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CEO Shares Insurbanc Strategy

Winning Agents' Trust Tops
CEO Herlihy's Agenda

by C.A. Soule
Insurance Times

CHESHIRE, Conn. – InsurBanc, the federal thrift institution that will sell bank products through independent insurance agents, will open in May or June of 2000, according to the organization's chief officer.

Michael Herlihy, who became president and CEO of InsurBanc Nov. 1, expects federal regulators to respond to the latest iteration of the bank's charter in mid-January, and he expects to hire most bank officers in March.

But no personnel will be more key to the bank's success than independent insurance agents, Herlihy stressed, and he spent the bulk of an interview with InsuranceTimes in December talking about that relationship.

"The key to it is that it puts the agents first," Herlihy said. "The whole key to success is not going to be how we convince these people to send us business, the key is going to be how we show them that we can help them with their business."

Herlihy said that he expects the bank to be based in Farmington, Conn., although he is still negotiating the lease terms for the headquarters. He said he wanted a suburban setting for the home base in order to offer "ease-of-access" for employees and patrons. The bank will initially be approved to sell in Massachusetts, Connecticut, New Hampshire, and New Jersey.

By moving the bank's headquarters from Alexandria, Va., InsurBanc's original home, to Connecticut, the bank will have an easier time hiring qualified officers, he said. "In New England and specifically Connecticut, there are some extremely well-qualified people that are available," Herlihy said. "I have people in mind already."

Bank Products

The bank will offer real estate mortgages, home equity lines of credit, checking and money market accounts, premium financing, commercial lending, and possibly credit cards.

A survey by the Independent Insurance Agents of America revealed that agents see the most potential in auto loans, real estate loans, and credit cards.

Herlihy will be working with a $13 million stake, and said that he anticipates the bank to become profitable within the "normal industry timeframe" for a bank start-up, without elaborating in more detail. InsurBanc had originally been seeded with $1.5 million from IIAA, and $10 million from William R. Berkley, chairman and CEO of the W.R. Berkley Corp., an insurance holding company based in Greenwich, Conn. Since, Berkley has upped its ante. The company is not presently seeking capital from any other sources.

"It's about where we would hope to be," Herlihy commented on the base of capital. "The regulators have a fair amount to say in terms of what they require for minimum starting capital. The requirements for a state chartered bank, operating in a small community, are different from those of a federally chartered bank, that will be operating, hopefully, in a larger geographic area."

When initially approached by Richard Davis, the Massachusetts agent who is chairman of InsurBanc, Herlihy said that he saw the potential of the venture immediately. Herlihy was previously president of Advest Bank, based in Hartford, which sold banking services through independent securities brokers. Herlihy termed his new position as a "natural progression" for him professionally.

"In the end, the bank is marketing to and through what are essentially independent entrepreneurs," Herlihy said, comparing the two banks. "In essence, they are clearly of the mind and the psyche that they are entrepreneurs, much the same as independent insurance agents."

The general public may need time to adjust its own psyche to this new form of banking, Herlihy admitted. "At first there will be some surprise, perhaps some resistance, some feeling that 'Gee, this is not natural, this is not what I am used to,'" he said. "But I think therein lies the great potential, because it is something different. It is an alternative delivery mechanism. It is coming from left field in a lot of customers' minds, which may make it somewhat attractive. It is not the table-pounding advertising that they are used to seeing coming out a community bank. It is not a big bank trying to convince them that it is really a small community bank. It is not a small community bank convincing them that even though it is a small community bank, it acts like a big bank."

Of course, if insurance agents do not get excited about it, InsurBanc will not be much of a bank at all. Much of the thrift's success will rest on the foundation of trust independent insurance agents hold in the public eye.

"You know darned well that an independent agent is not going to turn one of his clients over to us until he is fully confident in our personnel's capabilities," Herlihy said. "So that is a huge endorsement right there. And there is an opportunity I think in various geographies right now, through consolidation, that consumers and small businessmen are being left out of a lot of what is going on. There is an opportunity in the marketplace there."

Some other insurance companies see the same opportunity. AIG recently received approval from the Office of Thrift Supervision for its own venture. State Farm Mutual Insurance Co. began offering loans and banking accounts to customers in portions of Missouri and Illinois last May, and soon will add Arizona to its lineup.

“We have not been tremendously aggressive in our advertising so far, so the growth has not been exponential, but you could say it has been rising rapidly,” said Dick Luedke, a State Farm spokesman. “The only way you can really measure something like this is against your expectations, and we have found that the customers who have shown an interest in this are happy. That was our intent all along, to benefit our existing customers.”

A separate executive with State Farm Bank would not reveal the start-up cost for the thrift. However, he said that State Farm Bank has opened 5,500 accounts to date, primarily money market accounts, and has $50 million in deposits. It has issued $31 million in loans, primarily auto loans.

Comparing InsurBanc to State Farm’s effort is not necessarily a valid analogy, Herlihy cautioned. “I don’t know if you can really draw parallel lines between the two, because State Farm’s agents are captive agents,” he said. “They’re operating in somewhat of a different corporate environment than we are, and probably they are marketing their banking products in a different manner than we would.”

Outreach Effort

Herlihy said that he will soon begin an extensive outreach effort aimed at agents. “In my experience of marketing bank products through stock brokers, if you have an office meeting with them, and you have 20 people in the room, you are fortunate if you have follow-up with two of them,” Herlihy said. “What happens then is as others who are in the same offices, or in the same general community, see independent agents successfully utilizing bank products and services, there is some contagiousness to it. They start to question, ‘Gee, what are they doing that I am not doing? Should I be paying more attention to this?’ Then there is a snowball effect.”

InsurBanc will itself limit its available source of sales power. The bank will distribute its products among members of the IIAA only. Agents who are exclusively members of the National Association of Professional Insurance Agents need not apply. “I would like to think that the ability to use the bank might be a reason for an independent agent to join [IIAA],” he said.

Insurance agents have a right to be skeptical about InsurBanc in the early going, Herlihy said. “If you go in and you talk to an entrepreneur, and you tell them that this is something that they absolutely, positively have to do to remain competitive or remain relevant over the next 10 years, you are going to meet some resistance,” Herlihy said. “What I found works with the investment community, and what I believe will work with the independent agents, is a strategy of introducing yourselves, the bank at large, and its products and services, in a way so that you demonstrate how they can augment what is obviously the main thrust of their business, which is personal lines and commercial lines of insurance, and how what we do can dovetail with the present products and services that they are offering, and how we can make it easy for them to do."

Herlihy might become quite adept at overcoming arguments against InsurBanc by the time the venture gets off the ground in 2000. Federal regulators have delayed the bank's launch date, as they continually probe the company's blueprint in its filing with the Office of Thrift Supervision.

"One of the regulator's biggest concerns going forward is going to be how we control growth," Herlihy said. "One of the people that will be key to the management team is someone that we will call the 'risk management officer.' This person will be mainly responsible for oversight of and proliferation of knowledge, and in compliance matters, in fair lending matters, in [Community Reinvestment Act] matters. When I am hiring for the bank, I am hiring experienced bank people, right down to the client service reps. But in educating the agents, as part of the formalized education program, there will be modules specifically based upon compliance issues."

That education campaign will likely be coordinated through the state agent associations, Herlihy said. "Agents will primarily act as a referral service," he explained. "The bank's personnel will handle the leads when they are turned over to it. But there is still the need, and I think it is beneficial for both agencies and the bank, for agents to be aware of what the compliance requirements are for the bank."

Beyond compliance issues, InsurBanc will need to indoctrinate insurance agents quickly on the new products being made available to them. "We'll educate agents as to how to be conversant with the banking products and services," Herlihy said. "We'll offer as much support as they need or want, in terms of collateral material, in terms of training and education, until they are at the point where they are comfortable discussing InsurBanc with their clients."

Herlihy said that agents would not be expected to meet sales quotas, at least in the first few years of the bank's operation. The bank in subsequent years may use contests between agencies, or goals based on previous years' performance, to try to spur sales. But gimmickry only gets one so far, he added.

"In my eight years at Advest Bank, for brokers eventually there would seem to be an epiphany," Herlihy said. "All of a sudden a broker would realize, 'That's why I am dealing with these people, that's why I called Mike Herlihy. They were able to bring this together, and they made me look good to my client. They made my client happy. I'm going to get paid something for the referral, and it was all done in a seamless manner to the benefit of my customer.'"

Competing Banks

Agents may soon be wooed by other suitors besides InsurBanc, Herlihy said he recognized. He said he hopes InsurBanc will benefit both by being relatively far ahead in the queue, as well as by its informal affiliation with the IIAA. "I anticipate that there is going to be competition from various sources," Herlihy said. "I think that business needs to be won fairly and squarely. I would not even contemplate requiring any kind of an exclusive arrangement with my bank versus another store of similar products."

But in his next sentence, he qualified that statement. "That's not to say that in the future, we may come up with an arrangement that calls for that, but at this point it's a very competitive market. It is going to continue to be a very competitive market, and there is nothing that I can do about that. We just will have to compete. [Independent agents] like the ability to represent multiple lines, and in this format may very well like the opportunity to represent multiple banking lines. While I would love to be exclusive in all the shops, I would be naïve to think that that was going to be the case all the time. I want to win business based on service and competitiveness of products."

Meanwhile, the longer InsurBanc negotiates with regulators, the more banks have the opportunity to gain ground in the financial consolidation sweepstakes. The tally of banks in the Northeast seeking to sell insurance through subsidiaries or partnerships rises monthly. In Massachusetts alone in 1999, U.S. Trust, Citizens Bank, Andover Bank, Bank of Canton, Cambridge Mortgage Group, Cape Cod Five Cents Savings Bank, Century Bank and Trust, Eastern Bank, Framingham Cooperative Bank, Hampden Savings Bank, Homevest Mortgage Group, MetroWest Bank, Middlesex Savings Bank, Peoples Savings Bank, Provident Bank, Randolph Savings Bank, Stoneham Savings Bank, and Wornoco Bank all made plans for the sale of insurance.

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Conn. Auto Story Y2K Human Glitch

Due to a human glitch by the editor, the lead story, Conn. auto writers show how to compete, from the Jan. 4 issue ran without its complete jump. The story is reprinted in its entirety in this issue on page 8 with apologies to our readers and the author. Happy new year?

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National Players Could Benefit From Harvard Pilgrim Collapse

by C.A. Soule
Insurance Times

BOSTON – If Harvard Pilgrim Health Care cannot be saved from its mounting losses and computer miscalculations, there are insurers waiting in the wings to grab some of the business it drops along its way.

The real winners in any market rescue could turn out to be national, for-profit insurers that up until now have had trouble gaining market share in the Commonwealth, according to a number of brokers and market observers. Among the insurers to watch are Aetna U.S. Healthcare, Cigna, and United Healthcare, they contend.

