

## ***Insurance Times:*** For Some, There's No Escaping World Trade Center Tragedy

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by Mark Hollmer  
InsuranceTimes

A Boston-based Marsh employee began his day Sept. 11 simply enough, riding an elevator to the 99th floor of the World Trade Center tower for a morning meeting.

He stopped at the 91st floor, which was undergoing renovations. Construction workers made their way off, and then an explosion threw everyone else through the doorway, onto the floor of the now darkened lobby. The elevator plunged to the ground and a fireball burst up in its place.

Thankfully, quick-thinking construction workers sliced a hole into the wall to reach the fire escape and a stairwell.

Several floors down, the workers repeated the process all over again.

The employee escaped with others and made it a short distance away before the tower collapsed. And as Marsh Inc. Managing Director John C. Smith relays the story, the employee is a particularly lucky man.

"I believe he is the only one that has survived above the 90th floor (of the tower)," he said.

Smith, head of Marsh Inc.'s New England operations, spoke recently at a Massachusetts Society of Certified Public Accountants meeting, held at the Boston College Club on Federal Street in Boston.

He introduced a panel of Marsh, Inc. employees assembled to talk about the new realities of risk and how the Sept. 11 attacks may have shaped the evolving market.

Marsh is a division of the Marsh & McLennan Companies, a brokerage firm that staffed 1,900 employees in both World Trade Center towers that fell. About 3,000 more employees work near Ground Zero at an Avenue of the Americas office building. More than 300 Marsh employees lost their lives on Sept. 11.

Smith, who spoke first and introduced the panel, continued for more than 30 minutes to talk about his colleague's harrowing escape from the World Trade Center Towers.

The Marsh New England employee who escaped the 91st floor passed many people as he headed down the stairs who said they couldn't go any further, and talked about the "horrible scenes" he saw.

After escaping the building, the employee, covered in soot from the fire and the debris from the WTC collapse, eventually made his way to the nearby Marsh offices at the Avenue of the Americas, visited the nurse's office and cleaned himself up.

He then began to help man a phone bank Marsh had set up for concerned family members, he said, and stayed there the rest of the day.

Marsh used its business continuity plan to respond to the disaster, which helped minimize fallout, Smith said.

"This plan helped us work through what we had to," he said.

Marsh employees evacuated the WTC and elsewhere at some point, and began to use telephone trees. The company also set up a crisis center to account for every missing staff member, he said.

"We spent the balance of the day just trying to account for everyone," he said. "At one point we didn't know."

Marsh also hired counselors – as many as 180 – to help its more than 3,000 employees at the Avenue of Americas, many of who had a clear view of the tragedy as it unfolded.

Smith said the company has not made public statements about how it dealt with the tragedy internally because they felt it was "our issue" to deal with privately.

But Smith talked about it at the MSCPA meeting, he said, so his audience might "take away something" to their companies and "think about disasters as they may occur" and how to address them.

### Panel Highlights

Among the panel highlights:

Worst market ever. David Rowley, managing director of Marsh Inc.'s New England Client Advisory and Transaction Group, says the post-Sept. 11 insurance market is "the worst ... in my career and perhaps what we've ever seen."

But the market was already starting to harden before the disasters, he said, after a record soft market of more than a decade.

Worst workers compensation event ever. Rowley said he anticipates an historic number of workers compensation claims following Sept. 11, particularly a large amount of stress claims.

Premiums to climb. In light of an already hardening market made worse by the Sept. 11 attacks, Rowley said, premiums should jump as much as 70 percent in some cases for property insurance, 50 to 100 percent for excess and liability policies and more than 30 percent for auto.

Underwriting has also toughened, larger deductibles are coming onto play and some insurance companies are also seeing their financials downgraded, he said. Rowley is also seeing "severe limited availability of insurance for high risk properties, health care, some long term care policies and chemical and pharmaceutical companies."

Directors and officers liability. The line faced increased competition and falling prices in the 1990s, according to Eugene "Tripp" Sheehan, a Marsh senior vice president. But, he said, there's been an increase in frequency in severity of D&O losses in the last 18 months. Some of that comes from IPO, insider trading and financial fraud claims.

Little good news for employee benefits. The only good news is that the life and disability marketplaces appear unaffected by Sept. 11, said Eileen Quenell, a Marsh senior vice president. That being said, Quenell pointed out that pension plan sponsors are facing increasing liabilities and contributions in light of higher costs that began well before Sept. 11.

The health insurance market continues to be a hard one, she said, with no end in sight. Managed care savings have maxed-out, she said, with medical inflation back up to 13 to 18 percent for drug costs alone.

Employees rejected the restraints of managed care and prefer choice, she said, adding that employers haven't responded yet with any creative solutions.

## ***Insurance Times:*** EEOC Sues Allstate Over Agent Contracts

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by Mary Claire Dale  
Associated Press

PHILADELPHIA — After a year of failed negotiations, the U.S. Equal Employment Opportunity Commission is suing Allstate Insurance Co., the nation's second-largest insurer, charging that it illegally converted about 6,500 company agents to private contractors.

To continue working as independent contractors, the agents had to sign a waiver giving up their right to sue the company on age discrimination or other grounds. All but 19 of the agents did so.

The EEOC, in the suit filed in federal court in Philadelphia on Thursday, said the waiver violates non-retaliation clauses of federal labor law, including the Age Discrimination in Employment Act.

"It's basically similar to any company firing its entire work force, and saying if you want to go back to work for us tomorrow, you have to sign this paper saying you can't sue us for anything that's happened up until today," said Bob Johnson, regional attorney for the EEOC in St. Louis.

The suit is expected to be consolidated with a private lawsuit filed in Philadelphia in August on behalf of the agents who said they were fired in June 2000 as part of a "mass termination program" to save money and push out older workers.

The median age of the agents forced to make the switch was 50, and 90 percent were over age 40, said plaintiffs lawyer Michael Lieder of Sprenger & Lang in Washington, D.C.

Allstate spokesman Bill Mellander said the company was disappointed by the EEOC's action.

"Allstate had certainly hoped to reach a resolution without litigation," he said.

He said the company believes the waivers will ultimately be found to be fair and legal.

"The issue here in Allstate's reorganization is not age discrimination," Mellander said. "The purpose of Allstate's reorganization program was to jump-start the corporation's growth and position Allstate and its agents for the 21st century."

Allstate, based in Northbrook, Ill., has about 40,000 employees and about 13,000 agents, most of whom are now independent contractors, Mellander said. Agents hired during the 1990s were generally hired as independent contractors.

Craig Millison, a 53-year-old agent in York, Pa., with a stay-at-home wife and three young daughters, is among the plaintiffs.

He said the reorganization cost him benefits — including health coverage and \$20,000-a-year in pension contributions — that equaled about 30 percent of his salary. Allstate, which allows the agents to sell only Allstate products, also

ended his \$25,000-a-year allowance for office expenses, he said.

In exchange, agents received a one-time, \$5,000 bonus, a 2 percent hike in commission rates and ownership of their business, he said.

Millison said he now pays \$700 a month for medical insurance, up from \$100 a month.

"It's a nightmare," Millison said. "I'm taking home equity loans, two in the last year."

The EEOC suit seeks a permanent injunction blocking Allstate from enforcing the waivers, as well as payment for lost wages, job search expenses, attorneys' fees and pain and suffering.

According to the agents' suit, Allstate released the agents as part of a plan to cut costs by \$325 million a year.

Johnson said the EEOC receives about 100,000 employment complaints a year, but files only about 300 lawsuits.

The charges were filed in this case "because it's something that affects a huge group of employees, and is an egregious example of retaliation," he said.

"We don't want companies to think that's something they're able to do that," he said.

The law firm maintains a web site at [www.allstatecase.com](http://www.allstatecase.com) with an updated status of the suit.

## ***Insurance Times:*** Travelers Spin-Off Casts Doubt On Future Of One-Stop Shopping Strategy

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by Mark Hollmer

InsuranceTimes

The Citigroup/Travelers merger of the late 1990s was once heralded as a bold model for blending banking and insurance services into a one-stop financial-services behemoth.

But three years later, aside from some much smaller examples, no one else really followed Citigroup's lead domestically.

Meanwhile, Citigroup itself is moving away from its original plan, spinning off Travelers Property Casualty Corp., in part because returns from the deal haven't met the banking conglomerate's projections.

Industry analysts said they see the move as a potential retreat and rejection of the original Citigroup financial services merger model, but they caution that it's still too early to draw any solid conclusions that the original deal failed.

"This brings it into question," said Jack Gohsler, senior vice president with industry analysts Conning & Co. in Hartford, a Swiss Re subsidiary.

But "... most of the companies within the industry would love to have the growth and profitability at the rates that Travelers has had."

Gary Ransom, a strategist at Fox-Pitt, Kelton, a Swiss Re-owned stockbroker specializing in financial services, said the merger was a grand experiment that apparently didn't work quite as expected.

