So They Are Seen As The Best Option By A Seller

by Mark Hollmer
InsuranceTimes

Naturally an insurance agency owner wants to position his or her business in the best possible light before being sold, highlighting its strength and potential.

But an owner can get carried away and oversell an agency, potentially scuttling the deal.

So says Thomas McGraw, senior vice president of agency development for INEX Capital & Growth Advisors.

“Agencies will sell themselves as high quality or specialized ... (but if) due diligence reveals otherwise (it) can erode the deal,” he said.

McGraw and Peter Milnes, the INEX chairman and CEO, spoke about positioning and its importance to agencies during the recent Massachusetts Association of Independent Agents annual convention in Boston.

In essence, positioning – as it applies to insurance agencies – means moving your business over time toward a plan goal that maximizes its value.

Buyers can benefit from positioning by maximizing their own value so they win out as the best option in the eyes of a seller.

The key to making your business value high, as a generalist, is to conduct a high volume of transactions with low margins, Milnes said.

Special lines agencies excel by developing high technical knowledge for their specific clients and are rewarded with higher pay, he said.

And in each case agencies should look ahead and envision how they want their agency to be positioned at the point of sale and then move it in that direction, they said.

Agency owners should consider that their businesses are like annuities in the eyes of potential buyers, Milnes said – “annuities that generate income at the end of the day.

“That annuity feature,” he said, “is what makes agencies attractive to buyers.”

A well-run generalist agency should make at least a 20 percent profit margin before interest, taxes and depreciation are taken into account, McGraw and Milnes said.

A specialist agency that’s well run would make a profit margin 10 points higher, they said.

Agency owners trying to reposition their businesses as high-performance operations should shoot for those numbers, they said.

The pair also discussed the types of buyers and sellers agency owners should be aware of while positioning their businesses.

Buyers and sellers are either financial or strategic, Milnes said. Financial people want the agency to pay for itself and strategic people are looking more toward long-term goals.

Buyers should be particularly sensitive to “lifestyle sellers,” McGraw said, those that sell their agencies because they want the next generation to take it over.

The deal can break if a businessperson doesn’t recognize the type after making the offer, and work to meet their needs.

In some sales, McGraw said, the seller negotiates a deal where he or she has “some say in matters” after the sale.

But sellers remorse can crop up quickly, McGraw said, leading to rivalries between the previous owners’ employees and the new people brought on board after the sale.

The best position, he said, is a cleaner sale to other family members after they’ve trained at the agency for five years running various parts of the companies.

Employee bids aren’t necessarily the best route, he said, because they don’t necessarily “recognize the financial responsibilities” involved in buying an agency because they only work at a certain level.

And of course, if a buyer has any doubts about a deal, McGraw said they always have one clear option.

“One of the best positions for buyers,” he said, “is to walk away.”

Insurance Times: Technology Playing Increasingly Important Role in Best Practices Agencies, Says IIAA
December 11, 2001, Vol. XX No. 25

An Interesting Finding In The 2001 Best Practices Study Drop Is The Average Number Of Total Employees In Most Of The Study's Revenue Groups

ALEXANDRIA, VA — The 2001 Best Practices Study, released recently by the Independent Insurance Agents of America (IIAA), finds that technology is playing an ever-expanding and critical role in the success of Best Practices agencies and brokerages, says IIAA Vice President of Research and Education Madelyn H. Flannagan.

Agency Benchmarks

The 2001 Best Practices Study, which provides financial and operational benchmarks of the leading U.S. independent insurance agencies and brokerages, also shows a significant increase in employee productivity and other insight about the business practices of these successful firms.

The study, conducted with Atlanta, Ga.-based insurance consultant Reagan & Associates, was released at the recent IIAA Hawaii InfoXchange in Honolulu.

"The revenue growth and productivity trends among Best Practices agencies and brokerages point to a future that is far from bleak. Based on the results of the 2001 Best Practices Study, the opportunities are tremendous for independent agencies and brokerages willing to meet the challenges of increased competition and expanded technology," says Flanagan.

An interesting finding is the drop in the average number of total employees in most of the study's revenue groups. This drop seems to be supported by better use of technology by Best Practices Study respondents. Most of the agencies and brokerages interviewed indicated that the biggest payback on their technology investments was the ability to handle significantly more volume with the same number, or fewer, of people. Although it is difficult to determine the impact of the hardening market on the revenue-per-employee figures, this critical productivity measure has increased significantly since the 1998 study.

Internet Is Critical

The use of agency management systems, e-mail, fax, voice mail, document-management system and other technologies are at the core of their efficient procedures and processes. Technology, especially the Internet, is critical to the ability of Best Practices agencies and brokerages to communicate effectively with both internal and external audiences.

"Many agencies and brokerages indicated in their interviews that they were rethinking their use of voice mail," explained Shirley Lukens, vice president and principal of Reagan Consulting. "Many admitted that when voice mail was implemented they had not given enough thought to the frustration it could cause customers or to the temptation it created for busy employees to screen calls."

Insurance companies participating on IIAA's Commission to Enhance Agency Value and Big "I" state association executives nominate the leading agencies and brokerages included in the 2001 Best Practices Study once every three years. Those nominated were asked to complete an in-depth survey. From those agencies submitting data, the top 30 in each revenue category are included in the study and scored and ranked for inclusion on the basis of account retention rates, revenue growth, productivity, profitability and financial stability.

The 2001 Best Practices Study is organized by revenue size of agencies and brokerages from less than \$1,250,000 to more than \$10 million.

Sponsoring companies include Central Insurance Companies, Chubb Group of Insurance Companies, OneBeacon Insurance, CNA, Fireman's Fund, Royal & SunAlliance, Travelers and Zurich North America.

The 2001 Best Practices Study is available in hardcopy and electronic form. Visit www.independentagent.com.

Insurance Times: Agents Should Gear Up Marketing During Slow Economy To Succeed When It Turns
December 11, 2001, Vol. XX No. 25

by Anne Bailey Berman

You're concerned. Revenues are down. Things had been going so well, but with the state of the economy, you're feeling the pressure.

"The market is just not buying now, so let's cut discretionary expenses until the market bounces back," you think. Right decision?

Probably not. The marketplace has slowed, not died, and customers and prospects still need to buy products and services. And the way to succeed in such an environment is by becoming finely attuned to the market's requirements. Although costs are tied to gaining the market insights that can help optimize your effectiveness, the costs of inaction could prove much higher.

So, what's the prudent strategy? Here are some considerations:

#1: Avoid giving up ground. Across-the-board cuts in marketing efforts to adjust to the slower economy open doors for aggressive competitors. When they penetrate your market share you will find yourself in the position of having to win back your own customers when the economy rebounds and you're ready to ramp up again. A declining economy is the ideal time to aggressively capture new, desirable customers. The only question is the role you will play relative to your competitors – hunter or prey?