Some observers fret over the ability of two of the state's remaining non-profit health plans— Tufts and Fallon — to absorb the business Harvard Pilgrim would leave behind, given that both are also on the state insurance commissioner's watch list for poor financial health.

The other major non-profit player, Blue Cross and Blue Shield of Mass., has emerged from its own troubled financial past in good shape, but is already taking on new business at a fast clip, prompting some to question how much more it could handle.

Brokers note that national insurers like the risk profile of a state like Massachusetts with its concentration of high technology and other white collar employers.

"No one was willing, except the [for-profit] carriers, to come in and say, 'here are our rates, take it or leave it,'" said Shaun Dolan, a partner at East Coast Benefit Plans, based in Dedham, Mass. "No one in Massachusetts was even looking at companies like Cigna. But now everyone is looking at these carriers as white knights, because their rates are looking pretty good when compared with the price increases some of the other HMOs are contemplating."

Other, smaller HMOs licensed to do business in Massachusetts that could be expected to take on business in the event of a collapse include Connecticare of Massachusetts, Coordinated Health Partners, Health New England, Matthew Thornton Health Plan, Neighborhood Health Plan, and One Health Plan of Massachusetts.

Harvard-Pilgrim, the state's largest health plan with more than one million subscribers and 28 percent of the market, has been in receivership since Jan. 4 as a result of losses in 1999 estimated at more than $150 million and growing. While state officials vow they will do everything they can to avoid liquidating the insurer, they also acknowledge that matters are very serious. They are not talking publicly about this scenario of a liquidation, except to acknowledge that they must plan for the possibility.

"I have assigned one of our staff, Kevin Beagan, to look into contingency plans for this HMO or any other," Insurance Commissioner Linda Ruthardt said Jan. 11. "We have had only 43 days since this law was passed, and we will have to prepare processes to deal with whatever scenarios may arise."

Beagan is the director of the health unit within the division’s State Rating Bureau.

“No one has really looked at what this all means for other area health insurers,” said Rebecca Derby, a consumer activist with the Boston organization Health Care for All, driving home the point that the law under which state officials are operating is brand new.

Gov. Paul Cellucci signed the law into effect in November. It includes new rules that place an HMO’s members and providers at the head of the line in the event of a liquidation.

The new law also spells out how the state may assign any remaining members of a liquidated insurer to new health plans.

Under the law, a group health plan administrator may place that group’s members with any plan that bid for that group’s business in the preceding year. That plan would be required to offer similar coverage at its current rates.

If Harvard Pilgrim were the only insurance company to bid for a group’s business, then the insurance commissioner is empowered to assign that business “equitably” among area companies. The commissioner seemingly is given latitude to exercise discretion, according to a company’s capacity to take on business.

Employers are already edgy about the plans they have with Harvard Pilgrim, according to area brokers, and other health insurers are bracing for the possibility that they will may have to quickly absorb a large number of these groups if Harvard Pilgrim is liquidated by the state.

“You might say they (Harvard Pilgrim) are on every broker’s watch list,” said Ed Maguire, a broker with Cambridge-based Sapers & Wallack. “But you have to take a wait and see approach.”

While some question whether the state's major non-profit insurers are able to take on a lot of new risks, national and for-profit insurers are said to be well-positioned.

“The market has the capacity to accept all of the membership of Harvard Pilgrim in the event of a liquidation,” believes Dolan, of East Coast Benefit Plans. “Much of the media coverage we have seen has focused on the big not-for-profit insurance companies, but they are somewhat limited in what they can do. It is national companies like Aetna U.S. Healthcare, Cigna, and United Healthcare that could do well in this environment, because providers and group plan administrators know that those companies have the money to pay the bills.”

“[Health insurance] companies would look at this as an opportunity, but we also need to operate in a sound and ethical way,” cautioned Linda Johnson, president and general manager of Cigna Healthcare of Massachusetts, a national company that operates in Massachusetts. “No one wishes the demise of another company in order to gain new business.”

She noted that her company can tap into national resources to help it absorb a large influx of new members. “We use regional operating centers that can pick up or drop off depending on the peaks and valleys of the cycle," Johnson explained.

Cigna and other companies have been through this drill before.

Kaiser Permanente elected to pull out of northern New England in 1999, and in Vermont alone Cigna doubled its enrollment in a short period of time.
Ed Maguire, a broker Sapers & Wallack in Cambridge, said companies have been aggressive in trying to make hay on the Harvard Pilgrim crisis, and that he has received many inquiries from both group plan administrators and health insurers.
Blue Cross and Blue Shield spokeswoman Susan Leahy declined to speak about that company's capacity in the event of a liquidation, but noted that the company had processed 94,000 members in January, a month when 40 percent of a company's rolls come up for renewal.
East Coast's Dolan noted that Blue Cross and Blue Shield had quickly absorbed a large number of Harvard Pilgrim's members in Rhode Island following the company's decision to leave the state.
Dolan said that some of Harvard Pilgrim's better risks are considering putting their business out to bid regardless of how the HMO's affairs with regulators conclude.
Other broker clients may become nostalgic for the pre-HMO days. "What will happen is that a lot of people will start to come out of 'HMO mode,'" Dolan predicts. "They are going to see the hefty administrative fees HMOs charge, and start to look at some of the 'off-the-shelf' carriers that are out there. People are already starting to move in that direction."
Ruthardt has handled the collapse of other types of insurance companies, including property and casualty insurer Abington Mutual. In the early 1990s, Bay State Health suffered a financial collapse, and the administration of Gov. William Weld helped orchestrate the sale of Bay State to Blue Cross and Blue Shield of Massachusetts.

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Industry Sails Into New Millennium With No Major Problems

Information filed with the National Association of Insurance Commissioners (NAIC) shows the nation's insurance industry experienced no significant Year 2000 rollover problems, the NAIC announced.
"Not much has changed since the preliminary reports showed the insurance industry experienced no significant problems. As the Y2K Task Force predicted, the updated NAIC Year 2000 Rollover Survey results indicate the insurance industry was well prepared for the effect of the date change on information technology systems. Year 2000 policyholders should not be concerned about receiving benefits under their insurance policies as the Year 2000 begins because of Y2K-related problems," Jose Montemayor, Texas Insurance Commissioner and Vice Chairman of the NAIC's Year 2000 Industry Preparedness Task Force, said.

As of January 5, 76% of insurance companies representing 95% of the total insurance premium written in the country had reported. Of the 3,874 companies reporting, only three had reported any significant Y2K-related problems. Those three companies write only $68 million of the more than $840 billion in premiums written annually in the United States. There are 5,116 companies in the United States.

"If consumers have any questions regarding their insurance policies, all inquiries should be directed to their insurance companies and respective state insurance commissioners. The state insurance departments, in conjunction with the Y2K Industry Preparedness Task Force, will continue to monitor the insurance industry through updated surveys on February 3, and April 5, 2000," Montemayor added.

"All survey information has been provided to the state departments for regulators to use as a tool to determine the impact of any year 2000 system errors. Survey information submitted to the NAIC has been kept confidential among members," Montemayor added.

In 1998, the task force began developing initiatives to promote Y2K readiness for the insurance industry. As part of these initiatives, an internet-based post-Year 2000 Rollover Survey was developed. The purpose of this survey was to gather information about the insurance industry's ability to conduct business during the first business days and months of the year 2000. The survey consists of 11 questions on how systems performed during the rollover periods from December 31, 1999, to the first several business days in 2000. Forty-seven states required insurers to participate in the web-based survey.

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Mass. Blues Financial Turnaround Required Narrowing Of Insurer's Focus

by C.A. Soule
Insurance Times

BOSTON — As health insurers Harvard Pilgrim and Tufts Health Plan eye the daunting task of staying afloat in a sea of red ink, an executive offered his version of how Blue Cross and Blue Shield was able to extricate itself from similar troubled waters in 1996.

Gary St. Hilaire, executive vice president and chief financial officer of Blue Cross and Blue Shield, spoke at Ernst & Young's annual insurance seminar in Boston last month..

"What happened to Blue Cross and Blue Shield? You name it," St. Hilaire said. "The company took its eye off the ball. It lost the focus of its business, and got into a pricing and marketshare game. In trying to be competitive, it not only lost marketshare, but profitability as well."

The Wall Street Journal had labeled Blue Cross and Blue Shield a "financial basket case," which St. Hilaire said missed the mark. "Blue Cross had significant challenges," he said. "But at no point was it a 'financial basket case.' The truth was somewhere in between."

Identifying the problem was not difficult, St. Hilaire said, and he quoted a fellow executive, who had lived in Vietnam. "You live in a democracy," he said. "You do not work in one."

He faulted a "consensus" approach to decision-making at Blue Cross and Blue Shield, with the conflicting aims of the marketing unit clashing with that of the actuarial and finance units.

Accountability was stressed from the foundation of the rebuilding process. "No longer were we going to set up a project plan, lose track of it in three months, and not even know who was in charge," St. Hilaire said. That cultural imperative for change had to start at the top, he said, but it quickly worked into all corners of the organization. "There is an energizing effect when you see you are nearing the end of the process," he said.

But a lot of pain lay between the beginning and the end of that exercise, he added. The difficulty lay in trying to find interlocking solutions to disparate problems, in a time frame that did not allow for leisurely decision-making.

"We didn't have the luxury of doing a three-month analysis," St. Hilaire said. "We had to say, 'here's a number, this is where we have to be, we have to get to this number.' Because of the financial loss, it was easier to get everyone rallying around, and get them in the right frame of mind for making tough decisions."

But it wasn't a situation that called for "rocket science," he added. The company developed a plan which stressed providing satisfaction to its members, improving profitability by increasing its memberships in target markets, and improving its revenues and expense ratio. "Easier said than done," conceded St. Hilaire.

Structurally, the company concluded that it would have to bring massive change to both its administrative arm and medical department. Culturally, the company determined early on in its self-assessment that there would be no areas safe from the scrutiny of budget-cutters.

"People in these situations say, 'go to the low hanging fruit,'" St. Hilaire said. "We had to say that there were not going to be any sacred cows. People would say, 'you shouldn't go there,' and they might have had perfectly good reasons for saying it. But you have to go in there anyway. So we went to the low hanging fruit."

Two albatrosses in particular were weighing down the company, St. Hilaire said. The cost of an in-house information technology system was not scaled properly to the health insurer's actual size, resulting in enormous expenditures to maintain the system. The insurer shed costs by "outsourcing" its computing operationss which St. Hilaire says has produced better service at a reduced cost.

Medical costs were out of control as well. The company decided to "recalibrate" with its providers, St. Hilaire said. "We had to partner with our partners, and bring them to the table on the cost issue," he said. "Blue Cross also had to be willing to come to the table on costs."

A plethora of facilities was immediately identified as a culprit for spiraling costs. A decentralized system of financial and accounting offices was quickly replaced with a single centralized administrative office.

