***Insurance Times:*** Liberty Mutual Settles Consumer Suit Critical Of Conversion

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Consumer group agrees to drop suits vs. insurer and Mass. DOI

by Mark Hollmer
InsuranceTimes

BOSTON — Liberty Mutual will pay more than $800,000 to settle a lawsuit filed by a local consumer group and others representing policyholders critical of the company's conversion to a mutual holding company.

As part of the deal, the mid-December settlement allows for dismissal of a Center for Insurance lawsuit accusing the company of sending policyholders fraudulent information about its conversion plans.

The CIR also agreed to drop its suit against Massachusetts Division of Insurance Commissioner Linda Ruthardt. That complaint sought to make public all documents exchanged between the DOI and Liberty Mutual during the mutual holding company application process over the last year – beyond those made public in a document room at Division offices in Boston.

Consumer attorney Jason Adkins, the CIR founder, and one of the plaintiffs' attorneys, said the case represents "an important victory" for consumers.

"It provides protections for policyholders on how the company will be operated in the future," he said, "and it ensures policyholders will be disclosed important information next year when they vote on the merger of" two Liberty subsidiaries within the new mutual holding company structure.

Liberty Mutual officials could not be reached for comment.

Liberty Mutual policyholders and Ruthardt in November approved the company's mutual holding company application, which allows it to offer stock if it chooses but remain a mutual. Policyholders will never own less than 51 percent of the company, according to the reorganization.

Early next year, the DOI is expected to decide on merging Liberty Mutual subsidiaries Wausau Insurance and Liberty Mutual Fire into the mutual holding company structure.

As part of the court settlement, the company will have to tell policyholders that "they will lose voting control of an entity they now control 100 percent of," Adkins said, "so if they vote for the transaction they will do so knowingly."

Liberty Mutual, as part of its agreement, will pay $715,000 in legal fees to the CIR, attorney Jason Adkins' firm and attorneys representing three policyholders in the initial suit. Each of the three policyholders also gets $2,500.

In addition, Liberty Mutual will spend $125,000 to fund a research grant over two years to explore how to best distribute a surplus to policyholders when an insurance company fully demutualizes.

Frank O'Brien, regional manager for the Alliance of American Insurers, of which Liberty Mutual is a member, said he wasn't surprised at the settlement.

"Cases get settled all the time," he said, "and it was unfortunate that litigation was started in the first place."

Liberty Mutual is the first insurer to take advantage of a 1998 law allowing companies to reorganize as a mutual holding company.

Liberty officials say the move is necessary to allow it to compete.

But the Center for Insurance Research opposed Liberty Mutual's application, saying a mutual holding company wouldn't compensate policyholders and that stockholders, assuming stock was ever issued, would drown out policyholder rights. CIR members wanted Liberty Mutual to demutualize instead so policyholders could receive dividends.

The Liberty Mutual settlement isn't the only high-profile insurance case involving CIR.

CIR and Adkins tried to participate in the John Hancock demutualization but were hampered with a ruling that policyholders don't have full rights before the Insurance Commissioner.

In 1996, State Mutual Life Assurance Co. settled a lawsuit with CIR over its demutualization (the company is now Allmerica Financial). As part of that deal, State Mutual paid $600,000 to both the Center and three policyholders represented by Adkins who challenged the plan, according to media reports.

In that settlement, $225,000 was divided between three policyholders; $200,000 covered attorneys' fees and expenses and $175,000 went specifically to the CIR.

An April 1996 issue of the Insurance Forum criticized Adkins for "taking money from an opponent in a public interest

struggle" and for accepting a confidentiality agreement with State Mutual.
Adkins disagreed and said the State Mutual case was handled properly because "we represented three policyholders who wanted to settle … the company made an offer to compensate them, and provide money to the Center."
After that, Adkins, said, the CIR continued litigation with the state, ultimately resulting in records on the demutualization being made public.
"When you settle a case, every one has costs," he said. "The way cases are typically settled, there are concessions made by the defendants and they pay some or all expenses made by the plaintiff.
"The court system," he said, "is designed to encourage cases to settle. Settlements are a good thing when they resolve the disputes satisfactory to all sides … companies try to settle their cases all the time and (often) do."
About half of the $715,000 in attorneys fees, he said, will be used to cover expert fees, with the rest covering deposition costs, filing fees, copying and "voluminous papers in this case as you could imagine." The settlement, he added, covers most but not all the legal fees incurred.
In the end, he said, the Liberty Mutual settlement made the company work better as it reorganizes as a mutual holding company by at least be more sensitive to policyholder rights.
"It lets the industry know they're going to be fought," he said.

## *Insurance Times:* States Fielding Terrorist Exclusions As Congress Stalls And Critics Balk

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New York and Conn. have held off approving exclusions but Mass. has endorsed an ISO's

by Mark Hollmer
InsuranceTimes

The Sept. 11 attacks on New York and Washington, D.C. have added a new, unprecedented concept to standard domestic insurance markets – terrorist exclusions.
After the attacks, most reinsurers announced that they wouldn't cover terrorism events in policies renewing in 2002. That action has in turn brought the concept of terrorism exclusions into the lexicon of standard commercial property and life insurance markets.
Without guarantees of reinsurance for future terrorist attacks, commercial insurers in every state have filed for terrorist exclusions in lines including commercial property and inland marine.
As of mid-December, they were hedging their bets in case Congress didn't approve some sort of federal reinsurance program to fill the gap before the end of the year.
Regionally, insurance regulators are fielding their share of exclusion filings and responding to them differently.
The Connecticut Insurance Department has received about 26 form filings including either endorsements for terrorism exclusions or outright policy forms containing the provision.
All have or will be rejected because they don't meet state legal requirements or risk living consumers in the lurch, said Walter Bell, director of the department's property casualty division.
"We have an obligation to protect against the insolvency of insurance companies but we also have an obligation to protect insurance consumers – businesses in Connecticut who need to have coverage," he said.
New York's Insurance Department has received "numerous filings for terrorist exclusions of all varieties and none have been approved yet," said department spokesperson Joanna Rose.
Those submissions even cover certain mold exclusions, she said, in an attempt to include anthrax damage.
Massachusetts, meanwhile, has approved an ISO terrorism exclusion endorsement prepared for certain commercial lines. The Division of Insurance has received about five terrorist exclusion submissions covering both property casualty and life insurance, said Robert MacNicholl, director of the State Rating Bureau – the DOI's actuarial arm.
Those submissions were informally sent back, MacNicholl said, because they didn't comply with a DOI bulletin on the matter sent after they'd been received.
Underscoring the movement toward terrorist exclusions in domestic insurance policies, ISO has submitted its terrorist exclusion form in all 50 states as well as U.S. territories.
Other than Massachusetts, South Dakota, Colorado and Idaho have also approved the form. Guam has approved the

liability section but is still considering the property portion, said ISO spokesman Dave Dasgupta.

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Insurance-related associations have rallied behind the need for federal reinsurance of some kind, as well as the right for companies to increase their options by establishing terrorism exclusions.

"What we'd like to see is the right of insurers to be able to appropriately tailor coverage and to tailor exclusions," said Rita Nowak, policy manager for the Alliance of American Insurers.

"The use of exclusions is an underwriting tool," she said. "And regardless of what the peril is, we are definitely urging states to allow insurers to file and for states to approve these particular exclusions."

Even without a federal solution, Nowak said, "we may still need exclusionary language or contract language to parallel the federal solution."

Joseph Annotti, NAII vice president for public affairs, said he's aware of some members seeking terrorist exclusions, based in part on membership calls to his staff.

"We know that they probably filed for exclusions … as … kind of a backdrop in case Congress doesn't act," he said.

"Everybody is looking to Washington, D.C. to see if Congress is going to implement federal terrorism legislation that will negate the need to file these terrorism exclusions," he said.

"But the longer Congress delays and the closer we get to that Jan. 1 date -- which is the date that most reinsurance contracts will no longer cover terrorism risks -- the more uncertainty is created on both member companies and their (commercial) policyholders."

Even NCOIL – the National Conference of Insurance Legislators – has thrown its support behind a federal reinsurance or financial insurance protection program for terrorism insurance.

"Insurers are concerned they can no longer adequately or accurately price insurance coverage for future catastrophes resulting from terrorism," NCOIL President and Illinois rep. Terry Parke said in a written statement earlier this year.

Originally, Congress considered a federally administered pool plan insurers pay into, similar to versions implemented in Britain, Spain and Israel – countries with long terrorist histories.

But the Bush Administration threw its support behind a more streamlined system where insurers pick up the first $10 billion of claims form the next terrorist attack and the government covers the rest.

The House passed a bill reflecting much of this version, Annotti said, but the Senate hadn't taken any action on the measure as of Dec. 13.

A sticking point in the legislation: Republicans want limits on suing for punitive damages after a terrorist attack, but Democrats don't.

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While the industry is clamoring for exclusions and federal reinsurance, not everyone is supporting them.

The Consumer Federation of America, for example, has submitted proposals to "control unwarranted rate hikes and terrorism exclusions" insurance companies are trying to put in place.

"Some insurers are opportunistically increasing prices by large amounts, particularly for those with commercial policies," the CFA says in a report posted on its Web site.

"Congress should take several steps in any terrorism insurance bill it passes to assure reasonable pricing while a federal reinsurance program is in place," they said.

In addition, the National Taxpayers Union cautioned in October that the pending proposals for federal terrorism reinsurance would "endanger lives and property as well as expose taxpayers to needless losses."

"Congress should move cautiously in this area because precedents may be created for congressional responses to other large losses and major insurance industry difficulties," NTU Senior Attorney David Keating said at the time.

Martin Weiss, chairman of Weiss Ratings, Inc., which provides ratings and analyses of the insurance industry, criticized proposals for terrorism reinsurance or stopgap coverage submitted by the industry, the Bush administration and also members of the House and Senate.

The industry's proposed reinsurance plan, he said, would be burdensome to taxpayers. As proposed, the plan would require the government to pay all claims until a national pool is capitalized at $10 billion – Weiss said the lack of a government spending camp creates excessive costs for the government.

The Bush Administration's proposal, for stop-gap subsidies of the industry over three years, and related Senate and House proposals would either be too costly, reduce insurance choices or force premiums to skyrocket, he said.

Even on the state level, terrorist exclusions aren't necessarily well received because many have lacked uniformity or focus.

Connecticut regulators rejected terrorist exclusions filed there so far, Bell said, in part because their proposed definitions of terrorism "are extremely broad."