"The unusual thing," he said, "was Citigroup (merging with) a property and casualty company, because there's no one else really quite like that. They were, in a sense, the testing-ground to see how it worked.

But "they basically concluded that the banks and property and casualty (divisions) are better off run separately."

Citigroup plans to sell up to 20 percent of Travelers Property Casualty Corp. in an initial public offering, and spin off the rest to Citigroup shareholders in a tax-free transaction that should take most of 2002 to complete.

Citigroup will keep Travelers' life and annuity business and the company's divisions will still offer Travelers property casualty products. Travelers Property Casualty, in turn, will receive investment advisory and other services from Citigroup.

Citigroup has also brought in Robert Lipp, who lead Travelers in the early 1990s, to serve as the company's chairman and CEO.

Lipp, in a prepared statement, said the spin-off will allow Travelers Property Casualty to take part independently in the ongoing consolidation of the insurance industry.

Travelers officials would not comment for this story, citing a legal "quiet period" required before the initial IPO launches early this year.

### Deterrent to Growth

Gohsler said Citigroup's decision to shed Travelers' property casualty business reflects pure numbers, showing that Travelers slowed Citigroup's overall growth and "reduced various measures of return" even though the Hartford-based insurer did well on its own.

“Travelers is actually ... a deterrent to corporate growth and earnings” for Citigroup, he said. Within that merger, Travelers’ property casualty numbers were good on their own, Gohsler said. But the numbers just didn’t meet Citigroup’s high requirements, reflecting a trend that some insurance cross selling works better than other lines.

Ransom agreed.

“The stated rationale for spinning it off is that (Travelers) did not meet return on equity targets,” he said. Specifically, he said, the bank’s cross selling of Travelers property casualty products didn’t seem to increase profits for Citigroup as a whole, unlike life and annuity sales.

Both consultants point out that the bank and insurer will continue to maintain a cross-selling relationship.

But cross selling is a definite step back from the outright merger heralded back in 1998.

While European banks and insurers have long merged their business and consolidated services, the Citigroup/ Travelers merger was a first in the U.S. that hasn’t really been repeated, Gohsler said, except on a far smaller scale of cross ownership or cross marketing deals.

Allstate, State Farm and MetLife, for example, bought small bank operations, he said.

“Citigroup was really the first where you had an organization which was going to manufacture and distribute the whole range of (financial) products,” he said.

“This was by far the most aggressive posture toward consolidation and convergence.”

### ***Insurance Times:*** Marsh Plan For Survivors’ Coverage Draws Criticism

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NEW YORK (AP) — Marsh & McLennan Cos., which initially pledged one year of health insurance for the families of its 295 workers killed at the World Trade Center, is now telling survivors they will get three years of coverage.

But instead of covering those costs directly from its own accounts, the bill for the extended coverage will be paid out of a victims relief fund. The fund, chartered by Marsh with a \$10 million donation shortly after the attacks, was set up to provide for the welfare of survivors. In addition to Marsh’s contribution, the relief fund has netted about \$3 million in additional contributions.

Some survivors are criticizing Marsh, asserting that the fund was supposed to pay for assistance not covered by corporate benefits. As a major company with \$10 billion in annual revenue, Marsh should do more to foot the bill for such costs, they said.

“I understand that many of these families are very upset and they’re angry, and I think that’s why they’re being critical,” said Barbara Perlmutter, senior vice president of public affairs for Marsh and executive director of the relief fund. “We can’t really give them what they really want back, unfortunately. I wish we could. So we’re trying to provide them all the support that we can provide them.”

Perlmutter said the company was not raiding the relief fund. But it has decided to funnel money through the fund, both for tax reasons and to provide a mechanism for aiding survivors separate from the lesser benefits provided to Marsh’s remaining 57,000 employees, she said.

The company will likely add money to the fund to cover the costs of health care coverage, which will probably not be funded from the \$10 million initial contribution, Perlmutter said. But Marsh has not yet decided how much more to add to the fund.

### ***Insurance Times:*** Hanover-Arbella Dispute Over ERP Assignments Undecided

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BOSTON — Hanover and Arbella’s beef over ERP assignments carries over into 2002 with no guarantee that the Massachusetts Division of Insurance will formally hear the matter.

The DOI held a prehearing conference Dec. 19, where both sides filed legal arguments in the matter. Both sides were given until Jan. 10 to file additional documents, but no decision has been made yet if the DOI will hear the case.

Hanover Insurance claims Arbella secretly paid an exclusive representative producer assigned to Hanover to take over some of its higher-loss ratio books of automobile business. The company also says its extra losses from taking the extra ERPs could reach \$3 million.

But Arbella, in papers filed with the DOI in late December, denied the charge, claiming that Hanover had notice about the transactions in question for over a year.

“The fact is Hanover has suffered no adverse affect – they are no more over-subscribed than they were before any of these transactions took place,” Arbella said in written summary of the company’s position.

Arbella also says it hasn’t profited from the transactions and still carries its weight of ERP business, having received 20 additional ERPs, “many with worse loss ratios than those in question.”

Hanover ultimately wants an order from the DOI requiring Arbella to disclose to Hanover and CAR details about its involvement in the ERP issue. CAR – the Commonwealth Automobile Reinsurers – is the state’s high-risk automobile insurer.

### ***Insurance Times:*** Enron Creditor Seeks To Block Insurers' Request

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NEW YORK (AP) — After demanding payment from insurance companies that backed more than \$1 billion worth of oil and gas contracts signed by Enron Corp., J.P. Morgan Chase is trying to prevent the insurers from getting details about the transactions.

The New York-based investment bank filed an objection to a request made by the insurers, who are refusing to honor \$1.1 billion in surety bonds and are asking for access to Enron financial records to determine if energy contracts actually existed. The request was filed in U.S. Bankruptcy Court in New York.

J.P. Morgan sought payment of the surety bonds after the collapse of Enron, the Houston-based energy trader that sought protection from creditors under Chapter 11 of the federal bankruptcy code Dec. 2.

The payment dispute between the bankers and the insurers is the subject of a separate civil lawsuit taking place in U.S. District Court. The fact that it is now spilling over into the federal bankruptcy court proceedings shows how the interests of Enron's creditors are intertwined.

J.P. Morgan, one of Enron's largest creditors, said the insurers' request was “a fishing expedition” and would only slow down the bankruptcy court proceedings.

The insurance companies involved are: Citigroup Inc.'s Travelers unit; Kemper Insurance Co.'s Lumbermens Mutual Casualty Co.; Allianz AG's Fireman's Fund Insurance Co.; Chubb Corp.'s Federal Insurance Co.; St. Paul Cos.'s Fire and Marine Insurance; CNA Surety Corp.'s Continental Casualty Co.; Safeco Corp's Safeco Insurance Co.; Hartford Financial Services Group Inc.; and Liberty Mutual Insurance Co.

The insurers backed a total of \$2 billion in transactions. Early last month, they asked J.P. Morgan Chase for details of the contracts before they would pay off all of the surety bonds. All but one of the insurers, Travelers, subsequently asked a judge to void \$1.1 billion worth of the obligations. As a result, J.P. Morgan had to increase its estimated exposure in the collapse of Enron to \$2.6 billion — more than double what it previously acknowledged — with \$965 million of that amount tied to surety bond payments.

### ***Insurance Times:*** State Farm Files To Dismiss Suit By Its Agents

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BALTIMORE (AP) — State Farm has asked a federal judge to dismiss a suit by its agents, who claim the insurer is trying to drive them out of business.

By selling insurance over the Internet and by requiring agents to partner with co-workers who offer different services, State Farm is cutting agents' income, according to the suit filed by the Baltimore-based National Association of State Farm Agents Inc.

State Farm asked U.S. District Judge Catherine Blake to dismiss the suit on the grounds that NASFA is not allowed by state law to sue on behalf of its members, State Farm spokeswoman Ana Compain-Romero said.

The suit originally was filed in Maryland state court, alleging that State Farm violated common and state law and asking that the agent-company relationship be recognized as a franchise agreement covered by state law.

State Farm is trying to “alter the fundamental relationship between agents and State Farm, as well as the parties' contracts and contractual right,” the lawsuit states.

State Farm, which had the suit moved to federal court, now also requires agents to pay to use the State Farm logo in

their own advertisements, the suit contends.

NASFA, which has more than 4,000 members, filed the federal suit in November. State Farm employs 16,400 agents. The changes show State Farm, which built its business with agents as the centerpiece, is now trying to drive those workers out of business, said Michael Garner, a Minneapolis attorney representing NASFA.

State Farm is only trying to diversify its services, not force the agents out of business, Compain-Romero said.

"Our world has changed so drastically in the last five to 10 years that customers demand a different kind of service — around the clock service," the spokeswoman said.

She said partners are used because State Farm has begun offering financial services, which some agents are not licensed to administer.

"Our intention is to keep the agents as the heart and soul of this business," she said.

