

Insurance Times: Agents Urged To Prepare For Life Without Federal Estate Taxes
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As Congress and presidential candidates once again eye tax reform, life agents would be wise not to panic but to begin preparing for a life without the estate tax, an estate planning specialist told members of the Million Dollar Round Table at their annual meeting last month. James C. Magner, JD, CLU, ChFC, said the life industry survived a "near death experience" last year when Congress passed the Taxpayer Refund and Relief Act (he called it TERRA) and sent it to the White House for signing. Only a veto by President Clinton saved the estate tax from repeal.

In his MDRT remarks, Magner stressed that the political foes of the estate tax have not gone away. The House this session has already passed a Death Tax Elimination Act, although the Senate has not considered it yet.

Magner said that these developments suggest the life industry had better do some planning for itself.

"As this process unfolded last year, it struck me that those of us who derive much or all of livelihoods from the wealth transfer market were forced to confront a number of unsettling questions as we waited for an election that could make or break our collective futures: will the Republicans keep control of Congress; will the Democrats keep control of the White House; if the Republicans retain Congress and win the White House, what could a repeal/reform bill look like and what impact could it have on new and inforce business; lastly, what if anything should we say to curious clients, advisors and policyowners who may be following this process just as closely as we are? "

Magner is executive director of the Estate & Business Planning Group, a multi-disciplinary team which helps producers close wealth transfer and executive fringe benefit cases. He previously worked with John Hancock and the IRS.

Limra's latest Survivorship Survey puts the size, and exposure, of the wealth transfer market in context. According to Limra, the combined 1997 survivorship premium sold by 48 member companies was \$591 million. The total collected premium through 1997 for these carriers was over \$3.08 billion.

Although there are three taxes that are lumped together and referred to as "transfer" taxes-- estate, gift and the generation-skipping transfer tax -- Magner explained that the estate tax gets the most attention.

Tax History

Over the past 80 years, Congress has tinkered with the estate tax rate structure but made few serious attempts at reform. In 1916, the top rate of 10 percent applied to estates greater than \$5 million. In 1941, the top rate went to 77 percent to help pay for WWII, and by 1993, the top rate was slashed to 55 percent. One serious reform came in 1976 when Congress tried to implement a carryover basis system. The carryover basis system was scrapped in 1980, and one year later, when President Reagan signed the Economic Recovery Tax Act, estate planners were given the two building blocks of "modern" estate planning, the unified credit and the unlimited marital deduction. Finally, the Taxpayer Relief Act of 1997 provided the phased-in increase in the unified credit to \$1 million

effective in 2007.

Proponents of estate tax repeal have made a number of arguments in support of their position, according to Wagner. Proponents of repeal claim that

- transfer taxes raise less than one percent of total federal revenue;
- compliance, administration and enforcement costs are high;
- only one to two percent of all decedents are ever exposed to the tax;
- it requires expensive pre and post-death planning;
- the rates are the highest of any American tax, and are among the highest of any country;
- the tax forces the break-up of farms and family businesses, and that these forced sales have a negative impact on financial markets by removing capital from the economy;
- the tax discourages inter-generational savings and rewards those who spend down their estates;
- it doesn't dilute concentrations of wealth and doesn't demotivate beneficiaries;
- death is an inappropriate time to levy a large tax;
- and finally, the tax is old, inefficient and lacks a rationale for being in the tax code.

Revenue Loss

Magner calculates that the complete elimination of transfer taxes would produce a 10-year revenue loss of \$358 billion -- a revenue loss that would have to be made up from other sources.

His analysis shows that only about 4.5 percent of all decedents last year left assets sufficient to require the filing of an estate tax return and that only the largest estates bear the brunt of the estate tax.

He added that the existing data do not prove that the estate tax is the causative factor that forces the break-up of family-owned farms and businesses.

A recent study of the costs associated with administering the entire transfer tax system (including pre-death planning costs, post-death administration costs as well as the IRS' administration costs), concluded that the total costs for all three categories was just over \$1.8 billion. When expressed as a percentage of the total transfer tax receipts, this comes to just over 7 percent.

"Although the IRS is much maligned, the amount it will spend on administering the entire transfer tax system has averaged less than 2 percent of its entire budget," he commented.

Magner believes that "the arguments and data marshaled against the estate tax aren't entirely persuasive" yet "the march towards the 2000 election continues..."

He predicts that if Republican George Bush wins the White House, the estate tax repeal will become law. If Democrat Al Gore wins, estate tax reform not repeal is a possibility.

What form will repeal or reform take?

Magner sees four possibilities: (1) the estate tax could be immediately repealed and not replaced with any alternative system; (2) the estate tax could be gradually repealed and replaced with an alternative system like the carryover basis system; (3) new rules could be enacted providing additional benefits to farms and small/family-owned businesses; (4) and finally, the exemption could be increased, possibly to \$1.5 million or more, and the top bracket could be lowered.

Counsel Clients

Magner recommended that MDRT members begin to think about how they will counsel their clients in the event of repeal or reform.

He used as a hypothetical straw-man a single-life or survivorship policy owned by an irrevocable life insurance trust (ILIT) that is either paid-up or needs additional premiums.

First he tackled reasons clients might want to keep their insurance coverage in force.

"If the estate tax is repealed, some clients might say, "I want that policy surrendered." However, it's the trustee, not the client, who has control over the decision what to do with the policy.

If the policy happens to be paid-up, the trustee must decide whether keeping the policy is the most prudent investment for the beneficiaries.

If the policy requires additional premiums, the client can unilaterally starve the policy by refusing to make Crummey gifts, but the trustee has to look to the terms of the ILIT and not the client for guidance."

In the absence of a specific trust provision addressing the trustee's power to surrender the contract, the trustee must act in the "best interest" of the beneficiaries. If the ILIT is silent on the matter, state law governing the ILIT may need to be consulted, he added.

He stressed the importance of paying close attention to the income tax treatment of the ILIT and the ILIT beneficiaries before considering surrender. "In this regard, most ILITs are grantor trusts for income tax purposes. This means that the client/ insured(s) would pay the ILIT's income tax bill if the policy were surrendered," Magner noted.

If a corporate or family split dollar was used to fund the policy, things get even more complicated. "Distributing the policy to the beneficiaries certainly won't help your split dollar exit strategy, and surrendering the policy will force a portion of the cash back to the premium payor.

Another reason for leaving existing coverage alone arises if the estate tax repeal ends up being temporary and the estate tax is revived in another tax bill.

Also, he warned, states could move to raise their own tax rates "to soak up some of the estate tax revenue the IRS abandoned. " If this happens, the proceeds from the policy could be needed to cover state as opposed to federal estate tax.

If a client insists on surrendering, Magner suggests requiring a signed waiver letter alerting them to the potential tax consequences and underwriting issues involved with re-acquiring coverage at a later date.

"Of course, if the estate tax is sunsetted over a period of say 10 years, we shouldn't despair because we'll be able to sell more decreasing term policies than we've ever sold before!" he added.

If the estate tax is "merely" reformed rather than repealed, there are other defensive planning strategies to consider.

"Some clients who skim the headlines might think their estate tax exposure has just been eliminated because of a substantial increase of the exemption. New clients might be like deer caught in the headlights, unsure of exactly what to do.

The solution is to be able to quickly re-run their estate liquidity numbers under the new rules. Very often there will still be a need for estate liquidity life insurance, he advised.

"The sooner we come to grips with the fact that we are in a tax-dependent environment, the better off we will be. One of the most effective things you can add to your business plan in these times of legislative turbulence is an effective client/advisor/policyowner communication strategy, because all of these folks read the same things we read, and watch the same news programs we watch," he advised.

"Don't panic, but be prepared to address tomorrow's concerns today. "

Insurance Times: Two Years Later, Insurbanc Still Waiting For OK
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by Mark Hollmer
InsuranceTimes

It could be independent agents' ultimate weapon against banks seeking to pry away their business.

But InsurBanc is still a long way from opening day - nearly two years after officials filed the bank's initial federal charter application. Michael Herlihy, the bank's president and chief executive officer since November, recently revised the June 2000 launch date he predicted last December. He now hopes the big day will happen sometime this fall.

"It's taken longer than expected," Herlihy acknowledged during a recent phone interview from his Connecticut home and office.

Cautious Regulators

A long approval process and cautious regulators have contributed to much of the delay, said both Herlihy and Needham, Mass. independent agent Richard Davis , who will become InsurBanc's chairman of the board once it opens.

"Most of the remaining issues revolve around the relationship between the bank, the (independent) agents, and the customers, from the perspective of enforcing consumer and banking regulations," Herlihy said.

Added Davis: "It has been a deliberate process because the (banking) regulators themselves are in uncharted water in a variety of these insurance industry applications...."

The initial idea for the bank first appeared several years ago, when some IIAA leaders began seeking ways to make association members more competitive in the changing financial services marketplace.

Recent banking and insurance deregulation now allows both industries to dip into each other's businesses. And as those changes came to fruition, a number of banks purchased or entered into alliances with insurance companies or agencies. Meanwhile, IIAA members such as Davis - president of Provider Insurance Group - pushed for a new association-affiliated bank so that agents could offer better and broader financial products. In 1996, the IIAA backed up its commitment with an investment of \$1.5 million in seed money. W.R. Berkley Co., a regional insurance holding company, contributed \$13 million in start-up capital.

Peyton Street Independent Financial Services Corp. is the bank's owner and holding company, which is listed through one of Berkley's subsidiaries. The holding company name comes from the address of IIAA headquarters which is on South Peyton Street in Alexandria, Va. Berkley and the IIAA are the holding company's primary shareholders.

InsurBanc's organizers submitted their original federal charter application back in September 1998 to the Office of Thrift Supervision and the Federal Deposit Insurance Corporation.

From that point, the approval process became lengthy. Typically, regulators issue initial comments and questions on a bank business plan, and officials with the proposed bank give their response. This process

repeats itself indefinitely.

At some point, regulators determine that the application is complete, "generally with conditions," Davis said during a recent Boston Chapter CPCU society lunch meeting.

An applicant then has four months to address those conditions. "If you don't," Davis said, "they have a right to rescind" your application. Both Davis and Herlihy say that InsurBanc's application isn't taking any longer than other insurance-related bank applications.

"If you're an insurance entity looking to be in banking," he said, "banking regulators have been a lot more deliberate in approving your application, principally because it's new to them..."

But "if you were a group of bankers looking to form a traditional bank charter, your timeline to get approval," he said, "might be shorter." Davis also said that each insurance-related bank application has a unique business plan that forces bank regulators to take more time because they're "figuring out what's going to be satisfactory regulation to them."

Herlihy agreed.

"This length of time is not unusual," he said.

Davis and Herlihy said they can't talk yet about specific concerns the OTS wants addressed because the agency hasn't signed off on their proposals.

Herlihy -- speaking generally -- said the OTS is worried about "compliance" issues.

"The OTS needs to be comfortable with the methodology by which the bank is going to educate, assist and enforce the various consumer laws that are necessary to be followed in the lending process."

InsurBanc, he said, "is in the process of addressing those concerns." The bank would gain its customers through independent agent referrals, Herlihy said, "whether they be consumer clients or business clients." Agents would become more involved in the application process for some mortgage products. This process, Herlihy said, is still being worked out.

William Fulwider, OTS spokesperson, said he couldn't talk specifically about the InsurBanc application because it's still pending.

But Fulwider did address the application process in general.

He agreed that regulators are taking more time with insurance-related bank applications because they've only been allowed in the last few years.

"There were a number of issues that we had not dealt with in the past such as cross-marketing and the interrelation of subsidiaries of these institutions. We wanted to be sure that if we approved them we had a good handle on the operations (as far as) how they would be carried out," he said.

"In every case we did with them on a case-by-case basis and we still do that."

Take Longer

Insurance-related bank charter applications take longer, he said, because of "the complexity and the exchange of information.

"If you have an application from former officials of a thrift or bank who go together and want to organize a brand-new thrift in a community that is now under-served because of consolidation, they know the business, they get the capital together, they understand the needs of the community (and) that generally would take less time."

Fulwider said the OTS has received more than 30 insurance-related applications to charter a bank since new laws opened up the process a

few years ago.

Most have since been approved and only seven applications are still pending, he said.

While IIAA waits, another insurance trade organization is celebrating the birth of its bank.