#2: Zero In. To paraphrase a well-known axiom, a roaring economy can cover a multitude of sins. And during that time, customers, both business and consumer, proved willing to overlook many of those sins. Having been affected by the current situation as well, they are significantly less inclined to overlook your shortcomings today. They are much more likely to ensure that they get exactly what they need for the dollars they do spend. Such elements as pricing, service, targeting and product configuration, if not totally attuned with your market, may direct sales to other suppliers. Therefore issues of competitive differentiation, customer requirements and appropriate standards should be paramount.

#3. Understand customer-perceived value. Value does not necessarily mean lowest prices. For this purpose the term “value” means the elements of what you offer that cause prospects and customers to take the behaviors you want them to. To walk this tightrope, you have to know what your customers value and focus in on those for whom you can provide the necessary value most effectively. “Essential” elements of value for one segment will be different than those for others. Thus . . .

#4. Focus resources on the niches you can serve well. When revenues start dropping, there is a tendency to try to be all things to all prospects - to significantly broaden your market focus. But this is actually a time to focus on market efficiency and effectiveness. Could your company provide effectively to the entire market place in a booming environment? It's even more difficult in a downturn. Target those niches for which you know you can properly align your products and services to their needs.

#5. Prepare for the recovery. When the market reemerges from its cave, be the first in your competitive set to greet it. Only through gaining market insights now can you be prepared to quickly take a leadership role when your customers and prospects are ready to take more aggressive stands in a revived marketplace.

6. Conduct innovation efforts with substantial market insights. Don't assume that customers' values today are the same as yesterday's. Product-innovation efforts are expensive at any point, but in times like these, the price of failure has a far greater impact. If you're moving forward with product development in this environment, reducing your risk through accurate, credible market information is essential.

If you gear up your marketing in a slow economy, you'll be well positioned for success when the next boom comes. But be smart about it. Before you move, get all the information you need to make informed decisions. p

Berman is co-founder and president of Chadwick Martin Bailey, Inc., a Boston-based market strategy firm dedicated to creating competitive advantage through advanced, custom market research deliverables. CMB is a leader and innovator in the areas of quantifying and building brand equity, measuring Return on Marketing Investment (ROMI), developing markets, distribution channels and strategies (including e-business initiatives) and Customer Relationship Management (CRM). She can be reached at 617-350-8922 or [ww.ChadwickMartinBailey.com](http://www.ChadwickMartinBailey.com).

Insurance Times: Auto Insurer May Pay NJ Carjacking Victim

December 11, 2001, Vol. XX No. 25

TRENTON, N.J. (AP) — A carjacking victim is entitled to seek compensation for pain and suffering under their auto insurance policy, according to a state appellate court ruling.

The case was brought by Pamela Grabowski, who suffered a broken leg when she was pushed or fell from her car during a struggle with the carjacker, who remains at large.

The ruling issued did not set a damage amount in the case, but it did overturn a lower court ruling in favor of her insurer, Liberty Mutual.

The insurer paid her medical bills under the no-fault, Personal Injury Protection section of her policy. However, the company said it was not liable for the additional claims under the uninsured motorist section because the injuries occurred during a criminal act, not an accident.

The appellate court, though, found that “because the carjacker did not intend to harm plaintiff, plaintiff’s injuries resulted from an accident.”

Insurance Times: Hartford, CONN. — The Connecticut Chapter of CPCU was recently honored with nine awards presented during the Society’s annual meeting held recently in Seattle, Washington.
December 11, 2001, Vol. XX No. 25

Hartford, CONN. — The Connecticut Chapter of CPCU was recently honored with nine awards presented during the Society’s annual meeting held recently in Seattle, Washington.

In addition to the prestigious Circle of Excellence Gold Award, the chapter was awarded excellence awards in Public Relations, Candidate Recruitment and Development, Continuing Professional Development, Education, and Membership. The Good Works Award for Achievement, Silver Award for Research and the Ethics Awareness Activity Award were also presented to the Chapter.

The Connecticut Chapter of CPCU Good Works committee continues to support the community with recent donations to the Connecticut Radio Information Service for the Blind, St. Martin DePorres Shelter in Hartford, and The Salvation Army Marshall House. A donation was also made to the Litchfield Jazz Festival Summer Music School who accepts students at all levels regardless of their ability to pay.

In addition, a \$1,000 donation was made to the Richard M. Keane Foundation. Dick Keane, a Marsh employee and dedicated insurance professional, was a victim of the 9/11 WTC attack. His family created the foundation in his memory and plans to establish a youth sports, fitness and recreation center in Wethersfield, CT.

CPCU Good Works committee and Society members under Director, Gene Flynn, also sponsor scholarship programs for high school and college students, staff and sponsor an annual car show to benefit the Connecticut Children’s Place, donate Thanksgiving Food Baskets, and help to staff the Salvation Army Holiday Stores.

Insurance Times: Mass. ‘Five Star’ Agencies Agree Process Improves Performance
December 11, 2001, Vol. XX No. 25

by Mark Hollmer
InsuranceTimes

After five months of preparation, scrutiny and anticipation, Ely Kaplansky and his employees earned a significant milestone for their agency – five-star designation.

“We were very excited about it,” said Kaplansky, owner of Kaplansky Insurance in Brookline, Mass. “It was something that really generated a lot of enthusiasm.

“It’s very valuable.”

Kaplansky Insurance is one of an elite group of Massachusetts agencies who have successfully completed the Five Star Agency Designation Program, launched by the Massachusetts Association of Independent Agents in January 1999. In short, agents who complete the Five Star Program reach a high level of operation and service; they then can use the designation to market themselves to companies and the general public.

Out of 1,180 MAIA member agencies, 35 have sought the designation but only nine have actually earned it to date, said Heather Kramer, the MAIA director of education and overseer of the program.

The number, Kramer said, underscores the challenges an agency faces to reach a Five-Star Program level of service.

“It can be a very humbling experience,” Kramer said.

Dennis Murphy, owner of D.F. Murphy Insurance in Hudson, agreed.

“It’s hard to accept failure and (the designation),” he said, “is not an easy thing to get.”

According to Kramer, the Five Star Program is unique to most agency associations.

The MAIA board of directors asked association staff to develop “some type of program that could ... help agencies who are trying to improve themselves and to ensure their successes in the future,” Kramer said.

To develop the system, MAIA staff looked at quality improvement initiatives in other industries as well as IIAA’s “Best Practices” series, which includes programs that show agents the ideal way to run parts of their businesses.

As structured, the Five Star Program evaluates agencies using five categories: customer focus, management leadership,

human resources, processes, and products and services.

Those categories, in turn, are broken down into 17 sub-categories with the main focus on customer services, Kramer said.

An MAIA team conducts the evaluations, including Kramer, a consultant and other staff members who have themselves completed training programs to prepare for the job.

Evaluations are structured to last at least three days; they cost agencies \$1,800 per day. These can involve follow-up visits.

The Five Star evaluation team conducts individual interviews, grades the agency and presents its findings and scores confidentially.

A score of at least 700 points out of 1,000 earns Five Star Program status, Kramer said. Anything lower disqualifies the agency.

The 700 point score, or 70 percent reflects the design of the program to encourage agencies to constantly strive for improvement.