### ***Insurance Times:*** Eagle To Stop Covering NJ High-Risk Drivers

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NEWARK, N.J. (AP) — Eagle Insurance Co., strapped for cash, will no longer handle high-risk New Jersey drivers for other companies.

About 12,000 drivers now covered by Eagle, the parent of Newark Insurance Co., will be handled by an affiliate of insurance giant American International Group Inc., according to the state Department of Banking and Insurance. p

The department has approved dropping Eagle from the group of companies insuring drivers in the New Jersey Personal Automobile Insurance Plan, The Star-Ledger of Newark reported. That is the pool that insures drivers who have 9 or more points.

Eagle had just \$10.9 million in capital on June 30, while state regulations require it to have more than three times that amount, the newspaper reported.

Newark stopped selling new policies this summer in an effort to improve its finances, and was allowed to drop some agents and their customers.

### ***Insurance Times:*** Pennsylvania Malpractice Insurer Files Bankruptcy

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HARRISBURG, Pa. (AP) — PHICO Group Inc., the parent of PHICO Insurance Co., has filed for Chapter 11 bankruptcy protection.

The filing in U.S. Bankruptcy Court in Harrisburg was done to protect the medical malpractice insurer from creditors while it restructures its debt.

It has no impact on state Insurance Department efforts to rehabilitate PHICO Insurance, said department spokeswoman Rosanne Placey.

The company was placed under control of the department earlier this year after its surplus dropped from \$127 million at the end of last year to \$6.8 million.

PHICO counted scores of West Virginia doctors among the health-care providers it insures. Its recent financial faltering hindered the quest by Mountain State physicians to find and keep affordable malpractice coverage.

### ***Insurance Times:*** Swiss Re's List Of The Most Deadly And Most Costly Disasters Of 2001

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Catastrophes with the highest number of fatalities:

1. Jan. 26: Earthquake in Gujarat, India — more than 15,500 dead.

2. Sept. 11: Terrorist attacks in New York and Washington — more than 3,000 dead and missing.
3. Nov. 10: Torrential rains and flooding in Algeria — 886.
4. Jan 13: Earthquake in Central America — 844.
5. Oct. 20: Boat carrying refugees sinks off Indonesia — 350.

Costliest catastrophes to the insurance industry, in U.S. dollars:

1. Sept. 11: Terrorist attacks in New York and Washington — \$19 billion.  
(\$90 billion estimated overall loss)
  2. June 5: Tropical Storm Allison hits the United States — \$2.5 billion.
  3. April 8: Flooding, hail and tornadoes in the United States — \$1.9 billion.
  4. Sept. 21: Explosion at fertilizer factory in Toulouse, France — \$600 million.
  5. Sept. 17: Typhoon Nari hits Japan and Taiwan — \$500 million.
- Source: Swiss Re

***Insurance Times:*** WASHINGTON (AP) Drivers who don't buckle up in any new Ford Motor Co. vehicle...  
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Source: AP - AP Wire Service  
Dec 19 14:12  
By NEDRA PICKLER  
Associated Press Writer

WASHINGTON (AP) \_ Drivers who don't buckle up in any new Ford Motor Co. vehicle get a persistent reminder to do so \_ five minutes of intermittent beeping and a flashing light on the instrument panel.

A new insurance industry study shows those drivers are more likely to wear seat belts and calls for more automakers to install similar reminders.

The study to be released Thursday observed people driving into Ford dealerships for service. Seventy-six percent of drivers in vehicles with the system wore a seat belt, compared with 71 percent in those without it.

A 5-percent gain in seat belt use would save about 700 lives a year, according to Alan Williams, the chief scientist at the Insurance Institute for Highway Safety and author of the study.

``It's a modest gain, but it's a gain that gets you into that higher crash risk population that is not responding to seat belt laws," Williams said.

U.S. drivers wear seat belts 73 percent of the time, according to the National Highway Traffic Safety Administration. States have been toughening their laws and enforcement in recent years in a frustrating attempt to get more drivers to buckle up.

Congress recently instructed NHTSA to work with the National Academy of Sciences on a study of technologies that could increase belt usage.

Ford's BeltMinder system was introduced in some 2000 models and is standard on all 2002 models. If the driver does not buckle up, the system flashes a ``buckle safety belt" warning light and chimes for six seconds, pauses for 30 seconds, and then repeats for up to five minutes.

Drivers can turn the system off by following instructions in the owners manual. They also can deactivate it for their trip by buckling and then unbuckling their belt.

``The research that we've done shows that customers have accepted BeltMinder and that many of them, especially women, would really like to see it expanded to other seating positions," said Ford spokeswoman Sara Tatchio.

She said the company plans to apply the system to the passenger seat in future model years.

***Insurance Times:*** Mass. Officials Cope With Budget Cuts

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by Mark Hollmer

InsuranceTimes

BOSTON — Six months into the new fiscal year, the Massachusetts Division of Insurance is facing a \$1.2 million cut worth more than 10 percent of its total budget.

The cuts became finalized after the long-delayed state budget passed the State Legislature in early December and Gov. Jane Swift approved the package minus some vetoes.

Division of Insurance Spokesman Christopher Goetcheus said regulators anticipated possible cuts as early as last fall. “So we froze hiring and certain expenditures at that time,” he said.

The department hasn’t had to cut staff yet but regulators “are still assessing the overall impact” of the cuts, Goetcheus said.

A 2000 study by the consumer group Center for Insurance Research ranked the DOI budget last in the nation relative to other states.

Goetcheus, in a previous interview, countered that the department has used its budget effectively, giving taxpayers “a good return on their dollar.”

The DOI budget this year was just over \$10 million, Goetcheus said.

By comparison, the Connecticut Insurance Department’s \$21 million budget is nearly double the Massachusetts DOI budget. But Connecticut regulators are funded through an insurance industry assessment calculated by a formula rather than from the state general fund as in Massachusetts.

Some Massachusetts regulatory functions are also covered by industry assessments.

About 150 people work for the DOI, versus 178 in the Connecticut Insurance Department – 170 of which are full time.

***Insurance Times:*** Merit Rating Appeals Backlog Becomes Priority

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by Mark Hollmer

InsuranceTimes

Twenty staff attorneys at the Massachusetts Division of Insurance are being pulled into extra duty to reduce a backlog of auto rating appeals.

The attorneys come from the office of general counsel, the hearings and appeals division and the State Rating Bureau.

They’re being trained to supplement the work already being done by eight full-time hearing officers at the Board of Appeals, which conducted more than 42,500 hearings for 2001 as of Nov. 30.

Hearings in question involve appeals of Merit Rating Board decisions, which determine if drivers are at fault for insurance rating purposes.

The backlog has created a 15-month wait “at most” to address requests for a surcharge hearing, said Christopher Goetcheus, of the Division of Insurance, adding that the DOI is receiving more than 1,000 hearing requests in a week.

Regulators hashed out a plan in November to have staff attorneys work with appeals officers and hear cases about a day a week on average and “reduce the inventory to just under six months,” he said.

“Everyone is pitching in to make this program work,” Goetcheus added, “and still maintain their other responsibilities.”

The backlog had reached 37,000 appeals, he said.

The extra focus on reducing appeals is necessary, Goetcheus said, because “more people are exercising the right to appeal the surcharges.”

But, he said, the department believes it created a solution "to meet the growing demand without requiring additional personnel or funding."

Each hearing office is handling two dockets a day of between 20 and 30 appeals each docket, he said. The attorneys are handling two dockets each a week, he said.

Board-of-Appeals hearing officers continue to use 11 satellite locations around the state to hold hearings, he said. Staff attorneys are holding hearings at DOI headquarters in Boston.

The Boston Globe ran a story on the backlog late in 2001. Goetcheus said the plan to reduce pending appeals was devised and attorneys were trained to help well before the story came out.

Goetcheus added that efforts to "reduce inventory" of the rate appeals "is coming at a very good time for us," because the DOI is between auto and workers compensation rate cases.

"Those are two of the more time consuming programs, (so) to reduce inventory of the Board of Appeals comes at a very good time as far as staff workload goes."

Goetcheus said that the DOI has made strides in other areas, such as reducing turnaround time for reviewing product filing, and cutting the time to issue agent and broker licenses down to "just a few days."

### ***Insurance Times:*** OpinionExchange

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The political stalemate that resulted in Congress' failure to implement a federal terrorism insurance backstop left state insurance departments with only days to approve or deny hundreds of requests by insurers to exclude terrorism losses from most commercial lines policies.

This development presents states with a true test of their regulatory capabilities.

Because insurance companies cannot obtain reinsurance for terrorism risks for most commercial lines policies after January 1, 2001, insurers have flooded states with terrorism exclusions.

The National Association of Insurance Commissioners, in a move it hopes will encourage uniformity and speed, has endorsed the commercial property and liability exclusion language prepared by Insurance Services Office.