That narrowing of focus carried over to the company's actual business units. The company divested itself of its health care clinics in 1997, after hoped-for economies of scales with the businesses failed to materialize. "We found that we could not be in the business of providing health care as well as insuring it," St. Hilaire said.

"In hindsight, we had assets being capitalized that we did not want on the books a year later," St. Hilaire said. "So we took some hard medicine."

As bitter as the medicine, St. Hilaire said that the resulting stream-lined company was back in the black a year later, and had acquired the discipline of regular self-review.

"We wanted to make sure that we only went through this once," he said. "It is great to go through a turnaround, but how do you make sure that you continue it? The most successful companies do not wait for financial losses in order to retrench."

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Supreme Court Allows Lower Limits For AIDS Than Other Illnesses

WASHINGTON (AP) — The Supreme Court, rejecting allegations of illegal bias, has let an insurance company provide less health care coverage for AIDS-related illnesses than for other conditions under the same policy.

The court, without comment, turned down an appeal in which two HIV-positive men argued that the limit on AIDS coverage violates a federal ban on discrimination against the disabled.

The two Chicago-area men, whose names were not given in court papers, bought health care policies from Mutual of Omaha, which is based in Omaha, Neb.

One policy, purchased in 1992, set a $25,000 lifetime coverage limit for AIDS-related illnesses but a $1 million maximum for other conditions. The other policy, purchased in 1997, had a $100,000 limit for AIDS-related illnesses and a $1 million limit for other ailments.

The men sued, saying the limits on AIDS coverage violated the federal Americans With Disabilities Act. The law protects the

disabled against discrimination in many areas, including jobs and public accommodations.
The Supreme Court ruled in 1998 that people who carry the HIV virus that causes AIDS are covered by the disabilities law even if they have no visible symptoms of acquired immunity deficiency syndrome.
A federal judge in Chicago ruled for the two men in 1998, but the 7th U.S. Circuit Court of Appeals reversed that ruling.
Mutual of Omaha did not refuse to sell insurance to people infected with the human immunodeficiency virus, the appeals court said, but instead made a coverage decision similar to a furniture store deciding not to sell wheelchairs.
The appeals court said most health insurance policies contain coverage caps. Ruling for the two men would ban coverage caps for diseases classified as disabilities but allow limits on coverage for other illnesses, such as heart disease, it added.
Lawyers for the two men told the justices that the limit on AIDS coverage ``presents a classic case of disability-based discrimination.'' The policy would limit coverage for diseases, such as pneumonia, when they are AIDS-related but would not limit coverage for the same disease when it is not AIDS-related, the appeal said.
Mutual of Omaha's lawyers urged the justices to reject the appeal. They said the insurance firm had not discriminated because it offered them the same coverage given to other customers. Mutual's policies limit coverage for other conditions such as alcoholism, drug addiction and mental illness, the company's lawyers said.
The case is Doe vs. Mutual of Omaha Insurance Co., 99-772.

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Aetna Reorganizes

HARTFORD – Aetna is combining its international business and domestic divisions. The merger will create two new subsidiaries of the health care giant – Global Health and Global Financial Services.
Global Financial Services will combine Aetna Financial Services, the life insurance and pension business in Aetna International, and the group insurance business now handled by Aetna U.S. Healthcare.
Global Health will be made up of Aetna U.S. Healthcare's health business and Aetna International's health business.
The company is also considering combining its InteliHealth Web site with other online services into a separate subsidiary that would be taken public, The Wall Street Journal reported. That product could be ready in just a few months, Huber told The Journal.

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Mass. Auto Insurers Receive SDIP Approvals

by C.A. Soule
Insurance Times

BOSTON – Massachusetts auto insurance companies received approval of their voluntary "Safe Driver Discount Plan" filings from the state insurance division.

'While smaller than in past years, I'm pleased that insurers still recognize the importance of encouraging and rewarding safe driving practices," said Commissioner Linda Ruthardt.

One company, Trust Insurance Co. of Taunton, Mass., delayed for a second time a scheduled hearing with regulators for approval of its plan to offer discounts. Speculation continued that the insurer was being eyed for acquisition by AIG.

The division is still reviewing group discounts filed by auto insurers. Those that have been approved already can be viewed on the division's web site at www.state.ma.us/doi.

For the fourth straight year, Gov. Paul Cellucci has waived a requirement that forces insurance companies to capture 35 percent of any group's members in order to be able to continue to offer discounts to that group.

This number has proven difficult for companies to meet. In order to maintain the competitive discounting, therefore, the legislature's insurance committee has yearly forwarded the governor the waiver bill.

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Gov. Pataki Urges Tax Relief

ALBANY, N.Y. — The Independent Insurance Agents Association of New York liked what it heard in Gov. George Pataki's "State of the State" message delivered Jan. 5.

In that address, Pataki announced that his economic agenda will include an additional $700 million in business tax relief plans, allowing more room for small business owners to become economically stable and grow.

"Today's business world is very competitive and any help small business owners receive aids the growth of the companies and is good for New York," said Paul W. Babbitt, president of IIAANY and principal of Niagara National, Inc. in Buffalo. "This tax cut package demonstrates that Gov. Pataki understands the needs of small business owners."

Family Businesses

Among the governor's proposals is one that would reduce the corporate income tax rate for small businesses from 7.5 percent to 6.85 percent. Pataki also wants to eliminate the "S-Corp differential tax" affecting small businesses formed as Subchapter s-corporations, a common method used to organize a family business.

"Most of IIAANY's member agencies have been passed down through different generations," Babbitt said. "The elimination of this tax would help that tradition along by encouraging a new generation to start their own businesses."

Approved Mass. SDIP
Discount Filings

Company	Step 9	10
Amica	15	5
Arbella	6	2
Berkshire Mutual	6	
Casco Indemnity	12	12
CGU	5	
Clarendon National	12	9
CNA	6	
Commerce	6	2
Comm. Mutual	6	2
Electric	8	3
Fireman's Fund	6	
Fitchburg Mutual	6	2
Hanover	6	
Holyoke Mutual	6	2
Horace Mann	11	3
Liberty Mutual	6	2
MassWest	10	
Metropolitan P&C	6	
National Grange	4	
New Eng. Fidelity	6.5	2.5
Norfolk & Dedham	5	
People's Service	6	
Plymouth Rock	6	2
Premier	8	4
Quincy Mutual	7	3
Safety	6	2
Sentry	6	2
Trust	6	2
USAA	15	10
Pending		

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OSHA Withdraws Home Safety Rules

WASHINGTON — Responding to a firestorm of criticism from lawmakers and corporate America, the Labor Department last week withdrew an advisory letter that said companies have the same safety responsibilities for employees working at home as in the office.

However, angry Republicans in Congress said they still plan to investigate the circumstances surrounding the department's actions.

Rep. John Boehner, R-Ohio, chairman of the House Workforce Committee's panel on employer-employee relations, said he wants Labor Secretary Alexis Herman to give Congress all memos and other documentation relating to the advisory letter sent to a company regarding at-home workers.

``There's a fine line separating big government from Big Brother,'' Boehner said. ``Americans deserve to know the full extent of this intrusive scheme.''

Rep. Pete Hoekstra, R-Mich., chairman of the House Workforce Committee's investigations panel, has promised a hearing as early as this month.

Republicans had already pledged to scrutinize the department over regulations proposed in November that would require employers to minimize everyday physical — or ``ergonomic'' — stresses of certain jobs.

One Company

Herman said that the advisory on at-home workers was an informal response to questions from a single company and was not intended as a statement of policy for all businesses.

``The letter, however, caused widespread confusion and unintended consequences for others,'' she said in an interview. ``As a result of those unintended consequences, I have made a decision to withdraw the letter today.''

Nevertheless, the controversy has raised important questions about what protections Americans working at home can expect from the government, Herman said, so she will convene a conference of business and labor leaders and set up an interagency task force to study the issue.

``We acknowledge ... that employers are responsible for employee safety and health, but we don't know what that means and how that applies to these new work arrangements in the home today. That is why we need a national dialog on this subject,'' Herman said.

The controversial letter was written by officials at Labor's Occupational Safety and Health Administration in response to a Texas-based credit services company that had sought advice about moving some sales executives into home offices.

OSHA provided specific examples in an area of law that has remained unclear, even as the number of Americans regularly working at home has swelled to almost 20 million.

Such ``interpretation'' letters to individual companies often are made public, and other businesses look to them for guidance. This one, dated Nov. 15, was posted on the Labor Department's Internet site.

News Reports

Once business groups noticed, they called attention to it, sparking news reports early this week and strong condemnation from Republicans on Capitol Hill.

OSHA officials insisted there had been no change in policy and that there would be no government inspections of home offices. The criticism continued, however.

Patrick Cleary, vice president of the National Association of Manufacturers, applauded Herman's retraction Wednesday but said, ``The call for a national dialog seems a little late and, frankly, seems timed to the news cycle with a view to killing an embarrassing story. Better late than never, I suppose.''

The AFL-CIO's director of safety and health, Peg Seminario, said, ``If you're moving into an area here that has such broad application, you want to do this in a considered way. So, we're glad to be a part of this dialog.''

The now-retracted OSHA letter said, ``All employers, including those which have entered into 'work at home' agreements with employees, are responsible for complying with ... safety and health standards.''

It described how an employer could be liable if it knew or reasonably should have known about home workplace hazards — such as computers that overload home electrical circuits, creating a fire hazard, or rickety stairs leading to a basement office.

And it suggested companies should train people to set up safe home offices and periodically inspect at-home workers' quarters.

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FIA 1999 Year In Review

Flood plan reports record numbers for ‘99

Washington -- A record number of U.S. homeowners, renters and small business owners are protected against flood losses by federally backed flood insurance, according to the head of the Federal Emergency Management Agency (FEMA).

"Fortunately, there is a growing awareness of flood hazards in this country and a realization that self-protection through insurance and flood mitigation measures is preferable to reliance on taxpayer-funded disaster assistance," FEMA Director James Lee Witt said.

Witt reported flood coverage in force reached $504 billion by the end of Fiscal Year 1999, and credited in large part the leadership of Jo Ann Howard, administrator of the Federal Insurance Administration (FIA), the part of FEMA that manages the

National Flood Insurance Program (NFIP).
Over 4.1 million policies are in effect for property owners in more than 19,000 participating communities.

1999 Highlights

Witt also shared highlights of some significant FIA developments in 1999:

A major factor in policy growth has been the Cover America program, the nationwide public awareness campaign that began in 1995. In November, FIA launched the new Cover America II campaign to emphasize flood vulnerability, the benefits of flood insurance, and the opportunity to reduce risks through flood insurance and flood mitigation efforts. Cover America II establishes an NFIP brand in the form of a partially submerged yellow diamond street sign, the type used to warn drivers of upcoming dangers, imprinted with the message, "Be Flood Alert," alongside the words, "National Flood Insurance Program." This brand will be integral to all campaign components, among them nine weeks of cable and network television ads beginning in January, and print ads also scheduled to start in January.