“No matter how good an agency is there is always room for improvement, and an agency should always be looking for continuous improvement,” she said.

The designation itself is good for three years, after which agencies wishing to continue must do it all over again.

If Five Star agencies lose their designations during renewal time, Kramer said, they have six months to improve and then submit to another review.

Agencies that have completed the program keep more customers, enjoy improved employee performance and less staff turnover, Kramer maintains.

What’s more, Kramer said, agencies use their designation to advertise and promote themselves.

Agency owners often have “Five Star” pins, certificates or special emblems made for their employees after winning the designation, Kramer said.

“I definitely think it works,” she said.

Murphy’s agency was one of the first to complete the Five Star Program. Each of his 70 employees on staff at the time received a green “Five Star” golf jacket after winning the designation.

The program, he said, is a piece of an ongoing plan to improve his agency that has continued for 10 years.

“We continually work on it,” he said, “It’s something you do and live every day.

“You don’t see an instantaneous change. It’s not like riding on a white horse and getting struck by lightning and calling yourself Paul instead of Saul.”

What matters just as much, he said, is how employees feel now that they’ve taken a stake in the agency and helping it improve .

Kaplansky’s agency, which also has offices in Newton, Fairhaven and Milford, was the most recent to complete the Five Star Program – in July.

Kaplansky prepared his agency by having a meeting with managers and then spread the word through company emails.

About three months before the evaluation, managers and employees began implementing a number of things.

The changes included “some things we felt would be appropriate for a Five-Star agency and some things we felt we needed to do anyway,” Kaplansky said.

Among the improvements: more formal employee evaluations, an agency Intranet, the completion of most of the agency employee manual and adding “more formal ways of getting customer feedback.”

All 17 employees took part in the program.

They’ll all get special appreciation plaques, Kaplansky said, but the benefits to his agency go much further than that.

“It’s motivated us to implement many things we’ve sort of had on the back burner and procrastinated about,” he said.

Since then, he said, employee turnover has been negligible and employees are working more efficiently, guided in part by more staff performance evaluations and goals set in place.

“I think the employees feel that they are much more part of the business rather than looking at it as ... maybe just a job,” he said.

Kaplansky’s agency will also use its Five Star designation for advertising and promotion, he said.

“We’re always talking it up,” he said. “When we look at how we do things we realize we have something a little bit more to live up to ... we don’t just want to get a designation and put it in a drawer and forget about it until we get it renewed.”

Kaplansky said the Five Star Program is a good service and has been valuable to him.

“There are things you should be doing you may not even think of and this gives you valuable ideas, goals and objectives,” he said.

Murphy said he wishes more Massachusetts agencies pursued the designation.

“We owe it to ourselves and we owe it to the insurance public to be the best we can be,” he said. “It’s one piece of the

puzzle.”

Kaplansky offered similar sentiments. He said he hopes more agencies take advantage of the program even if they don't successfully complete the Five Star Program.

“That designation is not as valuable as the process of obtaining it,” he said.

“By going through it you're only going to improve your agency. Even if you don't obtain (Five Star designation) there is value of going through the process.”

Insurance Times: NOTICE OF SPECIAL MEETING OF SOLE STOCKHOLDERS OF FIRSTRETURN INSURANCE COMPANY, INC. AND HARVARD PILGRIM INSURANCE COMPANY, INC.
December 11, 2001, Vol. XX No. 25

To the Sole Stockholders of FirstReturn Insurance Company, Inc. and Harvard Pilgrim Insurance Company, Inc.

In accordance with the requirements of MGL. ch 175 sec. 19A, notice of special joint meeting of the sole stockholders of FirstReturn Insurance Company, Inc., a Massachusetts corporation, and Harvard Pilgrim Insurance Company, Inc., a Massachusetts corporation, to be held on December 26, 2001 at 10:00 a.m. in the executive office of Harvard Pilgrim Insurance Company, Inc at 93 Worcester Street, Wellesley, MA, is hereby given. The purpose of the meeting is to approve the merger of FirstReturn Insurance Company, Inc. with and into Harvard Pilgrim Insurance Company, Inc. Both FirstReturn Insurance Company, Inc. and Harvard Pilgrim Insurance Company, Inc. are wholly-owned subsidiaries of Harvard Pilgrim Health Care, Inc. or one of its wholly-owned subsidiaries. The merger has been approved and recommended by the Boards of Directors of both companies. Harvard Pilgrim Health Care, Inc. as the sole stockholder of Harvard Pilgrim Insurance Company, Inc. has approved the merger by written consent as has the sole stockholder of FirstReturn Insurance Company, Inc., but under Massachusetts law a written notice is required to be published of a meeting of stockholders to be held to consider the merger.

Massachusetts law also requires that the notice contain a statement of the rights of objecting stockholders.

“If the action proposed is approved by the stockholders at the meeting and effected by the corporation, any stockholder (1) who files with the corporation before the taking of the vote on the approval of such action, written objection to the proposed action stating that he intends to demand payment for his shares if the action is taken and (2) whose shares are not voted in favor of such action has or may have the right to demand in writing from the corporation (or, in the case of a consolidation or merger, the name of the resulting or surviving corporation shall be inserted), within twenty days after the date of mailing to him of notice in writing that the corporate action has become effective, payment for his shares and an appraisal of the value thereof. Such corporation and any such stockholder shall in such cases have the rights and duties and shall follow the procedure set forth in sections 88 and 98, inclusive, of chapter 156B of the General Laws of Massachusetts.”

Stockholders of record at the close of business on November 30, 2001 are entitled to notice of and vote at the special meeting or any adjournment thereof.

By order of the Board of Directors

William P. Frado, Clerk

Insurance Times: Georgia Couple Charged With False Sept. 11 Claim
December 11, 2001, Vol. XX No. 25

ATLANTA — A Georgia man who authorities say falsely claimed his wife was killed in the Sept. 11 terrorist attack on the World Trade Center has been charged with insurance fraud.

Charles Allen Gavett was arrested along with his wife, Cynthia. If convicted, they could each get up to 10 years in prison and fines of \$10,000.

"We're a very rural county. We would not have expected somebody to take advantage like this," Pike County Sheriff Jimmy Thomas said. "It was really a shock to the community that somebody would go to this extreme."

According to Georgia Insurance Commissioner John Oxendine, Gavett filed a phony death claim with Minnesota Life Insurance Co. of St. Paul, claiming his wife had a 9 a.m. appointment with a financial services company in one of the World Trade Center towers on Sept. 11.

Gavett initially notified the insurance company by e-mail Sept. 29 and followed up with a phone call Oct. 2, Oxendine said. The next day, Minnesota Life, which wrote the family's \$200,000 mortgage life insurance policy, sent Gavett forms for the claim. The documents were completed and forwarded to New York authorities.

Minnesota Life became suspicious upon learning that the office coordinating the search for those missing at the World Trade Center had no record of Cynthia Gavett, nor had the newspaper in Pike County published an obituary, Oxendine said.

The company later learned that Cynthia Gavett had been seen alive by a number of people since the attacks, including a sheriff's deputy who is acquainted with the family.