What's more, he said, those definitions include acts historically would have been considered to be vandalism which

were otherwise covered under policies."
Even ISO's form was too broad, he said.
In the interim, Bell said, the Connecticut Insurance Department planned to wait and see what Washington, D.C. legislators ultimately supported regarding reinsurance or other aid.
Robert Hartwig, vice president and chief economist for the Insurance Information Institute, said the definition of terrorism companies are using goes well beyond U.S. statutes to include acts that don't harm human live.
Web-based terrorism, or acts that intentionally take down computer networks or web sites, are being included in this broader scope, he said.
MacNicholl, the Massachusetts, SRB director, said it is necessary for companies to have the right to seek terrorist exclusions are necessary in the wake of Sept. 11.
"When insurance companies contracted for reinsurance in 2002," he said, "the overwhelming majority of contracts for reinsurance excluded losses caused by terrorism events."
Because of that phenomenon, he said, companies must protect their solvency by ensuring their right not to write coverage for terrorism if they'd be "left on the hook" without reinsurance.
Dasgupta, of ISO, added that terrorist exclusions are a prudent move for commercial or general liability insurers because of the uncertainty of reinsurance from companies or the federal government, and also the potential threat of future terrorist attacks.
It's still unclear, however, if all insurers will use terrorist exclusions, Hartwig said.
"So far I think they have been used in some places," he said.
Other insurers, he said, are offering terrorism coverage in the meantime as part of a standard commercial package but with lower limits.
In other words, some affected insurers aren't buying separate commercial-property-terrorism coverage "at this point," he said. But the costs of those individual policies are going up, often with a separate sub-limit for losses due to terrorist acts.
Claims following the terrorist attacks have left commercial insurers with few options, Hartwig said.
"In the wake of this terror, (at least) $40 billion … of claims paying capacity went up in smoke. That money is committed.
"And, in fact, by the end of the year, the industry will have paid out $11 or $12 billion already, which is almost equivalent to what Hurricane Andrew cost," he said.
That leaves between $80 and $100 billion in commercial lines/property surplus, Hartwig said, which has to cover future terrorist acts but also any other major disaster like earthquakes, hurricanes or catastrophic fires.
Terrorist exclusions or some sort of federal reinsurance or backstop, Hartwig said, will help preserve the surplus and "keep insurance available and affordable for the vast majority of businesses in the United States."
In the end, regulators seem to be aware of the job they have ahead.
One of their first targets is an attempt to create a more refined definition of what terrorism is, a move that will hopefully help insurers better calculate what they're willing to cover in a post-Sept. 11 world.
Earlier in December a subcommittee of the National Association of Insurance Commissioners issued a draft definition of terrorism, which included a distinction between an act of terrorism and war.
Regulators will eventually use a final version of the draft to approve terrorist exclusions.
The National Association of Mutual Insurance Companies, in a written statement, urged that the final document should have a single definition of terrorism, not require that a terrorist act be affiliated with a terrorist organization, and that a definition differentiate between terrorism and acts of war.

## ***Insurance Times:*** Those Without Health Coverage For Even A Brief Period Face Difficulty Getting Treated

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WASHINGTON (AP) — People who lack health insurance for even a short time have considerable trouble paying bills and are likely to skip needed care, a survey finds.
The survey, released by the Commonwealth Fund, found one in four working-age Americans was without health insurance at some point in the past year. That translates to 38.4 million people between the ages of 19 and 64.
Researchers noted that the survey was conducted between April and July, before the economic downturn. Since then, hundreds of thousands of Americans have lost jobs, and frequently health insurance benefits.
The survey found that people without health insurance for any period have trouble paying medical bills and often skip

needed care.
Specifically, 44 percent of those who were uninsured at some point during the past year, but not at the time of the survey, said they had trouble paying a bill. Thirty-one percent of them said they had to change their way of life — mostly spending most or all of their savings — to pay medical bills.
Similar problems face those who were without health insurance at the time of the survey. About 75 percent of this group had been uninsured for at least a year.
Half of the total group had problems paying a bill and 27 percent said they changed their way of life to pay for medical care.
Both groups had trouble getting the care they needed.
Among those uninsured at the time of the survey, 55 percent experienced at least one of four problems accessing care: not seeing a doctor when sick, not filling a prescription, skipping recommended medical treatment or tests, or not seeing a specialist when needed due to cost.
Of those who had been uninsured at some point during the year, 52 percent had at least one of those four problems. Among those with health insurance, it was just 21 percent.
The Commonwealth Fund notes that not all workers are eligible for COBRA, which helps people who leave jobs at companies that employ 20 or more workers. COBRA allows people to continue receiving health insurance from their former employer if they pay 102 percent of the premium. But about one in four workers may be ineligible for COBRA because they work for a small firm or because they never had insurance to begin with. And many of those who would be eligible for the program could not afford the premiums, the report notes.

## ***Insurance Times:*** NY Lawmakers Hear Insurers On Sept. 11

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by Mark Hollmer
InsuranceTimes

Insurance lobbyists and regulators told New York legislators they're doing a solid job so far handling claims relating to the Sept. 11 terrorist attacks.
But industry representatives also urged the state's Assembly Standing Committee on Insurance to support a federal reinsurance program to keep the industry on its feet and keep insurance affordable for businesses and commercial property owners.
"The appropriate venue for a mechanism to ease this crisis is at the federal level," Roberta Nebel, New York Chapter member of the Risk and Insurance Management Society, said in her written testimony. "We must maintain pressure on Congress to act before the end of the year."
James Harrington, American Insurance Association vice president, northeast region, also urged state legislators to lobby for a federal solution.
"We believe the only course of action is immediate enactment of legislation to create a federal financial backstop for losses that result from future terrorist attacks," Harrington said.
Harrington testified that the property casualty industry was dealing with the Sept. 11 losses, but that his association was worried about the industry's ability to cover future attacks without federal intervention.
The Alliance of American Insurers and Reinsurance Association of America also submitted testimony supporting federal assistance.
Insurance Superintendent Gregory Serio testified that his department launched a number of initiatives to help assess the disaster and promote consumer recovery, including statewide hearings on insurance availability and a "Blue Ribbon Task Force" to study the effects of the disaster.
On top of that, New York regulators will launch an insurance education campaign along with the state's Consumer Protection Board to educate the public on insurance issues following the tragedy.
Marsha Cohen, senior vice president of state relations for the Reinsurance Association of America, submitted a written report to the committee that outlines how the industry has fared so far.
Cohen, in her report, said the loss has affected every line of property casualty business but the largest losses have happened in liability, business interruption and commercial property.
Losses aren't evenly distributed, she said, and surplus funds will cover the loss. Correspondingly, she said, reinsurers, will pick up between 50 and 75-percent of total losses.

The commercial lines market will need time to recover, she said, and state regulators and legislators need to create an environment to allow that to take place.
Robert Snashall, chairman of the New York Workers Compensation Board, said his staff has worked weekends running hotlines for families of World Trade Center Victims and also helping at the Family Assistance Center set up to provide information for residents.
In addition, he said, WCB staff developed software to separate World Trade Center claims from those coming out of other accidents, allowing the office to help victims without losing focus of other claims unrelated to the tragedy.
Sharon Emek, a director of the Independent Insurance Agents of New York, said insurance companies have handled claims payments well and expedited payments for victims.
"The companies have been sensitive to the fact that the normal adjusting process is not applicable in this situation," she said in her written testimony.
"The only circumstance where there has been some minor glitches is with the payment of business interruption claims … (as) carriers have had a steep learning curve regarding the nuances of all the businesses that were shut down during the aftermath of the attacks."
Since Sept. 11, premiums are jumping between 30 and 50 percent except for property coverages, she said, and some clients are facing up to 400 percent increases in premium costs since of the attacks.

## *Insurance Times:* Insurers Criticized For Hiking Premiums Too High After Sept. 11

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by Marcy Gordon
Associated Press

WASHINGTON — Many insurance companies are raising prices far beyond what is warranted by the impact of the Sept. 11 attacks, a consumer group said last week as Congress considers legislation to provide government help for the industry.
The Consumer Federation of America also urged state insurance regulators to tighten their oversight of rates and coverage.
"Insurers are sharply and unjustifiably increasing rates'' or dropping terrorism coverage, Travis Plunkett, the group's legislative director, said at a news conference. He said the legislation to aid insurance companies ``would put taxpayers on the hook for billions at a time when the industry is thriving.''
Robert Hunter, Consumer Federation's director of insurance, called the rate increases "a feeding frenzy.'' Hunter is a former Texas insurance commissioner who also directed the federal government's riot insurance program in the late 1960s.
Companies that write policies protecting property were hit hard by the assaults against the World Trade Center towers and the Pentagon, having to pay claims estimated at $40 billion to $70 billion. The industry remains healthy overall and since the attacks, has attracted new professional investors seeking growth potential.
Hunter suggested the attacks should have led to increases of around 10 percent to 15 percent. Instead, insurers have been doubling rates or raising them even more on some commercial, industrial and airline policies, the consumer advocates said. They said the increases have come in coverage areas other than terrorism, while major reinsurance companies — which assume part of the risk covered by insurance firms — have said they won't renew terrorism coverage after Dec. 31.
An example: the annual cost of insuring Giants Stadium in New Jersey, across the Hudson River from lower Manhattan, has jumped fivefold, from around $700,000 to $3.5 million.
An insurance industry official said the higher rates don't amount to price gouging and are needed to ensure that companies have sufficient capital to cover future unforeseen events.
In addition to the impact of the terror attacks, increased insurance prices may reflect other problems, said David Snyder, assistant general counsel of the American Insurance Association.
CNA Financial Corp., the second-biggest U.S. business insurer, for example, lost $155 million in the third quarter. The company attributed the losses to the Sept. 11 attacks as well as to asbestos and pollution claims it had to pay. CNA also announced it will eliminate about 10 percent of its work force.
Consumers with home and car insurance policies shouldn't feel the pinch of rate increases, analysts say. But bigger insurance costs for businesses could lead to higher prices on some goods and services and possibly job layoffs.

The House passed a version of the legislation that would commit the government, for at least a year, to covering 90 percent of losses from another major terrorist attack; insurance companies would pay the rest. The measure would require insurers to reimburse the government for a portion of the aid.
The vote was 227-193, mostly along party lines. Democrats withdrew their support after provisions limiting terrorism lawsuits, favored by President Bush and the House Republican leaders, were added to the bill. The changes could make it tougher for lawmakers to agree with the Democratic-controlled Senate on compromise legislation. At least four competing bills or draft proposals have been put forward in the Senate.
The Consumer Federation officials said any legislation should prohibit insurance companies from dropping terrorism coverage. Many insurers have asked state regulators for permission to exclude terrorism coverage from policies next year.

## ***Insurance Times:*** Holocaust Survivors Urged To File Unpaid Claims By February Deadline

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CHICAGO — The International Holocaust Commission Task Force of the National Association of Insurance Commissioners (NAIC) is strongly urging Holocaust survivors and heirs to submit Holocaust-era insurance claims to the International Commission on Holocaust Era Insurance Claims (ICHEIC) by the filing deadline of Feb. 15, 2002. Claim Forms may be obtained from the international commission by calling the toll-free number (800) 957-3203 in the United States or from the ICHEIC Web site at www.icheic.org.
"Anyone who thinks they may have the basis for a claim should immediately contact ICHEIC to preserve their rights," said Illinois Insurance Director Nat Shapo, who chairs the task force.