Last month, Assurance Partners Bank finally opened for business in suburban Indianapolis two years after its application for a federal banking charter was first filed.

Its origins, like InsurBanc's, also stem from a trade association -- The National Association of Mutual Insurance Companies. NAMIC wanted to create a bank to provide banking products and services to member insurance companies and their customers, employees and agents.

Assurance Partners' initial application for a federal banking charter was filed in June 1998 and it received careful scrutiny, said David Fronek, Assurance Partner's new president and chief executive officer. The OTS granted the bank's charter in February, but the FDIC didn't approve its deposit insurance application until June 6. - two years to the month from the initial application. Assurance Partners is fueled by \$12.5 million in start-up funding and more than 260 investors - all NAMIC members.

For the most part, independent insurance agents who sign up with Assurance will refer customers to the bank, Fronek said. Their work will be supplemented, he said, by "certain companies who have their own distribution system or captive agents."

Regulators took time with the application, Fronek said, because they were concerned about the role an insurance agent "was going to play and how the agent was going to be trained to deliver products and what control the banks had" over an independent agent's professional conduct relating to the bank.

According to Fronek, regulators still have some of these concerns, but the bank came up with an agreement that attempts to address the matter. "We have an agreement that defines the roles and responsibilities of the colleagues that we work with and the agents referring business to us, and our bank's roles and responsibilities," he said.

Everyone involved, he said, has signed the agreement and regulators have also approved it.

But at the same time, Fronek said, he believes regulators aren't sure how they're going to enforce the policy's they've approved.

"It's still a regulatory issue," he said. "...How do we know what an agent says or does in conjunction with making that referral?"

Fronek said he expects regulators to "do a certain amount of follow-up ... to see how well people follow the legal requirements."

At least Assurance Partners is open for business. InsurBanc is still waiting to reach that point. Davis hopes that day comes soon.

"We would like to see this happen very quickly," Davis said.

But in the face of a detailed regulatory process, Davis said "it's hard to put words as to when it will be done."

Insurance Times: E-Signatures Promise To Quickly Transform Paper-Burdened Insurance Transactions
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Experts see codes, letters, even thumb prints as future 'John Hancocks'

by Mark Hollmer
InsuranceTimes

Get ready for "Put your John Hancock on a John Hancock" to have a whole new meaning.

Last month, Congress approved "The Millennium Digital Commerce Act" - historic legislation that legalizes the use of electronic signatures and the exchange of digital documents on the Internet during business transactions.

At the very least, the new law redefines John Hancock Financial Services' old 1973-74 advertising slogan, which ran when the notion of electronic signatures was purely science fiction.

The "John Hancock" signature of the future could become numbers arranged in a unique code or letters; even a retina or thumb-print scan.

The new law is expected to help business in general grow on the web in the coming months and years.

But the insurance industry in particular will likely see some major changes. Signatures have only been legal on paper until now, which has limited the types of insurance products you can purchase on line.

An electronic signature makes it possible, in theory, for an entire policy to be sold or purchased on the web. It will even be legal to distribute related insurance policy documents on the Internet, eliminating the need for companies to assemble heavy paper policies for customers who choose to go the electronic route.

Some companies began planning for electronic signatures long before last month's momentous congressional approval.

Marcia Robinson, director of e-business for John Hancock, says company officials started preparing for the changes at least two years ago, and weren't surprised by the sweeping legislation.

"We've actually been hoping this would pass (and) dovetail nicely with some new things we're going to be launching in the fall," she said.

Still, consumers and the insurance industry won't be seeing far-reaching changes right away - insiders say -- where customers can suddenly abandon paper and use code numbers, random words or an eye scan to "sign" agreements on the web.

"I don't think we'll eliminate the paper industry," Robinson said.

Rather, insurance professionals predict electronic-signatures will become another tool to use while conducting business deals by appealing to more technology-savvy customers.

Support for the electronic signature within the insurance industry seems widespread, but there are some difference perspectives as to how the new law will affect the market.

Change Gradually

The electronic-signature portion of the law becomes active in October.

Digital or electronic records-reform kicks in 90 days after that.

The national law follows smaller-scale digital-reform legislation by about 17 states. It is intended to complement those states' efforts but also preempt state-level differences by requiring uniform standards.

According to the new law, businesses and consumers will have the option of buying insurance products electronically. The bill will also allow insurance companies to distribute policy information to consumers via the web, should they request it.

Right now, insurance customers can get a quote or order a policy on the Internet. But the deal isn't finished until the agent or company has the

client's paper signature, submitted either in person, through a fax or "snail mail" correspondence. Policy information must also be mailed on paper.

For that reason alone, electronic signature and records reform will help streamline process of selling insurance, said Christopher Rowe, the assistant vice president for government and industry affairs for Fireman's Fund Insurance Co. in Washington, D.C.

"A customer will be able to receive their policy online and either save it in computer or print it out. The transaction will begin and end completely online," Rowe said. "From a business standpoint there's a cost savings (through) having a transaction occur in a paperless fashion. "

Some in the industry say that companies waiting to jump into electronic commerce will accelerate their efforts now that there is a unified national law for both electronic signatures and digital documents. Others argue that the shift from paper-based to electronic commerce will be gradual.

"The impact is more long-term than immediate, simply because electronic commerce is still an evolving means of doing business, and I think the industry is evolving right along with it," said Ken Schloman, Washington D.C.-based attorney for the Alliance of American Insurers. On the other hand, some companies will reap immediate benefits because they're already doing business electronically, said Patrick Watts, the AAI's assistant vice president of tax, law and claims.

"Now they don't have to worry if electronic signature procedures meet various laws," he said. "They will be OK as insurers. (With) the expanded electronic commerce law, they will be certain their contracts are valid from state to state because of the" uniform law.

Robinson adds that insurance companies and consumers will both benefit from the section of the new law that allows electronic distribution of related insurance policy documents. That's because right now, policy documents and manuals must be mailed on paper.

"It's something that becomes a nice piece of relief for us (we're) continually mailing things to the customer (so) this just provides a more streamlined way to do business."

Leo Fredette, technology consultant for the Massachusetts Association of Independent Agents, said the electronic signature legislation is "long overdue.

"The signature issue has been on the table for such a long period of time Most agents have only had a web site presence out there for three years at most. And you figure within the last year-and-a-half, the digital signature component has been out there and nothing has occurred."

Thumb print, an X or code could be signature of future

So what's a new electronic signature going to look like?

Congress left it up to the private sector to decide what electronic signatures will be developed and accepted as standards for each industry.

Insurance industry insiders envision a number of options.

A "signature" could become a phrase, a combination of numbers or letters, a thumb print, retina scan, or a more traditional computer using a special pen that "writes" on the screen, said Watts of the AAI. Fredette said companies will likely work with web vendors such as VeriSign to obtain a digital signature customers can use.

"As I understand it you'll go to their web site and apply for a digital signature. You will receive a certificate with a digital signature enclosed (and) through encryption, you know have this

any time you place this certificate slash on any document.

The signature, Fredette said, would be downloadable software on a diskette, a key of sorts that becomes a customer's signature or mark. An insurance company would then visit web site to verify the language and identity on the key.

Over at John Hancock, Robinson said her company is looking at "many" electronic signature devices to help sell term life insurance on line. She wouldn't say which devices the company favors right now, but said they'd probably accept or use more than one.

Among her options: A stylist-pen/digital signature similar to what customers use to sign for Federal Express-packages, or a character or letter-based code.

The company will probably stagger its launch of the technology gradually, she said, to see which electronic signature customers are most comfortable with and also support the most volume.

Even so, the use of electronic signature won't completely change how John Hancock sells its term life insurance on line.

Right now, customers can order their policies on line but must complete face-to-face medical tests after which they'd sign their policies.

A digital signature would allow customers to obtain conditional approval on line for their life insurance policies, but they'd still be required to complete a face-to-face medical checkup.

As Robinson has said, the addition of electronic signatures will hardly mean the death of paper. Customers will still have the choice to purchase and maintain insurance policies the traditional way.

And consider that technology hasn't quite caught up yet to the new federal law allowing electronic signatures.

Before that happens, Fredette said, businesses need to consider several crucial issues: using a cost-effective digital signature system, and finding the best system for both the insurance company and the customer. Still, according to Watts, many agencies and companies are already embracing Internet commerce and the new law will only accelerate the process.

It will be important, he said, for insurance companies to maintain both traditional and technology-friendly business practices.

"Those companies that want to survive will have a strategy to deal with electronic commerce," he said. "Certainly it's not going to be the sole means of distribution but (it will be) an increasingly important means of distribution."

Robinson, like others in the insurance industry, said she looks forward to using digital signatures to conduct business because it will allow John Hancock to increase its online products and improve efficiency.

And she even looks ahead to the possible time when paper is no longer needed to sell insurance policies.

"That would be nice."

Insurance Times: Cogswell Slated To Head Conn. Department
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by Mark Hollmer
InsuranceTimes

HARTFORD - As chief of staff, Susan Cogswell worked closely with former Connecticut Insurance Commissioner George Reider Jr. on every major

issue facing the industry.

But Reider, 59, left his job in early May to teach college. Now Cogswell has been named to replace him.

On June 22, Gov. John G. Rowland appointed Cogswell as the state's next insurance commissioner. Reider served in the job for five years, and Cogswell, 47, was his chief of staff for half that time.

With more than 25 years of experience working in both the banking and insurance industries, Cogswell says she's more than ready for her new role.

"Certainly the experience I've had here in the department..., coupled with my experience in both banking and insurance gives me the knowledge and understanding to be able to do the job," she said.

She's already gotten positive reaction from the American Insurance Association.

"There are several important insurance issues that are facing the state of Connecticut. AIA looks forward to working with Commissioner Cogswell, who seems well-suited by her experience for this task," said Suzanne Bump, the AIA's assistant vice president, northeast region.

Cogswell is finishing up her ninth year as a city councilor in Torrington, where she lives with her husband and 15-year-old son.

(She'll resign to focus on her new job.) That public service background is also useful for the job, she said, because it "has also given me a wealth of experience in dealing with constituent issues."

Cogswell's career highlights include seven years with Chase Manhattan Bank, culminating her job there as second vice president in municipal finance.

She also worked with Travelers Indemnity Corp. in their surety division, after which she was an independent surety consultant. Before joining the Connecticut Insurance Department, Cogswell was vice president of Woodland Brokers Ltd., a wholly owned surety subsidiary of the old Covenant Mutual.

She joined the Connecticut Insurance Department in 1995 as a customer service manager and became chief of staff two years later.

Cogswell said Insurance Department won't see any dramatic policy changes "at this time," and said she'll deal with some of the same continuing issues Reider did.

"The insurance industry is seeing a significant amount of change," she said.

Those changes are coming in part, she said, from the federal Gramm-Leach-Bliley Act, which lets security and insurance companies and banks merge.

But "there's also changes being sparked by simple market forces," she said, including "the desire for insurance companies to compete with other financial institutions.

"Therefore insurance regulators are being looked at to do their job more efficiently. And to allow those insurance companies to compete more effectively, we here at the department will be working closely on those issues, along with other commissioners around the country through the National Association of Insurance Commissioners.

"But with all the changes," she said, "we still have to look at protecting our consumers here in Connecticut."

But as federal standardization of the industry continues to gain a foothold, Cogswell said, state regulation must continue, but also evolve with the times.

"We have in place some highly competent regulators who are all ready to look after the consumers," she said. "But I also recognize that the system is going to have to change. There is going to have to be more

uniformity and conformity to allow the regulation of insurance to be more efficient."

Cogswell said she also plans to continue Reider's push to educate consumers about health insurance.

"There is a great deal of need for educating the consumer people need to understand it fully, (and) understand their rights under the current contract..."

Cogswell also becomes the state's first female insurance commissioner. But that fact isn't as big a deal to her as the job ahead.

"I'm just very proud to be commissioner of insurance in the state of Connecticut (and will) do the best job I can..."

Cogswell will have the title of "interim commissioner" until she's confirmed by the State legislature, which resumes its session in January.

Insurance Times: WEISS REPORTS

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L&H insurers' net profits bounced back in '99
Group health business sustains heavy losses

The nation's life and health insurers enjoyed a 15.4% increase in overall net profits in 1999, indicating that the 1998 profit decline was a temporary interruption in a five-year upward trend, according to a recent study by Weiss Ratings, Inc., an independent provider of insurance company ratings and analyses.