ISO's endorsement establishes a \$25 million threshold for insured damage from an incident of terrorism for the exclusion to take effect. The threshold does not apply in cases of terrorism using nuclear, chemical or biological materials. ISO's terrorism exclusion endorsement for liability coverage provides an additional threshold for serious physical injury to 50 or more persons. If either threshold is exceeded, the exclusion would be invoked and the policy would not provide coverage for any loss.

Recognizing the seriousness of the situation, ISO has agreed to make its endorsement form for the exclusion available at no cost for reference by all insurers, even those not belonging to the organization.

Estimates of insured losses from the September 11 attacks range from \$30 billion to \$70 billion. Insurers have said they will pay claims from September 11, but warn they might not financially survive another blow of that magnitude without help from the federal government and reinsurance. Reinsurers reportedly have declined to cover terrorism for all lines of insurance in new contracts with primary insurers

While there will be negative implications for many commercial lines consumers, most automobile and homeowners insurance consumers are not likely to be significantly affected by the lack of a federal terrorism insurance program.

Some insurers may exclude terrorism losses from homeowners and auto insurance policies in some parts of the country, but most consumers will not see a significant impact on their rates or coverage.

In addition to placing pressure on states, the inaction by Washington also has economic implications.

Notes Jack Ramirez, president of the National Association of Independent Insurers (NAII): "This is more than just an insurance issue. This legislation affects several core segments of the economy. Real estate, banking, construction and manufacturing businesses will all have to shoulder the risk of terrorism exposures because they will no longer be able to transfer this risk to insurance companies. This will have a significant financial impact on those companies, and will have a trickle down effect on the entire economy."

The federal bill was not stalled because of insurance issues and the bill could still be helpful, according to Ramirez.

"Congress acknowledged that the potential size and unpredictability of terrorism risks make such exposures virtually uninsurable. The work done so far lays the groundwork for enacting a positive solution to the terrorism insurance problem early next year," Ramirez said.

In the interim, many companies involved in buying or selling landmark properties will have problems obtaining insurance coverage. In addition, oil and gas refineries and power plants of all kinds are also perceived to be vulnerable

to terrorist attacks, the NAI predicts.

"This will be a true test of how well state regulation works," said Robert L. Zeman, vice president and assistant general counsel of the NAI.

Rodger S. Lawson, president of the Alliance of American Insurers, expressed optimism that state regulators will fulfill their responsibilities.

"We are confident that states will act now to effectively stabilize the insurance markets and ensure the continued availability of coverage," Lawson stated.

"Given time and wise action on the part of our state regulators, we expect the private sector will eventually find its balance and recover. What is needed now is a bridge-- built by the states--that can carry us through this initial phase of our country's war on terrorism. Insurer solvency is an essential component of our free enterprise system."

Already several states -- including Massachusetts-- have begun construction of the bridge by approving these exclusions. Other states should quickly follow their lead now that federal lawmakers have dropped the hammer.

### ***Insurance Times:*** A Potential Political Hot Potato: Auto Insurance Rate Reform In NY Election

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by Joel Stashenko  
Associated Press

ALBANY, N.Y. — Gov. George Pataki will enter 2002, a year in which he is expected to seek re-election, without agreement with the Legislature on a plan for reducing New Yorkers' auto insurance rates.

Though the governor, the insurance industry and state lawmakers talked at length in 2001 about reforming the car insurance system, no deal was reached.

That means a presumed election year for Pataki will start with a potentially troublesome issue unresolved. Memories are still fresh in the minds of New York politicians of former ex-New Jersey Gov. Christie Whitman's near defeat in 1997 in a campaign in which her state's high auto insurance costs became the chief issue.

New York state's average auto insurance premium is \$943 for one car, second-highest among all states behind New Jersey's \$1,034, according to the National Association of Insurance Commissioners. Rates are highest in New York City and its suburbs and somewhat lower in most other areas of the state.

Those figures were released in June 2001 and cover premium costs in 1999. Advocates for insurance reform predict that new premium information due in June 2002 for 2000 will show New York with the highest rates in the country — a distinction they say could be fraught with political peril for Pataki.

Premium costs could be the "SUV of Damocles" hanging over Pataki's head in 2002, quipped Blair Horner of the New York Public Interest Research Group. Pataki said in his year-end news conference that reducing auto insurance costs is one of the most important issues on his agenda of non-Sept. 11-related issues.

But lines seemed to be hardening in the negotiations as the year drew to a close.

The Democrat-controlled state Assembly contends Pataki and the Republican-run state Senate are seeking to put the interests of industry above those of consumers.

Democrats want a "public insurance consumer advocate" appointed to protect ratepayers. They say a more consumer-friendly attitude on the part of the Insurance Department would reduce premiums.

The Republicans counter that fraud is at the heart of high insurance costs and that the Assembly is refusing to attack the problem.

Senate Majority Leader Joseph Bruno accused his counterpart, Assembly Speaker Sheldon Silver, of coddling "thieves and cheats and crooks and criminals" who are ripping off the system.

"What he wants is to gore the insurance companies because he thinks it's popular," Bruno said. "He wants to drive them out of business like they have in New Jersey. ... That's his answer — let's over-regulate the companies."

The president of the New York Insurance Association, Bernard Bourdeau, said he knows of no insurers that have stopped writing auto policies in New York state. But he said several have worries about the profitability of business here.

In addition to new anti-fraud measures, insurers are seeking to reinstate "flex rating," which lapsed in New York over the summer. It allowed insurers to raise rates by as much as 7 percent a year without prior approval. Insurers are also seeking the right to drop up to 2 percent of their policyholders annually to trim costs.

Pataki, the Senate and the insurance industry are in accord about the need to reduce how long medical providers have to

submit claims for treatment of people hurt in auto accidents. The time limit is six months. The Pataki administration has put forward regulations, which are being challenged in court, to reduce the time frame to 45 days. The New York Insurance Association argues that the 180-day claim-filing period allows criminals to operate elaborate fraud "mills" where people file phony claims for medical services not needed or performed.

"That's where the big money is," Bourdeau said. "Every person sitting in that vehicle has up to \$50,000 in no-fault coverage."

With fraud rings now under increasing scrutiny in New York City under initiatives launched by Pataki, Bourdeau said criminals have expanded their operations into Buffalo, Syracuse and Albany.

***Insurance Times:*** Families Reported To Receive Minimum \$250,000 From WTC Victims' Fund

January 8, 2002, Vol. XXI No. 1

NEW YORK (AP) — Families of those who died in the Sept. 11 terror attacks will get a minimum of \$250,000 from a special federal victims' fund and most will win much larger awards, according to the Daily News.

The fund's special master, Kenneth Feinberg, also has decided that charitable donations to victims' families will not be deducted from fund awards, but life insurance benefits will.

Feinberg also will allow victims' same-sex partners, fiances and members of "fractured" families, such as illegitimate children, to submit claims, according to the newspaper.

One of the first things Feinberg will do is write \$50,000 advance checks to the estates of each person who died and \$25,000 to each person seriously injured.

***Insurance Times:*** House Nixes Mental Health Parity In Committee Vote

January 8, 2002, Vol. XXI No. 1

WASHINGTON (AP) — House Republicans fended off Democratic-led attempts to force insurers to cover mental health conditions as they would any other medical problem.

Democrats had tried to attach the provision to a \$123 billion measure to pay for labor, health and education programs. But in a meeting of House and Senate budget negotiators, Republicans held off the proposal in a 10-7 vote.

"People say we can't afford this during a recession - but we can't afford not to do it," said Rep. Patrick Kennedy, D-R.I. "We cannot wait any longer. Waiting is a death sentence for thousands of mentally ill Americans."

But Rep. Anne Northup, R-Ky., argued that the measure would lead to higher insurance costs and more uninsured.

"Insurance companies are not going to take in \$1 million worth of premiums and pay out \$2 million worth of benefits," Northup said.

House Republicans promised to hold hearings on the issue next year.

***Insurance Times:*** NAIC Urged To Fight Assault On State Authority By Federal OCC

January 8, 2002, Vol. XXI No. 1

DES PLAINES, Ill. — Banking and insurance laws that offer consumer protection and establish a fair-level playing field in the insurance marketplace are in jeopardy in nearly 20 states as a result of an opinion letter recently issued by the Office of the Comptroller of the Currency (OCC), insurance groups have warned.

The federal banking authority recently issued an opinion letter stating that federal law preempts certain elements of a West Virginia consumer protection statute governing insurance sales and solicitations, maintaining that these provisions do not apply to national banks.

Two agent trade associations jointly filed a complaint in the U.S. District Court of the District of Columbia challenging the OCC's preemption opinion. It challenges the position of OCC's letter, claiming the federal agency overstepped the scope of its statutory authority in issuing its opinion, and failed to apply the appropriate standard for determining whether a state insurance law is preempted.