ICHEIC established a two-year window for the filing of claims. Consumers were then urged to file claims if they thought there might have been a policy in their family. Because of circumstances, relaxed standards of proof are in place to provide benefits to those with claims without full documentation. Provisions are also in place to provide benefits for those with claims against companies no longer in existence or companies that were nationalized under communism.

The NAIC task force recognized that there must be one exception to the deadline: Claims generated by a newly published list. While ICHEIC is a claims-generated process, the commission has also required participating companies to produce available lists of Holocaust-era policyholders. Such lists are still being produced by ICHEIC companies and will also be produced should an agreement be reached with the non-ICHEIC companies through the German Foundation.

"Any claim filed as a result of a newly published list must be honored. Lists are an essential part of the Holocaust-era insurance claims process," Shapo added. "The companies must continue to produce available names of Holocaust-era policyholders. I am constantly reminded by members of Congress, state legislators, other regulators and survivors that lists are key to the public perception of credibility in this process."

The International Holocaust Commission Task Force also reiterated the NAIC's concerns about the German Foundation process, as expressed in the NAIC resolution passed unanimously in September (attached). ICHEIC is negotiating with German insurance companies for the conditions under which 550 million Deutsch marks will be distributed for claims and humanitarian purposes. Differences still exist between the two groups on the production of policyholder lists, audits of company procedures and the companies' proposal to divert $76 million in Foundation funds to cover company costs and expenses - including a retroactive reimbursement of $36 million in funds previously expended through the ICHEIC process.

"The companies' reimbursement proposal is unacceptable. We must resolve this problem and we must have a credible process on lists and audits before we can reach an agreement that will result in the long overdue measure of justice that Holocaust survivors deserve," Shapo said.

Director Shapo has recently detailed his concerns about the Foundation in Congressional testimony and in a declaration filed in a New York court case. These actions conform with the NAIC resolution, which calls on state regulators to "as

appropriate, take any or all of the following steps as allowed by law: re-evaluate the formal or information 'safe harbor' provisions given to affected insurers; hold hearings about the German Foundation/ICHEIC negotiations and also about the progress made at ICHEIC member companies in processing and paying legitimate claims; and make filings in relevant court cases involving the matter of unpaid Holocaust-era insurance claims."

## ***Insurance Times:*** Smaller, Leaner, Decentralized PIA Still Competes Regionally

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Even though as many as 15 PIA/IIAA state groups have merged over the last 15 years and some state groups have signed with IIAA

by Mark Hollmer
InsuranceTimes

Merger mania hit many of the PIA/IIAA state affiliates over the last decade, with the "Big I" coming out on top more often than not.
That's because the combined state affiliates of the National Association of Professional Insurance Agents and Independent Insurance Agents of America often affiliated with the national "Big I" instead of national PIA.
Regionally, however, PIA is thriving, according to Ken Bessette, executive director of PIA New York, Connecticut, New Jersey and New Hampshire – run under one regional umbrella.
Membership has even grown in New York and Connecticut over the last year, he said, with a nearly two percent jump overall.
The organization has carried on even though its overall membership has declined in part because of agency mergers.
"Our retention rate is strong," he said, "… despite the fact that there are far fewer potential agencies today."
Richard Poppa, CEO of a regional PIA rival, the Independent Insurance Agents Association of New York, said he keeps track of the competition.
"We compete very strongly with them. We believe we do a better job … but … they're a good competitor."
PIA of New York, Connecticut, New Jersey and New Hampshire counts its combined membership at about 3,600 agents, Bessette said. (As a point of comparison, about 1,800 agencies list themselves as members of the Massachusetts Association of Insurance Agents.)
PIA counts its membership individually, but IIAA tallies its membership by the agency.
Bessette says that membership has declined over the last decade, down about 8 percent overall.
"There was a time we had more members," Bessette said.
He added that IIAA has faced membership decline, too, because "there aren't as many agencies around as there were 10 years ago" because of mergers, consolidations, and agencies going out of business.
"We know why our people leave us. Most of the time (it's because) they don't exist anymore in the same fashion as they did yesterday."
A recent IIAA study counting the number of total independent agencies showed a drop between 1992 and 2000 from 46,000 to 42,000 agencies. The lower numbers come largely from "extensive" mergers, according to the study.
IIAA membership nationally has also dipped. According to an association spokesperson, about 28,000 agencies counted themselves as IIAA members in 1996, with about 27,000 listed as members in 2000. Typically "Big I" membership reflects 60-65 percent of the total agencies nationally.
As of 1999, at least, national PIA membership reached between 12,000 and 14,000, said Frank Mancini, executive vice president of the Massachusetts Association of Independent Agents, a group representing a merger of "Big I" and PIA-state associations that dropped its PIA national affiliation at the end of 1999.
Gary W. Eberhart, executive vice president of the national PIA organization, confirmed the 1999 numbers and said that the 12,000-14,000 level is "very close to where we're at today."
PIA has adjusted by decentralizing and shifting products and program offerings to state affiliates, Eberhart said.
"Serving members close by is going to be a recipe for success," he said.
"Looking at (quality of service) and not having duplication of service will be absolutely critical."
Nationally, a number of PIA/IIAA organizations merged throughout the 1990s, with the combined group initially maintaining affiliation with both national groups, as did the combined Massachusetts group.

A few of the merged state associations – including those in Maine, Vermont and Missouri — maintain both PIA and IIAA affiliations.
Bessette acknowledges that some state groups have signed with IIAA, and that as many as 15 PIA/IIAA state groups have merged over the last 15 years.
PIA continues to function just fine both regionally and otherwise, Bessette said.
"We work better on our own."
Continued competition between both IIAA and PIA regional trade associations is good for the industry at large anyway, Bessette said.
"Both of us try to do better every day," he said. "We're providing some choice to members. We have some things we do well and they have some things they do well. Many agencies choose to join both."
Poppa agreed. As of a few years ago, he said, a third of IIAANY's 1,850 members also joined the local PIA chapter.
The competition, he said, is subtle. But Poppa was also quick to point out that IIAANY's membership has also grown over the last couple years. In addition, he highlights his group's advantages in both lobbying and education.
Likewise, Bessette readily outlines PIA's competitive pluses.
"We certainly have better products and services today than we've ever had," he said. "And we're doing it (regionally) at dues rates the same they were 10 years ago."
PIA regionally is doing "more with less," he said, relying heavily on technology to provide member services and work "smarter than we ever did."
Bessette touts his regional PIA's use of technology as one such advantage. PIA staff keeps members informed with daily Web news pages, online newsletters and other Internet-based products, he said. And some member states compile a weekly newsletter instead of mailing out the traditional, monthly "snail mail" version.
The regional PIA association has also invested heavily in its resource center, which takes more than 13,000 calls annually about a variety of insurance issues.
"(I)f you can help an individual member out with an individual issue, he (or she) is going to be very happy about that," he said.
PIA also carries attorneys on staff regionally, he said, who offer expertise on technical issues and contract analysis.
In other ways, PIA has improved, he said, by discarding old practices that just didn't work anymore, especially in the area of member education..
PIA still offers educational programs but isn't "on every street corner … like we used to" be.
PIA has expanded to provide "in-house" education where PIA staff goes directly to an agency or group of agencies seeking continuing education. This combines, Bessette said, with an online education center, where members can log onto an e-training center to take industry courses or learn general business topics.
"Our members have told us they need a more efficient way of getting educational products …. (and we) made a lot of changes in those" areas, he said.
In the end, Bessette said, the PIA regional groups have recognized times have changed, though they're holding their own and even growing as they work to adapt to agents' changing needs.
PIA is "continuing to try to add value," he said. "We recognize that our membership is changing.
"We feel we've got to earn our membership dues."

## ***Insurance Times:*** National PIA Lets States Run The Show

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It's been a big decade of change for the National Association of Professional Insurance Agents, known as PIA, since board members numerous times declined to merge with their larger rival – the Independent Insurance Agents of America. While various IIAA leaders continue to advocate merger, PIA national remains independent.
But the national PIA as represented by its leaner, Washington D.C. office is a shadow of its former self – at least on the surface. Less than 25 people work in the office, a sharp drop from times past and nearly half the number on staff just over two years ago.
Gary W. Eberhart, PIA national's executive vice president, said the shift is part of a master plan that's helped keep the agent association thriving for a new millennium.
Today's PIA is a loose federation, with products, services and resources shifted from the national office to state-affiliated groups. This change, implemented over the last several years, sets PIA apart from the larger IIAA, which continues to maintain a large central organization along with its state affiliates.

Today's PIA is streamlined so the national group's services complement rather than compete with its state counterparts, Eberhart said.
"We clearly made the decision to decentralize the organization and have everybody within (it) focus on their own strengths," he said.
What remains for PIA nationally is federal affairs and lobbying activities, Eberhart said.
The goal, Eberhart said, was to streamline and reduce duplication at the federal versus state PIA levels.
"We made some very tough decisions and broke the mold on how some things are going to be done," he said.
"We're looking at expanding and not having duplication will be absolutely critical."
The association was always known for its errors and omissions coverage. That continues, Eberhart said, primarily at the PIA state level through a variety of carriers. Nationally, PIA offers E&O through a corporate partnership with AIG.
Group health coverage continues through some select regional carriers, but PIA is still looking for a national carrier to continue the service with a wider reach.
Though PIA has lost some regional associations, "very strong regional affiliates" continue throughout the East Coast, in the Midwest and through much of the country, Eberhart said.
"We're very viable."

Mark Hollmer

***Insurance Times:*** OpinionlExchange
December 25, 2001, Vol. XX No. 26

Most people are familiar with the idea of credit scores when it comes to getting a loan. Each "event" like a debt, on-time payment or bankruptcy adds to or subtracts from the score. The better the score, the better chance the customer has of getting a loan.
But few consumers understand that insurance companies are increasingly using a form of credit scores to make underwriting decisions on insurance policies as well.
And like consumer advocates, agents are concerned.
"The practice is built on the assertion that there is a strong correlation between credit history and likelihood of a loss," said William E. Liebig, JD, CIC, chairman of a task force on credit scoring for the Professional Insurance Agents Association of Pennsylvania, Maryland and Delaware.
"Unfortunately, as credit scoring use has become widespread in automobile and homeowners insurance, many deficiencies and questions have surfaced, including how credit scoring practices are regulated," stated Leibig.
The study focused on the marketplace from an independent agent's perspective in serving policyholder needs. The task force looked at the steps that should be taken to assure that marketplace practices are fair and balanced.
After meeting with state insurance departments, engaging in research and conducting a survey of members and non-members, PIA concluded that certain actions should be considered to protect policyholders, including:

- Asking lawmakers to prohibit the use of credit scoring as the sole factor in underwriting insurance.
- Asking companies to provide full disclosure when they use credit scoring in underwriting.

Further, PIA is asking that companies disclose any surcharge due to a poor credit score right on the policy

- Suggesting that, when a credit score raises premiums, that the credit score be automatically rerun every year to see if a consumer qualifies for a better rate.
- Educate both agents and consumers about credit scoring.