Nearly all product lines were in synch with the general trend including individual life (up from \$6.1 billion to \$7.4 billion), individual annuity (from \$4.4 billion to \$5.3 billion), group life (from \$1.1 billion to \$1.6 billion), and group annuity (from \$3.6 billion to \$3.9 billion).

The only major exception was group health which ranked as the weakest sector for the second year in a row with a \$555.7 million loss in 1999 and a \$148.3 million loss in 1998.

Life insurers posting group health losses include: Prudential Insurance Company of America (N.J.), with a loss of \$522 million on \$2.6 billion of group health premiums; General and Cologne Life Reinsurance Company of America (Conn.), with a \$133 million loss on \$231 million of premiums; and Employers Life Insurance Company of Wausau (Wis.), with a \$52 million loss on \$215 million of premiums.

"Although the overall industry is doing quite well, companies with group health business continue to be plagued with the same problems that are widespread in the managed care industry," commented Martin Weiss Ph.D., chairman of Weiss Ratings, Inc. "As a result, consumers should expect to see increased health insurance premiums, more mergers, changes in employer offerings, and changes in product design."

Junk Bond Holdings

The double-digit annual growth of life insurers' junk bond holdings slowed to nine percent during 1999, compared to an average annual rate of 18.4% since 1996. At December 31, 1999, junk bond holdings totaled \$102.6 billion versus \$94.3 billion at December 31, 1998. As a result, insurers held 40.4 cents in junk bonds per dollar of capital, up

slightly from 39.8 cents in 1998.

CMOs and Derivative Instruments

Holdings of collateralized mortgage obligations (CMOs) and other asset-backed securities increased a modest 2.8% in 1999, from \$377 billion to \$387 billion, remaining at approximately 20% of total invested assets. However, the riskiest types of CMOs, defined by the National Association of Insurance Commissioners as multi-class, non-defined, mortgage- and asset-backed securities, increased 19.6%, from \$103 billion in 1998 to \$123 billion at December 31, 1999.

"With the Federal Reserve raising interest rates to their highest levels since 1991 in an attempt to slow down the economy, large holdings of junk bonds and high-risk derivatives could signal problems for some companies," commented Weiss.

Derivative instruments including such investments as options, futures, and swaps totaled \$3.4 billion in 1999, representing less than one percent of total invested assets. Although this was a 43% increase over the 1998 level of \$2.4 billion, as a portion of invested assets it remained low.

Upgrades and Downgrades

Among the 1,287 company ratings reviewed by Weiss, 27 companies were upgraded and 43 were downgraded from the previous quarter's review. Notable upgrades include: Cova Financial Services Life Insurance Company from D+ to C .; SunAmerica Life Insurance Company (Ariz.) from C+ to B- ; Penn Mutual Life Insurance Company (Pa.) from C+ to B- . Notable downgrades include: Peoples Benefit Life Insurance Company (Iowa) from B- to C+ ; United Family Life Insurance Company (Ga.) from B- to C+ ; -- Park Avenue Life Insurance Company (Del.) from B to C+. The Call 1-800-289-9222 or visit the Weiss Ratings web site at www.weissratings.com.

Insurance Times: Hartford Life Merger

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HARTFORD - The Hartford Financial Services Group Inc. has completed the merger of Hartford Life, Inc. As a result of the merger, Hartford Life is now a wholly owned subsidiary of The Hartford and will constitute its worldwide life operations.

All Hartford Life stockholders whose shares of Hartford Life Class A Common Stock were not purchased in the tender offer will receive the same \$50.50 per share in cash. Hartford Life stockholders who did not tender their shares will receive materials advising them of the merger and payment process shortly.

Insurance Times: Directory of Employment Agencies and Placement Firms

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Insurance Times: Former NY Life Exec Accuses Insurer Of Racketeering
July 4, 2000, Vol. XIX No. 14

PHILADELPHIA (AP) - A former vice president of New York Life Insurance Co. has filed a racketeering lawsuit on behalf of tens of thousands of employees and agents whose pension and 401(k) plans were allegedly used as "seed money" for New York Life's mutual fund business.

James A. Mehling, of Buckingham, claims in the federal class-action suit that he was fired in March 1999 when New York Life executives feared he would blow the whistle on an "ongoing fraudulent scheme of self-dealing and breach of trust."

The suit seeks unspecified damages, but plaintiffs attorneys said it could run into the hundreds of millions of dollars.

New York Life officials strongly denied the allegations, saying they were made by a disgruntled former employee and a law firm seeking to "extract money from a deep-pocket defendant."

"We are absolutely outraged by this suit," spokesman William Werfelman said. "The charges are unfounded and we intend to demonstrate their weakness in court."

The question of whether financial services companies should invest retirement money in their own products is not new. Federal law allows the practice, but only if the decision is made to benefit employees. Two similar lawsuits are pending, one against First Union Corp. and the other against SBC Communications. Plaintiffs in those cases are also represented by Sprenger & Lang, the firm representing Mehling.

Mehling, now business manager for a small commodities trading firm in Princeton, N.J., contends that New York Life raided hundreds of millions from two pension plans - one for employees, another for agents - to begin MainStay Institutional Funds almost a decade ago.

New York Life created additional MainStay funds in 1994 and 1995, this time using assets from the pension plans and employee 401(k) plans to build them up, according to the suit.

Today, the pension and 401(k) plans account for half of the assets in the MainStay funds, the suit said.

"Simply put, without the captive assets of the plans, the poorly performing MainStay institutional funds would collapse," the suit said.

"It's a clear case of self-dealing," said Jennifer C. Jaff, an attorney with Sprenger & Lang.

The suit said that institutional mutual funds are an "entirely inappropriate" form of investment for a large pension or 401(k) plan, which can obtain professional money management services for a fraction of the cost of the least expensive mutual fund.

As a result, the plans incurred tens of millions of dollars in needless expenses, the suit said.

The pension plans have combined assets of \$3 billion, of which \$1.75 billion is invested in MainStay funds. Two in-house 401(k) plans have combined assets of \$1.1 billion, half of which is invested in MainStay, according to the suit.

Stephen Saxon of the Groom Law Group, which represents New York Life, said the money in the pension plans was already being managed in-house. Existing pension accounts were registered as mutual funds to save money

on expenses, he said.

Saxon also pointed out that the performance of MainStay funds is in line with their peers in the industry. For example, the two pension plans returned 12.5 and 13.7 percent last year, compared with the 9.8 percent industry average.

Further, the plans have a \$900 million surplus, and New York Life guarantees pension benefits based on years of service, said Werfelman, the company spokesman.

Court documents claim that Senior Vice President Jefferson C. Boyce, who fired Mehling, and other high-level company executives had a "special compensation package" tied to MainStay's financial success.

The company allegedly told Mehling he was dismissed for insubordination stemming from an e-mail critical of high-level company executives.

But only a few days before he was fired, the suit said, New York Life Chairman and Chief Executive Seymour Sternberg wrote Mehling praising his performance and informing him that he would be receiving another raise.

Werfelman said he could not comment on the reasons for Mehling's dismissal but that there was "no doubt in the mind of management" that it was necessary.

In an interview, Mehling said the firing has made it impossible to find a similar job.

"I'm not able to obtain employment as a portfolio manager. New York Life blackballed me from the industry," he said.

Mehling originally filed a wrongful termination suit last October. The class action replaces that suit.

Insurance Times: American General Life To Repay \$206 Million In Race Discrimination Case

July 4, 2000, Vol. XIX No. 14

TALLAHASSEE (AP) - One of America's biggest life insurance companies has agreed to pay \$206 million to settle allegations it overcharged millions of mostly poor, black customers for burial insurance because of their race.

American General Life and Accident Insurance Co., based in Nashville, Tennessee, settled after being hit with a federal class-action lawsuit and being threatened by sanctions from state insurance commissioners. Under the settlement, American General will also pay \$2 million to the NAACP and \$7.5 million in penalties to several states.

In Florida, which has the most policyholders, Insurance Commissioner Bill Nelson said several insurance companies now owned by American General began discriminatory sales practices decades ago, mostly to poor, uneducated blacks in the rural South.

Burial insurance helps pay for the policyholder's funeral and burial. The American General policies were often for a thousand dollars or less. Nelson said the companies owned by American General were also paying for their other unfair practices, mainly collecting far more money in premiums than the policies were worth.

"It's tragic this discrimination and exploitation occurred in the first place," Nelson said. "But it's incomprehensible this practice occurred up until just a few days ago."

American General issued a statement saying it believes the settlement is fair.

The company no longer charges different rates for whites and blacks, and officials have said they weren't aware initially that the smaller insurers it acquired had continued to collect higher premiums from blacks.

In all, holders of 9.1 million policies nationwide will be eligible for some type of relief. There are more policies than customers because some people bought more than one policy.

Insurance Times: Banknorth To Acquire Mass. Insurance Agency
July 4, 2000, Vol. XIX No. 14

PORTLAND, Me.- Banknorth Group Inc. has reached an agreement to buy the Palmer Goodell Insurance Agency Inc. in Springfield, Mass., expanding its products and services in western Massachusetts, the company said.

Palmer Goodell Insurance Agency will be merged into Morse, Payson & Noyes Insurance, one of New England's largest independent insurance agencies, which Portland-based Banknorth Group Inc. purchased in October 1997.

Palmer Goodell has annual revenues of more than \$75 million, compared to more than \$180 million for Morse, Payson & Noyes, officials said.

From its base in Springfield, Palmer Goodell covers much the same area as First Massachusetts Bank, which was created following Banknorth's acquisition of SIS Bank in Springfield and Family Bank in Haverhill.

"I think this is a great new partner for our growing presence in the New England insurance market," said James J. Kilbride, chairman and chief executive officer of Morse, Payson & Noyes.

Palmer Goodell is the latest acquisition by Banknorth, an \$18.5 billion holding company, formerly known as Peoples Heritage Financial Group. Banknorth acquired New England Benefits in Sanford in 1999 and Catalano Insurance of Methuen, Mass., and A.D. Davis Insurance in North Conway, N.H., both in 1998.

Insurance Times: Securities Training Corporation
July 4, 2000, Vol. XIX No. 14

New England 2000 Summer/Fall NASD Review Class Schedule

Boston, MA Review Classes

SERIES 7

June 12-16

July 10-14

August 7-11

September 11-15 October 16-20

November 6-10

December 11-15

SERIES 6

June 7-8

July 5-6
August 9-10
September 6-7
October 11-12
November 1-2
December 13-

Series 24
July 5-6
September 5-6
November 7-8

SERIES 63/66
June 5
August 10
October 5
December 7

SERIES 9/10
July 18-19
October 24-25

SERIES 65
June 6-7
August 8-9
October 3-4
December 5-6

SERIES 7
2-WEEK EVENING REVIEW
July •5, 6, 8, 11,13
•Begins on Wednesday
October 10, 12, 14, 17,19

Windsor, CT Review Classes

SERIES 7
July 17-21
September 18-22
November 13-17

SERIES 6
July 19-20
October 4-5
November 15-16

Smithfield, RI Review Classes

SERIES 7
June 19-23
August 14-18
October 23-27
December 4-8

SERIES 6
June 21-22
August 16-17
October 25-26
December 6-7

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Insurance Times: Mass. Now Permits Combination Policies
July 4, 2000, Vol. XIX No. 14

BOSTON - Governor Paul Cellucci signed legislation earlier this year reforming a law that previously prohibited life insurers from combining different products into a single policy.

The new amendment kicked in on May 24 and is the first change to the 1896-era law in 35 years, according to the Legislature's Joint Committee on Insurance.

The Life Insurance Association of Massachusetts and some of its member companies lobbied state legislators for the change, according to LIAM President Andrew Calamare.

According to Calamare, continued evolution of the financial services industry created a need for revision to the law.

"We're continuing to see the need to put together high quality flexible, innovative products," he said. "Our members tell us there is a demand for these products that offer multiple needs."

The amendment, according to a Division of Insurance bulletin, permits companies to combine a long-term care insurance policy with a life insurance product. The DOI will review and approve any proposed product combinations.

Any agents or brokers who sell the combined product must be licensed to sell both life and health insurance. Insurers offering the package must also be licensed to write both products.