"We knew this person," Thomas said. "We're a small town, and it's not uncommon to know quite a few people in the community. (The deputy) had seen her a few days before and right after Sept. 11."

The Gavetts, described by Oxendine as "well-known and well-respected," were arrested at their home in Concord, about 45 miles south of Atlanta. They were jailed pending a bond hearing.

The couple's 14-year-old daughter also filed documents with the insurance company, but she will not be charged, Oxendine said.

Insurance Times: Massmutual Lays Off 112 Information Service Workers

December 11, 2001, Vol. XX No. 25

SPRINGFIELD, Mass. — A Springfield-based insurance company was expected to lay off 112 workers late last month. The Massachusetts Mutual Life Insurance Co. called the layoffs a cost-saving measure needed to improve MassMutual's strong financial performance.

The company announced that it expects a \$1.14 billion dividend payout to policy holders in 2002, the highest in company history.

Ninety-three of the employees being let go work in Springfield. The other 19 work in Hartford, Conn. All work in the company's information services department.

MassMutual spokesman Jim Lacey said the layoffs account for less than 2 percent of the company's 6,500 employees.

Insurance Times: CNA Life Introduces Better Term Rates

December 11, 2001, Vol. XX No. 25

NASHVILLE — CNA Life recently announced a new term class upgrade program. With this latest program, CNA offers many consumers some of the most competitive prices in the term market. This upgrade, where available, essentially gives buyers the opportunity to pay less or get more.

This program offers better pricing on CNA's 15-, 20- and 30- year term products with \$500,000 or more of face amount. These upgrades are available on non-smoker underwriting classes for policies issued from November 1, 2001 through March 31, 2002.

"Policyowners can easily double their coverage without doubling their cost or save on the coverage they buy," says Bob Miller, vice president, CNA's Life Marketing. "Non-smokers who meet the program requirement will receive a one-class price upgrade. For all but our best rate class, the policyowner will get a better price."

This program will still follow CNA's usual underwriting guidelines; only the premium will be upgraded.

All eligible applications will be issued with the upgrade. To find out more, visit at www.cnalife.com.

Insurance Times: SBLI Policies Offered Via Credit Union Website

December 11, 2001, Vol. XX No. 25

WOBURN, MASS. — First Citizens' Federal Credit Union and the Savings Bank Life Insurance Co. of Massachusetts have established a link from the credit union's website to the SBLI website for the sale of SBLI products. In June, First Citizens became the first federally chartered credit union in the state to offer SBLI's life insurance policies.

Insurance Times: Variable Sales Slip As Buyers Look To Whole, Universal
December 11, 2001, Vol. XX No. 25

The Rocky Performance Of The Stock Market
This Year Is Taking A Toll On Variable Life Products

WINDSOR, Conn. — While total sales of life insurance continued to decline in the third quarter, the trend away from variable products and toward universal and whole life accelerated, according to LIMRA International's quarterly survey tracking new individual life insurance sales.

"The roller coaster ride for individual life insurance sales continues," said Elaine Tumicki, assistant vice president and author of the quarterly report. "While the hot products of the late Nineties – variable universal life (VUL) and survivorship life – continue to plummet, universal life and whole life are growing. Term insurance, which has been on its own roller coaster over the last two years, is starting to recover from the post-Regulation XXX doldrums." Whether the psychological impact of Sept. 11 is influencing sales remains to be seen, since the quarter ended just weeks after the terrorist attacks on the nation, too soon to be reflected in the results. However, anecdotal reports from agents and companies suggest that there may be stronger than expected interest in life insurance.

A recent report from the Medical Information Bureau, which provides underwriting information to life insurers, showed an increase in applications.

"The rocky performance of the stock market this year is taking a toll on variable life products," Tumicki noted in the report. Annualized premiums for VUL dropped 26 percent in the third quarter, compared to the same quarter of 2000. Year-to-date, VUL premiums are 7 percent below the first nine months of last year. Variable life (VL) is down even more – 37 percent for the quarter and 27 percent year-to-date.

"On the bright side, universal life (UL) is showing a resurgence," Tumicki said. Annualized premium for UL is up 22 percent for the quarter and 15 percent year to date, compared to the same periods last year. Whole life is also up, with annualized premium increases of 8 percent for the quarter and 2 percent for the year. "The relative safety of these products is likely attractive to consumers in the face of the uncertain economic environment," Tumicki said. In the first full quarter since the estate tax law was changed, survivorship life sales continue to fall in comparison to both last year and prior quarters of this year. Annualized premium for this product, which is sold in most cases to pay estate taxes, is down 40 percent compared to third quarter 2000 and down 24 percent for the year so far. Since the estate tax is repealed only for 2010, unless Congress acts to extend the repeal, many affluent consumers will still likely have substantial estate tax liabilities.

"Companies active in this market should continue to educate their clients about the uncertainty of the repeal," Tumicki advised.

Term insurance is recovering from the post-Regulation XXX sales declines. Annualized premium is down only 1 percent compared to third quarter 2000, which brings the year to date decline to only 14 percent compared to 20 percent for the first half of the year.

For more information, visit www.limra.com.

Insurance Times: L&H INSURERS' PROFITS DROP 42% IN FIRST SIX MONTHS
December 11, 2001, Vol. XX No. 25

Falling Demand for Insurance

Profits of the nation's life and health insurers declined \$6 billion, or 42 percent, during the first six months of 2001, compared to the same period in 2000, according to Weiss Ratings, Inc., an independent insurance company ratings and analyses firm.

Meanwhile, the industry's return on assets fell 44 percent to 0.51 percent, and its return on equity fell 45 percent to 7.3 percent, with the latter falling below 10 percent for the first time since 1995. The profit declines are primarily due to a \$2.2 billion capital loss on the sale of invested assets as well as a \$3.1 billion decline in overall operating profits. "All of these declines took place in the first and second quarters of the year, long before the September 11 events, and they began well before the onset of the recession, now officially pegged to March," commented Martin D. Weiss, Ph.D., chairman of Weiss Ratings, Inc. "With the recession deepening in the second half and continuing into 2002, more profit declines are very likely as consumers delay the purchase of insurance, frequently viewed as a non-essential item."

Insurance Times: Affluent Singles And 'Empty Nesters' Present Opportunities In Non-Traditional Sales
December 11, 2001, Vol. XX No. 25

BOSTON — A new survey shows that affluent singles, both young and old, and empty nesters in their 50s and 60s, offer the most promise for life insurers selling non-traditional products.

The 21st Century Financial Services Consumer -- a study conducted by KPMG LLP, the professional services firm and unveiled at the American Council of Life Insurers (ACLI's) annual conference Business Solutions 2001 -- sought to determine consumers' willingness to buy new service offerings from insurance companies. Rather than divide consumers into traditional demographic groups, the study divided its more than 900 respondents into six distinctive "psychographic" segments -- each with its own characteristics regarding tolerance for risk, willingness to try new financial products and motivation to build wealth.