"Our members are telling us that the three quarters of their automobile and homeowners policies are being written today using credit scoring," Liebig said. "It's unfair both to consumers and to agents to allow the current situation to continue to exist."
The PIA suggestions seem the least insurers should do if they really believe they must resort to credit scoring.

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Major U.S. insurance companies have agreed to resolve inter-insurer disputes relating to the September 11 acts of terrorism through unfacilitated negotiation and mediation, rather than in court.
The CPR Inter-Insurer Dispute Resolution Commitment for Disputes has been signed by CNA, Chubb Group of Insurance Companies, Allstate Insurance Co., Fireman's Fund Insurance Companies, Great American Insurance Co., Kemper National Insurance Companies, Nationwide Insurance Co., REM (on behalf of Home Insurance Co.) and Royal

& SunAlliance USA. Including these entities' affiliates, more than 60 companies have joined the effort.
"As U.S. Secretary of the Treasury Paul O'Neill has pointed out, the insurance industry stands to be particularly hard hit by the horrific events of September 11," said CPR President Thomas J. Stipanowich. "The CPR Commitment to mediate was developed to avoid the expense, delays and uncertainties of litigation at a time when quick resolution of disputes between insurance companies is crucial."
For signatory companies, the CPR Commitment covers disputes of any nature related to the terrorist attacks that occurred in New York, Pennsylvania and Virginia on September 11. It applies to all claims arising under all policies of insurance. Participants agree to mediate such disputes, but do not give up their rights to arbitrate or litigate.
Royal & SunAlliance Vice President Brian C. Stahl said, "Many losses of unprecedented size and complexity have arisen from the terrorist attack of September, and it is inevitable that insurers, striving to meet their obligations to policyholders, will inevitably come into dispute with one another. The CPR Commitment is a rational means to resolve these disputes without the high cost and frequent unintended consequences of litigation"
All insurers are urged to consider signing the commitment to facilitate the industry's ability to focus its efforts on responding to policyholders needs.
The text of the Insurance Commitment and other information can be found on CPR's web site, www.cpradr.org.

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It has been an eventful year. Amid the tragedy and challenge we were once again reminded of how vital the insurance industry is to our nation's -- and the world's -- well-being. We were reminded of how insurance can rebuild and restore communities, businesses and families.
Every insurance company and agency employee contributes to the security and even survival of families and businesses. Not every profession and industry can make this claim. We are proud you are our readers and advertisers and we thank you for another year of support.
Congratulations to you all on a job well done and best wishes for a happy new year.

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InsuranceTimes will debut a new look with its next issue. We hope you like it.

## ***Insurance Times:*** III Forecast: P/C Industry Could See Fastest Growth In Years In 2002

December 25, 2001, Vol. XX No. 26

NEW YORK — Analysts see strong growth and better underwriting performance for the property/casualty insurance industry in 2002, but not all due to September 11.
In the annual Early Bird Forecast, conducted by the Insurance Information Institute (I.I.I.), analysts are estimating an increase in net written premiums of 15.1 percent.
If realized, the industry will grow at its fastest pace since 1986.

Stronger Gains

"Sluggish premium growth during the 1990s – principally the result of intense price competition – has clearly given way to much stronger gains," said Robert P. Hartwig, Ph.D., vice president and chief economist for the I.I.I. "The current hard market was already well under way before September 11, with renewals in most major commercial lines in the 10 to 15 percent range."
Hartwig noted that after September 11, which are expected to cost insurers at least $40 million, the pace of increases for 2002 renewals in many of those same lines accelerated significantly.
"These increases reflect the heightened risk being assumed by insurers as well as a stronger demand for insurance products," he said. "There is also a decreased capacity in the short to mid-term because of the insured losses that resulted from the terrorist attacks. The combination of increased premium and new capital will replenish the supply and allow insurers to underwrite greater risk as time goes along. But this can't happen overnight."
The industry's underwriting performance is also expected to improve next year. Analysts have projected the combined ratio —which relates losses and expenses paid to premium income—to fall to 108.0 in 2002, down dramatically from an estimated record high of 118.6 this year. A ratio of 108.0 means the industry allocated $108.00 to claims and expenses for every $100 of premium earned. If realized, the industry will see its first decline in the combined ratio since 1997.

As of mid-December, property/casualty stocks were down 4.8 percent for 2001 (compared to declines of 11.2 percent in the S&P 500 and 18.2 percent in the Nasdaq).

Insurance Stocks
"Immediately after the September 11 terrorist attacks, insurance company stocks dropped precipitously as investors considered company liabilities for losses and the prospect future attacks," said Hartwig.
"The markets have recovered since then, with insurance stocks among the market leaders. Investors have recognized that insurance companies are both paying claims stemming from September 11, and are taking steps to adapt to a very different environment in the aftermath, while preserving their long-term financial strength."
The Earlybird Forecast for 2002 can be found at www.iii.org/media/industry/financials/forecast2002/.

INSURANCE INFORMATION INSTITUTE'S EARLYBIRD FORECAST 2002
Net Written Premiums
(% Change from Prior Year)

| COMPANY | EST 2001* | FORECAST 2002 |
|---|---|---|
| Lehman Brothers | 9.2% | 18.9% |
| Bear Stearns & Co. | 12.0 | 18.1 |
| Sanford Bernstein | 12.0 | 18.0 |
| Goldman Sachs | 10.0 | 17.0 |
| Gill & Roeser | 12.0 | 15.5 |
| Morgan Stanley | 8.0 | 15.0 |
| Prudential Securities | 11.3 | 15.0 |
| Raymond James | 10.5 | 15.0 |
| Ferris, Baker Watts | 11.5 | 14.0 |
| Firemark | 7.5 | 13.5 |
| Merrill Lynch | 11.0 | 13.0 |
| Conning & Co. | 8.0 | 8.1 |
| Average | 10.3 | 15.1 |

Combined Ratio (After Dividends)

| COMPANY | | |
|---|---|---|
| Lehman Brothers | 117.5 | 112.2 |
| Gill & Roeser | 119.6 | 111.0 |
| Morgan Stanley | 125.0 | 110.0 |
| Conning & Co. | 115.1 | 108.3 |
| Prudential Securities | 115.7 | 108.0 |
| Raymond James | 118.1 | 108.0 |
| Sanford Bernstein | 120.0 | 108.0 |
| Merrill Lynch. | 116.0 | 107.0 |
| Firemark | 119.0 | 106.7 |
| Bear Stearns & Co. | 119.5 | 106.5 |
| Goldman Sachs | 116.9 | 105.5 |
| Ferris, Baker Watts | 121.0 | 105.0 |
| Average | 118.6 | 108.0 |

*Ranked highest to lowest for 2002

## *Insurance Times:* 2001 Results Show Further Weakening

December 25, 2001, Vol. XX No. 26

OLDWICK, N.J. — The industry recorded a continuation of weak underwriting results in the third quarter of 2001, as catastrophic losses from the Sept. 11 terrorist attacks destroyed the industry's earnings for the year, according to a special report, "P/C Underwriting Results Continue to Weaken," by the A.M. Best Co.

The fourth quarter is likely to become a dumping ground for reserve and restructuring charges as insurers write off the year and take the opportunity to clean up their balance sheets. Accordingly, A.M. Best has revised its full year combined ratio upward by over seven points to 118.0, from its initial estimate of 110.7. This revised estimate includes six points from the Sept. 11 losses.
On the other hand, underlying results began to improve during 2001, as pricing and re-underwriting initiatives took hold. Reported results should improve in 2002, as reserve additions subside and price increases are more fully earned, assuming catastrophes return to historical levels. Nevertheless, attractive pricing gains have already attracted new capital to the market, and A.M. Best believes that reinvigorated competition will begin to slow rate gains beginning in the later half of 2002. Premium growth is expected to peak in 2002, following a projected increase in net premium written of almost 9% in 2001, and then begin to taper off.

Zczc

NY's no-fault called an open checkbook for criminals
NEW YORK — No-fault fraud is costing New York drivers nearly $2 million every day, according to the Insurance Information Institute.
Criminals along with dishonest medical providers and attorneys are taking advantage of loopholes in state law to steal insurance money. This adds an average of $81 to the cost of insuring an automobile in New York. Without serious reform, no-fault fraud could add more than $300 to the cost of insuring a vehicle by 2005, says Dr. Robert Hartwig, III's chief economist.
Examples of common crimes associated with no-fault fraud are staged accidents, billings for unnecessary or non-existent medical treatments and supplies, falsified police reports and identity theft.
Law enforcement working cooperatively with the National Insurance Crime Bureau and insurance company special investigative units spend millions of dollars investigating and prosecuting no-fault fraud, but this crime persists and is growing. The III says New York's no-fault system is itself part of the problem.
Under current no-fault medical (sometimes called personal injury protection or PIP coverage), fraud criminals have 180 days to submit medical bills after an accident, while insurers only have 30 days to pay or deny a claim, even if there is a strong suspicion of fraud. Otherwise, insurers may face legal action. This allows criminals to conceal fraud and abuse in mountains of misleading and bogus bills. Murky billing guidelines under no-fault also make it easier for corrupt medical professionals to abuse the system.
Reforms are pending before the New York state government which would stiffen penalties for fraud; shorten deadlines for submitting bills; establish needed guidelines for treatment, and decertify medical professionals convicted of insurance fraud. The III points out that none of the suggested reforms would in any way reduce the benefits to injured people or slow down payments to honest policyholders, medical providers or attorneys.
Without legislative reform, the III estimates that the average auto insurance expenditure could increase an estimated 65% from $957 in 2000 to $1,578 in 2005. New York could account for as much as 10% of all auto fraud in the United States – making it the fraud capital of the country.

## ***Insurance Times:*** AUGIE To Survey Agents Over Agents' Automation Needs

December 25, 2001, Vol. XX No. 26

Pearl River, N.Y. —The ACORD User Groups Information Exchange (AUGIE) has been working with insurance companies, vendors and the national agency management system user groups to develop a survey in an effort to determine what agents want out of their automation system and company partners.
By taking this survey, agents have the opportunity to educate carriers and vendors as to their e-commerce needs, said Gregory A. Maciag, president and CEO, ACORD. The results of this survey should positively impact the design of new product and system offerings from carriers and vendors for the independent agents.
This online survey for agents will go live January 2 through February 1, 2002. It can be accessed through a number of web sites including those of national user group associations; the agency management system vendor community; several carriers; national producer associations as well as ACORD's web site - www.acord.org.

## ***Insurance Times:*** Executive Glass To Stress Auto Glass Safety

December 25, 2001, Vol. XX No. 26

Stoneham, Mass. — Executive Auto Glass has launched a auto glass replacement safety campaign to inform consumers about the dangers of improper installation of windshields.
"Windshields are as important as seat belts, car seats, and air bags in protecting automobile passengers," says Ed Beatrice, president of Executive Auto Glass. "However safety standard for auto glass replacement are not government-regulated, and if companies don't use appropriate products or don't adequately train their technicians, lives are at risk. Unfortunately, millions of windshields are improperly installed each year and this represents a potentially deadly problem.'
Executive will disseminate public safety information that focuses on the sue of original factory windshields and sealants. It is also underwriting the Great Boston Safe Kids Coalition as part of its campaign.