John Hancock Financial Services was among the companies that pushed to amend the law. The company launched a new product - Revolution Variable Annuities - made possible in Massachusetts by the amendment.

The product is an annuity with a "Care Solutions" rider, designed to be a retirement savings plan that helps the policyholder with long-term care costs without using up retirement savings.

A recent statewide task force concluded private long-term care insurance plus newer hybrid products are "vital" elements toward solving long-term care costs, according to the insurance committee.

Agreement close on lead paint bill in RI

PROVIDENCE - State Senator Thomas Izzo and other Rhode Island lawmakers have advanced a lead paint abatement measure which is drawing some support from insurance lobbyists. The latest version (S 2957) has been passed by the Senate and awaits House action.

According to National Association of Independent Insurers (NAII) Associate Counsel Gerald Zimmerman, "Although it's still not perfect, the revised version of S 2957 includes several changes...that make a major difference in the viability of the bill. We believe we can support it in its current form."

The two key changes are language dealing with property owners' affidavit of property being lead controlled and language clarifying that coverage for lead risks will be by endorsement only.

James Harrington, the American Insurance Association (AIA) vice president, said that Sen. Izzo "has made significant improvements in the bill that will encourage the abatement of lead hazards and provide

fairness and equity in any litigation resulting from lead poisoning." AIA indicated that one important improvement in the current version of the bill concerns new criteria for determining lead poisoning that are consistent with model legislation in Massachusetts. Frank O'Brien, New England regional manager and counsel for the Alliance of American Insurers (AAI), called this version of the bill "much more acceptable than prior versions because it uses a common law standard of negligence and causation, a key insurance industry goal. The redraft also contains a quantifiable definition of lead poisoning, which is preferable."

Hancock wins suit over lobbying costs recovery

BOSTON - The Massachusetts Supreme Judicial Court rejected a bid by a John Hancock policyholder to recover from the company's board of directors \$4 million in costs brought on by a lobbying scandal. The Supreme Judicial Court last week upheld a lower court decision that "deferred to the business judgment" of Hancock's board of directors in the 1997 lawsuit filed by policyholder Loretta Harhen.

Harhen claimed the board of directors wrongfully refused her demand to recover the money. She sued Stephen Brown, Hancock's chairman of the board and chief executive officer, and others after a majority of the board refused her demands.

The Appeals Court reversed the lower court decision in 1999, and so the Supreme Judicial Court took up the case in February.

The SJC sided with the lower court because John Hancock's board of directors "are entitled to the protection of the business judgment rule in deciding whether to take action on a plaintiff's demand..."

The court also said Harhen's lawsuit "has failed to allege facts of bad faith or that the board failed to investigate her demand."

Harhen sued because she said some Hancock management, including "certain directors and employees" were responsible for \$4 million in court costs, fines and legal fees brought on by a Beacon Hill lobbying scandal in the mid-1990s. Consumer-advocate attorney Jason Adkins helped spearhead the lawsuit.

Insurance Times: Class Action Status Sought In RI Suit Against Travelers Over 'Betterment'
July 4, 2000, Vol. XIX No. 14

by Mark Hollmer
InsuranceTimes

PROVIDENCE -A Rhode Island man fighting Traveler's Property Casualty over the policy of "betterment" is hoping to turn his battle into a class action lawsuit.

John Lancellotta said the auto insurance company unfairly used the practice to deduct \$51.25 from repair payments for his Buick Skylark following a 1998 accident. Betterment happens when repairs place an automobile in better condition than it was before an accident.

Lancellotta - in his Providence Superior Court lawsuit -- says the company shouldn't have resorted to betterment because "there is no language in the (insurance) contract, nor is there any body of law that allows the insurer to take betterment or depreciation when it elects to

repair."

When Travelers chose to repair Lancellotta's car with parts "of like kind and quality," Lancellotta's lawsuit argues, the company eliminated consideration of betterment.

Lancellotta is seeking class action status because the damages are "not enough to merit solitary suits," said his attorney, Peter Wasylyk. A class action suit would let other plaintiffs with similar claims join onto Lancellotta's suit.

Lancellotta's is suing because Travelers claimed it was entitled to a \$51.25 offset when mechanics replaced his old muffler assembly with a new one. The company still paid \$6,569 for the claim.

Travelers officials could not be reached for comment on the March 27 lawsuit.

But the company's attorneys filed a motion to dismiss the lawsuit on May 22.

The company argues that such a deduction is allowed by law, and the policy in question provides for betterment to be considered.

Travelers argues the Lancellotta's policy limits its liability for loss to which ever is less: the cash value of the stolen or damaged property or the "amount necessary to repair or replace the property with like kind and quality."

In addition, Travelers argues that Lancellotta wasn't technically insured by the company at the time of the accident.

"(Lancellotta's) policy identifies 'The Phoenix Insurance Company as (his insurer but) Phoenix, although affiliated with Travelers, is a distinct corporate entity and is separately licensed to do business in Rhode Island," reads the motion for dismissal. The policy was clearly signed for and on behalf of Phoenix and not Travelers."

Lancellotta wants the court to grant him the class-action lawsuit; cover damages and court costs for him, as well as for anyone added to the class-action lawsuit, including betterment/related deductions - to be satisfied by restitution plus interest. The suit also seeks to stop Travelers from practicing betterment with its automobile insurance policies.

Wasylyk said many other insurers also resort to betterment.

Insurance Times: Arbella Likes Covenant Model Of Empowering Front Line Agencies

July 4, 2000, Vol. XIX No. 14

by Mark Hollmer
InsuranceTimes

When John Donohue looked at Covenant Insurance Co., he saw a company from which he could learn.

"The Covenant business model gives a lot more power to the front-line agent," Donohue said in a recent Insurance Times interview.

And that's one of the reasons why Arbella announced plans earlier this year to buy the Connecticut-based company. Donohue, Arbella's chairman, also cites the Covenant's solid book of business in two states as a reason for the deal.

But above that, Donohue said, learning from Covenant's way of doing business "will allow our agents to have more power to better serve the customer, and make both the agent and Arbella more efficient."

Arbella's planned acquisition of Covenant has already cleared one hurdle and was on the verge of passing another early last week.

The Massachusetts Division of Insurance approved the agreement in April, and the Connecticut Insurance Department held a hearing regarding the plan on June 15.

The Connecticut hearing went "very well," Donohue said, adding he expected to hear if the plan gained approval by July 1.

Arbella wants approval to acquire all of The Covenant Group's stock for \$16 million in cash, which is equal to Covenant's surplus as of Dec. 31. The deal combines a large and small company with similar markets.

Arbella Insurance Group includes three similarly named subsidiaries with \$600 million that provide private passenger auto insurance, homeowners and personal lines business; plus commercial auto and packages, and workers compensation insurance in Massachusetts, Rhode Island, New Hampshire and Vermont.

At about a tenth of the size, Waterbury-based Covenant Group handled about \$60 million in total premium in 1999. Covenant handles primarily homeowners and automobile insurance in both Connecticut and Massachusetts.

What's more, Donohue said, Covenant uses innovative approaches to handle its business.

Traditionally, an agent must gain insurance company approval before changing endorsements or facilitating claims payments. An agent inputs requests on a customer's files and the company then revisits the same file as it's processed.

But with Covenant, Donohue said the agent is a more efficient customer service representative because the company decentralizes its power by giving agents more responsibility.

"They take in information and it goes directly into the Covenant computer system. It's only inputted once," he said.

Their agents can also issue policies or endorsements, settle some property damage claims and issue checks to the customers right from the front office, without having to go through the company.

Arbella's current business model is more of a hybrid, Donohue said, where agents directly handle only some policy changes electronically. Donohue cautions that the purchase is not an attempt to alter the status quo for independent agents.

"This is not any change in our approach to utilizing independent agents in Massachusetts," he said. "This is an attempt to make the partnership between us and the independent agents more effective.

Arbella and Covenant are expected to maintain separate staffs and management teams, but Arbella's executive committee will replace Covenant's board of directors, according to Connecticut testimony filed by Robert Medwid, Arbella's chief financial officer.

So is this the last company purchase by Arbella in the foreseeable future?

Donohue said yes, sort of.

"We are not actively looking for acquisitions, but we do want to grow in our markets. If the right kind of acquisition comes along we will definitely consider it," he said.

by Hadley Pawlak
Associated Press

ALBANY - The state Senate dismissed a bill last week to require insurance coverage for women's health measures like mammograms and pap smears, but later approved a measure mandating coverage for prostate cancer screening.

The move angered women's advocates, who vowed to inform constituents of what they called a double-standard in the Senate.

``It strikes me that there must be different rules in the Senate for men and women,'' said JoAnn Smith, executive director of Family Planning Advocates of New York. ``Somehow they must have decided that men's health care is a priority but not women's.''

Senate Majority Leader Joseph Bruno named a task force to study the costs and benefits of mandating coverage for mammograms, pap smears and other health care initiatives.

``We need to look at all the various issues and try to come together with comprehensive state policy rather than this piecemeal approach to health care,'' said Bruno spokesman Mark Hansen.

The state Assembly passed the women's health initiative 131-7 on Jan. 11.

``To announce the formation of a task force on women's health in the waning hours of the session, but then to pass an insurance mandate for prostate cancer screening is a slap in the face to every woman in the state,'' said Assemblywoman Deborah Glick, D-Manhattan, who pushed the bill in the Assembly.

``When it comes to their own `kishkes' the Senate leadership knows how to take care of themselves,'' Glick added.

Hansen defended the Senate's record on women's health, pointing to its support of such things as breast cancer research and expanded maternity care.

``It's not accurate to say there's a double standard at all,'' Hansen said. ``We did pass that prostate bill but we just need to look at the bigger picture.''

Thirty-three of the 36 Republicans in the majority in the Senate are men.

Kelli Conlin, executive director of the National Abortion & Reproductive Rights Action League of New York, said ``this issue needs no further study.''

``For two years, the bill has been on the table and now the Senate Republicans have decided to block its enactment,'' she said. ``This shows a callous disregard for women's health.''

According to the Women's Health and Wellness Coalition, women pay 68 percent more than men for out-of-pocket health care costs.

Insurance Times: Congress Urged To Act On Bill Banning Genetic Testing
For Insurance
July 4, 2000, Vol. XIX No. 14

by Janelle Carter
Associated Press

WASHINGTON - Democrats have urged Republicans to move quickly on legislation to protect workers from genetic discrimination, saying swift passage will help employees who fear losing their jobs or health insurance.

"Millions of Americans may be afraid to have genetic testing done because the results of those tests could put their health insurance in jeopardy," House Democratic Leader Dick Gephardt said. Added Sen. Christopher Dodd of Connecticut, "In a sense the genetic code is the key to who we are. No one ought to have a right to pick that lock."

"Social policy must keep pace with science," said Rep. Louise Slaughter of New York, the measure's House sponsor.

The bill Democrats are pushing would ban discrimination based on genetic information. They hope to get the 218 signatures necessary to force a vote in the House.

John Feehery, spokesman for House Speaker Dennis Hastert, R-Ill., questioned the Democrats' motivation and said Republican leaders plan to push their own bill.

"Trying to make politics out of this seems to be rather curious," Feehery said. "We're going to do something on this issue." He did not elaborate on a GOP version but said Republicans wanted to attach it to patients' rights legislation.

With a complete map of the human genome - a breakthrough which scientists announced last week - doctors will be able to predict the medical futures of their patients, such as those more likely to suffer from cancer, diabetes or heart disease.

The human genome is all of the genes that give instructions for an individual's biological development and the functioning of the cells. Supporters of the legislation said some employers and insurers are reluctant to take on the extra financial burden of people with ailments whose treatments can pile up substantial medical fees.

In February, President Clinton issued an executive order that barred federal agencies from discriminating against employees on the basis of genetic tests.

"This is happening today in job sites all around the country," said Sen. Edward Kennedy, D-Mass. and a sponsor of the Senate bill.

"Individuals are being turned down. They are denied promotions. It is wrong."

Terri Seargent of Wilmington, N.C. said she had been employed since 1996 as an office manager, receiving many promotions and raises during her tenure. But she was fired in December, not long after beginning treatments - estimated to cost \$48,000 a year - for Alpha-1, a genetic lung and liver disease that killed her brother in 1991.

"When I lost my job, I lost all my life and disability insurance," Seargent said. "In less than 10 minutes, we went from a secure middle-class family to financially scraping by."