Rewrite Standard Flood Policy

In other FIA news, a project to rewrite and reformat the three Standard Flood Insurance Policies is nearly completed. The effort involved FEMA staff, private insurance company personnel and the Insurance Service Office, an insurance advisory group. Using input from a focus group, the standard policies are being put into plain English; the one used for dwellings will resemble the typical homeowners policy used by private insurers.

The NFIP Elevation Certificate, a tool for determining flood insurance premiums, was redesigned last year to make it more comprehensive and less complicated, based on recommendations from insurers, floodplain managers, engineers and surveyors from many parts of the country. The new certificate became effective August 1, 1999, for use on a voluntary basis and will become mandatory next year. Training for agents and lenders using the new certificate is underway.

Flood Community Discounts

On October 1, 1999, property owners in an additional 53 communities in l5 states qualified for flood insurance discounts of at least five percent as the result of actions by local officials. The CRS rewards NFIP policyholders in communities that voluntarily take steps to reduce flood risks and increase the effectiveness of flood insurance protection that go beyond basic NFIP requirements. Nearly 2.3 million policyholders in over 900 communities now benefit from the CRS.

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Editorial Opinion Cooperation

While Massachusetts officials go about the unenviable task of righting the Harvard Pilgrim ship, they may gain encouragement from their neighbors in Rhode Island, New Hampshire and Vermont. In those states, officials have recently had to scurry to clean up after Harvard-Pilgrim, Tufts New England and Kaiser closed their operations. But thanks to their own hard work and diligence and the cooperation of others, the task has been accomplished. Most insureds who lost coverage due to the failure of an HMO have found a new health insurance plan.

Of course, the Harvard-Pilgrim disruption is a much bigger deal, as it has more than one million subscribers.

But it is good to know that in places where regulators have needed it, cooperation from others was forthcoming to solve the immediate crisis.

By all accounts, to get through the Harvard-Pilgrim crisis, Massachusetts officials will need the same kind of cooperation from all parties-- insureds, hospitals, doctors, insurers, brokers, benefit managers and lawmakers.

After the crisis, when there are bound to be efforts to impose new regulations and implement additional safeguards, they will probably all go back to arguing. But for now, their cooperation is essential.

After failing to achieve a consensus last year, insurance companies are again urging changes in Rhode Island's approach to lead paint liability.

Recently representatives from the Massachusetts/Rhode Island FAIR plan recommended guidelines that would increase the trigger when a pregnant woman or child under age 6 is determined to be lead poisoned from 15 micrograms per deciliter of whole blood or greater to 25 micrograms per deciliter, the standard used by Massachusetts, Maryland and the Centers for Disease Control.

The latest recommendations also include limiting liability by requiring proof that the poisoning occurred on the premises; eliminating the requirement that insurers pay for remedial education and eliminating a person's ability to sue if they rejected a settlement offer.

The FAIR Plan platform contains elements supported by the National Association of Independent Insurers and the American Insurance Association.

"Massachusetts has effectively addressed the lead paint liability issue, so we respect their expertise in this area," said Gerald L. Zimmerman, associate counsel for the NAII. "We are willing to listen to any ideas on how we can solve this problem.

"Our objectives are simple. We want to develop a proposal that controls lead exposures, provides reasonable coverage to help sick kids get better, and maintain a healthy insurance and real estate market in the state."

The AIA has put its recommendations in the form of proposed

amendments to legislation (S1032) filed by Sen. Thomas J. Izzo, D.-Cranston.
"The amendments AIA is proposing would encourage the abatement of lead hazards and provide fairness and equity in any litigation resulting from lead poisoning," said James T. Harrington, AIA vice president, northeast region.
Hopefully, the 2000 legislative session will see a unified industry position on lead paint liability.

Numerous small business groups including the Independent Insurance Agents of America are up in arms over a tax code change snuck into a recent federal law on helping disabled keep insurance coverage.
The onerous provision buried in the Ticket to Work and Work Incentives Improvement Act of 1999 disallows business sellers who use accrual accounting for tax purposes from using the installment sales method to sell their business. The provision is having a negative impact on the ability of smaller businesses to find purchasers.
The groups have written a strongly worded letter to Treasury Secretary Lawrence Summers urging repeal of the tax code change when Congress reconvenes and, in the meantime, some clarifications.
These concerns are not theoretical. Sales of businesses already have been affected by the loss of the installment sales option, according to IIAA.
“In some cases, the sale prices of businesses have plummeted. Other sales have collapsed. In one case, a business owner entered the hospital with the belief that his business had been sold, only to learn that the deal had fallen apart solely because of this new provision’s impact,” the letter to Summers noted.
The installment method is used in a significant number of small business sales for a variety of reasons. In some sectors, it may be used in as many as nine out of 10 transactions. For sellers, the installment method enables them to be more flexible in structuring the sale and to get a higher price for the business. For buyers, it allows them to purchase a business for which bank financing is generally not available. The installment method also ensures that the seller will continue to have a financial interest in the ongoing success of the business. For smaller enterprises that tend to have more of their total value attributed to good will, this assurance is often necessary for the sale to proceed.
“Depending on the structure of the sale, it has been estimated that the installment sales provision will reduce the sale price of some closely held businesses by 10 percent or more. For small business owners, this is the equivalent of having their 401(k) lose an unrecoverable 10 percent or more of its value the day they retire,” the letter continues.
While repeal is the ultimate goal, in the meantime, small business deserve guidance from Treasury to help mitigate some of the more obvious problems.

IIAA points out that a recent conference report on the Ticket to Work and Work Incentives Improvement Act provides limited guidance. It states that when a cash method taxpayer sells stock in an accrual method business-either an S or C Corporation– the seller could use the installment sales method.
However, for the sale of a closely held business, the sale of stock is not always possible or most efficient. More clarification is necessary. Here are some concerns cited by small business advocates in their letter to Summers:
Sole Proprietor: What happens to a sole proprietor who operates an accrual method business? There is no stock to sell. If the taxpayer is a cash method Form 1040 taxpayer, is the gain from the sale of assets attributed to the individual, or to the business?
Asset Sales: Most small business sales are structured as assets sales– even when stock exists-for a variety of non-tax reasons. The most common reason is the buyer may want the assets that come with the business but not the imbedded liabilities that come with buying the stock. Section 453(h) allows an installment payment for business assets to be treated as a payment for business stock. This provision applies where the purchaser is willing to buy the assets of the business but does not want the actual stock. Are Section 453(h) elections still allowed for the sale of accrual method business assets?
Stock Sales: Questions have been raised as to whether this change in the law will alter the availability of the Section 338(h)(10) election which allows the sale of stock in a business to be treated as an asset sale. Will this election be effected by the new installment sales restriction?
Clarification from Treasury regarding the above questions will not solve the underlying problem, but it should help small business owners who are in the process of selling their businesses.

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Opinion Exchange

The following letter was sent to Treasury Secretary Lawrence Summers regarding a change in the tax code that disallows business sellers who use accrual accounting for tax purposes from using the installment sales method to sell their business. The provision is having a negative impact on the ability of smaller businesses to find a purchaser.
The letter has been signed by numerous organizations including the Independent Insurance Agents of America, National Federation of Independent Business, Small Business Legislative Council, National Restaurant Association and many others.

Dear Mr. Secretary:

The undersigned organizations have very serious concerns about the installment sales provision included in Public Law 106-170, the Ticket to Work and Work Incentives Improvement Act of 1999. We urge you to support our efforts to repeal this onerous provision when Congress reconvenes later this month. In the meantime, we encourage you to issue guidance as soon as possible regarding the law as it now stands.

This provision, which prohibits the use of the installment method by accrual basis taxpayers, is having, and will continue to have, a significant negative impact on sales of small enterprises. Our concerns reflect discussions with congressional staff, Treasury officials, as well as tax and legal professionals and business owners affected by the provision.

These concerns are not theoretical. Sales of businesses already have been affected by the loss of the installment sales option. In some cases, the sale prices of businesses have plummeted. Other sales have collapsed. In one case, a business owner entered the hospital with the belief that his business had been sold, only to learn that the deal had fallen apart solely because of this new provision’s impact.

The impact of the installment sales provision goes well beyond anything hinted at in the explanation of the revenue proposals in the President's Fiscal Year 2000 Budget or the legislative history of Public Law 106-170. While the provision appeared to target larger, accrual method businesses when they sold a particular asset or assets, its real effect will be to reduce the value of closely held businesses when they are sold in their entirety.

The installment method is used in a significant number of small business sales for a variety of reasons. In some sectors, it may be used in as many as nine out of 10 transactions. For sellers, the installment method enables them to be more flexible in structuring the sale and to get a higher price for the business. For buyers, it allows them to purchase a business for which bank financing is generally not available. The installment method also ensures that the seller will continue to have a financial interest in the ongoing success of the business. For smaller enterprises that tend to have more of their total value attributed to good will, this assurance is often necessary for the sale to proceed.

Depending on the structure of the sale, it has been estimated that the installment sales provision will reduce the sale price of some closely held businesses by 10 percent or more. For small business owners, this is the equivalent of having their 401(k) lose an unrecoverable 10 percent or more of its value the day they retire.

For these reasons, the undersigned organizations support full repeal of this provision. Pending repeal, however, there are certain areas of clarification that could help mitigate some of the more obvious problems.

The conference report on the Ticket to Work and Work Incentives Improvement Act provides limited guidance. The report states that when a cash method taxpayer sells stock in an accrual method business-either an S or C Corporation— the seller could use the installment sales method.
However, for the sale of a closely held business, the sale of stock is not always possible or most efficient. More clarification is necessary. Here are some concerns:

Sole Proprietor: What happens to a sole proprietor who operates an accrual method business? There is no stock to sell. If the taxpayer is a cash method Form 1040 taxpayer, is the gain from the sale of assets attributed to the individual, or to the business?

Asset Sales: Most small business sales are structured as assets sales— even when stock exists-for a variety of non-tax reasons. The most common reason is the buyer may want the assets that come with the business but not the imbedded liabilities that come with buying the stock. Section 453(h) allows an installment payment for business assets to be treated as a payment for business stock. This provision applies where the purchaser is willing to buy the assets of the business but does not want the actual stock. Are Section 453(h) elections still allowed for the sale of accrual method business assets?

Stock Sales: Questions have been raised as to whether this change in the law will alter the availability of the Section 338(h)(10) election which allows the sale of stock in a business to be treated as an asset sale. Will this election be effected by the new installment sales restriction?
Clarification from Treasury on the Administration's intent regarding the above questions will not solve the underlying problem, but it will provide much needed guidance to business owners in the process of selling their businesses.

We are also requesting support for repeal of this provision when Congress reconvenes. Simply put, if the full impact of this provision had been known, it would never have become law in the first place. The lack of binding contract language and a transition period are clear indications that the provision's effect on the sale of closely held businesses was unanticipated. At the very least, sales of closely held businesses should be exempted.There is no legitimate policy reason for restricting installment sales where the business is being sold in whole- either through a sale of assets or stock.