## ***Insurance Times:*** Aon's Brokerages To Use Swett & Crawford Name

December 25, 2001, Vol. XX No. 26

Aon Corp.'s three wholesale brokerages—Swett & Crawford Group, Sherwood Insurance Services, and Insurance Brokers Service—will combine under the Swett & Crawford Group brand name starting in early 2002.

## ***Insurance Times:*** Workers Comp Needs Time In New Year To Regroup

December 25, 2001, Vol. XX No. 26

States urged to show restraint as market copes with post-Sept. 11 world

States should exercise regulatory restraint as workers compensation insurers attempt to cope with the uncertainties of the post-Sept. 11 environment, according to a leading expert in the field.
"Insurers are having to figure out how to deal with a whole range of issues that they have never faced before while at the same time dealing with mixed signals regarding the direction of workers compensation loss costs," said Keith T. Bateman, vice president and director of workers compensation and health for the Alliance of American Insurers told a hearing at the National Association of Insurance Commissioners.

Industry Needs Time
"The industry needs time to come to grips with these issues, and regulators can best assure healthy insurers and a healthy market by avoiding premature efforts to impose regulatory solutions."
Bateman's comments came Dec. 10 at a meeting of the NAIC's Workers Compensation Task Force as a participant on a panel discussing "The Changing Workers Compensation Marketplace."
Even before Sept. 11, the industry was struggling with how to deal with an environment in which the severity of indemnity and medical costs was increasing significantly but many rating bureau loss-cost filings were still negative or only in the positive single digits, Bateman noted. This was primarily due to the fact that rating bureau data showed severity being offset by declines in frequency and growth in payrolls.

Indemnity Severity Up
For example, Bateman said that National Council of Compensation Insurers' accident year 2000 data "shows indemnity severity up by 10 percent over the 1999 data, while medical is up 8 percent." This was predominantly offset by a four-percent decline in frequency and a four-percent growth in payroll.
"A number of companies have told me that their recent experience differs from what is showing up in rating bureau data. The insurers are seeing either frequency decreases disappearing or, in some cases, frequency increases. Given what has happened to the economy, especially since Sept. 11, it is unlikely that the payroll growth has been sustained, while the impact of the growth in unemployment on claim frequency has yet to be determined," Bateman said.
He noted that the aftermath of the events of Sept. 11 have compounded the difficulties faced by the industry, and the full cost of the tragic events of Sept. 11 for workers compensation insurers may not be known for years.

"Carriers are concerned that claims for mental injuries or latent diseases may be filed for years into the future. And to the extent that foreign nationals are victims of the World Trade Center or similar attacks, insurers may face pressures not only from domestic agencies but foreign governments as well," Bateman cautioned.
He added that, while not entirely related to the World Trade Center tragedy, the National Administrative Office of Mexico, using the fair labor provisions of the North American Free Trade Agreement, recently announced it is reviewing allegations brought by 13 immigrant workers claiming unfair treatment by the New York Workers Compensation Board. "This demonstrates how difficult claims handling may become in the era of a global economy," Bateman warned.
Bateman noted that the most immediate concern to workers compensation insurers is what is happening, or not happening, in the reinsurance market regarding coverage for acts of terrorism or war. Reports range from those stating that catastrophe coverage for workers compensation is drying up with reinsurers excluding all coverage for such acts to others that some coverage is available for much lower limits at much, much higher prices. Others suggest that primary insurers are having difficulty getting commitments from reinsurers that are waiting to see what emerges from Congress.
"This uncertainty makes it difficult for primary workers compensation insurers to make decisions about renewals because they cannot determine what exposure they will be forced to retain. Once Congress acts, carriers will be able to make appropriate decisions," said Bateman.

Until now, insurers have not had to build terrorism exposure into the price of the product, and they have no experience for doing so, he said. It cannot be predicted whether the Sept. 11 events were isolated or whether there will be other terrorist acts of similar magnitude.
"Insurers can deal with events that allow the law of large numbers to work, but they cannot price the unpredictable," Bateman said. "Insurers and regulators will need to consider whether a better way to deal with these events and other catastrophes is needed."
Still another difficulty facing the industry is determining an employers' obligations are before an event occurs.
"Employers are obligated to cover workers compensation liabilities arising out of and in the course of employment. But that meaning varies from state to state, Bateman said. "Moreover, the industry cannot be sure that the case law that exists the day before a terrorist act will continue to apply after any such attack. Employers are being asked to cover things they never thought about, such as covering testing and prophylatic treatment for workers alleging exposure to anthrax (or at least a white powder) who have no symptoms of the disease.
"The normal underwriting rules for workers compensation are being rewritten in light of the events of Sept. 11. Property-type concepts such as avoidance of concentration of risk are new considerations for the workers compensation underwriter, Bateman explained, "and it will take time for carriers to adjust to the changed environment."
Even those carriers able to adjust to this new environment still must be concerned about those that cannot. "This is one of the few industries in which those that succeed are required to assume the burden of the less successful through residual market and guaranty fund obligations," Bateman cautioned.
He also pointed out other issues that should not be ignored, such as the impact of medical inflation and the need to strengthen cost containment techniques, as well as the impact of state and federal health information privacy restrictions on the cost of claims and claims handling.
"The times are extremely challenging," noted Bateman. "However, if workers compensation insurers are allowed to adjust and given tools when needed, they will successfully respond as they have in the past."

## ***Insurance Times:*** Actuaries Told Of Effects Of Terror Attacks

December 25, 2001, Vol. XX No. 26

ATLANTA — The September 11 terrorist attacks on the World Trade Center in New York have set in motion a "sea change" in the nation's property casualty insurance industry that will have dramatic and far-reaching effects on the way primary insurers and reinsurers do business, industry executives told attendees at the Casualty Actuarial Society 2001 annual meeting.
Moderated by CNA Insurance Cos.' Executive Vice President and Chief Financial Officer Robert V. Deutsch, the panel of Mary R. Hennessy, president and chief executive officer of Overseas Partners Ltd., Robert Lippincott III, chief executive officer of AXA Corporate Solutions (the firm's U.S. reinsurance arm), and Alistair Shore, senior vice president of Fireman's Fund Insurance Cos., agreed on the need for some form of federal legislation to assist the industry with being able to cover possible future terrorist attacks.

"With reinsurers talking about terrorism exclusions in their agreements with primary insurers, it's good to see government action moving forward," said Shore of Fireman's Fund.
Shore said there is a need for a federal package, but added that some plans under consideration would be good for large insurers, but would make it very difficult for smaller ones to survive such potentially large losses.
He said the uncertainty on his company's balance sheets created by the attacks of terrorism have caused Fireman's to pursue only the best business opportunities. The winners coming out of all of this will be those companies who focus most on customer needs, he emphasized
"Needless uncertainty is bad for the industry,' Shore noted, "and insurers need actuaries to better quantify risks - and if those risks can't be quantified, companies shouldn't be writing them."
The Fireman's Fund executive challenged the casualty actuaries to help raise the knowledge level within the property and casualty insurance industry, which he warned is very low after eroding over the last 15 years, he said.
AXA Corporate Solutions has had to modify some of its global plans as a result of the new and uncertain business environment created by the terrorist attacks, said company CEO Robert Lippincott.
He said on the human side, his employees have had to help each other in a new team effort and on the business side has had to recognize its position as a leader in the industry in order to carry out its duties to policyholders.
Lippincott said that with a significant percentage of the nation's commercial property insurance coverage coming up for renewal the first of next year, insurers are going to have to better understand the risks they are writing. He said the industry has a lot of data on which to base underwriting decisions, but often lacks the ability to use that information in the most timely and effective manner.
Mary Hennessey of Overseas Partners Ltd. agreed, pointing out that the industry needs to restore pricing and underwriting stability. The industry has a lot of capital, but not a lot of good underwriting, she said, adding that her company has had to focus on its best opportunities and what it is able to do.
Hennessey predicted that over the next five years, there will be more mergers in the industry, with some large companies becoming even bigger, and that there will be more specialization among those companies that survive.
The Bermuda-based company executive said actuaries need to be moved into other areas of their companies, such as the underwriting and financial operations areas, in order to broaden their skills and be more productive employees.
"Actuaries need to learn everything they can and need to be able to do lots of things well," she said.
Panel moderator Robert Deutsch of CNA agreed with the call for an increased role for actuaries, adding that he would like to see them step up and force the issue on improving underwriting.
Even though recent events have been tumultuous to the insurance industry, Deutsch said he thinks the industry will improve its image as a result of the September 11 tragedy. "There will be a greater appreciation for the industry and the role it plays in the country's financial stability," he said.

## ***Insurance Times:*** Latest SUV Crash Test By Insurance Institute Boosts Rating Of Ford Explorer To 'Best Pick'

December 25, 2001, Vol. XX No. 26

WASHINGTON (AP) — The redesigned 2002 Ford Explorer, the world's most popular sport utility vehicle, holds up better than previous models in a new insurance industry crash test.
The Explorer and the Mercury Mountaineer, which share the same design, earned a best pick designation from the Insurance Institute for Highway Safety.
The Insurance Institute tests vehicles by running the driver's side front end into a deformable barrier at 40 mph.
It rates vehicles as good, acceptable, marginal or poor based on injury measurements on crash dummies, analysis of how the restraint system controlled dummy movement and how well the occupant compartment held up.
The best performers earn a "best pick" designation. The Explorer and the Acura MDX are the only SUVs among the 11 tested this year to earn the mark.
Although the Explorer's rating applies to the Mountaineer, the Mountaineer was not tested by the institute.
The institute agreed to delay testing of the 2002 Explorer earlier this year while Ford engineers made structural changes to improve its performance.
"By the results of our recent test, the changes were successful," said institute president Brian O'Neill. "The Explorer's structure held together very well."
The last institute test of an Explorer was the 1996 model. It was rated only acceptable because the driver door opened during impact.

The new results are a boost for the Explorer. Its reputation took a hit after thousands of rollover accidents involving failed Firestone tires.
Bridgestone/Firestone Inc. said the Explorer's design was partly to blame, but Ford officials insisted the accidents were solely the result of a tire problem.
The 2002 Explorer was completely redesigned but still had to be recalled twice this year _ once because the rear lift gate windows could break when shut and then over concerns that tires may have been cut accidentally by a narrow assembly line.
SUVs as a class are performing better in the tests this year. None got a poor evaluation. However, the 2002 Jeep Liberty was tested twice and got a marginal rating because of high injury forces on the dummy's head. The air bag also inflated late in its first test because a sensor wire shorted out early in the crash. Daimler Chrysler is recalling 120,000 Libertys to fix the problem.
The 2002 Isuzu Rodeo and its twin, the Honda Passport, also got a marginal rating. The manufacturer changed the air bag design to reduce head injuries in the 2000 model, but the changes improved performance only slightly.
Four earned good ratings — the MDX, 2001 Toyota Highlander, 2001 Suzuki Grand Vitara XL-7 and 2001 Mitsubishi Montero Sport.
The 2002 Buick Rendezvous and 2002 Isuzu Axiom were rated acceptable. The 2001 Pontiac Aztek and the 2002 Chevrolet TrailBlazer were rated marginal.