The bills are H.R. 2457 and S. 1322.

Insurance Times: Genetic Testing Will Create Need For National Health Plan, Harvard Economist Predicts
July 4, 2000, Vol. XIX No. 14

by Mark Hollmer

InsuranceTimes

Genetic testing will undermine private health insurance and create the need for a national coverage plan to fill the gaps.

That's according to Katherine Swartz, an economist with the Harvard School of Public Health, who recently wrote a Boston Globe column on the issue. She expanded her discussion recently in a phone interview with the Insurance Times.

"It occurred to me that if you think about genetic research, that as we become more capable of accurate tests that tell us whether somebody is likely to have a genetic condition or disease, that suddenly you've got situations that are not insurable.

"We have got to think about how we are going to pay for therapies that actually will help people and could be cost effective," Swartz told InsuranceTimes.

"But if an insurance company says 'I don't want to pay for that because genetic tests indicate you have a very high probability for this condition,' then why should insurance companies be at risk for that?" Swartz, in her Globe article, concludes that test that identify genetic information now and in the future "undermines private insurance markets" for two reasons.

Swartz writes that someone found to be at low genetic risk for a disease "will no longer purchase insurance." Second, she says, high risk people will be left in the market, but the resulting insurance prices will be too high.

In her InsuranceTimes interview, Swartz said the changes will leave society two options.

"Either we have to decide that some of these costs will be borne in some kind of national insurance, (because) it's no one's fault that these people are born with a genetic disposition. Or the federal market has to create some kind of national service to take care of payment for the kind of therapies to cure these diseases."

And national coverage may be the only option, Swartz told the InsuranceTimes.

"I don't see how we're going to do this without a form of national provision paying for this care... a private insurance company will not want to pay for this" because a genetic cure will reduce a customers' future health insurance needs, she said.

And while customers will always need insurance for things like accidents and some health problems, genetic advances will change the market forever, Swartz said.

"This is going to take years to plan," she told InsuranceTimes. "We ought to be thinking about this (and) planning for this in a more organized fashion."

Swartz has conducted research regarding people who don't have health insurance, and ways to make insurance markets more accessible. She edits the academic journal Inquiry, which includes articles about the affects in changes in health care financing and organizational management.

Insurance Times: Beneficiary Case To High Court
July 4, 2000, Vol. XIX No. 14

WASHINGTON (AP) - The Supreme Court has agreed to clarify whether state

law can override many people's decisions on who will receive their life insurance and pension benefits after they die. The court said it will hear a Washington state woman's argument that she is entitled to the life insurance and pension benefits of her ex-husband, who died in an accident shortly after they were divorced. His children from a previous marriage say they should receive the benefits. Donna Rae Egelhoff and David A. Egelhoff were married in 1988 in Tacoma, Wash., and were divorced in April 1994. The following July, David Egelhoff died without a will, and Mrs. Egelhoff remained the designated beneficiary under his life insurance and pension plans. His children from a previous marriage sued in state court, saying they were entitled to the benefits. They relied on a state law that said divorce revokes a spouse's designation as beneficiary. A state judge ruled for Mrs. Egelhoff. The judge said a federal law that the Employee Retirement Income Security Act overrode the state law and therefore she remained the beneficiary. A state appeals court and the Washington Supreme Court reversed and said the children were entitled to the benefits. The federal law did not preempt the Washington law that revoked her status as beneficiary, the court said.

Insurance Times: Mass. Court: Host Not Responsible For Guest's Unsafe Behavior
July 4, 2000, Vol. XIX No. 14

by Mark Hollmer
InsuranceTimes

No one knows who lit the fireworks, but Peabody resident Dominic Luoni was among the partygoers who watched. Luoni - in court documents -- claims he moved to a safer viewing area at the 1996 July 4 celebration in Beverly. But a stray fireworks fragment struck him in his left eye, permanently harming his vision. Luoni sued the party hosts - Thomas and Sharon Berube - arguing they were liable for damages for not preventing harm to him. But the Essex Superior Court ruled in the Berubes' favor, stating the couple wasn't responsible because they didn't buy or provide the fireworks or give permission for the display. On June 15, the Supreme Judicial Court in Boston affirmed the lower court decision, rejecting Luoni's appeal. The court said the hosts' obligation to maintain a "reasonably safe" area referred to preexisting situations such as a poorly lit stairway, accumulated ice or some other unsafe aspect. What's more, the court ruled that because "the defendants did not furnish the fireworks or give permission for the display on their property their status as social hosts carried with it neither the means, nor the legal obligation to supervise or prevent the discharge of the fireworks by others." Luoni's attorney, Eric Finamore, could not be reached for comment. The Berubes' attorney, Kevin Hensley, said the decision was a good one for purely practical reasons. "Any other result would have just imposed too great of an obligation on hosts of a party to supervise their guests," he said.

"When you throw a party, you should not have to be a policeman as well as host. When a guest does something stupid, the guest should be responsible ..."

The party hosts could have been liable, Hensley said, if they had purchased the fireworks themselves.

Previous court cases have also held party hosts liable for providing alcohol for a guest who then proceeds to get into an automobile accident.

But the same rules apply for alcohol, Hensley said.

"If guests bring their own alcohol, homeowners are not responsible," he said.

Hensley added that Luoni would have had a better chance suing the person who lit the firecracker that shot a fragment into his eye.

But no one could determine who the person actually was.

"If he knew he could have sued and won," Hensley said.

Luoni injured his eye during a cookout party that lasted until about 10 p.m. Up to 50 people attended, according to court documents.

The fireworks display lasted about 20 minutes.

Thomas Berube, according to court documents, admitted he was drunk during the party and was "irresponsible" for not paying attention to the fireworks.

But the SJC decided his statements did not matter, because under the circumstances, the hosts did not have a duty to "safeguard their guests" regarding the fireworks.

He sued the Berubes in Essex Superior Court on March 25, 1998. The court found in the couple's favor on Jan. 29, 1999.

Insurance Times: Textron Wins Pollution Appeal In RI High Court
July 4, 2000, Vol. XIX No. 14

PROVIDENCE - The Rhode Island Supreme Court has ruled in favor of Textron in a case involving insurance companies' responsibility for covering pollution cleanup.

The case began 13 years ago after the U.S. Environmental Protection Agency sued Providence-based Textron, alleging the company polluted dozens of sites in the country. The case involved ground water pollution from the company's aircraft factory in Wheatfield, N.Y.

Textron then sued about 30 of its insurers, seeking coverage for the cleanup costs, The Providence Journal reported. A Superior Court judge threw out part of the case. Textron appealed, but settled with some of the companies that had won the partial judgment.

The high court then reversed the Superior Court decision, saying that insurance companies don't have to pay for pollution that is intentional or reckless, but they do have to cover spills where a company has made a good faith effort to control the waste.

Textron's lawyer, John Tarantino, said the decision means that now "in the vast majority of cases there's going to be coverage because in most circumstances the insured would not be intentionally polluting," he said.

But the lawyer for the defendant, Insurance Company of North America, said the ruling deviated from a Supreme Court tradition of "giving insurance policy language its plain meaning."

"It's not in anyone's interest, insurers or policyholders, when the courts refuse to enforce the plain meaning of exclusions in the

policies," John Altieri said. "If you can't agree on what's covered and what's not, insurance becomes harder to get and more expensive."

Vermont cracks down on bogus auto stickers

ESSEX, Vt. - The Vermont Motor Vehicle Department is cracking down on what officials say is the growing problem of stolen and forged inspection stickers.

For \$30 to \$60, motorists in Vermont can buy their way out of the sometimes costly car repairs and insurance rates needed to get the state's seal of approval on the front windshield, officials say.

"If you can buy a stolen inspection sticker for \$50 and it's good for one year, that's a year that you don't have to have insurance on your car," said Reginald B. Bragg, chief inspector for the Department of Motor Vehicles.

Drivers must have proof of insurance to pass inspection and their cars have to pass safety standards. Those costs drive some people to fake or stolen stickers.

Stickers are often stolen from stations and even peeled off car windshields, police said.

Insurance Times: Opinion Exchange

July 4, 2000, Vol. XIX No. 14

The news that scientists have succeeded in mapping the sequence of the human genome-- the genetic blueprint for a human being-- is both humbling and exciting.

There is still work to be done but scientists are well on the road to being able to identify disease-causing genes.

People at high risk of cancer or heart disease will be able to be identified by their genetic code. The genes, in effect, could forecast years in advance who will get sick and who will not.

This achievement, of course, has accelerated the debate over genetic testing, raising both fears and hopes.

A recent Time/CNN poll found that 84 percent of Americans did not want the government to know their genetic code.

Seventy-five percent didn't want insurance companies to know. For their own personal use, though, 61 percent of those polled wanted to know if they were genetically predisposed to disease and 67 percent wanted to share their genetic code with their doctors.

Some fear that access to genetic codes would encourage employers and life, health and disability insurers to avoid hiring or enrolling people whose genes show them to be highly susceptible to diseases.

It's very American to value one's privacy and what's more private than one's genetic code? But even with promises of protection, Americans could let their suspicions keep them from getting tested, and deny themselves and their families the benefits such testing would bring.

The fear within some circles has been that those with knowledge of their genetic predisposition to disease will sign up for insurance while those whose genes point to a relatively healthy future will drop out of health plans or carry far less.

In this week's issue (page 4), Harvard School of Public Health economist Katherine Swartz shares those worries.

Swartz believes that genetic advances will change the insurance market forever. She maintains that the development of genetics tests will undermine private insurance markets.

Someone found to be at low genetic risk for a disease will no longer purchase insurance, she maintains. High risk people will be left in the market, while resulting insurance prices will be too high for many.

People will always need insurance for accidents and health problems not forecast by their genetic tests but will that be enough to sustain a private health insurance marketplace as we know it?

Swartz thinks a national health plan may be the only option.

Whether Swartz is right in her own forecasting about insurance markets remains to be seen, but two things seem certain.

The country will have to enact strong privacy protections against unfair discrimination based on genetic testing.

And the impact of genetic advances on society and the insurance industry is not to be taken lightly.

As Swartz said, "We ought to be thinking about this (and) planning for this in a more organized fashion."

Insurance Times: MDRT: How To Sell Investment Products
July 4, 2000, Vol. XIX No. 14

While some say his simple approach works only with less sophisticated clients, Cross knows better; he's qualified for the MDRT for 21 years

When John T. Cross made his company's top sales club in 1978, he decided to compare himself with those in the club with higher sales than his own.

He noticed that all of the producers above him in the club were specialists, while he was a general practitioner selling a bit of everything.

"The higher up the ladder I went, the more the individuals specialized," he said.

So Cross decided to follow the leaders and specialize. He chose investment products. because "I was already more successful than most of the other salesmen in bringing in investment business, and because I liked the people I was meeting in this market place."

Cross, a partner in The J. Rothschild Partnership in Hertfordshire, England, is an authority on estate and investment planning and has qualified for the MDRT for 21 years.

In 1980 at least half of the business Cross was writing came from investment products and by the time he had been in the industry 10 years, 95 percent of his business was investment related. This figure has not changed in the last 15 years.

Although the commission paid on investment products is low, averaging about three percent, Cross has found that earning even this on a large volume makes it all worth while.

But he does not rely solely on commissions.

"I stumbled on to the fact that having money under management, and being paid a very small fee, was really the way to go. "

Fee income really adds up over the years. Today, his income generated from funds under management is tops \$500,000 a year.

"I know I am going to make that even before I step outside the door on the first of January each year. This removes a lot of pressure to make instant sales and means I can be very laid back when I meet with prospective clients and, interestingly enough, the more laid back I am, the larger volumes of business I seem to do."

Cross subscribes to the KISS formula-- keep it simple, stupid

"I often tell my clients and potential clients 'you don't need to know how the engine works in order to drive the car. Just as long as you know it's got one that is all that matters!'"

He tells clients there are only four things they can really do with money in order to invest it and produce both income and capital appreciation: property, equities, deposits, and government bonds.

"I explain to my clients that in return for them giving me a capital sum I will invest this and spread it around into these various areas for them using professional fund managers whose job it is to make all of these decisions, so the clients do not have to make any decisions themselves.

"It is staggering to me how very easy it is to present investment products in this way and so produce large volumes of business but often."