The psychographic segment that KPMG and ACLI found to be most receptive -- and to present the greatest opportunity for insurance companies -- was dubbed "Successful Innovators." They tend to be affluent young singles, affluent older male singles, affluent empty nesters and couples with dual incomes and no children. Successful Innovators tend to cluster on each end of the age spectrum, with more respondents in their 20s and more in their 50s than the other psychographic segments identified in the study.

People in this group are eager to learn and discover new things; they are usually the first ones to buy new financial products and services; they have accumulated significant wealth and have a major stake in the market; they are more likely to use the Internet for information; they keep up-to-date on market changes and review their financial situation regularly.

Successful Innovators were also the most likely, at 24 percent, to use non-traditional products and services from the financial institutions they do business with. Overall, 16 percent of those surveyed said they are likely to use non-traditional services and nine percent said they are likely to use insurance companies for non-traditional services.

"Insurance firms will increasingly need to step up targeted marketing, in attempting to attract non-traditional customers," said Chris Swift, national industry director of KPMG's Insurance Practice. "And singles both young and old should be high on their radar screen."

According to Swift, the survey provides valuable information on market segmentation. "In the battle among financial service firms, insurance companies can establish their brand in certain segments," said Swift. "And then through excellent service, they can extend the brand to other segments. The formula requires a redirecting of resources at those segments that can build market share and increase profits."

Successful Innovators are the wealthiest of the six segments classified, with half of its respondents having household income above \$100,000. They also hold the most sizable current investments. The other five distinct psychographic segments identified in the study were 'Naive Innovators,' 'Cautious Investors,' 'Carefree Spirits,' 'Pessimistic Conformists' and 'Laggards'.

Other findings include:

- Annuities are used by all segments, with segment two, the Cautious Investors, ranking the highest (15%), followed by segment five, the Pessimistic Conformists (11%).
- A personal representative is the most preferred way to access financial services across all segments.
- Word of mouth from family and friends is the number one information source across all segments, followed by salesperson, magazine and newspapers.

"Research such as this is invaluable for life insurance companies competing in what has become a rapidly changing financial services marketplace," said ACLI Senior vice president Barbara Bey. "Life insurers no longer compete just with one another. Especially in the wake of the 1999's Gramm-Leach-Bliley financial services modernization law, they increasingly must compete with banks and securities firms as well. One of the biggest challenges facing life insurance

companies is identifying and targeting the most receptive groups of financial services consumers for their non-traditional products."

Insurance Times: Fraud Diary

December 11, 2001, Vol. XX No. 25

Police are saying that a New York psychologist got a little greedy and over-billed a health plan more than \$191,000 for client treatments that never took place.

Barbara Sternberg, 54, of Yorktown Heights, was arrested Oct. 29 and charged with insurance fraud, grand larceny and falsifying business records, according to the New York Insurance Department.

Sternberg is charged with over-billing Oxford Health Insurance from 1997 through July 2000, during which she allegedly received more than \$65,000.

Among the allegations: that Sternberg filed claims regarding treatment dates before treatment or contact with a patient had started.

She's also charged with billing Oxford— five different times— for services to a number of patents "that exceed the total number of hours in any given day," according to the Insurance Department.

The Insurance Department's Frauds Bureau and the Westchester County District Attorney investigated the case.

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Here's to joining forces.

An anti-fraud sweep in five counties near Albany, N.Y. has led investigators to file charges against 81 people, the New York Insurance Department has announced.

The active participation of each of the district attorneys and the success seen in the number of arrests announced today prove that collaborative efforts work effectively to root out crooks who defraud the system," said Insurance Superintendent Gregory Serio.

Various charges involve homeowners, unemployment, welfare, no-fault, automobile insurance and workers compensation fraud, with total claims reaching \$450,000.

State officials, district attorneys, policy and county sheriff's offices coordinated their efforts for the sweep in Rensselaer, Albany, Saratoga, Schenectady and Washington counties.

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It looks like liquid fabric softener can get you into trouble.

That's what happened to Richard Dean, 43, of Uniondale, who, in November, 2000, allegedly told employees at the Waldbaum's Supermarket in East Meadow, New York that he slipped and fell on some sort of liquid spilled in a store aisle and suffered serious injuries.

The New York Insurance Department said Dean filed a negligence lawsuit against Waldbaum's four months later seeking \$2 million in damages for injuries he suffered.

But a store surveillance tape allegedly captured Dean purposely spilling liquid fabric softener on the aisle before reporting he fell, even though he didn't.

Eleven days later, Dean was also videotaped helping to carry a refrigerator out of a house and did not appear injured, the Insurance Department said.

Dean is charged with on count each of second-degree insurance fraud and first degree falsifying of business records, the Insurance Department said.

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In Boston, three former "Big Dig" workers are charged with illegally receiving workers compensation benefits.

Thomas Madeiros, 44, of Cambridge, Bartholomew O'Connor, 57 of West Roxbury and Brian Costa, 44, of Wareham were to be arraigned on charges Oct. 24 in Boston Municipal Court.

The Suffolk County District Attorney's office says Madeiros claimed he injured his shoulder while working as a Central Artery Project subcontractor in November 2000.

Subsequently, Madeiros began collecting \$788 per week in disability benefits, though investigators say they found out in April that Madeiros was working in Cambridge all along.

O'Connor also said he hurt his shoulder while working as a Central Artery project carpenter and he began collecting up to \$700 per week in workers compensation benefits.

Meanwhile, investigators say, O'Connor was working as a carpenter renovating a Brookline home.

Costa, the Suffolk County District Attorney's office said, claimed he hurt his lower back while doing "Big Dig" excavation work.

He collected benefits from May to September 2000, the office said.

But in September 2000, investigators say they saw Costa working for a Wareham landscaping company even though he was still collecting disability benefits.

The Insurance Fraud Bureau of Massachusetts, AIG Claim services, and the Suffolk County special prosecutions unit worked on the investigations.

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More Big Dig fraud news:

An ex-Central Artery Project employee pleaded guilty earlier in October to workers compensation fraud and larceny, according to the Suffolk County District Attorney's office.

A judge ordered Robert Houston, 54, of Eden Prairie, Minn. to pay \$10,000 in restitution and will serve a year's probation.

Houston started working as a laborer for a primary Big Dig Contractor – in June 1999.

Houston told a supervisor a month later that he injured his arm while using a jackhammer and began to receive \$626.20 per week in workers compensation disability benefits, according to the District Attorney's office. He then moved to Minnesota, had surgery on his arm and remained out of work.

AIG, the insurer handling the case, asked private investigators to check on the case in February 2000. According to the District Attorney's office, they found Houston working in a car wash "washing cars with a power hose" and with "no apparent impairment of his right arm."

After that, the District Attorney's office said, Houston tried to claim he was still unable to work, though records showed he had in fact started working again in February 2000.

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A Spencer, Mass. man was sentenced to a suspended 18-month prison term for workers compensation insurance fraud. Stanley Davis, 27, will serve three years probation in lieu of the sentence, according to the Massachusetts Attorney General's office.

Davis was also ordered by an East Brookfield District court judge to perform 150 hours of community service and pay \$15,000 in restitution.