## ***Insurance Times:*** Life Insurance Applications Up For Second Month

December 25, 2001, Vol. XX No. 26

WESTWOOD, Mass. — Applications for life insurance continued strong for the second month in a row according to The MIB Life Index for November 2001. The MIB Life Index showed a nearly 7 percent increase in activity compared to November 2000 and a more than 8 percent increase when assessing the months of October and November compared to the same period a year earlier.
The MIB Life Index represents more than 95 percent of the premium dollars of individual life insurance written in the United States and Canada.

"There was some loss of momentum between October and November, but that was expected," said MIB vice president and chief marketing officer Fran Marinelli. "We saw a significant increase in applications for life insurance following the terrorist attacks of September 11. We realized there would be some drop off between October and November, but the results for November show that overall demand remains strong."

Marinelli said that the Thanksgiving holiday may also have contributed to the decline in November activity versus October activity. There were only 20 work days in November compared to 23 work days in October.

"The important thing is that the overall trend is positive," said Marinelli. "If you look at application activity for the six months of June to November and compare 2001 figures with those from a year earlier, you'll see that underwriting among U.S. companies is up more than 3 percent. In the smaller Canadian market, there has been a nearly 8 percent rise."

## ***Insurance Times:*** Provident Mutual Adopts Plan Of Conversion

December 25, 2001, Vol. XX No. 26

BERWYN, Penn. — Provident Mutual Life Insurance Co. announced that its board of directors unanimously adopted a plan of conversion under which Provident Mutual will convert from a mutual insurance company to a stock company and become a wholly-owned subsidiary of Nationwide Financial Services, Inc.
As previously announced, on August 7, 2001, Provident Mutual entered into a merger agreement with Nationwide Financial contemplating the demutualization of Provident Mutual and its acquisition by Nationwide Financial.
The plan requires the approval of the Pennsylvania Insurance Commissioner and the approval of Provident Mutual's

eligible members, who are generally life insurance policyholders and annuity contract holders.
If the plan receives both approvals, the company expects the transaction to close in the second quarter of 2002.

## ***Insurance Times:*** Whowritesit Launches Insurance Resource

December 25, 2001, Vol. XX No. 26

ORLANDO, FLORIDA WhoWritesIt Corp. has launched a new comprehensive insurance resource called WhoWritesIt.co. WhoWritesIt.com provides life, health, and annuity professionals with product information on demand using easy-to-use point and click Internet technology. Using information collected from hundreds of insurance carriers, the website provides access to carrier and product data presented through an unbiased insurance market portal. Driven by sophisticated Search-and-Match Internet database technology, WhoWritesIt.com allows insurance professionals to save untold hours of valuable time. Developed with an eye on accelerating time-to-market for insurance products, this resource compares specific product inquiries to an extensive database of insurance carriers and then displays the requested results. WhoWritesIt has streamlined the way insurance carriers and their product lines are accessed, presented, and reviewed by the professional agent community.
Carriers can disseminate company and product information to professional agents using a target audience strategy.
“We are excited about this launch because WhoWritesIt.com re-engineers an essential communication process,” explains Mark D. Gebhardt, founder and president of the company. “Traditionally, professional agents gather life and health insurance product information through a cumbersome, time consuming process that includes information collected from direct mail ads, word-of-mouth, or tedious research. Through a single interface, we are revolutionizing this process with sophisticated technology and the Internet.”

## ***Insurance Times:*** Life Insurance Outlook Stable For 2002; Health Insurers Face Tough Road

December 25, 2001, Vol. XX No. 26

S&P expects the life industry reflect general
stability based on strong operating fundamentals

NEW YORK — Standard & Poor's recently revised its 2002 outlook on the health insurance industry, to negative from stable, due to mounting negative pressures, while revising its outlook on the life insurance industry to stable from negative.

"Rising medical costs, the current weak economy, and a growing sense of consumerism in health benefit choices are mounting the pressures on the health insurance industry," said Shellie Stoddard, a director with Standard & Poor's Insurance Ratings group and author of the report.

"This stress will be felt most acutely by companies with weaker balance sheets, lackluster earnings, and smaller overall scales of membership and market concentration."

The report, "Health Insurance/Managed Care Outlook 2002: Negative Pressures Knock Stable Industry Off-Kilter," says that in the coming year, smaller, geographically concentrated plans will be affected far more than the larger, diverse companies, which have greater resources to combat these negative forces more successfully.

The companies that can weather the negative downturn will be those able to price ahead of trend, to control a niche or regional marketplace, to invest wisely and effectively in technology, and to react to changes in the consumer marketplace, the report said.

The life insurance industry, however, is expected to follow its 2001 performance trend, which reflected general stability based on strong operating fundamentals, said the new report, "Life Insurance Outlook 2002: Stable Despite Declining Asset Quality and Critical Earnings Pressures."

"Overall strengths include extremely strong capitalization, very strong business position, strong operating performance, high-quality investment portfolios, and the general stability of need- and protection-based products," said Kevin Ahern, a director for Standard & Poor's Life Insurance Ratings group and coauthor of the report.

"In addition, the industry as a whole has responded well to capital pressures. Companies are improving deployment of capital with reinsurance, increasing earnings through the use of new technologies and better distribution techniques."

However, the industry's strengths are offset partially by the numerous challenges it faces, including continued

deterioration of asset quality, increased defaults, and earnings pressures, especially on annuity businesses, the report said.
In addition, many industry players have already been hit by losses on collateralized debt obligation portfolios and private equity holdings in 2001, and this trend threatens to continue in 2002, depending on the direction of the equity markets.
"We expect that life insurance industry ratings downgrades in 2002 will continue to be driven by a decline in asset quality," said Rodney Clark, a director with Standard & Poor's Life Insurance Ratings group and coauthor of the report. "Mergers and acquisitions will also continue to affect ratings, mostly favorably, as higher-rated strategic buyers, often from Europe, look to acquire companies that offer distribution and product expertise."
The report said well-positioned companies in 2002 will have:
-- Sustainable competitive products or a distribution advantage;
-- Diversification of products and earnings;
-- Multiple franchises or a protected niche in selected markets;
-- Operational efficiency; and
-- Achieved scale in major lines of business.
Vulnerable companies in 2002 will:
-- Concentrate on revenues and earnings in a single product line;
-- Compete on price;
-- Be exposed to consolidation; and
-- Have higher-than-average investment risk.

## *Insurance Times:* Universal, Whole Products Gain As Variable Life Sales Slide

December 25, 2001, Vol. XX No. 26

WINDSOR, Conn. — While total sales of life insurance continued to decline in the third quarter, the trend away from variable products and toward universal and whole life accelerated, according to LIMRA International's quarterly survey tracking new individual life insurance sales.
"The roller coaster ride for individual life insurance sales continues," said Elaine Tumicki, assistant vice president and author of the quarterly report. "While the hot products of the late Nineties – variable universal life (VUL) and survivorship life – continue to plummet, universal life and whole life are growing. Term insurance, which has been on its own roller coaster over the last two years, is starting to recover from the post-Regulation XXX doldrums."
Whether the psychological impact of Sept. 11 is influencing sales remains to be seen, since the quarter ended just weeks after the terrorist attacks on the nation, too soon to be reflected in the results
However, anecdotal reports from agents and companies suggest that there may be stronger than expected interest in life insurance.
A recent report from the Medical Information Bureau, which provides underwriting information to life insurers, showed an increase in applications.
"The rocky performance of the stock market this year is taking a toll on variable life products," Tumicki noted in the report. Annualized premiums for VUL dropped 26 percent in the third quarter, compared to the same quarter of 2000. Year-to-date, VUL premiums are 7 percent below the first nine months of last year. Variable life (VL) is down even more – 37 percent for the quarter and 27 percent year-to-date.
"On the bright side, universal life (UL) is showing a resurgence," Tumicki said. Annualized premium for UL is up 22 percent for the quarter and 15 percent year to date, compared to the same periods last year. Whole life is also up, with annualized premium increases of 8 percent for the quarter and 2 percent for the year. "The relative safety of these products is likely attractive to consumers in the face of the uncertain economic environment," Tumicki said.
In the first full quarter since the estate tax law was changed, survivorship life sales continue to fall in comparison to both last year and prior quarters of this year. Annualized premium for this product, which is sold in most cases to pay estate taxes, is down 40 percent compared to third quarter 2000 and down 24 percent for the year so far. Since the estate tax is repealed only for 2010, unless Congress acts to extend the repeal, many affluent consumers will still likely have substantial estate tax liabilities.
"Companies active in this market should continue to educate their clients about the uncertainty of the repeal," Tumicki advised.
Term insurance is recovering from the post-Regulation XXX sales declines. Annualized premium is down only 1

percent compared to third quarter 2000, which brings the year to date decline to only 14 percent compared to 20 percent for the first half of the year.
For more information, visit www.limra.com.

## *Insurance Times:* No Office, No Staff, This Maine Doctor Makes House Calls At $2 Per Minute

December 25, 2001, Vol. XX No. 26

AUGUSTA, Maine (AP) — With no office to worry about, Dr. Gilliam Johnston specializes in house calls.
Johnston, 44, of Sidney, does not accept health insurance. He works on a cash basis, charging $2 a minute.
"I was having to earn the money to pay the people submitting bills to health insurance companies," Johnston said. ``So I started thinking. If I could lower the cost, I could spend more time with patients."
"My fees are lower because there's no overhead," said Johnston, who has no office and no staff.
He said he decided to move away from a conventional practice because he wanted to spend more time with his patients and make sure they get quality care.
His new practice is targeted at people who have no health insurance, whose income is too high to qualify for Medicaid or who have policies with high deductibles that don't cover office visits.
Johnston said he doesn't know whether he will be able to make a living from his ``Doctor in the House" practice, but for the sake of his patients he is willing to give it a shot.
That's good news for Beverly Armstrong, who was able to sit at her kitchen table while Johnston monitored her blood pressure.
"It's a lot easier now. You can sit down and talk with him in your own home," said the 64-year-old Augusta woman, who has to keep her high blood pressure and diabetes in check.
"When you go to a doctor's office you're only allowed 15 minutes so you have to hurry. He's more economical on the prices because he charges by the minute, so if you want to talk with him for 25 minutes you can."
Armstrong has been Johnston's patient since he first came to Augusta 10 years ago for his residency training. She stayed on as a patient when he took up practice at the Winthrop Health Center.
Dr. Gene Cheng, who has an internal medicine practice in Augusta, said many people find it difficult to get to a doctor's office or clinic, so Johnston is doing his patients a service. Also, Johnston gets to see them in a home environment, which is good.
"I think it's wonderful," Cheng said. ``He's definitely filling a need in the community."
Terry Adams, 55, recently scheduled a home-visit for his annual physical, agrees.
Adams, who teaches at Boston College, remembers the days when his parents could call a doctor and get a house call.
"I remember how important he was to the family," Adams said. ``He carried magic in that black bag of his. He came in, diagnosed the problem, gave me a shot of penicillin, and in a few days, I felt better."
Johnston's patients pay $30 for a 15-minute home visit, compared to about $50 for an office appointment. A physical examination would take 30-40 minutes and cost between $60-$80, whereas it would be more than $100 in a doctor's office or health center.
Johnston never charges patients for the time he spends in a car driving to their homes. On staff at MaineGeneral Medical Center in Augusta and Waterville, Johnston said he also will come to the workplace if a patient has sufficient privacy.
"If somebody want's me to be in and out in a hurry I can do that," he said. ``Or if they want me to sit down and be thorough, I can do that. I will try to give the patient what they want. It was hard to do that in a system I worked in before."