Cross has heard the skeptics who contend that this approach only works with less sophisticated clients. But he has news for them.

"I can give you my categorical assurance that in fact the simpler you make the presentation the larger the amount of business you will produce."

He claims he has a number of multi-millionaire clients who have bought because he showed them this simple example.

"My clients almost invariably say that I am one of the few people they have met who is able to explain to them how these investments work and that they have seen various other investment specialists who put forward one strategy or another, none of which they understood."

Cross sends out quarterly statistics and bulletins, as well as other mailings and cassette tapes to keep in touch with clients.

"I am keeping them in touch with what is going on and the result is that whenever they have any spare funds they automatically send it to me rather than to one of my competitors."

Cross is also fanatical about keeping in touch by sending birthday cards and calendars to all of his clients.

About 20 years ago, Cross tried selling by seminars, only to find he lost money. But he persevered and kept working on ways to make his seminars more effective because he believed that the concept was right. By the mid-1980's virtually all of his business was being produced from

investment seminars.

He begins his seminars by spending the first hour introducing the clients to what he calls "the general investment principles, most of which of course they already know."

"This relaxes the clients who immediately sense there is going to be no 'hard sell', as they see I am quite genuine in putting forward to them all of the alternative investments they should consider."

Later in his seminar, he asks for their business.

"I am always happy to start with a small investment on the basis that we will build it up and add to it as the years go by and I often say "just dip your toe in the water and let me show you what we can do for you and then later I will come back and grab your ankle, your leg and take over the rest of your investments as the years go by." And do you want to know something, that is exactly what I do."

He obtains the bulk of his prospects through his seminars and he keeps them by keeping his promises.

"We do what we say we will do. We keep in touch, we mail them regularly, we send them updated information regarding the investment fund performances, in short we give them grade a service. This applies to all of our clients whether they are multi-millionaires, or just little old ladies from Bournemouth who only have \$10,000 to invest. They all get the same treatment because I have learned over the years from the smallest acorns do the mightiest oak trees grow."

Insurance Times: Chubb Masterpiece Insures Internet Losses
July 4, 2000, Vol. XIX No. 14

WARREN, N.J. - The Chubb Group of Insurance Companies will now offer insurance to protect policyholders from financial losses associated with identity and credit card theft on the Internet.

Chubb now provides up to \$25,000 insurance for expenses incurred by a policyholder to clear his or her name after such an occurrence of identity fraud. Less a \$500 deductible for each occurrence, the policyholder will be reimbursed for the cost of:

Notarizing affidavits or similar documents for, or sending certified mail or making phone calls to, law enforcement agencies, businesses, credit grantors and credit agencies;

Reapplying for a loan when the original application was rejected because the lender received incorrect credit information;

Earnings lost by taking off from work to complete fraud affidavits or meet with law enforcement agencies, credit agencies, merchants or legal counsel, up to \$250 a day or a total of \$10,000; and

Reasonable attorney fees incurred to defend against lawsuits by businesses or their collection agencies, remove criminal or civil judgments wrongly entered against the insured or to challenge information in a consumer credit report.

Credit card losses not covered under the identify fraud provision are addressed by a new credit, forgery and counterfeiting provision.

In addition to addressing those Internet-related losses, Masterpiece enhancements also include: expanded coverage for electronic data restoration to software anywhere in the world and to replace or recreate personal data lost as a result of computer virus; an additional \$1,000 in coverage for the removal of trees which fall due to wind, hail, sleet

or the weight of ice or snow but do not damage covered property; additional insurance for food spoiled by power interruption or refrigerator breakdown; revised valuable articles insurance to include payment for a loss in value if the market value of an item before a loss is less than the amount of coverage; and increased limits for fire department charges, non-fire-related silverware losses and the loss of use of a vehicle.

Gulf program covers coaches and staff

HARTFORD - Gulf Insurance Group, a subsidiary of Travelers Property Casualty, and Summit America Insurance Services have launched a new insurance program for sports camps, sports clinics, and teams and leagues. Called Coaches' Choice, the new program provides general liability for coaches and their staff, excess medical and catastrophic medical for participants. The new program offers flexibility, high medical limits, and no aggregate on general liability. The Coaches' Choice program accommodates the needs resulting from severe injuries that would exhaust the limits of other standard plans. This plan provides \$10,000,000 of lifetime medical benefits to an injured participant, up to \$500,000 cash benefits for seriously disabled participants, a \$10,000 death and dismemberment benefit and \$1,000,000 of general and participant legal liability coverage for the coach, camp, and sponsoring organizations.

Summit America Insurance Services, program manager for the Coaches' Choice program, specializes in developing and administering specialty insurance programs for the educational and recreational marketplace. For agent inquiries on Coaches' Choice, call (800) 955-1991 or by fax at (913) 327-0201.

The Hartford, Exactly! protect photographers

HARTFORD - The Hartford Financial Services Group, Inc. and Exactly! Inc. have agreed to provide property-casualty insurance coverage for commercial photographers through the Exactly! For Photographers business management system. Exactly!'s system is a desktop software-internet program that provides commercial photographers with specialized business management software and a wide range of web-based products and services. Starting June 15, users of Exactly! For Photographers were able to access and complete a Hartford online insurance application and request liability certificates through a web link with The Hartford. Exactly! for Photographers is available at no cost by calling (415) 625-2699, by downloading from www.exactphoto.com, or by sending an email note to support@exactphoto.net.

Nelson orders windstorm pool not to raise rates

TALLAHASSEE, Fla. - Florida Insurance Commissioner Bill Nelson has blocked plans by an insurance pool to raise the cost of windstorm coverage for many coastal residents by up to 300 percent. Nelson issued a "cease and desist order" against the Florida Windstorm Underwriting Association, which had hoped to begin its increases July 1. Previous attempts by Nelson to block the FWUA's increases have been rejected by an arbitration panel and the courts, but he says he can prevent the hikes until his final appeals have been decided.

Insurance Times: NY Court: Landlord's Policy Covered Fatal Stabbing Of
Tenant
July 4, 2000, Vol. XIX No. 14

Insurer bound to defend landlord in suit by tenant's family

by Joel Stashenko
Associated Press

ALBANY - A landlord's insurance policy covered the fatal stabbing suffered by one of its tenants, New York's highest court ruled on June 20.

The Court of Appeals decided 7-0 that the United International Insurance Co.'s policy bound it to defend and indemnify Agoado Realty in a suit brought by the family of murdered tenant Miguel Felipe. The suit claims negligent security by Agoado.

Felipe was stabbed to death in one of Agoado's Bronx apartment buildings in May 1996. His killer has never been found.

United International argued that it was notified too late of the Felipe family suit and, at any rate, the company said its policy only covered accidental "occurrences" and not an intentional act to injure another person like Felipe's fatal stabbing.

The court said, however, that it "cannot seriously be argued" that the murder was intentional from the landlord's viewpoint. For liability purposes, the slaying was accidental from Agoado Realty's standpoint, the court said in a ruling written by Judge Richard Wesley.

Agoado Realty's lawyer, Robert Goldberg, said both landlords and tenants gain by the court's ruling.

"The ramifications would have been that landlords would have purchased insurance and if anyone had been injured by an unintentional act by anybody, they would get no coverage," Goldberg said. "That would have been disastrous."

Goldberg said it is fine if a landlord chooses to negotiate a policy with an insurer which contains an assault exclusion in return for lower premiums, but Agoado Realty in this case believed it was paying for coverage against suits like the Felipe family's.

The Court of Appeals sent the Felipe case back to the Appellate Division of state Supreme Court to decide whether United International was properly served with a notice of the claim by Agoado Realty.

United International lawyer Bruce Robins said that while "the big issue was decided against us," the insurer could still avoid liability if it can prove it did not receive timely notice of the suit.

Insurance Times: MEMIC Signs Wausau Exec For NH Unit; Targets Sept. Start
Date
July 4, 2000, Vol. XIX No. 14

Building staff in Manchester

by Penny Williams
InsuranceTimes

Maine Employers Mutual Insurance Co. (MEMIC) has hired a former Wausau Insurance Co. executive to head its new New Hampshire workers compensation subsidiary, MEMIC Indemnity Co., which is being housed in the former New Hampshire Insurance Group building on Elm Street in Manchester.

MEMIC, known in Maine for its workers compensation loss control and safety programs, will bring the same approach to neighboring New Hampshire, according to President and Chief Executive officer John Leonard.

The company has appointed Russ Schakelford as chief operations officer for the New Hampshire company. He is a former vice president of underwriting and operations for Wausau, which is now owned by Liberty Mutual, the nation's largest workers compensation writer.

"We're excited about having our leadership come to us from the largest, most prestigious workers compensation company in the country," Leonard said.

The company will begin writing in New Hampshire in September, Leonard estimates.

To ensure that this is a strictly in-state operation, MEMIC Indemnity will have a full contingent of loss control and claims people in New Hampshire, Leonard said. In addition, the company plans to start out by contracting with a dozen or so independent agents, a number that over time will grow to 30 or 40.

In addition to its agency force, MEMIC Indemnity will approach a number of companies writing in New Hampshire that do not write workers compensation with a view to forming alliances.

Despite signs of difficulties in the marketplace, Schakelford believes this is an opportune time to start a new company.

"We don't have the concerns with balance sheet issues that others do. And starting out as a new company, we can write the business at a price that is right for today's market. We won't have to deal with corrective renewal action," he said.

"The timing of the market couldn't be better."

Schakelford said he will listen to agents to determine which markets and risks to pursue.

"We are meeting with our agents now to figure out what markets are appropriate," he said. "We intend to leverage our loss control expertise."

Meanwhile, officials at the Maine parent company, Maine Employers Mutual Insurance Co., are basking in the news that A.M. Best has awarded the company an A (excellent) rating.

"This rating places MEMIC among a select group of insurance companies across the country and above many of its peers," he said. "Our policyholders and the entire state of Maine should feel secure in knowing that this is a strong company and is more-than-able to meet its financial obligations."

Insurance Times: Nation's Small Airstrips Closing As Aviation Insurance Market Shrinks

July 4, 2000, Vol. XIX No. 14

Airstrips convert to trailer parks as insurers shun unprofitable markets

HILLSVILLE, N.C. (AP) - For years, Bob Johnson's private airstrip in Randolph County had been a less expensive place for people to fly. But when his insurance company told him three months ago that it would no longer offer him aviation insurance, Johnson decided to close the airport.

Similar plights have occurred at small, independently owned airports nationwide as the pool of insurers that underwrite aviation insurance has shrunk considerably. Nine companies offer aviation insurance where more than 30 offered such insurance 20 years ago.

Coast to Coast

May Field, southeast of Greensboro in Guilford County, closed to the public in January when its insurance expired. Johnson Field followed two months later, joining small private airports from coast to coast, according to industry analysts.

Johnson said he could have remained open, but the best insurance quote he has been able to find is \$10,000, about twice what he paid last year. "I don't want to retire, but I might as well go fish than pay twice as much as what I used to pay for insurance," Johnson said.

The condensation of the insurance industry and higher premium prices have come even as the number of crashes and fatalities have decreased over the last 20 years, said Aircraft Owners and Pilots Association spokesman Drew Steketee said.

"The insurance costs had gotten so out of hand," said Rebecca May, the owner of May Field. "It's really the only reason I closed it to the public."

General Aviation Revitalization Act

Bill McGloin, president of Phoenix Aviation, an Atlanta aviation insurance company that still covers private airports, said the industry took losses for too long before throwing in the towel when Congress passed the General Aviation Revitalization Act two years ago.

Bill Foster, an independent aviation insurance agent based in Trinity, said the law protects airplane manufacturers from lawsuits after their planes reach 18 years of age, allowing trial lawyers have been suing airport operators, mechanics and air field owners more frequently.

May Field's closure displaced about 25 planes whose owners had to find other hangers. Half a dozen of them came to Johnson's field in Hillsville, Johnson said. If he carries out his plans to turn the airport into a trailer park, those planes will be on the move again.

Bill Maslyk, project manager for the state Department of Transportation's aviation division, said the state wasn't aware of the insurance problem for small airport until contacted by a reporter.

"It's raised some eyebrows," Maslyk said, adding that the department plans to raise the issue at a national convention of state aviation departments this fall.

Steketee said the AOPA has hired an insurance consultant to see what can be done about the problem.