He pleaded guilty to one count each of workers compensation fraud and larceny over \$250.

The case dates back to 1995, when Davis was injured during work at the Cumberland Farms warehouse in Canton.

He was collecting workers compensation benefits at the time, the Attorney General's office said, but also under reporting earnings from a second job on the side.

The Attorney General's office and the state Insurance Fraud Bureau investigated.

Insurance Times: Anthem, NH Hospital Reach Agreement

December 11, 2001, Vol. XX No. 25

PORTSMOUTH, N.H. (AP) — Anthem Blue Cross and Blue Shield and Portsmouth Regional Hospital have reached agreement on a two-year contract that nearly triples the number of people covered.

Anthem, one of the state's two remaining health insurance providers, now has 23,000 subscribers receiving medical services at the hospital, including family members and dependents, Anthem spokesman Clark Dumont said.

The current agreement expires Dec. 31. No other details were disclosed on the new contract.

William Schuler, president and chief executive officer of the for-profit hospital, owned and operated by the Hospital Corp. of America, announced the agreement.

Schuler said the cost of medical care on the seacoast will continue to escalate for the foreseeable future.

He cited several reasons, including the costs associated with new technologies and drug therapies; the difficulties in competing with Boston-area hospitals for staff, including nurses, dietary personnel and X-ray technicians; and problems recruiting primary-care physicians and a variety of specialists.

Insurance Times: HR Leaders Plan Holiday Parties Despite Events

December 11, 2001, Vol. XX No. 25

OLD SAYBROOK, Conn. — Neither terrorism nor a slumping economy will stop office parties or other holiday-related activities in the American workplace this year, though some may be scaled down a bit, the latest HRnext poll shows.

In the poll, also conducted on sister site BenefitsNext.com, human-resource professionals were asked, "What will your holiday party be like this year?" The highest response, at 49 percent, was, "Same as always."

Another 30 percent said they'd be holding scaled-down affairs this year, while 2 percent indicated that their parties would be "more somber and/or patriotic." The remaining 19 percent answered, "What holiday party?"

The poll was held the week of Oct. 22.

In an accompanying online discussion in the Community section of HRnext, the dominant tone was one of defiance. Christopher Rott, vice president of human resources and administration for a group of construction firms in Maryland, said his workplace would follow President Bush's call to continue living life as normally as possible.

"We mourn the loss of so many great Americans, but we also want to acknowledge the fact that we will recover from this tragedy and will continue to be the greatest country in the world," he wrote.

Mary Alexander-Conte, controller and operations manager at MBAH Insurance of Lafayette, Ind., wrote that marking the holidays is especially important this year.

Insurance Times: The Hartford's Benefit Booklets Now Online

December 11, 2001, Vol. XX No. 25

Simsbury, Conn. — The Hartford, a leader in the group disability insurance market, now gives its employer customers access to booklets and other policy information via Employer View, the company's secured customer web site.

The Hartford's group life and disability insurance customers can now immediately access their most current booklet-certificates and endorsements, Policy of Incorporation and Riders via Employer View, at no additional charge. This information applies to the majority of booklets published after January 2000 and for booklets that have been significantly edited since that date.

All available documents are displayed for viewing, printing or downloading, allowing customers to retrieve booklet information whenever they want it.

Insurance Times: Oklahoma Seizes Health Insurer For Small Employers

December 11, 2001, Vol. XX No. 25

TULSA, Okla. (AP) — At least \$8 million in health claims remain unpaid after the state shut down an insolvent Tulsa insurance company that specialized in sales to small employers. The Oklahoma Insurance Department has taken control of Heritage National insurance Co.

Company officials had admitted earlier that the company was insolvent and unable to pay claims, department spokesman David Meuser said.

Heritage specialized in health coverage for small employers and provided services to about 5,000 state residents. Heritage National has been under state supervision since June.

Insurance Times: ANTHEM STOCK Could Ease CONN. State BUDGET Deficit

December 11, 2001, Vol. XX No. 25

State Receives \$80 Million in Stock From Anthem As Part of Insurer's Conversion Plan

by Kathryn Masterson
Associated Press

HARTFORD — State officials last week said Connecticut will receive \$80 million worth of stock from an insurance company that recently went public.

The announcement came less than a week after legislators agreed to \$200 million in budget cuts to reduce the state's deficit.

Connecticut will receive 1.7 million shares of Anthem Insurance stock as part of the company's conversion from a mutual insurance organization to a stock corporation. Some policyholders will receive stock under the conversion because of their policy agreements.

The state has several policies with Anthem Blue Cross/Blue Shield of Connecticut, including the state employee's health insurance contract and HUSKY plans for uninsured children.

Gov. John G. Rowland called the stock "much needed revenue in very difficult economic times."

The state has a projected budget deficit of \$300 million. Rowland had asked legislators to cut the full deficit amount from the state budget or risk layoffs of state employees.

A compromise reached late last month during a special session cut two-thirds of the deficit, leaving a \$100 million gap. "It certainly takes a little bit of the pressure off," Rowland said.

Any revenue from the stock will not be available for use this fiscal year, Deputy State Treasurer Howard Rifkin said. Connecticut will receive the certificates Jan. 1 and must wait at least six months before selling to avoid flooding the market.

The governor said he expected a "good, healthy discussion" by lawmakers about whether to keep or sell the stock, and what to do with the revenue if the shares are sold.

Officials said money could be put into the general fund, or placed in the state employees' pension fund and children's health insurance program.

If the decision is to sell the stock, the state will have to wait at least six months to avoid flooding the market with shares.

State Comptroller Nancy Wyman suggested the state may want to hold on to the stock. She said the state, as one of Anthem's largest shareholders, could exercise its influence over health insurance decisions.

"These shares could give the state a stronger voice on issues of access, quality and cost of care on behalf of more than one million Connecticut residents covered by this company," Wyman said.

Under Anthem's demutualization plan, Connecticut will receive 1 million shares for the state employees' policy and 700,000 shares for two HUSKY plans. State officials negotiated with Anthem to classify the HUSKY plan as a health insurance contract deserving of company shares, said state Attorney General Richard Blumenthal.

Indianapolis-based Anthem Insurance began offering common stock at \$36 per share in its initial public offering that began Oct. 30 on the New York Stock Exchange.

Insurance Times: Owners Of Home-Based Businesses Targeted By DI Insurer

December 11, 2001, Vol. XX No. 25

Although a new home-based business is established every 11 seconds, disability insurers have not focused on this booming market.

Now, Berkshire Life Insurance Co. of America has become the first disability income (DI) insurance provider to adapt a product especially to meet the income-protection needs of home-based firms.

Berkshire, a wholly-owned subsidiary of The Guardian Life Insurance Co. of America, New York, will underwrite and issue the enhanced DI product, which will carry the Guardian brand within the Guardian distribution system. (The same product will carry the Berkshire brand elsewhere.)

Other DI carriers that have approached the home-based business market have tended to offer merely watered-down loss of earnings contracts, according to Berkshire officials.