While Massachusetts officials go about the unenviable task of righting the Harvard Pilgrim ship, they may gain encouragement from their neighbors in Rhode Island, New Hampshire and Vermont. In those states, officials have recently had to scurry to clean up after Harvard-Pilgrim, Tufts New England and Kaiser closed

their operations. But thanks to their own hard work and diligence and the cooperation of others, the job was done. Those states now report that nearly every insured who lost coverage due to the failure of an HMO has been found a new health insurance plan.
Of course, the Harvard-Pilgrim disruption is a much bigger deal, as it has more than one million subscribers.
But it is good to know that in places where regulators have needed it, cooperation from others was forthcoming to solve the immediate crisis.
By all accounts, to get through the Harvard-Pilgrim crisis, Massachusetts officials will need the same kind of cooperation from all parties-- insureds, hospitals, doctors, insurers and lawmakers.
After the crisis, when there are bound to be efforts to impose new regulations and implement additional safeguards, they can all go back to arguing. But for now, their cooperation is essential.

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Connecticut Auto Insurance Writers Show How To Compete

State Farm delays marketing in Conn. auto market until March but Farmers Insurance is already up and running

by C.A. Soule
Insurance Times

Connecticut drivers, who already enjoy one of the nation's most competitive auto insurance markets, are about to get even more benefits of competition: lower rates and new companies to try.
On average, Connecticut drivers will pay 3.7 percent less on their auto insurance rates in 2000, according to Insurance Commissioner George M. Reider, Jr., whose department last year handled 44 insurer requests to lower rates, and only 14 requests to raise rates.
“The trend in rate reductions which accelerated over last year’s results shows that Connecticut continues to have a healthy, competitive automobile insurance market which can benefit all consumers,” Reider said.
In another sign of competition, the state’s assigned risk plan, which insures high risk drivers turned down for coverage by insurance companies, shrunk to 4,000 vehicles, its lowest level ever. The plan insured 55,000 cars not too long ago in 1994.
Still more competition lies ahead as the state's auto marketplace braces for the entry of two new major players: State Farm and Farmers Insurance, both of which promise to win over thousands of new customers.

State Farm Mutual Insurance Co. has pushed back its plan to

begin actively marketing personal automobile insurance to March 1, 2000.
That will put the company 10 months behind national rival Farmers Insurance Co., which entered Connecticut last May
While State Farm may be delayed, it is not standing still.
“In light of Y2K concerns, we moved [the date] back to give us an opportunity to work through any problems,” said Matt Hodson, vice president of State Farm’s Connecticut operations. “That being said, we are confident that we will not have problems.”
State Farm is in the process of hiring 60 new employees to augment the 75 people it currently has in the state, which Hodson called a tough challenge given the competitive job market in the Northeast.
State Farm has maintained a claims and service center in Cheshire in order to maintain accounts with policyholders who moved to Connecticut from another state. That frictional business has allowed the company to stake out a two percent market share in the state, without so much as breaking a sweat. Nationally, State Farm is a major player, grabbing 25 percent of the personal auto market.
Now the company says it is eager to sell in one of the most affluent states in the country.
“State Farm has recognized for some time that Connecticut has been a good marketplace,” said Hodson. “It was growing quickly in the 1980s, but our focus wasn’t for new markets during that time. We studied it off and on since the early 1990s, and eventually we came to the point where we were ready to expand. It is an attractive state in that Connecticut’s insurance department is a good one to work with, and the governor is promoting a stable business environment.”

Allstate Experience
That environment has been kind to Allstate Insurance Co., the state market leader with nearly 15 percent of Connecticut drivers. In 1999 Allstate purchased the personal lines operations of CNA Insurance, further increasing its presence.
Hodson said that State Farm has appointed 20 agents for the state; they are in the process of training for their licenses. The company will appoint 16 more agents in 2001, hiring primarily from within the firm.
Hodson said that agents will begin by contacting many of State Farm’s 30,000 policyholders in Connecticut, in an attempt to cement relationships with them. “The goal is to earn customers one at a time,” he said.
That steady approach has served State Farm well in the past. The company did not penetrate East Coast markets until relatively recently in its corporate history (it still does not market insurance in Rhode Island and Massachusetts). It will spend as much as $10 million to get its Connecticut operation off the ground, Hodson said.
Others question whether State Farm's slow but steady approach will cut it in Connecticut’s 140 company-strong marketplace.

Ed Orodeckis, president of Eastern operations for Farmers Insurance Co., laughed when asked if he is worried about State Farm entering Connecticut.

“If anything, Farmers entering Connecticut should give them pause,” Orodeckis rejoined. “If they are honest with you, they will say that, because whereas they lack a strategy for the state, we have a strategy in place already.”

Farmers also had a previous presence in Connecticut, if indirectly. The company inherited agents who formerly wrote for Zurich Financial Services Group’s personal lines operation in the U.S., after a merger between Zurich and Farmers parent B.A.T. Industries.

Farmers’ Culture

Orodeckis said that Farmers wrote $3 million in Connecticut in 1999, and will look to increase that more than four-fold to $13 million in 2000. He said this would not have been possible under Farmers’ traditional corporate culture of captive insurance agents. But by adjusting to Zurich’s culture of independent agents, the company should increase its business exponentially. The company has more than 150 agents currently.

“Farmers has used an exclusive distribution system in the past, and we know it is very costly to start that from scratch,” Orodeckis said. “By appointing independent agents, you are able to move quickly. It speeds up the process. You get instant volume, and you protect your loss ratio.”

Orodeckis would not take a stance on which system the company might lean toward in time. “The value of both distribution systems is equal,” Orodeckis said. “As an example of what we are talking about in Connecticut, though, it took Farmers 71 years to bring exclusive agencies up-to-speed in 29 states, and only one year to get independent agencies on-line in 12 states.”

First Year

Farmers will have to more than triple that expected $13 million in premiums before it cracks even the top 10 in the state. But rather than spend recklessly in the early going, Orodeckis described what might be the insurance equivalent of a guerrilla operation in Farmers’ first year in the state.

“The biggest ongoing cost to entering a state is advertising,” Orodeckis said. “We did everything on a remote basis. Our field people worked out of their homes.”

Farmers spent $2 million on computer systems in 1999, and $250,000 on advertising, an amount it intends to replicate in 2000.

“Our goal is to get to at least a five percent market share in five years, and in 10 years to be number one, two, or three in the state,” Orodeckis said. That will take an average increase in premium of roughly $10 million annually. As a strategy, Farmers will ask for a commitment of at least 30 percent of an insurance agency’s book of business, and to be one of the top two carriers in the agency.

Number of Agencies
Representation in a large number of agencies is less important, Orodeckis claims. “We are looking for professional agents with established books, who are strong in their community, with a strong client base, and good product density,” he said. “We are not looking for start-up agencies. We are not looking for an agent on every corner. We feel this cheapens the value of the franchise.”
That franchise will open a lot of doors for Farmers agents, he added. “The brand is tremendous,” he said. “We will drive customers to an agent’s office. Most companies are not able to show that.”
But perhaps no insurance company can match State Farm’s “like a good neighbor” tag-line. “People should not lull themselves into thinking that we do not have a strategy,” State Farm’s Hodson said. “We announced in 1998 that we would enter Connecticut, and we have been busy in the meantime honing what will be our unique approach.”
Hodson said State Farm had been writing only preferred auto risks in the state but will now write standard risks as well. The insurer will also be offering life, health, disability, long-term care and commercial lines products, as well as financial services from its latest subsidiary, a bank.

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AIG, Reader’s Digest In Marketing Alliance

PLEASANTVILLE, N.Y., — The Reader's Digest Association, Inc. has formed a new alliance with member companies of American International Group, Inc. under which AIG companies will offer a range of personal lines insurance products to millions of Reader's Digest customers in the United States.
Terms of the agreement were not disclosed. The program will begin with testing in the first half of the new year.
The alliance is an acceleration of Reader's Digest's expansion into financial services as part of its growth strategy to leverage its brand, direct marketing expertise and consumer database.
“This is another way for us to build entirely new revenue streams by bringing together a major insurance marketing program partner, a genuine consumer need, a first-class line of products and our vast active customer database," said Thomas O. Ryder, chairman and chief executive officer of Reader's Digest.
Under the agreement, AIG companies will contact Reader's Digest customers with an opportunity to buy automobile and homeowners insurance, as well as personal liability insurance.
In Sept. 1999, Reader's Digest announced two other insurance

alliances, respectively with AIG and Torchmark Corp. AIG companies are marketing life, accident, health and general insurance to customers in 26 countries outside the U.S. and Canada. Torchmark is marketing life and health insurance in the U.S. and Canada.

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Pru Buys St. Paul Non-Standard Auto Company

NEWARK, N.J. — The Prudential Insurance Co. of America has signed a definitive agreement to acquire St. Paul Specialty Auto from the St. Paul Companies for $200 million, enhancing Prudential's business through its entry into the fast-growing non-standard auto insurance market.
The acquisition is part of Prudential's on-going strategy to grow its core businesses as well as a desire to expand its ability to serve a larger segment of the automobile insurance market.
Prudential Property and Casualty Insurance Co., a wholly-owned subsidiary of The Prudential Insurance Co. of America, will manage St. Paul Specialty Auto. The deal is subject to regulatory approval and is expected to close by the second quarter of 2000.
St. Paul Specialty Auto specializes in marketing and underwriting non-standard automobile insurance. In 1998, it was ranked as one of the top 10 non-standard auto writers in the country, with $245 million net premiums written. Headquartered in Cleveland, the company writes business in 21 states through several distribution channels, including about 6,000 independent agencies. It is licensed to do business in all states except Rhode Island.
"The nonstandard automobile insurance business represents 20 percent of the overall auto insurance market and is the fastest growing segment of the industry," Edward M. Rafter, president of Prudential Property and Casualty Co., said. "The acquisition of St. Paul Specialty Auto gives Prudential's own sales force the ability to provide auto coverage to a broader segment of the public in rural, suburban, and metropolitan areas."

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Reliance Settles Unicover Workers Comp Claims

NEW YORK-- Reliance Group Holdings, Inc. has reached settlement agreements with various insurance and reinsurance companies to resolve outstanding issues relating to a workers compensation insurance program created and managed by Unicover Managers, Inc. The settlement agreements were reached with Reliance's retrocessional reinsurers, Sun Life Assurance Co. of Canada, Phoenix Home Life Mutual Insurance Co., American Phoenix Life and Reassurance Co., Cologne Life Reinsurance Co. and a majority of the insurance companies that purchased reinsurance from Reliance through the Unicover facility.

As a result of the settlements, Reliance Group expects to take an after-tax charge of approximately $100 million, to be reflected in its fourth quarter 1999 financial statements. Reliance Group previously disclosed these anticipated settlements and resultant charge in its third quarter 1999 Form 10-Q.