Specifically, the agent associations charge that the letter "distorts and misinterprets" the "significant interference"

standard developed by the Supreme Court in its "Barnett Bank" decision and reaffirmed directly in public policy by the Gramm-Leach-Bliley Act (GLBA). It also argues that the letter could result in exempting banks from any state regulation whatsoever that imposes additional costs on their insurance agency activities unless that regulation specifically is protected by a GLBA safe harbor provision.

The National Association of Independent Insurers (NAII) is urging that the National Association of Insurance Commissioners' (NAIC)'s Functional Regulation Working Group seriously weigh the implications of this GLBA case and for the NAIC to file an amicus brief to preserve the ultimate roles the states have in the regulation of insurance. "The appropriate venue for resolving a conflict is in the federal courts, not the OCC," said Mike Koziol, NAII senior director and counsel. "Banks that have a problem with the law should challenge the law, not attempt to have the OCC usurp it.

"A legal opinion by the bank regulator about whether a state law exceeds permissible scope is not functional regulation and is not the appropriate forum.

In fact, it may signal the start of jeopardizing and diminishing state regulation of insurance."

The lawsuit, filed by the Independent Insurance Agents of America and the National Association of Professional Insurance Agents, claims that the OCC erred in its conclusion for three of the provisions in the West Virginia statute:

- personnel separation requirement, which dictates that insurance sales personnel must not engage in banking activities except in small banks
- timing of solicitation requirement, which mandates that a bank may not solicit the purchase of insurance related to a loan from a customer while their loan application is pending, and
- physical separation requirement, which requires insurance sales or solicitations to take place in a separate and distinct area from deposit and lending areas of a bank, except in small banks.

"Individual states should continue to be the regulators of the insurance business, and protect provisions enacted to guard against the unfair treatment of consumers. It is appropriate for the NAIC to join the fight against this attack on state authority and challenge the OCC," said NAII's Koziol.

Many states have similar provisions on the books and financial institutions in those states operate and compete effectively, Koziol said.

In fact, many were drafted by the banks as a response to the Barnett decision. The provisions don't prevent or significantly interfere with the ability of national banks to sell insurance, he added.

### ***Insurance Times:*** Actuaries Need Negotiation Skills To Advance

January 8, 2002, Vol. XXI No. 1

ATLANTA — The development of strong skills in communications, negotiation and persuasion are necessary for actuaries to advance beyond their traditional roles in the corporate structure, the annual meeting of the Casualty Actuarial Society (CAS) was told.

Going from the "Back Room to the Boardroom" requires a combination of broad technical and non-technical skills along with a tolerance for a shift in the work that an actuary does, said Michael A. Lamonica, product vice president, Allstate Insurance Co.

The technical skills needed include background in general business, including economics and finance, law and regulation and information systems, he said. Even the traditional actuarial perspective must be readjusted to become more goal-oriented, Lamonica observed.

Equally important, he said, are non-technical attributes, particularly leadership. "You must shift from doing work to leading work," said Lamonica, who added that "360 degree leadership" was required to encompass staff, the boss, peers and yourself.

In addition to strong written and oral communications skills, he pointed out that relational skills, such as "negotiation, consensus building and valued listening" are of great importance in advancing.

David Spiegler, Senior Vice President and Chief Actuary, American Re-Insurance Co., said that advancement also requires "educated risk taking." Actuaries have a difficult time in taking risks, he said.

"If you're doing a good job, you may be asked to do something in a non-actuarial role," said Spiegler. "It behooves you to take that risk."

Spiegler said that personal traits like a sense of humor, integrity, objectivity and a desire to continually seek knowledge and self-improvement are essential. Important to the effort to improve is the role of mentors, he said. "Find people you respect to emulate and seek their advice," said Spiegler.

Frederick O. Kist, senior vice president and chief actuary, Kemper Insurance Cos., stressed the importance of relationships.

"Our technical competence is assumed. Relationship is often the deciding factor," said Kist.

Relationship development means meeting new people, categorizing and understanding motivations, determining the extent of reliance on others and understanding how one is perceived.

"Opportunities occur or disappear based on your relationship with others," said Kist.

For actuaries to advance, it is important that they be recognized as providing value to the organization. He acknowledged "value is hard to define, but you know it when you get it."

In spite of an elusive definition, delivering value is critical. "The lack of opportunities may be related to value generation," he observed.

### ***Insurance Times:*** Another RI Town Weighs Dog Insurance Mandate

January 8, 2002, Vol. XXI No. 1

CRANSTON, R.I. (AP) — Owners of pit bulls and similar breeds of dogs perceived as dangerous would have to obtain liability insurance, under an ordinance proposed by City Council President Joseph DeLorenzo Jr.

Under a draft of his proposal, owners of "any American pit bull dog, pit bull terrier dog or Staffordshire terrier dog" would have to provide "proof of liability insurance of not less than \$25,000." The fee for the registration would be \$20, The Providence Journal reported.

DeLorenzo's measure, borrowing from tough ordinances on the books in Providence, Pawtucket and other communities, also would set strict requirements for owners of dogs that have been found to be vicious.

The owner of a dog that has been shown to be dangerous would have to obtain \$100,000 in liability insurance, have the dog's license number tattooed on its upper lip, maintain a fenced enclosure for the animal and post prominent signs on the property warning that there is a vicious dog there. Also, the owner would have to notify the city within 24 hours if the dog got loose.

Failure to comply could mean impoundment of the animal by the police. If a dog deemed vicious actually attacked a person or another animal, it could be destroyed.

### ***Insurance Times:*** W. R. Berkley To Enter Medical Malpractice Market

January 8, 2002, Vol. XXI No. 1

GREENWICH, Conn. — W. R. Berkley Corp. said it plans to go where others often fear to tread: the turbulent medical malpractice market.

While other companies--most recently St. Paul Cos.--have left the medical malpractice business because they've lost money in the market, W. R. Berkley Corp. is launching a new unit to write excess medical malpractice business. St. Louis-based

Berkley Medical Excess Underwriters LLC will offer excess coverage for health-care providers that are either self-insured or maintain their own captive facilities, plus write reinsurance coverage for primary insurance companies that provide medical malpractice coverage to physicians and other commercial health-care providers.

St. Paul Cos., the top medical malpractice writer in the United States, said last month it plans to stop renewing business and post a \$900 million fourth-quarter charge, including \$600 million to strengthen prior years' loss reserves.

"I think when everyone runs away, they are reflecting a frustration at finding a solution," W.R Berkley, chairman and chief executive officer. "It's hard to raise prices high enough if you are already there."

With St. Paul, the biggest player in the market getting out, and lots of pressure on reinsurers in the market already, he said the market gives his firm "a good opportunity to bring stability to the marketplace. We think we have a vision that will let us be a long-term player."

Instead of setting premiums for excess business as a percentage of the underlying premium, Berkley plans to build a pricing model based on the original loss cost. The problem with pricing business based on the underlying premium is that if the underlying premium is too low, the excess premium "is even worse," Berkley said. "Our model may be cheap or it may be expensive, but it's not going to be derived from the underlying premium."

Berkley said he expects the company will write lots of business now in a tight market, but may lose business in future

years because the company has no plans to lower prices just to gain market share.

"We might have less business...but we will continue to price in an appropriate fashion," Berkley said.

***Insurance Times:*** Complaints Against Auto Insurers On The Rise In NY

January 8, 2002, Vol. XXI No. 1

by Michael Gormley  
Associated Press

ALBANY, N.Y. — New Yorkers lodged 35 percent more complaints against their auto insurance companies last year than in 1999 according to the state Insurance Department's latest consumer guide.

Among the firms generating the most upheld complaints in 2000, the latest year available, were Merchants & Business Mens Mutual (formerly Liberty Mutual Group), Legion, Leucadia, U.S. Agents Holding Corp. (formerly American Agents Insurance Co.), and AIG insurance companies, according to the state Insurance Department. Leucadia and Reliance have been among the bottom 10 firms in each of the past three years.

The largest insurers with the most upheld complaints were Allstate, ranked 49th; GEICO, ranked 39th; and Progressive, ranked 32nd.

Among the least prone to complaint were Erie, Harleysville, and Amex Assurance which had no complaints upheld against them. Interboro Mutual Indemnity and Chubb & Son were also in the top five.

"With over 200 automobile insurers to choose from in New York state, it is important for consumers to shop around when selecting which automobile insurance is best for them," said Gregory Serio, state insurance superintendent.

Fifty-four companies with more than \$10 million in annual premiums are ranked by the department on its Web site ([www.ins.state.ny.us](http://www.ins.state.ny.us)) and through a toll-free number 800-342-3736. The firms are ranked by a ratio of complaints upheld by the department divided by total premiums to make more valid comparisons between large and small companies

"It's not necessary that they have tons of complaints," said department spokesman Joanna Rose. "This is another way to choose insurance companies, it's not the only way."