But Berkshire and Guardian will be offering more than merely a watered-down loss-of-earnings contract. Rather, they will be covering home-based professionals "where they live"—that is, for their own occupations—from the standpoint

of total disability, using the highly regarded Provider Plus policy.

By taking a straightforward, total disability approach to underwriting home-based business owners, Berkshire says it is trying to liberate agents and brokers from the burden of proof with regard to business-related activity.

"Prior to this offering, we'd require that home-based professionals leave their homes routinely to conduct business, or require that they'd have, say, 10 people a day coming to their home office," explained Susan M. Baker, Berkshire's Manager of Disability Income Sales and Marketing. "That's not reflective of the home-based business of today and is no longer a prerequisite to obtaining coverage."

By abandoning arcane rules specifying that an insured can only work at home 25% of the time, for example, and that he or she must be out dealing with customers 75% of the time, Berkshire's own-occupation individual disability income policy for home-based business owners is in synch with the rapidly evolving nature of home-based work.

"We quickly recognized the need to become more flexible in order to reach this highly desirable group of prospects," Baker noted. "Our research showed that the one thing home-based business owners have in common is that they have very little in common. It's a mass market of individuals."

From contractors to computer experts, marketers to management consultants, all signs are that this heterogeneous cohort is growing fast. What began as mere blip on the demographic radar following the corporate downsizing of the 1990s has exploded into a significant workforce trend.

According to the National Association of Home-Based Businesses, there are currently more than 55 million Americans working from home. While this figure is certainly inflated by the ever-growing ranks of telecommuters (most of whom are still tethered to their employers when it comes to salary and benefits), about one-third of these individuals are estimated to actually operate their own home-based businesses, most without adequate risk protection.

As with all wage earners, the home-based business owner relies on his or her income to pay monthly bills and support the family.

"As far as I'm concerned, a disability can have even more devastating consequences for the home-based business owner than the traditional proprietor or corporate professional," Baker said. "There is usually no support staff or back-up personnel to keep the business running in the event of a disability. The business owner is CEO, CFO, CMO, Receptionist and every position in-between."

Insurance Times: Job-Based Benefits Rose In 2000 And Uninsured Declined But Trend May Not Last
December 11, 2001, Vol. XX No. 25

WASHINGTON, D.C. — Employment-based health insurance expanded and the uninsured population declined during the period before the economic slowdown began in 2001, according to a new research reported by the nonpartisan Employee Benefit Research Institute (EBRI).

Although this occurred at a time when health insurance costs were going up much more rapidly than increases in average income, general inflation, or growth in the gross domestic product (GDP), there is only modest evidence that employers shifted costs onto workers during 2000.

These findings -- featured in the November issue of EBRI Notes -- are based on EBRI estimates of recently released government data from the U.S. Census Bureau for calendar year 2000.

The article cautions that these trends could easily change in the future as the combined effect of the current economic slowdown and rising health benefit costs affect whether employers offer health benefits, whether employees take health benefits, and whether the unemployed can afford benefits.

"The main reason for the decline in the number of uninsured Americans during 2000 was the strong economy at that time, which resulted in low unemployment. Tight labor markets gave employers an added incentive to offer health benefits in order to attract qualified workers," said EBRI President Dallas Salisbury. "At some point, the combination of a slowing economy and rising health insurance cost will likely result in an increase in the uninsured. It also is likely to affect the range of health benefits for those who have health coverage."

Some of the report's key findings:

- More than 67 percent of Americans under age 65-or 163.4 million Americans-were covered by an employment-based health plan during 2000, up from 66.6 percent in 1999.
- During this period, the number of uninsured declined from 16.2 percent, or 39 million individuals to 15.9 percent, or 38.5 million.

* In 1999, 74.2 percent of workers were covered by an employment-based health plan; by 2000, 74.7 percent were covered.

* Between 1998 and 2000, the percentage of small firms (100 or fewer workers) offering health benefits increased from 54 percent to 67 percent, with much of the increase occurring among the smallest of the small firms. The percentage leveled off in 2001.

* Despite expansions in the State Children's Health Insurance Program (S-CHIP), public health insurance coverage did not increase between 1999 and 2000. During this period, the percentage of nonelderly Americans covered by Medicaid and other government-sponsored health insurance coverage remained unchanged at roughly 10.5 percent.

* The percentage of nonelderly Americans with employment-based health benefits varies among regions and states, ranging from a high of 73.1 percent in the East North Central region to a low of 59.7 percent in the West South Central region. States with the lowest proportion of uninsured individuals in 2000 included Rhode Island (7.3 percent), New Hampshire (7.9 percent), Wisconsin (8.2 percent), and Pennsylvania (8.5 percent), while those with the highest proportion of uninsured include New Mexico (26.8 percent), Texas (23.7 percent), Oklahoma (22.6 percent), and Louisiana (21.7 percent).

Insurance Times: U.S. Chamber Endorses AIG Business Insurance December 11, 2001, Vol. XX No. 25

American International Group, Inc. (AIG) and the United States Chamber of Commerce revealed a number of initiatives to provide Chamber members with comprehensive resources to obtain business insurance and employee benefits products and services.

The U.S. Chamber has named AIG member companies the exclusive endorsed providers of business insurance products and services including property, casualty, specialty and employee benefits insurance. As part of the endorsement, AIG member companies have designed a comprehensive insurance solution - known as ChamberFirst - specifically for the needs of U.S. Chamber members.

ChamberFirst offers commercial insurance products including Business Owners Policy (BOP), Trade Credit Insurance and Online Services, Employment Practices Liability, Workers' Compensation, Management Liability, Environmental Liability, Umbrella Liability, International Insurance and related loss prevention and claims management services.

The ChamberFirst program also offers access to employee benefits coverages, such as life insurance and vision care, as well as voluntary benefit programs that enable employees to purchase personal insurance, such as automobile and homeowners coverages, through convenient and economical payroll deductions. All insurance coverages are underwritten by AIG member companies.

Nekema Merges With InsurePoint.com

Nekema, Inc. of Jersey City, N.J., announced a merger with InsurePoint.com, Inc. of Cincinnati, Ohio.

The newly combined company will operate under the Nekema name and be based in Jersey City.

Nekema is a business-to-business, e-commerce platform for property/casualty insurance agencies and carriers. Its services include the InsurePoint.com commercial lines competitive market place, the Nekema Personal Lines competitive market place, and a variety of proprietary and private label implementations.

NY CEO Lawrence's jail sentence reduced

ALBANY, N.Y. (AP) — A former insurance magnate convicted of fraud and embezzlement charges will be released from prison due to his terminal stomach cancer.

Judge Frederick Scullin Jr. granted a motion to reduce Albert Lawrence's sentence to time served. The 73-year-old began serving his 37-month prison sentence at the Federal Medical Center in Lexington, Ky., on Sept. 17.

Lawrence, of the Schenectady suburb of Rexford, was convicted in June 1999 of 20 counts of wire and mail fraud, embezzlement of insurance company assets and pension benefit funds, and tax evasion. He was also ordered to pay \$37 million in restitution to companies, policyholders, employees and the government.