Saul P. Steinberg, chairman and chief executive officer of Reliance Group, said, "This is an important and positive development for Reliance. Although our legal position is strong and we believe we would ultimately win our case, this settlement is the right step for us to take. The alternative was a protracted arbitration proceeding and litigation."

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Choicepoint Buys Property/Casualty Leads Firm

ALPHARETTA, Ga. — ChoicePoint Inc. has acquired Statewide Data Services, Inc., a provider of prospecting leads to property and casualty agents. The combination of SDS and ChoicePoint, a provider of underwriting information, will provide the industry with an integrated mix of direct marketing products and services.

"The market continues to be very competitive, and our insurance clients continually demand better methods of identifying highly targeted prospects and new business opportunities," said David Lee, ChoicePoint executive vice president. "We believe that by combining the prescreening, creative and mail-house capabilities of ChoicePoint Direct with SDS's expertise in serving agents we can further enhance the value we deliver to our customers."

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Middle Market Insurers Plan On Premiums Rising

Study Finds Insurers Stay in Market
Despite Difficulty Turning Profit

NEW YORK — Despite limited profits, but with expectations that prices will eventually rebound, middle market commercial insurers have made a rational economic decision to remain in this business, a new study by Conning and Company reports.

A new Conning study, "Middle Commercial Insurance Markets: It's Tough to Be in the Middle," reports that insurers will stay in the middle market, defined as commercial establishments with 50 -

999 employees.

Increases Imminent

The decision to stay in this market is based on insurers being able to cover their variable costs and some of their fixed costs and on their assumption that prices will eventually rise. Since there is little evidence that large price increases are imminent, companies surveyed cited more focused application of technology and improved customer service as the current top two strategies for success in the middle market.

"The middle market is a bit of a tease," said Mary Ann Godbout, author of the study. "It's tough to compete and turn a profit, but it's hard to turn away from a $47 billion market."

While the middle market had surprisingly strong growth during the past five years, its growth potential is likely to be far more limited over the next five years. Insurers can compensate for this lower growth outlook by adopting a strategy of focus, specialization and specificity that market segmentation provides.

Middle Market Snapshot

A Conning snapshot of the middle market reveals:

- About 55 percent of the middle market premium, regardless of line, comes from establishments with employee counts in the 100 - 499 range, which is the "middle of the middle market."
- Almost 60 percent of the middle market is concentrated in three industries: manufacturing, services and transportation.
- Workers compensation and liability are the two largest lines of business, each representing about one-third of the middle market premium.

Insurers have model companies to study in uncovering where middle market pricing, service and technology issues are heading. Chubb, Hartford, Travelers and Cincinnati Financial were acknowledged by their peers as being the "best" middle market insurers.

Increased communication between carriers and their distributors will also be crucial to attaining success in the middle market. While 75 percent of insurers surveyed believed the middle market was unprofitable, only 13 percent of surveyed brokers held this view.

In order to become profitable, agents and brokers and their insurers need to achieve a better understanding of financial performance benchmarks and future market segmentation potential, the study maintains. The study contends that this is especially crucial for brokers and agents because they will be increasingly displaced as the leading distribution channel in favor of affinity marketing programs, managing general agents, banks and the Internet.

Visit www.conning.com. for more on the study.

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Separate SUV Rates Urged

Automobile insurance writers can improve their profitability by taking vehicle class into account when setting their liability rates, according to an article in the January Best's Review.
The article, written by Michael C. Dubin, a consulting actuary with Milliman & Robertson, begins by looking at the impact sport-utility vehicles have had on property damage claims.
According to the Highway Loss Data Institute, SUVs generate 72 percent more property damage liability losses than other vehicles. With approximately three million SUVs on the road and more being produced, this is an important issue for auto insurers.
"But it is difficult for an insurance company to separate that experience from other parts of the ratemaking process," the article says. "Some vehicles may cause more damage, the argument goes, but what about the other factors, such as driver characteristics, the number of accidents or the damage to the insured vehicle itself?"
Because it is difficult to quantify the interaction of these factors in a practical way, many companies base rating-plan decisions on regulatory constraints, historical acceptability, simplicity and judgment.
"They have no clear and objective criteria," the article says, "to help them decide what rating variables to use."
The article continues, "If it can be shown that sport-utility vehicles have risk characteristics different from other vehicles, then a company would be well served by using a plan that assigns sport-utility vehicles to different classes than other vehicles."
A Milliman & Robertson study used several scenarios to test the effect of such a plan in a hypothetical market. According to the article, the study found that companies that rated SUVs separately were "protected from adverse selection, had fair rates for all vehicles and earned target profit over the three scenarios. The other companies were subject to adverse selection, did not have fair rates for all vehicles and suffered an unexpected underwriting loss."

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Most Favor New Restrictions On Teen, Senior Drivers To Reduce Accidents

Zero Tolerance Regarding Drunk Driving Among Measures Backed

MALVERN, Pa.— The majority of respondents to the Insurance Research Council’s most recent survey of a cross-section of Americans, favors initiatives aimed to reduce auto accidents

involving the youngest and oldest drivers.
Even younger and older respondents to the survey favor these initiatives, which in some cases put restrictions on their driving privileges. Concerning younger drivers, 87 percent of all respondents, and 82 percent of those 18 to 24 years old, favor enacting zero-tolerance laws whereby teenagers lose all driving privileges if they are caught driving with any alcohol in their bloodstream.
Other provisions supported by a majority of respondents of all age groups, including younger respondents, are graduated licensing, provisional licenses for drivers under 21, and night driving restrictions.
Also, more than half (56 percent) of all respondents, and 41 percent of 18 to 24 year old respondents, favor requiring individuals to be at least 18 to get a license.
Concerning older drivers, 89 percent of all respondents, and 77 percent of those age 65 and older, favor requiring annual vision tests for those 70 and older. Other provisions favored by a majority of all respondents and a majority of older respondents include annual road tests for those 70 and older, training programs for older drivers, installation of more left-turn signals at intersections, installation of bigger, easier-to-read signs, and mandatory annual physical exams for older drivers.
“Americans of all age groups are concerned about driving safety,” according to Elizabeth Sprinkel, senior vice president of the Insurance Research Council, “and they are in favor of new safety measures, even when their own privileges may be affected.”
For more on the study, visit www.ircweb.org.

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Pataki Vetoes Home Study Discount Bill

ALBANY, N.Y. — The veto of a bill requiring a mandated auto insurance discount by New York Governor George E. Pataki is being cheered by the National Association of Independent Insurers (NAII) as a victory for both consumers and the business community.
If Governor Pataki had signed S-2432, the law would have required New York auto insurers to provide an “appropriate reduction in premium charges” for three years to any policyholder who successfully completed an approved defensive driving course. Approved courses would have included self-instructive applications such as videotapes, CD-ROMs or the Internet, in lieu of classroom instruction.
"The Governor knew that a bill with a mandated discount that did not include classroom instruction was flawed," said Robert L. Zeman, vice president and assistant general counsel for NAII.

"New York has had a long-standing law that requires premium reductions for individuals who successfully complete a program approved by the Department of Motor Vehicles. The current law explicitly excludes self-instruction courses that do not include actual classroom time, assuring that motorists receive the highest level of instruction."

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Metlife Completes Buy Of Genamerica Corp.

New York — Metropolitan Life Insurance Co. has completed its acquisition of GenAmerica Corp., parent company of General American Life and its subsidiaries, for approximately $1.2 billion in cash. With the acquisition, MetLife's assets under management has increased to $404.2 billion, bases on September 30, 1999 results.
Under the terms of the agreement, the proceeds from the transaction will be deposited into a special account. Ultimately, the proceeds of this account, after permitted charges, will be distributed to General American policy holders. Policies are not affected by the transaction. Plans are for General American's headquarters to remain in St. Louis.
GenAmerica Corp. is a holding company whose operations include General American Life Insurance Co., Reinsurance Group of America, Inc., and Conning Corp. , which manages assets and provides research for the industry.

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John Hancock Signs Baseball Marketing Pact

John Hancock Financial Services has signed a five-year, multimillion-dollar sponsorship deal that major league baseball officials said is the largest to date for their sport.
Under the deal, Boston-based John Hancock will be the exclusive financial services sponsor of baseball in areas that include insurance, investments, pensions, mutual funds and financial advice.
The deal does not overlap with baseball's continuing sponsorship deals with MasterCard International in credit cards and with FleetBoston Financial in retail banking, baseball spokesman Derrick Johnson said.
The price of the contract wasn't announced but baseball executives said it was the largest in amount as well as the size of the category covered. Baseball has about 20 other sponsors, with the bulk of the deals 3-4 years.

Among other sponsors are Pepsi-Cola soft drinks, Adidas shoes and apparel, Anheuser-Busch beer and Century 21 real estate brokers.
As part of the latest deal, John Hancock will become the title sponsor for the All-Star FanFest and presenting sponsor of the annual Roberto Clemente Award.
The Hancock deal expands on the one-year agreement it signed with baseball last year.

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CNA Guarantees All LTC For 10 Years

NASHVILLE — CNA LTC, the long-term care unit of CNA Financial Corp., has announced that all its policies will now carry a guarantee of level premiums for 10 full years from the date of issue. This is the longest guarantee offered by a long-term care underwriter.
The guarantee will be in effect on all CNA LTC policies sold after Sept. 15, 1999 based on state approvals.
"Our industry as a whole has recently come under attack because of rate increases on existing policies," says Susan McGory, president and chief operating officer of CNA Life/Long Term Care. "Some providers have offered low initial rates, only to raise them later due to claim demand. As one of the leading providers of quality long-term care insurance for Americans, we felt it was time to take a stand on this issue."
CNA was the first company to write personal insurance policies covering nursing home costs, back in 1965. Today, CNA LTC offers a full range of comprehensive long term insurance.

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MDRT Sets 2001 Table Requirements

In 2000, financial services professionals must earn at least $60,000 in eligible commissions to qualify for the 2001 Million Dollar Round table (MDRT).
The production requirement, which must be paid or credited to the writing agent’s account, can include earned or advanced (annualized) commissions, or both.
To qualify for membership in the 2001 Court of the Table, an applicant must submit proof of production equal to or greater than $180,000. To qualify for membership in the 2001 Top of the Table, proof of production equal to or greater than $326,000 in eligible commissions will be required.
The production requirement for MDRT is separated into two groups: core products and non-core products.

At least 60 percent of an applicant's eligible commissions must come from the core products, which include individual and group life; individual and group annuities; term policies and riders (level, increasing and decreasing); individual and group pension cases; individual and group disability income contracts; and group accidental death and dismemberment.
Up to 40 percent may come from non-core products such as group and individual health; long-term care; individual pensions from non-life companies; and mutual funds.
For more information, call 847 692 6378 or visit www.mdrt.org.