## *Insurance Times:* Citigroup To Spin Off Travelers

December 25, 2001, Vol. XX No. 26

NEW YORK (AP) - Citigroup Inc., the nation's largest financial services company, plans to split off its Travelers Property Casualty insurance business into a separate company.
The plans will enable Citigroup to focus on faster-growing areas of the financial services industry, said Sanford I. Weill, chairman and chief executive of Citigroup.

Citigroup, which is also home to Citibank and the brokerage Salomon Smith Barney, said it plans to sell up to a 20 percent stake in Travelers in an initial public offering in the first quarter of 2002.
The amount Citigroup will get in the IPO will depend on market conditions.
It subsequently plans to distribute its remaining stake in Travelers to Citigroup shareholders by the end of 2002.
Travelers is one of the nation's largest property-casualty insurers. Weill headed Travelers when it merged with Citicorp in 1998 to become Citigroup.
Citigroup named Robert I. Lipp, a Citigroup director, as chairman and chief executive of Travelers Property Casualty. Lipp had helped lead Travelers in the 1990s.
Lipp said in a statement that the spinoff would put Travelers in position to “participate independently in the accelerating consolidation of the insurance industry."
“Having been involved with Travelers for more than nine years, I have great confidence in the management, employees and franchise," he said. He said Travelers would be based in Hartford, Conn.
Citigroup said its operations would continue to offer Travelers Property Casualty products after the splitoff and provide investment advisory and other services to Travelers.

## *Insurance Times:* Mass. Safe Driver Discounts Approved

December 25, 2001, Vol. XX No. 26

BOSTON — The Massachusetts Division of Insurance has approved five save driver discounts for 2002. They are: Amica, 10 percent; Electric, 5 percent; Premier, 4 percent; Hanover, 2 percent; and National Grange at 2 percent.
Two more companies gained approval for additional multi-car discounts.
All companies also offer a standard 5 percent discount for multi-car coverage. Norfolk & Dedham didn’t file a Step 9 discount but filed for an additional 2 percent multi-car discount on top of the 5 percent, for a 7 percent total.
Premier also filed for a total 7 percent multi-car discount.
Seventeen auto insurance companies applied for and received save driver discounts in 2001.

## *Insurance Times:* John Hancock, Metlife Selected For Federal LTC

December 25, 2001, Vol. XX No. 26

BOSTON and NEW YORK — John Hancock and MetLife have been jointly chosen by the Office of Personnel Management (OPM) as the providers for the Federal Long-Term Care Insurance Program. The program, available to most federal employees and their families, will be the largest employer-sponsored long-term care insurance program in the country.

Congress, seeking to assist federal employees in obtaining protection from the high cost of long-term care services, created the program through the federal Long-Term Care Security Act of 2000. Coverage through this program is being offered on a voluntary basis and will be paid for by covered employees and their families.

Because of the complexity and size of the federal group, the statute permits the program to be underwritten by a consortium of insurers, which is why John Hancock and MetLife decided to partner with each other.
The program will be serviced by LTC Partners, a new joint-venture company created by John Hancock and MetLife, which will be based in Portsmouth, New Hampshire.

## *Insurance Times:* NJ Blue Cross Again Explores Converting

December 25, 2001, Vol. XX No. 26

NEWARK, N.J. (AP) — Horizon Blue Cross Blue Shield of New Jersey is again considering converting to a for-profit corporation.
Conversion would require the state's largest health insurer to establish a charitable foundation that would expand access to health care, under a new state law.

When developed, its conversion plan would require a public hearing and approval by the state Department of Banking and Insurance. In addition, the state attorney general and a judge must accept the plan for the foundation.
"Maybe we're optimistic, but we're informing our employees that nothing would take effect before 2003," Horizon Blue Cross spokesman Fred Hillmann.
Horizon Blue Cross provides health insurance to 2.5 million New Jerseyans. It is the only nonprofit provider in the state.
Its board authorized work on conversion to start.
Legislation signed by Gov. Donald T. DiFrancesco in June provided a framework for conversion, requiring that the entire value of the new company be used to endow the new foundation.
The value "will be determined when we go to market," Hillmann said, saying no estimate had been made.
The company has annual revenues of $4.9 billion, and has $500 million in reserves, he said.
An appraisal of the company's value is to be conducted by experts acceptable to the insurance commissioner, under the law.
Four years ago, a dispute over whether then-Blue Cross and Blue Shield of New Jersey was a charity — and should return an estimated $1 billion in tax breaks and other benefits it accrued as the state's insurer of last resort — derailed its effort to become a for-profit mutual company and merge with another insurer.

## ***Insurance Times:*** Stamford Managers Offered Same Sex Benefit

December 25, 2001, Vol. XX No. 26

STAMFORD, Conn. — City managers are being offered a new contract that includes medical benefits for same sex couples.
The insurance proposal is rare among Connecticut towns and cities. Domestic partner benefits allow gay employees living in committed relationships to put their significant others under their health plans.
The benefits are part of a tentative agreement recently reached between the city and 125 employees in the supervisor's union.
"It's pretty progressive in the public sector. The state does it but not many municipalities (do)," Bill Stover, the city's director of human resources said.
Only a handful of employees are expected to take advantage of the benefits and the cost should be minimal, Stove said.
In West Hartford, where same sex couples in one of the town's nine labor unions have been offered these benefits since 1998, only two of the 60 eligible employees use them, town officials said.
Only 225 of the state's 44,000 employees use the health-care option, according to the state comptroller's office.
Stamford's domestic partner benefits would be modeled after the state's program and would require applicants to provide evidence of a shared bank account, credit card, vehicle, home or a co-signed lease, Stover said, and they must plan to remain in the relationship indefinitely.

## ***Insurance Times:*** Double-Digit Health Care Cost Hikes Seen Continuing In 2002

December 25, 2001, Vol. XX No. 26

Significant premium increases are expected to continue in foreseeable future

NEW YORK — For the third consecutive year, large employers will experience a double-digit increase in their health care costs, according to the 2002 Towers Perrin Health Care Cost Survey.
The survey found that the cost of large employers' health benefit plans will increase about 14% on average in 2002 – the highest year-over-year percentage increase since Towers Perrin began conducting the survey more than a decade ago.
Both the dollar cost and the percentage increase vary significantly among employers. Survey participants also said they expect double-digit increases to continue over the next few years.

Employer Steps

According to the survey, employers are considering a number of actions to control escalating costs including:

- additional cost sharing by employees (increasing monthly contributions, deductibles and co-payments);
- restructuring vendor/HMO offerings;
- implementing targeted programs that are relevant to individual employers' populations, such as disease management, wellness and centers of excellence;
- using technology to provide information to employees and to support self-service.

"Few companies will find these cost increases to be acceptable," said Rich Ostuw, a senior Towers Perrin health care consultant. "Although it may not be practical to implement significant changes before January 2003, companies should not delay in starting the process because the analysis and implementation of major changes require significant time if the changes are to be effective and sustainable. The longer one waits, the fewer options are available."

The report cites the rising costs of prescription drugs, escalation in HMO premiums and increases in fees paid to hospitals and physicians as the primary factors behind the increase in health care costs.

"Comparable to the environment a decade ago, employers are being challenged to redefine their financial commitment to health care in light of these trends," said Ron Fontanetta, a principal in Towers Perrin's New York office. "As an example, most employers surveyed have either adopted or are considering changes to their prescription drug programs, particularly brand name medications, to limit the impact of increasing costs."

For active employees, the average reported 2002 cost of medical coverage for all types of health plans combined is $228 per month ($2,736 on an annual basis) for employee-only coverage; $466 per month ($5,592 annually) for employee-plus-dependent and $661 per month ($7,932 annually) for family coverage.

For retirees under age 65, the cost of employer-sponsored medical plans tends to be higher than for active employees, while for retirees age 65 and older the cost is generally lower because of the presence of Medicare benefits.

However, the cost of coverage for Medicare-eligible retirees is growing at a faster rate than costs for younger retirees and active workers. Drug costs make up a larger share of the cost for Medicare-eligible retirees, and drug cost increases have been greater than costs for other medical services in recent years. In addition, there has been a rapid escalation in Medicare plus Choice premiums over the past few years.

"This should be of particular concern to companies that have a large retiree population, since this cost trend can impact the reported expense and liability of their retiree medical programs," said Fontanetta.

Fontanetta also noted that the cost exposure for retiree medical plans can vary significantly within an industry. "This is why employers should place retiree medical management on their radar screen," he said. "We've noticed a significant variation in the reported accounting expense and liability between those at the 25th and 75th percentile levels."

The survey found that employees will contribute an average of $38 a month, or 17% of the total cost of their coverage, in 2002 for employee-only coverage. Employee contributions for family coverage will average $134 a month, or 20% of the total cost of their coverage.

Fontanetta also found a wide variation in the performance and premium rates of health plans, even within the same geographic area. For example, among the managed care approaches, HMOs and POS plans still provide more savings than PPOs on average.

According to the survey, dental costs for 2002 will increase by 6%. "Although increases in dental premiums are not as dramatic as health care premium increases, they continue to outpace the rate of inflation," noted Ostuw. "Since dental costs commonly represent 10% of a company's overall health care costs, companies shouldn't ignore these increases."

More information is available at www.towersperrin.com.

## ***Insurance Times:*** Hmos Under Pressure To Alter Ways With Doctors, Patients

December 25, 2001, Vol. XX No. 26

HARTFORD — Managed care companies and HMOs, under siege by regulators, legislators, physicians and patients, are likely to implement some substantial changes in the near future, a new study by Conning & Company reports.

Class action suits and the enormous publicity surrounding physician control of patient-care decisions have already had tremendous impact, and pressure is mounting to pay providers faster.