Bernard Bourdeau of the New York Insurance Association, a trade group of companies, said the rise in total complaints reflect New York's auto insurance troubles. The companies blame organized fraud with driving premiums to the second highest in the nation after New Jersey. Combatting high premiums and fraud are expected to be major topics of the Legislature beginning in January.

Bourdeau said total complaints are higher because fraudulent operators are routinely filing a complaint with the state to pressure companies to settle claims faster, perhaps without a close watch for bogus medical claims or staged accidents. Allstate's Bill Mellander told the New York Post that his firm's total is "skewed" by efforts to weed out false claims and by people trying to take advantage of the no-fault system.

"Clearly companies are taking a lot closer look at every single auto insurance claim because of the massive amounts of fraud," Bourdeau said. "Unfortunately, that slows down the claims process for the 99 percent of legitimate claimants."

"Fraud has been the insurance industry's mantra for years and the excuse of everything," said Russ Haven of the New York Public Interest Research Group, a consumer watchdog.

"These are complaints upheld by the Insurance Department, so to say the insurance department is aiding and abetting fraud doesn't make sense," Haven said.

Rose said much of the increase in claims is the result of the department's outreach to make it easier to file a complaint. The number of complaints in the highest since 1997 when 11,473 complaints were upheld.

***Insurance Times:*** Insurance Group Says Chime Encourages Buckling Up

January 8, 2002, Vol. XXI No. 1

WASHINGTON (AP) — Drivers who don't buckle up in any new Ford Motor Co. vehicle get a persistent reminder to do so — five minutes of intermittent beeping and a flashing light on the instrument panel.

A new insurance industry study shows those drivers are more likely to wear seat belts and calls for more automakers to install similar reminders.

The study to be released Thursday observed people driving into Ford dealerships for service. Seventy-six percent of drivers in vehicles with the system wore a seat belt, compared with 71 percent in those without it.

A 5-percent gain in seat belt use would save about 700 lives a year, according to Alan Williams, chief scientist at the Insurance Institute for Highway Safety and author of the study.

"It's a modest gain, but it's a gain that gets you into that higher crash risk population that is not responding to seat belt laws," Williams said.

U.S. drivers wear seat belts 73 percent of the time, according to the National Highway Traffic Safety Administration. States have been toughening their enforcement in recent years in a frustrating attempt to get more drivers to buckle up. Congress recently instructed NHTSA to work with the National Academy of Sciences on a study of technologies that could increase belt usage.

Ford's BeltMinder system was introduced in some 2000 models and is standard on all 2002 models. If the driver does not buckle up, the system flashes a "buckle safety belt" warning light and chimes for six seconds, pauses for 30 seconds, and then repeats for up to five minutes.

Drivers can turn the system off by following instructions in the owners manual.

"The research that we've done shows that customers have accepted BeltMinder and that many of them, especially women, would really like to see it expanded to other seating positions," said Ford's Sara Tatchio.

### ***Insurance Times:*** NJ Fears Crisis As Doctors' Malpractice Premiums Soar

January 8, 2002, Vol. XXI No. 1

HACKENSACK, N.J. (AP) — New Jersey doctors are facing a mounting crisis in obtaining malpractice coverage, as premiums soar up to 120 percent or are canceled altogether.

"We've only seen the beginning," Michael Azzara, president of Valley Health System, told The Record of Hackensack. "It's only going to get worse."

Azzara, who is a member of Gov.-elect James McGreevey's healthcare transition team, said medical liability insurance has become one of the top five health issues for the new administration.

Earlier this month, Zurich American Insurance Co. raised premiums for malpractice coverage for more than 500 doctors, often by 120 percent. Another 75 customers were told their policies would be terminated Jan. 1.

The company insures 650 doctors in the state, according to the C&R Insurance Agency, which represents Zurich.

Also this month, the country's largest provider of malpractice insurance, the St. Paul Companies, said it would no longer offer malpractice insurance, leaving 42,000 doctors, including some in New Jersey, to seek new coverage.

Phico Insurance Group, one of Pennsylvania's largest malpractice insurers, was taken over by state regulators in August. Nearly 2,400 doctors — 572 in New Jersey — have been looking for new coverage.

Healthcare officials are worried that the issue will lead doctors to curtail the riskiest practices, such as obstetrics. Anyone who delivers or treats children can be sued for malpractice in New Jersey up to the child's 20th birthday, compared with just two years for adults.

Dr. Robert J. Gallo, an obstetrician and gynecologist in Hackensack, will have to pay \$102,000 for his premiums, up from \$44,000.

"I have no choice," he said.

Gary Carter, president of the New Jersey Hospital Association, said he has received calls from all over the state.

"Women are pregnant for nine months. If a doctor doesn't have insurance coverage in January, he can't cancel a delivery," he said. "Do these laboring mothers show up in emergency rooms?"

The crisis has been brewing for years, as jury verdicts for malpractice increased and companies tried to win customers by underpricing their policies.

Since Sept. 11, many insurers haven't been able to make up for the lower rates because their investment portfolios have slipped dramatically.

### ***Insurance Times:*** Expert Predicts E-Learning Will Survive 2002 Budget Cuts

January 8, 2002, Vol. XXI No. 1

FARMINGTON, CONN— Businesses are becoming leaner and more efficient, and economic experts expect this trend to continue well into 2002. But a growing number of companies will be looking at new solutions in order to salvage what for many, is one of their biggest expenditures: employee development. So predicts Maggie Rueda, president of HPT Corp, a learning and communications consulting firm based in Farmington, Conn.

Five factors point to the accelerated use of e-learning as the most cost-effective alternative to traditional employee development methods, says Rueda, whose company develops online learning solutions for businesses throughout the Northeast, including Aetna, Cigna, The Hartford and GE Capital. Among these factors are:

1) Decline in unnecessary business travel since Sept. 11, which will create a need for alternative learning scenarios that aren't location-dependent;

2) The acquisition by a growing number of companies of the computer hardware (the "architecture") needed to deploy e-learning company-wide, regardless of location. Many companies now have Intranet sites, which can be used to develop a learning management system, notes Rueda;

3) The growing perception of employee development – or intellectual capital -- as an important competitive tool, and not just another budget line item. "Now they finally understand that they can add to their intellectual capital by developing their employees," explains Rueda. For example, through customer service training, an area that is now considered critical by most retail and service-based businesses;

4) The cost-effectiveness of e-learning as a vehicle for providing learning and career advancement opportunities for employees. Research indicates that many employees cite continuous education as an important perk;

5) The growing need to disseminate information to large numbers of employees quickly. Security training and diversity training are two recent additions to a list that already included required training programs such as sexual harassment.

"Online new hire orientation is another application that will experience growth," predicts Rueda.

One of the most interesting trends in corporate training for 2002 will arise in employee development for new hires, predicts Rueda. She points out that this is a sizeable fixed expense for many businesses, especially those in the retail industry where the seasonal employment turnover is extremely high. By converting a portion of their orientation program online, stores can speed up the orientation process, simulate and test certain skills such as cash register proficiency, and provide an ongoing resource for employees who have questions about the company.

Rueda believes a growing number of retail companies will institute online orientations to cut down on the turnover rate during the back-to-school and holiday shopping seasons. For example, HPT Corp is currently working with a Northeast regional retail store that hires an average of 3,800 new employees each year. Their turnover rate of nearly 100 percent is indicative of the entire retail industry, she says, which adds up to a lot of lost dollars on training. This retail business hopes that by placing a portion of their employee orientation online, they can save more than \$100,000 on training costs in one year alone, and improve their retention rate in the process.

"A potential employee can look at the company's culture, products, expectations and benefits before they make a commitment to get on board. Ideally, the company will get a better match because the candidate will know before they accept the job if that's the place they really want to work," she explains.

While e-learning offers an alternative to traditional classroom training, Rueda is quick to point out that the most effective training is a blend of the two. "There's no question that 'blended learning', which combines online and classroom-based education, is the best of all possible worlds," she says.

Businesses that are most likely to adopt and expand the use of e-learning in 2002 are the larger companies that already have the computer architecture in place, predicts Rueda. F

Rueda says that small to medium-size businesses of up to 1,000 employees will move more slowly into e-learning due to the start-up costs. "Those who do use e-learning for training will most likely purchase off-the-shelf packages versus paying more for customized software," she explains.

Even in the throes of corporate cost cutting, e-learning will inevitably continue to grow in 2002, she predicts, following in the footsteps of e-mail and voicemail. "Continuous learning to improve a company's intellectual capital is more critical than ever, and now we have a way to deliver it in a different medium that offers many benefits," she explains.

"E-learning enables people to easily access information, turn that into knowledge, and ultimately be a better performer on the job. All at reduced cost to the employer."

### ***Insurance Times:*** Older Policyholders Tend To Keep Policies Safe

January 8, 2002, Vol. XXI No. 1

HARTFORD — If a fire or flood destroys a home, would it also destroy the residents' insurance policies making it

more difficult for them to get a claim settled easily and quickly?