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Distribution Tops Financial Ceos' Worry List For 2000

Citigroup, Charles Schwab rated best-positioned companies in financial services marketplace

NEW YORK — What keeps CEOs of financial services companies up at night?
The overwhelming answer is solving the challenges of distribution effectiveness and increasing competition, according to a survey issued by management consultant Tillinghast – Towers Perrin.
Citigroup was named as the company best positioned for success in the broader financial services industry.
Distribution was the top concern among CEOs of investment management companies (93% ranked it among their top three strategic issues), life (selected by 85%) and property/casualty insurance companies (selected by 76%), followed by competition.
For CEOs of banking institutions, however, competition (selected by 75% as one of their top three issues) was the number one concern. Distribution came in third (selected by 44%).
The study surveyed CEOs of more than 800 of the largest banks, investment management companies, life insurers and property/casualty personal lines insurers in the U.S. and Canada. More than 137 CEOs responded, a 17 percent response rate.

Managing Multiple Channels
"Companies are struggling to find the most effective ways to deliver products and services to customers, and are frequently trying to manage multiple channels and resolve conflicts between them," said Sue Collins, managing principal of Tillinghast – Towers Perrin's financial services practice in the Americas.
"The shift away from one dominant distribution channel — particularly for insurance companies — is a common trend and presents a significant challenge for most sectors of the financial services industry."
Competition was one of the top three strategic issues in all four

sectors. Banking CEOs ranked “increased competition, restructuring and consolidation” as their top concern (75% selected it as one of their top three strategic issues).

Among both life and property/casualty insurance executives, competition came in second overall (selected by 63% and 64%, respectively).

For investment managers, competition earned the number three spot (selected by 50%).

“As the individual industry sectors consolidate and the overall financial services industry converges, the level of competition is rapidly intensifying and the basis of competition is changing,” said Richard K. Berry, Tillinghast – Towers Perrin principal and a co-author of the study.

Citigroup was voted best positioned to successfully meet the challenges of the new financial services marketplace, according to a majority of the survey respondents. Surprisingly, the only sector that did not elect Citigroup to the top spot, or even to the top three, was the banking sector. CEOs selecting Citigroup cited the company's size and scale, resources and capital, brand image, large customer base, access to customer information, broad financial services capability and its ability to adjust to change as reasons for its future success.

Charles Schwab

Bank CEOs, on the other hand, named Charles Schwab as best positioned. Schwab was also ranked among the top three best positioned financial services companies by investment management and life insurance CEOs. CEOs noted Schwab's scale, name recognition, low cost, convenience, customer driven culture, innovative distribution capability and its capabilities as a product packager as the reasons for their choice. “Schwab has the resources and the vision to be a player in the chaos,” said one CEO.

The study also found that technology is a big part of the answer to distribution challenges: CEOs in three of the four sectors (investment management, life insurance and property/casualty insurance) agree that improving their use of technology is the best response to their distribution challenges, ranking it first by a wide margin. Banking executives disagreed, noting the best way to “fix” distribution problems is to create new distribution channels.*

Also, even as the industry continues to consolidate, consumers are more likely to maintain a number of financial services relationships, than to rely on one provider for all their financial needs, say CEOs of banking, life insurance and property/casualty insurance companies.

But investment management executives believe that consumers will consolidate financial services relationships and that the “one-stop financial supermarket” will be in demand.

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Hancock Buys Fortis Individual Long-Term Care Business

BOSTON — John Hancock Mutual Life Insurance Co. has signed an agreement to purchase the individual long-term care insurance business of Fortis.

At closing, the transaction is expected to immediately increase Hancock's individual long-term care business and provide Hancock with better access to an established national network of long-term care insurance brokers.

John Hancock will acquire a business, which at Sept. 30, 1999, had approximately $90 million in earned premium and more than 93,600 policies in force.

Brokerage Sales

The deal provides for Fortis' long-term care insurance products to continue to be offered through the channels that had been selling them previously. These products have been specifically developed with the brokerage channel in mind. Over time, John Hancock plans to introduce other long-term care products to this channel.

Through closing and for some time after, Fortis' long-term care operations will be run out of its current headquarters in Milwaukee.

"Fortis' long-term care insurance operation is well-respected in the industry," said David F. D'Alessandro, president and chief operations officer of John Hancock. "This purchase continues Hancock's ongoing acquisition strategy to grow core businesses."

"In the U.S., Fortis' strategy is to build and acquire businesses which have leading positions in specialty segments," Kerry Clayton, president of Fortis, Inc., stated. "We are proud of the excellent operation and strong market position built by our team in Milwaukee. We know John Hancock recognizes its value and has the scale in long-term care insurance to achieve a market leadership position."

"This acquisition will help reinforce Hancock's position among the leaders in individual long-term care insurance," said Kathy Graveline, executive vice president of Hancock's retail sector. "Fortis has done an outstanding job of developing excellent products, creating market-driven underwriting standards and developing strong national brokerage relationships, and we intend to continue to capitalize on all these accomplishments."

As of Sept. 30, 1999, John Hancock had individual long-term care insurance sales of $50.8 million and 155,000 individual long-term care policies in force, accounting for $200.1 million in earned premium.

John Hancock Mutual Life Insurance Co. announced its intention to demutualize in May 1998. Its plan has been approved by regulators.

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New Hampshire Citizens Ponder How To Fix Social Security And Medicare

by Rachel M. Collins
Associated Press

CONCORD, N.H. — Citizens who met several weeks ago here to consider how to shore up two important social programs were willing to embrace changes that frighten many politicians.
Three out of four groups that took part in a budget-balancing exercise supported phasing out both Social Security and Medicare for people with high incomes.
``Why should Donald Trump be getting benefits?'' asked John Fleurant, 51, a state employee from Concord.
Fleurant was one of about 30 people from around the state who took part in an exercise developed by the Concord Coalition, a nonpartisan group dedicated to educating the public about difficult but pressing budget issues. The Telegraph of Nashua, New Hampshire Public Radio and The Associated Press sponsored the event.
Participants were divided into five groups. Of the four that kept complete records, three supported phasing out Social Security and Medicare for high-income people. Three also supported raising the eligibility age for Social Security and two supported raising it for Medicare, the federal health insurance program for the elderly.
The coalition, which has conducted the exercise hundreds of times around the country, said New Hampshire’s results were fairly typical.
``What we're seeing in groups like this is what many in Washington would see as radical changes,'' said coalition representative Andrew Brecher.
Bill Larkins, 37, an engineering consultant from Manchester, posed the key question in his group.
``What is the role of Medicare and Social Security and what philosophically are we trying to achieve with these programs?'' he asked.
He gave his answer a bit later: ``I'm happy to pay these bills, realizing I'm not going to get them back, if it's keeping people out of poverty.''

Doesn’t Need
Larkins said his father, a retired company vice president who lives in a $350,000 house and spends four months a year in Florida, is an example of someone who doesn't need Social Security.
``I think that money he gets would be better on someone else's

table,'' he said.
Bob Hannon, the coalition's New England director, said Social Security was intended to supplement private pensions and private savings for retirees. But he said 75 percent of recipients depend on it for half of their income, and it is 90 percent of total income for one-third of all recipients.
Most experts agree that Social Security and Medicare, which are financed by payroll taxes, will become insolvent in the next century if the rules are not changed. Advocates of reform say the quicker something is done, the easier it will be. But most politicians in both parties are afraid to make meaningful change for fear of being attacked in the next election, Hannon said.
Some presidential candidates have suggested allowing Social Security recipients to divert some of their payroll taxes into individual retirement accounts. But that idea did not get high marks Saturday.
Some worried about an economic downturn.
``What happens if 50 percent say they're going to do their own accounts ... and then it all falls apart?'' asked Cynthia Conkling, 42, of Salem.
Marcy Woodman, 51, of Hudson, said many people wouldn't manage private accounts well.
``As a teacher, I know that there are people out there who don't have the necessary information,'' she said. ``And without the necessary information, I know they're going to become a burden for taxpayers.''
Woodman supported making people contribute to private accounts through a payroll deduction in addition to the Social Security tax. She said most people waste so much money the add-on would not be a hardship.
``It's not just the lower income families,'' she said. ``Take a look at all of us: We all blow at least 5 percent a year.''
But Conkling said the impact might be severe on people earning the minimum wage.
``If I were making that, 5 percent might make the difference between my paying the rent or not,'' she said.

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Million Dollar Tot Profile

The 955 individuals who qualified for the Million Dollar Round Table's (MDRT) 1999 Top of the Table (TOT) reported, collectively, about $432 million in first-year commissions. TOT members, individually, reported an average of $520,941 in commissions (median $408,697) from 308 lives/cases (median 98). The 1999 first-year commission requirement to join TOT was $325,000, six times the MDRT requirement. In 1999, a total of 651 TOT members reported commissions in excess of $350,000 and of

them, 271 reported commissions in excess of $550,000.
The average TOT member is 50 years of age, has been in the business for 23 years and is a 17-time MDRT member.
The 1999 TOT membership represents approximately four percent of the total MDRT membership (21,061).

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Life Insurers Low Mortgage Failures

The delinquency rate of life insurers' commercial mortgage loans fell in the second quarter of 1999 to the lowest level ever recorded in the 34-year history of the American Council on Life Insurance’s (ACLI) survey.
The rate fell to 0.39 percent, shattering the old mark of 0.55 percent set in 1969. The life insurance industry registered its highest delinquency rate in the second quarter of 1992, the height of the national real estate crisis, at 7.27 percent.
"We are witnessing fewer delinquencies because life insurers have been investing in very high quality properties and continue to do so," said the ACLI’s Jack Nowakowski.
Over the past seven years, life insurer investments in commercial properties have been declining. In 1992, they represented about 20 percent of industry assets. They now represent about 9 percent.

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Bill Would Mandate Infertility Coverage

TRENTON, N.J. — Insurance companies doing business in New Jersey would have to cover infertility treatments, under a bill that has passed the Assembly Appropriations Committee.
The bill, A-1763, would require health coverage groups with 50 or more members to provide coverage to couples who are undergoing infertility treatment if their policy includes pregnancy-related benefits.
Currently, 12 other states, include New York and Connecticut, have such a mandate. Bill sponsor Assemblyman Neil M. Cohen, D-Union, estimated there are 354,000 infertile people in New Jersey.
He said infertile couples, through their insurance premiums, help shoulder the costs of coverage that is provided to other couples who have children. The bill would ensure that couples who have children return the favor, Cohen said.

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Health Bill Splits Union, Mayor Of Mass. City

PITTSFIELD, Mass. — This city's mayor has threatened municipal service and job cutbacks if workers won't pay a higher percentage of health insurance premiums.

But union heads insist they won't accept ultimatums from Mayor Gerald Doyle in negotiations.

The city and 18 unions are beginning contract talks. But a sticking point is the city's $3.3 million dollar deficit in health insurance.

The mayor wants each union to increase the employees' share from 10 to 20 percent.