"It's not an easy problem to fix," Steketee said. "It appears to be market-driven. Writing aviation insurance just isn't profitable for many companies, so it's not something we can march down to D.C. and complain about."

AlbanY - The New York State Legislature ended its 2000 session leaving important insurance regulatory reform unfinished.

However, the Legislature did defeat a number of bills promoted by trial lawyers that insurers maintained would have increased costs for consumers and businesses in New York.

"The most disappointing outcome of this session is the Legislature's failure to enact regulatory reform for commercial lines of insurance," said Mary Griffin, AIA assistant vice president, northeast region.

"Although negotiations continued to the very end and both houses and the Governor appeared close to an agreement, none was reached."

On the positive side as far as the insurance industry is concerned, the Legislature enacted an important change in the way workers compensation insurers are assessed for six special funds. This bill (A.9787-C/Nolan/S.6800-C Skelos) allows publicly held insurers to comply with a new Financial Accounting Standards Board (FASB) accounting standard. These expenses were funded through assessments from workers compensation insurers based upon their total paid losses in the preceding calendar year.

This bill will change the financing to an assessment based on premiums written. The assessment will be collected through a policyholder surcharge.

The new FASB standard requires publicly held insurers to immediately accrue special fund losses on their financial statements if the assessments are based on paid losses. The result would be a paper "reduction" in reserves or surplus funds that the insurer must maintain on the books. A significant reduction in surplus due to this accounting standard would adversely affect the availability and affordability of workers compensation insurance in the state. The FASB standard does not require immediate accrual of these costs if they are financed through a policyholder surcharge based on premiums.

Nothing in this bill would affect the amount of total funding for the fund or the amount of benefits an injured worker could receive.

"This important change allows publicly-held insurers to comply with the FASB standard without reducing reserves. If insurers were unable to comply with the FASB standard they would be limited in the amount of coverage they could offer in New York," said Griffin.

The Legislature defeated a bill supported by trial lawyers (S. 545) that would have created a "private right of action" against insurers for "bad faith" claims. Independent actuarial analysis estimated that this bill would increase auto and homeowners' insurance costs by more than 20 percent.

AIA waged a grassroots effort against this bill, generating hundreds of letters in opposition. AIA also worked with New Yorkers for Civil Justice Reform to oppose this bill.

"Defeat of the private right of action bill is good news for New York consumers. The bill would have created a flood of litigation that would have benefited trial lawyers at everyone else's expense," said Griffin. The Legislature also defeated attempts to expand wrongful death liability, bypass the arbitration system in New York's no-fault auto law and create HMO liability.

Insurance Times: Life-Changing Lessons From MDRT Legends

July 4, 2000, Vol. XIX No. 14

For over 40 years, my life has been dramatically affected by the life-changing lessons taught to me by MDRT legends," Millard J. Grauer, CLU, ChFC, told the audience at this year's MDRT Annual Meeting last month in San Francisco.

Grauer - himself a legendary past president of MDRT and winner of the John Newton Russell Award - then proceeded to share highlights from presentations by Ben Feldman, Buddy Zais, Jim Longley, Mehdi Fakharzadeh, Ron Barbaro and other MDRT legends.

First, Grauer recounted how Ben Feldman answered the question, "When you first go into an interview, how do you get a person's attention?"

Feldman: When you go into an interview, you either have to show him something or say something. Nine times out of 10 now, when I go into an interview, I go in with my tax case. I flip the cover over and on the inside is a great big bundle of money - \$50 bills, \$100 bills, \$20 bills, and across that is a \$1000 bill. No cellophane on it, nothing. I just use some scotch tape to hold the bills. On the \$1000 bill, I have three pennies. I say, "This is what I sell, these kinds of dollars, dollars for pennies apiece. How many would you like?" You know what will happen? You will get their attention.

U.S. legend Fred D. Donaldson spoke at the speed of light, Grauer recalled. When Grauer heard him speak, he Donaldson changed Grauer's view of his product. "His life-changing lesson taught me we don't sell life insurance, we sell time insurance," Grauer said.

Donaldson: "We as life insurance people today must look both to the things that do change and the things that don't change, won't change or cannot change. People who are living today are going to die. They are going to love and as long as people love, they're going to be concerned about the people they love and they're going to find some means of taking care of those people whether it's an old stone man's cave or whether it's today's best stock or bond life insurance portfolio. Those who care provide for those they care for. That's not going to change. The vehicles may change, but the basic understanding and provisions are not going to change. In my crystal ball, I see lots of things on the horizon. I can see lots of changes, but I do not see anything that is going to take the place of life insurance. Savings will not be able to create an estate to provide for a family, because there's no assurance of that guarantee of time.

"Time does run out. Time is a commodity. Time is our only commodity that we have in common. We must be responsive to recognizing that time is our commodity and we must insure against that time. Of course, we must come to grips with the fact that time is running out and that death remains ahead of us. Every person in the world is one heartbeat away from eternity. This will not change, this cannot change. We may do a lot to extend life, but we cannot do anything to do away with death because it is inevitable.

"We are insuring against that certain event, not just the fact that we can insure against death but against the uncertainty of the timeliness of death. We must keep in our present minds that we are one step away, one heartbeat from eternity. And, regardless of what we do or how intelligent we may become, we still are only one heartbeat away from eternity. In spite of all the ups and downs in the economy, we are one

heartbeat away from eternity. We do sell a love contract and we want to sell that love contract to people who recognize they're going to die. This speech is just like the time, just like the heartbeat, when it's over, it's over - and that does not change."

Grauer next told tales from Mehdi Fakharzadeh, an Iranian by birth and a world-respected legend. His life-changing lesson in 1975 was entitled, "Nothing is Impossible." Grauer excerpted some of Fakharzadeh's philosophy on handling the question, "How much does life insurance cost?"

Fakharzadeh: "When the prospect is convinced that the idea of my proposal for coverage is good, and he has accepted it, his very first question is, 'How much does it cost?' My answer is that this plan of mine doesn't cost him anything. The client invariably is astonished and asks how that is possible? I then say, 'If you have two checking accounts in two different banks and take \$5000 from one and put in the other, how much will it cost you?' The answer, of course, is 'nothing.' I say, 'Our plan is more or less the same, because the money that you are giving us will be saved for you.' Then I add, 'Generally speaking, for up to 10 years, all the money you have given to me is in your reserve account, minus two years. After that, you have much more money in your account than you have put in. So you can see that there is actually no cost to you.'

Ron Barbaro was the first non-U.S. president of the Round Table, past-president of Prudential. He was "an idea person constantly stepping outside the nine dots, outside the square," according to Grauer, who recounted how Barbaro created the accelerated death benefit after visiting with an AIDS patient.

Question: Can your constant street exposure in 'that final three feet' help raise the level of a company and an industry?

Barbaro: I not only think so, I know so. The accelerated death benefit was created in the final three feet, not in an office. An action taken - and a decision chosen - because of its rightness for policyholders and the times. A breakthrough by an industry that understands its mission - an industry now with over 140 companies offering accelerated benefits. In varied forms - in all 50 states - Canada - and overseas. I find this one small feature exciting - our product lives up to its name - life insurance. For over 100 years, life insurance was bought for two basic needs - because of love of somebody or something. Accelerated benefits has created a third need - buying for love of self. Dying with dignity. Cash for a nursing home. To stay alive. In focus groups, our customers have told us, losing their independence is of more importance to them than dying. They do not fear death - they fear losing their independence.

Kazuko Shibata has led life insurance sales in Japan for more than 20 years. She has over 20,000 clients. In 1994, she made an MDRT presentation that she memorized in English.

"She taught me that there is no bad experience as long as you make it a learning experience," Grauer said.

Shibata often prepares a "list of the pros and cons" of life insurance for personal interviews. "I list more of the cons (disadvantages) side of the list than pros (advantages)," she noted. "It shows that I am

honest. Then, I creatively explain that in spite of all the disadvantages, it is important to own a properly designed life insurance program."

When Shibata talks about the death of the breadwinner in a family, she tells her personal business prospects, "The death of a father means more than that. When a father or a breadwinner of the family dies, it means a death of three roles.

Number 1: it is the death of a living father and a loving husband.

Number 2: it is the death of income, and most people don't recognize this.

Number 3: it is the death of mother at home."

Legend Jim Longley, who died 19 years ago, epitomizes what "one man, one person can do," Grauer told this year's MDRT attendees. Running as an independent for governor of the state of Maine, Longley surprised everyone by winning. "He could have been the role model Sir Thomas Moore had in mind when he said, 'in order to have something worth living for, you must have something worth dying for.' "

Grauer drew attention to Longley's address to the 1975 MDRT meeting on "the price of involvement."

Longley: "This is indeed a homecoming for me and I am happy and proud to be with you this year. While it would be nice at a homecoming to simply have a friendly chat with old and dear friends, I came home today to hopefully bring a message . . . A message in three parts:

1. My observations of the price of involvement and my feelings of the greater price of non-involvement as whole men, whole women, better still, whole persons.

2. The second part of my message hopefully will simply remind each of us that 'they who are given much, owe much.' not only financially, but intellectually. What we have in life is on loan and we hold it in trust to use to help others as well as ourselves. This is also the history of the MDRT. We must continue to write that kind of history.

3. The third part of my message is a challenge and/or plea depending on the drumbeat you hear. As part of the whole person concept, I suggest that you get involved directly or indirectly in your government in whatever city or town or country in the world you live.

Vermont's Buddy Zais has qualified for the MDRT for more than 50 years. He never stops running. He completed his bachelor's degree in philosophy in his early 1980s. Grauer shared some of Zais's legendary comments.

Zais: "I don't know what service to clientele means to you But to me it means getting involved. Getting involved with the problems of your client. To me, it means developing that kind of understanding that lets you see the world through the eyes of your client. No one can hand this to you. It's something you have to reach for - strive for - break your heart a little to come by. I believe it's what a dedicated underwriter spends his or her whole life trying to get - and trying to keep. A consciousness of them as individuals. A sharp awareness of their problems. A keen sensitivity to their needs. You can know the insurance business from here to kingdom come - but you'll never do the job you can do until you know your client at least as well."

In the late Marshall Wolper's MDRT presidential address he asked and answered, "Are we ever satisfied?"

"Are we ever satisfied? Of course not. The razor edge of greatness lies

in always knowing that you can do better and constantly striving to accomplish all that you are capable of. Greatness also is always knowing that when you reach each goal - another, even greater goal lies ahead." Wolper's comments shared by Grauer are from his talk, "Always Stay Over Your Head."

Wolper: "I read an article recently in Playboy magazine which helped furnish the title of this talk. An actor who had won an Academy Award was asked what he thought about people in the entertainment business. He said, 'Every great man is in over his head, and he's fighting to stay alive.' When you read that you say, 'gee that's terrible-that's a desperate thing. You're in over your head and you're fighting to stay alive.' When you think about it a little bit, there's nothing bad at all. You go in water over your head and you keep swimming. Sure, you can walk in close to the shore and sit where no water will buff at you, and nothing will get done. There is nothing desperate about being in over your head and swimming all the time. That's the action, the excitement, and that's what I like.

Insurance Times: Life Insurance Sales Boom In Fourth Quarter
July 4, 2000, Vol. XIX No. 14

WINDSOR, Conn. - Individual life insurance sales recorded one of the best first quarters in recent memory, thanks to a big jump in term policies sold in the fourth quarter of 1999 but processed in the first quarter of 2000. On the strength of sales made on the eve of the enactment of Regulation Triple X, new premiums of term policies increased an impressive 52 percent over the first quarter of 1999, reported Limra International.

Face amount sold increased 48 percent and the number of policies sold increased 28 percent.

Those term sales, along with a double-digit increase in variable universal life sales, made for a bright first quarter. Overall compared with the first quarter of 1999, total annualized premiums increased 21 percent, face amount increased 34 percent, and policies sold increased 10 percent.

Based on annualized new premiums, variable universal life increased 37 percent, variable life increased 19 percent, universal life fell 3 percent, and whole life fell 4 percent.

Market share by product for the first quarter found variable universal life and term life increasing their shares to 38 percent and 22 percent, respectively, while whole life fell to an all-time low of 21 percent. Universal life at 16 percent and variable life at 3 percent remained steady.