Most likely not -- if they're 55 or older.

A recent study by The Hartford Financial Services Group shows that 82 percent of respondents 55 and older stow their insurance policies in a secure, accessible location. The same percentage of those 55 and older (82%) keeps their social security card in a secure location. Among respondents below that age, only 55 percent keep their insurance policies secure.

Of particular concern was the fact that 81 percent lack a household inventory of valuable goods or fail to store it safely. "Such inventories are invaluable in determining losses from a theft, fire or other disaster, and can significantly increase compensation for insured goods," said Richard Vaughan, director of loss control technical services at The Hartford.

### ***Insurance Times:*** New Haven Official Promises To Revive Lifesaving Program

January 8, 2002, Vol. XXI No. 1

NEW HAVEN (AP) — A New Haven councilman has promised to reintroduce a service credited with helping save lives of the elderly.

Democratic Alderman Matt Naclerio said he will prod the city to make a third attempt at distributing "Vials for Life" that are stored in refrigerators and contain potentially lifesaving medical information. The vials would initially be provided to senior citizen centers and housing complexes for the elderly.

The city's Department of Elderly Services introduced the program in the 1970s, providing seniors with vials that contained forms listing their medical histories. Stickers placed on refrigerator doors alerted paramedics and rescue workers to the vials.

The service fizzled, but was revived by the New Haven Fire Department in 1994. But funding ended.

Naclerio said the vials can save critical minutes. "When emergency personnel arrive at a home to find an ill person unable to communicate or unconscious, valuable time can be wasted trying to make a diagnosis on the sketchy information usually at hand," he said.

Naclerio has asked Abraham Colon, emergency medical services supervisor at the city's Fire Department, to consider renewing the program. Naclerio says he will help rally support and try to secure money during the city's budget process. Naclerio said he was motivated by a report last month of a "File for Life" initiated by the Branford Fire Department. Branford raised \$1,500 privately to start the service.

### ***Insurance Times:*** NAIFA Leaders Proud Of Changes They Say Put Group Back On Track

January 8, 2002, Vol. XXI No. 1

by Penny Williams  
InsuranceTimes

The National Association of Insurance and Financial Advisors (NAIFA) is the re-tooled, redefined NALU (National Association of Life Underwriters).

NALU, at its height, was 147,000 members strong. Today, NAIFA's number is closer to 76,000, but leaders are upbeat and optimistic, albeit cautiously so, about the future.

"We are well positioned for the future," maintains Bob Nelson, NAIFA president and vice president of Life Insurance and Estate Planning for Grace/Mayer Insurance Agency, Inc., Omaha, Nebraska.

NALU grappled with some very tough decisions as it saw its membership slide. Nelson said, "We've dealt with the difficult things."

NALU had a 50-year old, outmoded building in the District of Columbia that didn't serve member or staff needs adequately. And the association's bottom line was in need of repair.

#### **Sold Building**

"We made the hard decision to sell the building and move to a new location in Falls Church, Virginia, where we bought a state-of-the-art building," he explained. "That allowed us to have a healthy position for our balance sheet so that we could deal with the business of being in business."

"Then we hired Art Kraus," he said, referring to the organization's chief executive officer.

"He used his own successful agency business model that was ahead of its time. We needed to let go of the baggage from the past and take this organization to the next level. We have preserved the best of the past and now must build on our strategic business plan for the future. And that takes teamwork."

Kraus sees the organization continuing its legislative and regulatory advocacy work as always, while also moving forward with new member services.

"We are now in a better position to provide the membership with the tools and resources to improve their bottom line so that they can make a better living and be better professionals," Nelson said. "This is the best outcome for the consumer."

"As a result of the changes made," said Krause, "we've entered the new millennium with a pretty good system for contacting our members. In terms of the association's restructuring, we've given department managers a lot of leeway and they've taken it and run with it. We have a very dynamic staff and our bottom line is now healthy.

He acknowledges that some still have trouble accepting the name change from NALU to NAIFA but that since 91 percent of members licensed to sell securities today, the change makes sense.

Among the most visible changes have been those made to the association's magazine. The name has been changed from Life Association News to Advisors Today and the articles are now issue oriented and easy to digest.

NAIFA has formed a partnership with Standard & Poor's which puts most up-to-date financial and investment advice at member's fingertips.

Also, NAIFA has created "Programs in a Box" gives state and local chapters the video, overheads, flip charts, text material, handouts – everything they need to put on a program for members. Topics are changed monthly and the association magazine includes supporting articles.

State levels chapters are using the program to offer new seminars which they hope, in turn, will attract new members. The New Hampshire association recently held a program with an investment focus for the first time.

New Hampshire AIFA President Bob Garneau, Mass Mutual Financial Group, Bedford, New Hampshire, believes the new approach can work.

"The association is rebuilding and here in New Hampshire a couple of the locals, Manchester and Concord, are thriving, while Nashua and the Seacoast are not thriving. However, we are trying hard to get more investment side people involved in our local associations. So far, it appears to be working."

### ***Insurance Times:*** South Carolina Insurers Accused Of Bias In Pricing

January 8, 2002, Vol. XXI No. 1

COLUMBIA, S.C. (AP) — Two South Carolina insurance companies have been ordered to pay millions of dollars to black policyholders after state investigators concluded the companies had charged blacks higher premiums for decades. Insurance Department Director Ernst Csiszar said it has never been legal to use race as a determinant of life expectancy when pricing an insurance policy. He said some officials claimed they were using lifestyle issues, but it was clear the companies were charging different prices based solely on race.

"It was only black and white," Csiszar said. "It was blatant racism."

Atlantic Coast Life Insurance Co. has agreed to pay \$1.1 million to compensate about 31,000 black policyholders who were charged higher premiums on policies bought between 1925 and 1966, Csiszar said.

Csiszar has ordered that Liberty Life Insurance Co. be suspended from doing business in the state for a year and ordered the company to pay \$2 million to policyholders.

The company also was ordered to set aside \$1 million for future claims.

Liberty said it has appealed the order to an administrative law judge and denied it had been suspended.

An attorney for the company, Frank Ellerbe acknowledged that race was used to price policies issued in the 1940s through 1960s, but said it wasn't against the law at the time.

He said Liberty is "not comfortable with the way the policies were issued."

Liberty is defending itself in a class-action lawsuit over the same issue, Ellerbe said. The company's insurance operations were sold to Royal Bank of Canada for \$650 million about a year ago.

In 1989, Atlantic disclosed to state regulators that it had charged race-based premiums on policies issued before 1966 and compensated policy holders.

"Atlantic Coast stepped up to the plate and made every effort to diligently remedy the situation and provide restitution

and closure to the many parties involved," Csiszar said.  
He said the company's \$1.1 million settlement addressed additional policies found in another review.

***Insurance Times:*** Fortis Completes Purchase Of Dental Firm

January 8, 2002, Vol. XXI No. 1

Fortis, Inc. has completed its acquisition of Protective Life Corp.'s Dental Benefits Division. As previously announced, the transaction, valued at approximately \$300 million, includes the reinsurance of Protective's Dental Benefits Division's indemnity dental business and the purchase of the Division's prepaid dental subsidiaries.

Fortis, Inc., on behalf of its group life, disability and dental benefits affiliate based in Kansas City, Missouri, financed the acquisition with cash on hand. The acquisition is expected to be immediately accretive to Fortis, Inc.'s earnings. Protective's Dental Benefits Division has approximately 620 employees and 29 field sales locations and provides group dental benefits to more than two million members nationwide.

***Insurance Times:*** UnumProvident Acquires Resource Opportunities, Inc.

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CHATTANOOGA — UnumProvident Corp. announced that its subsidiary, Genex Services, Inc., has acquired Resource Opportunities, Inc., a national provider of medical and vocational case management services. ROI is a division of CCN, a wholly owned subsidiary of First Health Group Corp. ROI's customers include insurance companies, third-party administrators and employers.

ROI will continue to service its existing customers and markets, and will be integrated into UnumProvident's Genex Services, Inc. subsidiary.

Peter C. Madeja, president and chief executive officer of GENEX, will continue in that role, leading the integration effort between the companies.

***Insurance Times:*** Patients Want Insurers To Cover Obesity Surgery

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by Charley Gillespie  
Associated Press

COLUMBUS, Ohio — Valerie VanBrussel feared that her morbid obesity would kill her before she could get her insurance company to pay for surgery that would enable her to lose weight.

Denise Rasley weighed 350 pounds and suffered from high blood pressure and other health problems before she persuaded her insurer to pay for the surgery that reduced her stomach to the size of a shot glass.

Advocates of bariatric surgery say thousands of people have been unable to have the operation—even when their doctors have recommended it as a solution to deadly health problems—because it is not covered by their insurance plans.

VanBrussel — whose insurer ended up paying for her surgery — and Rasley have become advocates of changing Ohio law to force insurance companies to treat obesity the same as other diseases.