It's unlikely much of the money will be paid by the former owner of the now-defunct Lawrence Group Inc., who has declared bankruptcy.

Lawrence's lawyer, Michael Koenig, asked that his client's sentence be commuted under the federal Bureau of Prisons' "compassionate release policy."

Lawrence suffers from coronary artery disease and diabetes, as well as stomach cancer that has spread to his liver and lymph nodes. He has an estimated life expectancy of less than six months.

When Lawrence returns to his home in Rexford, he will begin serving a three-year term of supervised release.

Insurance Times: Kittel Named Senior VP At Arbella; Marra Succeeds Smith At Hartford Life; Massmutual Announces Promotions; LIMRA, NAMIC Elect Officers
December 11, 2001, Vol. XX No. 25

Arbella

The Arbella Insurance Group recently announced the appointment of John F. Kittel to the position of senior vice president of the Arbella Service Co. Quincy, Mass. Kittel joined Arbella in 2000 as vice president of Arbella Capital. Prior to joining Arbella, he was the founder, chief operating officer and director of the Covenant Group, Inc. Before that Kittel worked as an independent consultant and held upper management positions at Hanover Insurance and Middlesex Mutual Assurance.

Hartford Life

Tom Marra has been named president of Hartford Life, the nation's third largest life insurance group. Marra was named to succeed Lon A. Smith on Jan. 1 as president of the business, which is part of the Hartford Financial Services Group Inc. Marra will also continue as chief operating officer. Smith is retiring as its president and as vice chairman of The Hartford after 33 years with the company.

MassMutual

The MassMutual Financial Group of Springfield, Mass. announced a number of promotions. Named deputy general counsel was Larry Port of Longmeadow, Mass. (in addition to his title as senior vice president). Promoted to vice president were: Margaret G. Hannigan, information systems organization; Jacqueline Miller, information systems organization; V. Vanessa, life services. Promoted to second vice president were: Suzanne M. Bergin, corporate communications; Laurence R. Cowles, individual insurance group; Thomas Cremona, retirement services; Carol A. Dube, corporate financial; Heidi A. , corporate services; Aaron R. Lavoie, large corporate markets; Marlene H. Layman, corporate services, and Monosij Mazumdar, retirement services. Promoted to assistant vice president were: Allan A. Campbell information systems organization; Jerome P. Camposeo, corporate financial; Donna M. Decaro-Conley, corporate human resources; Carol W. Demas, life services; Sora Hahn, office of the chairman; Roger J. Henkel, corporate financial; James O. Lacey, corporate communications; Louise R. Langlois, corporate financial; Clinton Modler, life services; John R. Rafferty, life services, and Kathleen M. Rogers, corporate human resources.

LIMRA

The LIMRA International board of directors elected pension industry veteran William L. Tindall as chairman for 2002. Tindall is senior vice president of retirement services at American United Life Insurance Co. in Indianapolis and a veteran in sales and marketing of retirement plan products. Tindall was elected at the LIMRA annual meeting in Toronto. The board also elected 10 new members, including two from member companies in France and China. The following individuals were elected to the LIMRA board to serve until 2004: Jan S. Jobe, president and CEO, Pan-American Life Insurance Co.; Gary B. Lenderink, executive vice president, group pensions and corporate administration, Guardian Life Insurance Co.; James M. Morris, chairman and CEO, Signator Financial Network; Patrick Peugeot, president-directeur generale, La Mondiale, Paris; C. James Prieur, president and CEO, Sun Life of Canada; Don M. Royster, Sr., president, United Insurance Co. of America; Jerry B. Stillwell, senior vice president and chief marketing officer, Lafayette Life; and Charles R. Wright, executive vice president, chief agency and marketing officer, State Farm Insurance. Elected to serve until 2005 were Peter Ma, chairman and president, Ping An Insurance Co. of China; and Robert W. Powell, senior vice president, individual marketing, Jefferson-Pilot Financial Life.

NAMIC

Due to the cancellation of the 106th National Association of Mutual Insurance Companies convention after the tragic events of Sept. 11, election of the 2001-2002 leadership was conducted by mail ballot to the membership. The following officers and directors were chosen: David L. Anderson, secretary/treasurer of the Farm Mutual Insurance Co. Canton, S.D., is 2001-2002 chairman of the board, and John W. Fisher, president since 1993 of Auto-Owners Insurance

Group, Lansing, Mich., is chairman-elect. Joining the leadership as vice chairman is F. Timothy Hegarty, Jr., of Norfolk-Dedham Mutual Insurance Co., in Dedham, Mass. Lee Bondhus continues as NAMIC secretary / treasurer.

PIWA of NY

Professional Insurance Wholesalers Association of New York State elected its officers and directors recently. Edwin Levine of the American Marketing Center in New York City was elected president; Joseph Caligiuri of Cal E&S Brokers Inc. in Brightwaters, N.Y., vice president; Gary Holleder of Russell Bond & Co., Buffalo, treasurer; and John J. George, Jimcor Associates in Clifton Park, N.Y., immediate past president.

Also elected to the board of directors were David Catanuto, Trans World Facilities, Forest Hills; Dave Pietrowski, LoVullo Associates, Depew; and Stephen Rice, Swett & Crawford, Glens Falls.

Protector Group

Worcester, Mass.-based Protector Group, which was named by the Independent Insurance Agents of America as one of the nation's top agencies in its annual Best Practices survey, has added two new customer service representatives. Joining the firm are Kathryn Brown and Corrie Shattuck. p

Maine Mutual

Presque Isle-based Maine Mutual announced the promotions of Paul Madigan to programmer/analyst and Kyle Green to network administrator. In addition, Stacy Shaw has been promoted to assistant manager of information systems.

NAII

The National Association of Independent Insurers elected Tony Nicely, chairman, president and chief executive officer of Government Employees Insurance Company (GEICO) as chairman of the board of governors. Nicely began his career with GEICO in 1961 and became chairman, president and chief executive officer in 1993.

William Pollard, executive vice president and general manager of North Carolina Farm Bureau Mutual Insurance Co., was elected first vice chair and Herm Arends, chairman and chief executive officer of Auto-Owners Group was elected second vice chair.

New England College of Finance

The Boston-based New England College of Finance recently elected the president and chief executive officer of InsurBanc, the federally chartered thrift providing banking services through independent insurance agents, as a member of its executive committee and as chairman of its audit committee.

Herlihy has been a trustee of NECF for the past five years.

Burak & Cahill

Albert Burak Insurance of Canton, Mass. has teamed up with Cahill, McCarthy & Associates and Joseph Cahill & Associates of Dedham, Mass. in a strategic alliance to offer one-stop shopping for financial services. The alliance means the new agency, Burak & Cahill, will be able to offer a full range of financial and insurance services.

Delta Dental of Mass.

Dr. Robert E. Hunter, president of delta Dental Plan of Massachusetts, has been elected to serve on the board of overseers for the Malcolm Baldrige National Quality Award, which recognizes U.S. companies that have achieved a superior level of quality excellence. The board of overseers advises the director on the conduct of the awards program.