Regulation Costs

In addition, the costs of complying with the provisions of the Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Legislation are likely to force smaller, less technically astute organizations out of

business or, more likely, into mergers with larger, better capitalized companies.
The Conning study, “Managed Care 2001: Legal, Regulatory and Political Issues,” reports that because policies that allow more provider autonomy—the PPO model—are selling much better than traditional HMO policies, there is a de facto shift towards more physician and provider control. This movement, moreover, is market driven, independent of regulatory changes, lawsuits and the lobbying of particular interests. The study further reports that with the cost of funds now at very low levels, insurers have vastly more to gain by paying providers promptly than by suffering their ill will as a result of payment delays.
The Conning study reports that many of the challenges facing the managed care industry have previously hit the property and casualty insurance industry, including rapidly rising loss costs and increasing expense levels, and that it’s inevitable that some of the same effects are being experienced by managed care companies.
“A lot of what we’ve seen in property and casualty is coming to pass in managed care,” said Samuel Levitt, Sc.D., Vice President at Conning and co-author of the study. “Obviously there are many differences, including public policy and ethical issues that surround the delivery of healthcare, but similar kinds of changes are inevitable. And one of the biggest is going to be further industry consolidation.”
Industry consolidation according to Conning will be driven by three factors. The first is pressure on margins. While managed care organizations are achieving substantial rate increases, costs are also increasing rapidly, in some cases more significantly than prices. The second is the cost of litigation - the issue most responsible for the recent division - in the Senate and House efforts to pass a Patients Rights Bill. The third is the cost of complying with provisions of regulations like HIPAA and GLBA.
“Ironically, market forces are doing much of what the legislators are hoping to accomplish with laws and providers are hoping to accomplish with lawsuits,” summed up Levitt.
For more information, visit www.conning.com.

## ***Insurance Times:*** Polaroid Workers Express Anger And Betrayal Over Benefit Cuts

December 25, 2001, Vol. XX No. 26

by Justin Pope
Associated Press

BOSTON (AP) — The bankruptcy of Polaroid Corp. left Meredith Barsotti with plenty of worries. The company stopped paying its portion of her health insurance, leaving her to make up the difference of several hundred dollars. Worse still, her 80-year-old mother, also a Polaroid retiree and a diabetic, had to go out and buy insurance to back up her Medicare benefits.

No Dot.Com
But what hurts most for Barsotti is that the company wasn't some fly-by-night dot.com where she worked until she was laid off in October with no severance. It was Polaroid, a company where people stayed for life, long after such commitments stopped being fashionable.
“I feel almost betrayed," said Barsotti, 46, an administrative assistant at the company for 28 years. “I'll never put my heart and soul into another company."
The retirees say they knew the cuts were coming, and that bankruptcies are never pleasant.
Still, they insist Polaroid's demise would be easier to swallow if the dignity of the old Polaroid, under founder Edwin Land, hadn't given way to unreturned phone calls, misleading information and a simple unwillingness to take responsibility for what went wrong.
“They won't answer the phone or give me any information," says Joe Silva, 51, a mechanic at Polaroid for 30 years. “That's disturbing, when you've been working some place for 30 years and they won't even talk to you."
On Oct. 9, Polaroid told retirees it could no longer cover its contribution to their health benefits. Three days later, the company filed for Chapter 11 bankruptcy protection. It also has warned the pension fund may be underfunded, though for now it is making payments.
Meanwhile, some lost thousands of dollars in an employee stock ownership plan, which was started in the late 1980s to put shares in employees' hands and protect the company from a takeover. Workers were forced to contribute to salary to the plan, but they couldn't sell the shares, which are now nearly worthless.
The final straw for many former workers came last week, when the company asked a U.S. bankruptcy judge's

permission to pay millions of dollars in bonuses to 45 top executives, including Chief Executive Officer Gary DiCamillo, who earns a base salary of nearly $850,000.
“What they did to us was a disgrace," said Silva, who says he lost as much as $50,000 in the stock ownership plan and got no severance pay when he stopped work in October. ``And now (DiCamillo) wants to take care of the top execs. ... He's going to spend money on those guys to try to save the company now, when we already did that."
Polaroid insists the payments are necessary to make sure executives essential to overseeing the sale of the company don't leave for other jobs. It is negotiating the proposal with the creditors' committee, who filed papers opposing it, as did a retirees group.
Once just a social club, the 6,000-member Polaroid Retirees Association is now in the middle of complex legal and insurance disputes. President Peter Bass fields up to 40 calls a day.
“It's a sad situation. We were a big family at one time," Bass says.
After the filing, top Polaroid officials apologized to former workers for the way the company communicated news of the benefit cuts, and set up a meeting with health insurance providers to help them determine new options.
Spokesman Skip Colcord acknowledges that resources are stretched at Polaroid, which this year laid off 3,000 workers, or a third of its work force. But in many cases, it simply doesn't have the answers for former workers.
“A lot of it is that the information is not always available as (quickly) as people would like," Colcord said. “As soon as we get it we resolve issues. But if somebody calls and has a question we can't answer right away, there's a feeling of frustration."
Many former employees say their pain over Polaroid's downfall is compounded by their warm memories of their years there. Plummer recalls a place where executives took the long view, allowing the company to turn out fantastic gadgets.
John Williams, a 59-year-old former mechanic who worked on film machines for 40 years, remembers a company that stood by its workers in good times and bad.
“There was a job there for me during the lean times — and there were lean times on and off — and I always felt I was very fortunate to work at Polaroid," Williams said.
Williams arrived at Polaroid as a 19-year-old with nine younger siblings to support after their mother died. He left in October, and still hasn't seen his severance.
“People were never treated this way," says Plummer, who spent 28 years with the company and volunteered himself when asked to come up with a list of cuts for his division. “They were always treated as part of the company and not somebody to be milked."
Plummer counts himself lucky. His insurance bill rose $650 a month since the bankruptcy, and it covers less, but he can swing it. By leaving early, he got out with most of his 32-week severance pay and is starting a consulting career.
The insurance and other benefits, Plummer says, “were something people had learned to expect."
David Cormier, a labor economist at West Virginia University who has studied how workers respond to layoffs, says workers often take out their frustrations by demonizing management, and that bankrupt companies rarely have the resources to give workers the attention they want.
“There's often an antagonism that translates to, 'damn management, they've screwed up again, they're costing us our jobs,'" he said.
But the retirees insist DiCamillo's team is to blame for the company's problems, and that they have every reason to feel betrayed.
“Forty years you're in the company," Williams said. “A couple days later you're a stranger and they're telling you to stay out of the building."

***Insurance Times:*** NOTICE OF SPECIAL MEETING OF SOLE STOCKHOLDERS OF FIRSTRETURN INSURANCE COMPANY, INC. AND HARVARD PILGRIM INSURANCE COMPANY, INC.
December 25, 2001, Vol. XX No. 26

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

In accordance with the requirements of MGL. ch 175 sec. 19A, notice of special joint meeting of the sole stockholders of FirstReturn Insurance Company, Inc., a Massachusetts corporation, and Harvard Pilgrim Insurance Company, Inc., a Massachusetts corporation, to be held on December 26, 2001 at 10:00 a..m. in the executive office of Harvard Pilgrim Insurance Company, Inc at 93 Worcester Street,Wellesley, MA, is hereby given. The purpose of the meeting is to approve the merger of FirstReturn Insurance Company, Inc. with and into Harvard Pilgrim Insurance Company, Inc.

Both FirstReturn Insurance Company, Inc. and Harvard Pilgrim Insurance Company, Inc. are wholly-owned subsidiaries of Harvard Pilgrim Health Care, Inc. or one of its wholly-owned subsidiaries. The merger has been approved and recommended by the Boards of Directors of both companies. Harvard Pilgrim Health Care, Inc. as the sole stockholder of Harvard Pilgrim Insurance Company, Inc. has approved the merger by written consent as has the sole stockholder of FirstReturn Insurance Company, Inc., but under Massachusetts law a written notice is required to be published of a meeting of stockholders to be held to consider the merger.

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

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

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

By order of the Board of Directors

William P. Frado, Clerk

## *Insurance Times:* COMMERCE ELECTS FELS; ISRAEL, ORTON JOIN PROMUTUAL; PUBLIC SERVICE MUTUAL PROMOTES; CONGER HEADS CASUALTY ACTUARIES; NAII ELECTS NICELY

December 25, 2001, Vol. XX No. 26

Commerce Insurance Co.

Directors of The Commerce Insurance Co. and Citation Insurance Co., the Massachusetts insurance subsidiaries of The Commerce Group, Inc., recently elected Gerald Fels as president, chief operating officer and chief financial officer.

Fels will be responsible for managing the overall operations of the Massachusetts subsidiaries, according to Arthur J. Remillard, Jr., Commerce Group chairman of the board, president and CEO.

Fels joined The Commerce Insurance Co. in 1975 as chief financial officer. He is also executive vice president, chief financial officer and a director of The Commerce Group, Inc.

ProMutual

Terri Israel and Karen Orton have been named sales and marketing specialists at the Boston-based medical professional liability insurer, ProMutual Group. Israel will be responsible for marketing in Massachusetts, while Orton's territory will be Connecticut.

CIBGNY

The Council of Insurance Brokers of Greater New York installed new directors and officers at the association's annual dinner. Directors installed were: Stuart Fries, CIC, from Garber Atlas Fries & Associates Inc., Lynbrook; Thelma Goodrich from Goodrich/Johnson Brokerage, New York; George Marchetti Jr., CPCU, from Marchetti and Sabatelli Associates Inc., Brooklyn; William Paris from Paris Insurance, Bronx; Vito Pietzana from Summit Coverages, Ltd., New York; Lucas Snyder from American Marketing Center, New York; Anthony Zaino, CIC, AAI, CPIA, from Anchor Brokerage Company Inc., Huntington Station.

New officers are president, Jeffrey Greenfield from NGL Group, Lynbrook; vice president, Al Caputo, Buckingham

Balder Associates, Staten Island; vice president, Al Eskanazy, Morstan General Agency, Lake Success; vice president, Lloyd Sabatelli, Marchetti and Sabatelli Associates, Brooklyn; secretary, Jerrold Rosenblum, Intercity Agency, Bayside.

Burak & Cahill

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

Public Service Mutual

New York's Public Service Mutual, a member of the Magna Carta Companies, announced several promotions: Greg Costelloe, assistant secretary; Lou Cagley, assistant vice president; Larry Gaddy, assistant vice president; Ram Jagoo, assistant vice president; Theodore Smyk, vice president for claims administration; Dan Tagliaferro, vice president, treasurer; David Lawless, senior vice president and chief administrative officer, and John Hill, senior vice president of home office operations.

Casualty Actuarial Society

Robert F. Conger, principal, Tillinghast-Towers Perrin, Atlanta, was elected president of the Casualty Actuarial Society. Conger joined Tillinghast-Towers Perrin in 1986 as a consultant to property/casualty insurance companies. Previously he worked at the Massachusetts Rating Bureaus.

He succeeds Patrick J. Grannan, principal and consulting actuary, Milliman & Robertson, Inc., Radnor, Penn.

Gail M. Ross, vice president, Am-Re Consultants, Inc., Princeton, N.J., was named president-elect.

Maine Mutual

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

NAII

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

New England College of Finance

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

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

Delta Dental of Mass.

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