"Obesity is a disease and not a character flaw or a cosmetic issue," said Rasley, 29, of Rogers. "I know of no cosmetic surgery that will cure diabetes in some people."

Insurers say mandating what treatments should be provided only will increase costs and make it more difficult to provide coverage, said Faith Williams, a lobbyist for the Association of Ohio Life Insurance Companies.

Only Georgia, Indiana, Virginia and Maryland require insurers to cover morbid obesity surgery, according to the National Convention of State Legislatures.

Legislation to mandate the coverage is pending in Ohio and Louisiana, and legislators in South Carolina and Missouri have pre-filed similar bills to be introduced next session.

"Insurance companies are denying a doctor's orders that could save a person's life," said Sen. Robert Hagan, a Democrat from Youngstown who sponsored Ohio's bill.

The surgery costs between \$30,000 and \$40,000. It drastically reduces the size of person's stomach and shortens the intestines so that less food is absorbed. After surgery patients lose weight for about two years and must take vitamins to make up for lost nutrients.

Cynthia Platonov, a spokeswoman for VanBrussel's insurance company — Regence Blue Cross/Blue Shield of Oregon — said her company usually does not pay for gastric bypass surgery but makes occasional exceptions based on individual cases.

Joan Englund, 49, of Sheridan, Ore., said she hired a lawyer to persuade her insurance company to pay for the surgery, which she had in 1999. She said she weighed 321 pounds at the time and suffered from high blood pressure, arthritis, sleep apnea and other ailments.

She is now down to 180 pounds.

Three years after her surgery, Rasley weighs 165 pounds, can now walk without pain, and, after being infertile, gave birth to a daughter.

Doctors had told VanBrussel that at 500 pounds, her weight was making her heart work too hard, which would lead to congestive heart failure.

"I was past the point of anything that I could do," said VanBrussel, 46, and a registered nurse from Bellevue. "My oxygen levels were dropping ... I was dying."

She still has respiratory problems that require her to use an oxygen tank all the time.

But since the surgery in September, she has lost more than 100 pounds — more than a pound a day — and her doctors say she can go off the oxygen tank in a few weeks.

Now, VanBrussel says she just has to get used to eating small portions.

"My eyes are bigger than my stomach ... literally," she said.

Walter Lindstrom, an attorney who runs the San Diego-based Obesity Law and Advocacy Center, says more than 4,000 people have contacted his agency over the past six years seeking help getting insurers to recognize obesity as a disease. "Some insurance companies are placing people at tremendous risk by not approving surgery until they are almost too sick to have it," he said.

A Dec. 13 report by Surgeon General David Satcher said obesity increases the risk of heart disease, diabetes, cancer, asthma and other illnesses. He warned that 300,000 Americans a year die from illnesses caused or worsened by obesity.

"We are dealing with a population that has a disease that in itself is life threatening," said Dr. Patricia Choban, who is a part-time professor of nutrition and food management at the Ohio State University. "Their risk of premature death is tenfold of that of their counterpart — a thin person."

Choban performs the surgery up to 10 times a week and says the hardest thing for her patients is getting insurers to pay for it.

"Several insurance companies still have blanket exclusions for the procedure," she said. "I have patients with diabetes and sleep apnea and I still can't get them through."

### ***Insurance Times:*** Study: More Participating In Pension Plans

January 8, 2002, Vol. XXI No. 1

A growing percentage of workers are participating in their employers' pension plans, but the portion of eligible workers who did not participate also increased — particularly among some minority groups — according to new research by the nonpartisan Employee Benefit Research Institute (EBRI).

EBRI examined demographic trends in pension participation using data from 1997-2001 and discusses the reasons why some wage and salary workers do not participate in pension plans (such as by choice, a plan was not offered, or the workers were not eligible to participate).

As members of the post-World War baby-boom generation draw closer to their retirement years, concern is growing over the income these individuals can expect during their retirement, in particular pension income. One issue sparking this concern is that the Social Security and Medicare programs are projected to experience a significant financial shortfall, potentially leading to benefit cuts. The decreasing percentage of workers participating in defined benefit annuity-only plans and the growth of participants in hybrid defined benefit and defined contribution plans have also raised important issues for today's workers.

"Whether an individual will outlive his or her assets has become more of a function of the decisions that individual

makes," said EBRI President and CEO Dallas Salisbury. "There will be both winners and losers in the challenge to make retirement funds last a lifetime."

Some of the article's key findings:

- In February 2001, 67.8 percent of wage and salary workers ages 21-64 worked for an employer that sponsored a pension plan, up 4.6 percentage points from February 1995, and 54.8 percent participated in a pension plan, up 3.8 percentage points from February 1995.
- The percentage of workers who said they did not participate in a pension plan because of ineligibility decreased from 63.3 percent in February 1995 to 56.6 percent in 2001. The percentage who chose not to participate in a plan for which they were eligible increased from 25.1 to 31.1 percent over the same period.
- The percentage of both male and female wage and salary workers participating in a pension plan increased from 1995 to 2001. However, the percentage of male participants remained higher (56.3 percent in 2001) than that of females (53.2 percent in 2001), although their rates of working for an employer that sponsored a plan were virtually identical. A reason for this difference may be that more females who were working for an employer that sponsored a plan were not eligible to participate in the plan.
- Younger workers (ages 21-34) had faster increases in participation than older workers ages 35-64) from 1995 to 2001. However, in 2001 the percentage of workers ages 45-54 who participated was more than twice the percentage of worker ages 21-24 (65.4 percent compared to 27.3 percent).

### ***Insurance Times:*** RI Blues To Cover Towns' Rescue Services

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PROVIDENCE, R.I. (AP) — Blue Cross & Blue Shield of Rhode Island will start reimbursing municipal fire departments for medical rescue runs in 2002, a change that could bring thousands of extra revenue dollars to some departments.

Blue Cross & Blue Shield, the state's largest health insurer, will now cover its more than 570,000 customers for municipal ambulance, and air and water ambulance rescue runs. The insurer changed its policy after customers complained about paying for the services, said spokesman Scott Fraser.

"We have always felt that the money was in the tax base of each community," Fraser told The Providence Journal.

"You would expect to call the fire department if your house was on fire and not have to say how many trucks can you afford."

Rhode Island towns started billing for emergency runs in the early 1990s, and Blue Cross was the only company that did not reimburse subscribers, said Stephen E. Tortolani, president of Lighthouse Medical Management Inc., which handles billing for about half of the state's local departments.

"I think subscribers were very unhappy to receive a personal bill for rescue services," Tortolani said.

Most municipalities that bill for rescue runs bill the insurance company, then settle for the percentage that the company reimburses them. Some have special funds to cover costs for people who are underinsured or had Blue Cross.

However, out-of-town patients with Blue Cross were not covered by these funds and would be billed for the full amount.

In 2000, there were 129,914 rescue runs in the state, according to the Department of Health. Tortolani estimated about 20 percent of those runs involved Blue Cross subscribers.

Providence, with a population of about 173,000 does about 26,000 rescue runs a year and has received about \$1.4 million for them. Providence Finance Director Alex Prignano said he expects about \$250,000 in additional revenues from Blue Cross.

Tortolani said a rescue run with Advanced Life Support costs about \$285 to \$375. Blue Cross will pay \$175 for Basic Life Support runs and nonemergency Advance Life Support runs. It will pay \$189 for emergency Advanced Life Support runs. The company will also pay \$4 per mile for the trips.

### ***Insurance Times:*** Onebeacon Shuffles Senior Management Responsibilities

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## OneBeacon

OneBeacon Insurance has announced new responsibilities for three senior managers and an addition to the management team.

Larry Haefner, formerly chief actuary, is now managing director, specialty operations. Reporting to President and Chief Operating Officer John Cavoore. Haefner is responsible for International Marine Underwriters (IMU), Agri-Business and A.W.G. Dewar tuition protection businesses. He will also be looking for additional specialty business opportunities going forward.

Stu Lerwick was appointed chief actuary. Lerwick is responsible for all actuarial pricing, corporate reserving and management information.

Gerri Prusko has been named senior vice president, government affairs. In this new position, she is responsible for enhancing OneBeacon's visibility and influence with federal and state policymakers.

Ron Peters has joined the company as senior vice president, field services. Peters will manage premium receivables and field workflows.

## 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.

## ***Insurance Times:*** Mass. DOI's Beagan Honored

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A Massachusetts Division of Insurance employee is one of 12 people recognized this year by a public service award from the governor's office.

Kevin Beagan, director of managed care for the DOI, received the Manuel Carballo Governor's Award for Excellence in Public Service.

Beagan's job is to supervise regulation of health insurance products subjected to Massachusetts law.

Most recently, he helped implement new regulations in the state that require annual accreditation and licensing of managed care organizations.

The award is named after the Massachusetts secretary of the executive office of health and human services from 1983-84.

This is the 18th annual presentation of the award, which is Massachusetts' highest honor for Executive Department employees.