If there are cuts, the mayor said fire and police protection could be affected. He also said jobs would be eliminated, starting with attrition. The mayor also has declared a hiring freeze, banned unapproved overtime and cracked down on city purchases.

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NH Municipalities To Access Anthem Blues

CONCORD, N.H. — The New Hampshire Municipal Association (NHMA) Health Insurance Trust has signed a five-year agreement to become the preferred insurance provider for the public sector to obtain Anthem Blue Cross and Blue Shield products.

Blue Cross and Blue Shield has been NHMA's health insurance carrier of choice since 1984, when the trust was formed. Today, the trust serves more than 19,000 subscribers and their families, according to John Andrews, executive director of NHMA.

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Legal Services Benefit Available Online

BALTIMORE — RewardsPlus (www.rewardsplus.com), the web-based benefits firm, and LegalWise, a national legal services provider, have formed a partnership, which will allow employees at companies enrolled in RewardsPlus' RealLife Benefits Program to have access to LegalWise's attorney services.

This partnership will permit employees with access to the RealLife Benefits Program to purchase legal services online at work. The program gives employees the freedom to balance both their personal life and work life at the same time.

"We know that many of our customers have a great need for affordable legal services," said Ken Barksdale, president of Baltimore-based RewardsPlus. "The need to find an attorney who can write a will or represent an individual at a mortgage closing, can take time from an employee's work schedule. Our partnership with LegalWise solves that problem and helps employees save their money too."

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Guardian Buys Washington Dental Benefits Firm

The Guardian Life Insurance Co. has agreed to acquire of First Choice Dental Systems, Inc., a company which has contracted with approximately 190 dentists. "This agreement sets the foundation for Guardian to expand the marketing of its dental PPO product in the state of Washington," said Steve Kutina, director of Guardian's regional sales office in Seattle.

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Mass. Firm Buys Failed Louisiana HMO

The Louisiana Department of Insurance has approved the purchase of SMA Health Plan (by Venture Health Partnership Group, a Massachusetts-based HMO acquisition firm.
With its first HMO purchase concluded, VHPG says it is prepared to aggressively pursue its strategy of acquiring eight to 12 HMOs within the next 24 months, says Barry S. Scheur, VHPG chairman.
Scheur previously created the first guaranteed issue, sole source HMO contract for a major Chamber of Commerce (Greater Miami), and the nation's first statewide medical society-sponsored HMO, M.D. Health Plan of Connecticut.

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Health Care Spending Growth Up In ‘98

Insurance Premiums Rose 8.2% in 1998

Pushed by rising costs for prescription drugs and insurance premiums, growth in the nation's health care bill accelerated in 1998.
Private health care spending increased by 6.9 percent, compared

with a 4.8 percent rise in 1997, according to an annual report from the Health Care Financing Administration.
Total health care spending rose 5.6 percent in 1998, compared with 4.7 percent in 1997. The increase was the biggest since an 8.7 percent jump in 1993.
``This is signaling some changes that appear to be imminent,'' said Katharine Levit, one of the report's authors.
The report was published in the public policy journal ``Health Affairs.''
Overall, health care spending rose to $4,094 per person in 1998, or a total of $1.1 trillion — from $3,912 per person in 1997.
Spending on prescription drugs grew more than any other category. It climbed by 15.4 percent in 1998 to $90.6 billion.
Growth in drug costs has been steadily accelerating since 1993, the report said, because new drugs are being brought to market more quickly, HMOs have offered people prescription coverage at lower out-of-pocket costs, and the government has allowed more advertising of brand-name drugs.
Meanwhile, private insurance premiums have begun to rise again after a lull when HMOs offered discounts to lure customers.
Insurance premiums rose 8.2 percent in 1998, more than double the increases in each of the three previous years — 3.5 percent in 1997, 3.3 percent in 1996 and 2.8 percent in 1995.
Government costs for Medicaid health insurance for the poor grew by 6.6 percent in 1998, compared with 4.6 percent in 1997.
However, spending on Medicare slowed markedly, to 2.5 percent in 1998 from 6 percent in 1997, largely because of cost-cutting measures and waste curbs enacted by Congress and the Clinton administration. Preliminary reports show that in fiscal 1999, ended Sept. 30, Medicare spending actually fell for the first time, by one percent.
Medicare costs are not expected to continue to drop, however. They are expected to jump sharply once the huge baby boom generation becomes eligible for the retiree health insurance program after 2010.

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Girl Wins $80 Million Vs. Humanahealth

Humana Health Insurance Co. must pay a young girl with cerebral palsy almost $80 million because it improperly terminated her treatment and lied to her parents, a Florida jury has ruled.
The jury decided that 9-year-old Caitlyn Chipps and her parents should receive $1 million in compensatory damages and $78.5 million in punitive damages from Humana and its Miramar-based subsidiary, Humana Health Insurance Co. of Florida Inc.

Violated Own Rules

The Palm Beach County Circuit Court jury found that Humana had violated its own rules in 1995 when it removed the girl from a special program for chronically ill patients for 10 months and had misled her parents about the reasons.

About 100 other children were also improperly removed from the program, said Theodore J. Leopold, the Chipps' attorney.

``Humana lied to me, my daughter and other seriously ill children,'' said Mark Chipps, the girl's father. He is a Palm Beach County sheriff's deputy.

Louisville, Ky.-based Humana denied any wrongdoing and said it would appeal, calling the award excessive.

``This wasn't about the welfare of Caitlyn Chipps,'' said Humana spokesman Dick Brown. ``This case was about lawyers trying to hit the jackpot.''

During the trial, the jurors learned that Humana terminated Caitlyn from a high-intensity treatment program in 1995. That was two years after her father had switched his family's health insurance to Humana based on its assurances that she would be placed in its Medical Case Management Program, Leopold said.

Mark Chipps said he didn't learn his daughter's coverage had been reduced until the hospital where she received speech and physical therapy told him. Cerebral palsy is a birth defect of the brain that results in loss of motor control and coordination.

``Humana didn't even have the courtesy to call me,'' Chipps said.

Leopold said that Humana told Chipps his daughter's medical records had been reviewed, and it was determined she no longer needed such intensive treatment.

But Humana had not reviewed the girl's records and those of about 100 chronically ill children, Leopold said. He said, instead, they were summarily dismissed from the program.

Other Program

The company wanted patients out of the case management program so it could increase its spending on a program for acutely ill patients, such as those with congestive heart failure, without increasing its overall costs, Leopold said.

To expedite the patients' removal from the special program, he said, Humana paid doctors and case managers a bonus of between $250 and $500 for each one they removed.

Ten months after she was terminated, Caitlyn was reinstated to the case management program after her parents filed suit.

Her father said Caitlyn's physical abilities and speech regressed during that period and are only now catching up. His daughter walks with braces, has speech difficulties and must use a wheelchair if faced with walking long distances.

But Brown, the Humana spokesman, said Caitlyn was not summarily dismissed from the program and that her case was reviewed by doctors. He also said that independent doctors testified during the trial that Caitlyn had not suffered any setbacks while she was out of the program.

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Report Says Seniors Without Insurance Pay Double For Prescription Medications

On Average, Seniors Without Insurance Pay $181 Per Prescription

CONCORD, N.H. (AP) — Recent studies have shown elderly Americans without insurance coverage for prescription drugs pay much more for their medicine than their counterparts in other countries. But a new report says seniors in New Hampshire and other states also pay twice as much as some customers in their own country — namely, customers who get prescription drug benefits through the federal government, health maintenance organizations and other large insurers.

Bulk Purchasing Power

Because those groups have bulk purchasing power, they can negotiate better prices from drug companies.

The report says seniors without drug coverage also represent a sizable market, and the pharmaceutical industry should offer them bulk rates, too.

``The findings are simple,'' said U.S. Rep. Tom Allen, D-Maine. ``New Hampshire seniors are being gouged by the prescription drug industry.''

Allen, who joined Public Citizen and several New Hampshire consumer groups in announcing the findings, said the problem extends to nearly every state. He has filed a bill in Congress that would force drug companies to give seniors the same discounts received by federal agencies, such as the Department of Veterans Affairs.

The study compared prices of 10 brand-name drugs at 30 randomly selected drug stores around the state. It found that on average, seniors without insurance coverage pay $181 to fill a prescription, while ``most favored customers'' pay $89.

Allen also said the pharmaceutical industry makes higher profits than any other — roughly 20 percent after research and development costs are considered. Most of that money goes into the companies' or stockholders' wallets, not back into research and development, he said.

``The most profitable industry in the country is charging the highest prices in the world to the people who can least afford it,'' Allen said.

Jeff Trewhitt, spokesman for the Washington-based Pharmaceutical Research and Manufacturers Association, acknowledged there is a problem for uninsured seniors. But he said the profit margins have to be high in the business.

He said it costs $500 million to research and develop one new drug, and that only one out of five will ever be approved for

use.
``Four out of five are rejected with no return on investment,'' Trewhitt said. ``You need a high profit margin to offset those deficits.''
Trewhitt said a major problem with Allen's bill is that while it would lower drug prices, it would not provide prescription coverage for the 35 percent of seniors who don't have it.
``It merely brings the price down. It doesn't attack the crux of the problem,'' Trewhitt said.
The answer is to fix Medicare so that it will offer prescription drug coverage, he said. The groups presenting the report agree, but also support Allen's bill.
Allen's bill would force the industry to extend the discounts, and that could force companies to cut back on the research and development of new, potentially lifesaving drugs, Trewhitt said.

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CGU Promotes Roche; NY Life Elects Benanav; Maine Agency Names Sparta; IIAA Names Pullen

CGU
CGU promoted William Roche to assistant corporate controller. Most recently, Roche was manager of premium and loss reporting. He has been leading CGU’s efforts to integrate the premium and loss reporting systems of the company’s predecessor organizations, General Accident and Commercial Union. He joined CGU in 1980.

Morse, Payson and Noyes
Peter L. Sparta was named Maine regional vice president for Morse, Payson & Noyes Insurance, based in South Portland. Morse, Payson and Noyes is a subsidiary of Peoples Heritage Bank.
New York Life
Gary G. Benanav was elected vice chairman of New York Life. Benanav is chairman and CEO of New York Life International, Inc. the international arm of New York Life, with operations in Asia and Latin America.

HSB Group
Richard H. Booth was elected president and chief executive officer of HSB Group, Inc., effective Jan. 1. He succeeds Gordon W. Kreh, who will remain as chairman of the board until his retirement next year. Booth has been a director of HSB Group since 1996, and is currently executive vice president of strategic development of Phoenix Home Life Mutual Insurance Co., a position he had held since 1994. HSB Group, Inc., the parent company of The Hartford Steam Boiler Inspection and Insurance Co.

IIAA

Rick Pullen was named editor-in-chief of Independent Agent Magazine, and Madelyn Flannagan was promoted to assistant vice president of public affairs for the Independent Insurance Agents of America, the organization announced.