The Limra survey tracks individual life insurance new business sales of 89 companies and their 53 subsidiaries operating in the U.S. and represents about 75 percent of the total industry in terms of new premiums collected. Based on data from the 70 companies in the survey that provide sales by distribution channel, brokers increased their new premium by a spectacular 41 percent over the first quarter of last year. They were followed by multiple-line exclusive agents with an increase of 21 percent, agency building agents with an increase of 10 percent, home service agents with an increase of 4 percent, and PPGAs with an increase of 3 percent. p

MetLife to reimburse NY scam victims

BUFFALO, N.Y. - Metropolitan Life Insurance Co. will pay \$1.25 million to reimburse 28 victims of an investment scam run by two former employees, Attorney General Eliot Spitzer said.

Dennis McNerney, of Williamsville and Michael Ferguson, of East Amherst are awaiting trial in state Supreme Court on a 35-count indictment charging them with grand larceny, securities fraud and other fraud charges.

The two are accused of duping 45 investors out of \$5 million between 1993 and 1998. Met Life, which was unaware of the scheme, will pay restitution to those victimized while the defendants worked for the company.

The mostly elderly victims will receive 87 percent of the money they lost when they handed over retirement savings for what turned out to be high-risk investments.

McNerney is accused of clandestinely soliciting investors while working as a Met Life sales representative from December 1990 until September 1995.

Ferguson, a Met Life agent from October 1988 until June 1999, allegedly received commissions from McNerney for soliciting investors for him after McNerney left Met Life, Spitzer said.

Sun Life unveils universal life portfolio

WELLESLEY HILLS, Mass. -- Sun Life Assurance Company of Canada, a member of the Sun Life Financial (NYSE: SLC) group of companies, has introduced an updated universal life portfolio. The new portfolio retains the key features and prices of Sun Universal Protector, a single life product, and the second-to-die Sun Survivorship UL, but introduces changes to comply with Regulation XXX.

LIMRA offers new member services

Windsor, Conn. - Limra International and Wonderlic, Inc., a provider of employment solutions, have entered into a partnership offering recruiting, assessment, and retention services to Limra members. The following products are now available:

PhonApp(r) Automated Telephone Application Service

WebApp Automated Internet Application Survey

(Both items allow job seekers to apply for a firm's open positions 24 hours a day.)

Wonderlic Employee Opinion Survey (telephone and Internet), which gauges employee attitudes on important topics.

Wonderlic Exit Interview (telephone and Internet)

Hire Learning Interviewer Training and Certification, which gives recruiters and managers information they need to comply with laws and regulations governing the hiring process.

Insurance Times: Florida Gov. Signs Bill Strengthening Rules For Viatical Industry

July 4, 2000, Vol. XIX No. 14

Criminal penalties for fraud among the changes

TALLAHASSEE, Fla. (AP) - Regulation of an industry that sells the life

insurance policies of dying people to investors will be expanded and strengthened under a bill signed into law June 20 by Gov. Jeb Bush. Viatical companies give life insurance policy holders - usually the terminally ill - a chance to get much-needed cash from their policy. Investors who buy the policies at below what the payout will be get a chance to profit when the seller dies. The business had its roots in the AIDS crisis.

Because the buyer takes over premium payments and collects the benefit when the seller dies, the sooner the seller dies the more of a return on investment the buyer sees.

A statewide grand jury recently found the industry rife with potential for fraud and recommended the changes made by the bill Bush signed Tuesday.

Just a month ago, 18 people were indicted in an international \$117 million scam that fleeced more than 3,000 people and diverted money intended for the terminally ill sellers.

In that case, in West Palm Beach, the companies allegedly took investors' money, but never bought the policies.

The bill increases criminal penalties for fraud in the industry and requires the viatical companies to provide investors with more written disclosures.

It also allows buyers to void their purchases in the three days after such disclosures, calls for viatical companies to come up with anti-fraud plans and requires certain transaction forms be submitted to the Department of Insurance for approval before they can be used.

The bill takes effect July 1.

Insurance Times: Hancock Expands Sales Outlets

July 4, 2000, Vol. XIX No. 14

BOSTON-- John Hancock Life Insurance Co. announced three alliances that will expand distribution of the company's products through banks and other financial institutions.

The John Hancock Financial Institutions Group (JHFIG), a sales and marketing arm of John Hancock responsible for all mutual funds, annuities and insurance products in the bank channel, has established relationships with Fifth Third Bank, CUSO Financial Services, and SouthTrust Securities.

Fifth Third Bank, a bank holding company headquartered in Cincinnati, signed its first agreement to sell the John Hancock Revolution annuities in its 12 affiliated banks in Ohio, Kentucky, Indiana, Florida and Arizona. The bank's 150 investment representatives will market the Revolution Variable annuities to Fifth Third's brokerage customers.

San Diego-based CUSO Financial Services, a third-party marketer established to exclusively serve credit unions, has added JHFIG as a strategic partner and preferred provider for 2000. As a strategic partner JHFIG has complete access to the CUSO representatives for mutual fund and annuity products. T

SouthTrust Securities, headquartered in Birmingham, Alabama, has selected John Hancock for its preferred list for the Guaranteed Principal Annuity and the Revolution variable annuity. SouthTrust Securities also will sell John Hancock's mutual funds through its 125 registered representatives.

SouthTrust Securities is a registered non-bank broker/dealer subsidiary

of SouthTrust Corp., a bank holding company that operates 623 banking offices and several bank-related affiliates in the Southeastern United States, Mississippi and Texas.

Said Timothy Waterworth, vice president, JHFIG, said the company is "committed to leveraging our strong brand, complete line of products and business development programs to help these new customers grow their market share."

Insurance Times: Life Settlements Offer New Options For When Estate Needs Change
July 4, 2000, Vol. XIX No. 14

by Gary Chodes

Life insurance is a cornerstone of most retirement and estate financial plans. Americans hold life insurance policies with a face value of more than eleven trillion dollars. More than 65 million Americans are approaching their "golden years" in the next few decades. An increasing number of higher net worth individuals in the richest generation in history will become interested in opportunities to unlock the value of their life insurance holdings as they readjust their financial priorities and portfolios.

Golden Years

The need for holding a major life insurance policy often changes by the time a client has reached retirement age. Bought during high earning years to protect dependents or business interests, the policy may be less necessary now that the estate has grown and other assets assure their security. Today's sophisticated investor will continue to look for opportunities to maximize a portfolio of assets to meet changing life needs, even well into the "golden years." And the new future options for today's life insurance policy may be good information to share with someone just building for a comfortable retirement and a substantial estate.

A life settlement -- sale of an existing life insurance policy for a discount from its face value -- offers an older policy holder, who may have experienced some decline in health since the policy was issued, a way to realize the present imbedded value of a major investment in life insurance. It's an option that was not available just a few years ago, but one that is being exercised more and more frequently as the financial revolution sweeps through retirement, financial and estate planning. Life settlements are changing some of the rules for that trusty old asset, the life policy, including policies bought years ago.

An Accelerating Market

An independent strategic study by Conning Research and Publications found that Americans over age 65 hold more than \$492 billion in life insurance. A substantial portion of that is held in term life policies, which have no cash value to the holder, but can be worth a percentage of the face value if sold as a life settlement. Conning conservatively estimated the potential life settlement marketplace at more than \$100 billion in the coming decade.

Industry analysts estimated that as much as \$1.2 billion in face value of life policies were settled in 1999. One company alone -- Viaticus,

Inc., an affiliate of CNA Financial Corporation -- has purchased over \$1 billion in face value of life insurance policies in the past few years. Two recent examples of life settlements closed by Viaticus show how exchanging a life policy for cash works for people who want to realize the present value of an investment in life insurance, or create new options for the investment.

Some Examples:

The policies described below were all purchased by Viaticus, Inc., an affiliate of CNA Financial Corp. The facts and names have been altered to maintain client confidentiality.

Sale of policy allows retired couple more coverage for estate with less money

The husband, age 74, was uninsurable after surviving a stroke, his wife, 70, had some heart valve problems, but was in reasonably good health. They held a \$1 million term policy on her life as part of their \$4 million estate for their two daughters. The term policy was not enough to cover estate needs, and the premiums were escalating to prohibitive levels. The couple sold the \$1 million term policy and used the proceeds to buy a \$2 million "second to die" policy, with money left over from the sale. Their daughters could now expect twice as much money in the life insurance portion of the estate, with no worry about keeping up steep premiums.

Estate sees more use for money now

A 73-year old California man was the chief executive officer of a very successful corporation. He held a \$20 million policy, with a cash value of \$2.1 million. The policy was held in trust with his children as the beneficiaries. However, based on the advice of legal and tax counsel, the client wanted to discontinue the trust and pursue a new vehicle to meet his needs. Though active, working and receiving excellent health care, the insured was suffering recurrent health problems. He sold the \$20 million life policy for \$4 million, paid to the trust. The client's heirs now had access to \$4 million cash in the trust, and could expect many more years of their father's expert guidance to invest it wisely.

How a life settlement works

A life settlement is the sale of an existing life insurance policy at a discount from its face value. There are no restrictions on how the insured can use the money. The company purchasing the life insurance policy becomes owner and beneficiary of the policy, and is responsible for making all future premium payments until the original policy holder's death.

The typical policy holder is in his or her late 60's or older, has experienced a moderate decline in health status since the policy was originally underwritten and holds a policy (term, whole, split dollar or universal life) with a face value in excess of \$250,000. The seller -- an individual, business owner, partner, trustee, assignee or company -- works with a third party buyer to determine an offer amount for the policy. The buyer calculates this value after considering the age, gender and health of the insured, the face amount of the policy, the premium obligations, the remaining cash value and the type of policy. The buyer typically underwrites the current health of the insured as part of this process. This means the insured provides a release to review certain medical records.

Common estate planning applications

As seen in the two examples, both growing estates and maturing estates can often use the life settlement as a vehicle to change the role of a major life policy. Here are some examples of how common changes in the size of a taxable estate can mean a life settlement could be a good option for your client:

Estates growing in size and liquidity

An increase in an individual's liquidity makes life insurance a less desirable funding mechanism to pay estate taxes. (Case 2, the California CEO)

A client wants to buy an even higher face amount of coverage on the life of a spouse or a "second-to-die" policy.

Reduction in size of taxable estate

A reduction in an individual's estate size or a change in tax policy means either more or less insurance is required to pay projected estate taxes. (Case 1, the older couple required more cash in the estate for taxes)

An individual has a change in financial condition, and the premium is no longer affordable.

An individual's policy has large loans against it, making the policy expensive to maintain.

Other considerations

The insured has outlived all or most beneficiaries of the policy.

The insured would like to gift the policy to a charitable organization, realize the tax deduction for the sale amount this year, and help the organization meet current cash or capital needs.

What this means for younger clients planning for retirement

So far the examples have all been policy holders over age 70 adjusting a mature estate. What do these transactions mean for someone in their 40's, 50's or 60's working to build a retirement plan today? It means that a life insurance policy is no longer a one-way ticket. Does that change the picture for how to advise someone planning for retirement 10 - 30 years from now? Not substantially, perhaps, but it's good to know at the front end what that policy may be worth under some future scenarios that don't include just what the issuing company is willing to pay. The settlement marketplace has made a life policy an even more unique and flexible financial instrument, with an imbedded value that can often exceed the actual cash value.

One final point that a sharp retirement and estate planner should know, and which needs to be fully disclosed to the client: there are commissions paid on the settlement to the agent, broker or retirement planner; generally a percentage of the value of the net death benefit of the policy settled. For example, Viaticus, Inc. paid more than \$17 million in commissions to parties representing the sellers of insurance policies in 1999. The average face value of policies bought through their life settlements was approximately \$1.3 million. Policies with face values as low as \$100,000 have changed hands, but most settlement providers are looking for policies of \$250,000 - \$500,000 and more. p

Chodes is president and co-founder of Viaticus, Inc., a provider of life settlements. Viaticus, Inc. is an affiliate of CNA Financial and is based in Chicago, Illinois. Viaticus works with agents, planners, brokers and producers. Call Viaticus Inc.'s toll-free number: 1-888-216-0970 or visit [HYPERLINK http://www.viaticus.com](http://www.viaticus.com)
<http://www.viaticus.com>.

Insurance Times: Profile Of Clients Who May Be Interested In A Life Settlement
July 4, 2000, Vol. XIX No. 14

The profile of a client most likely to be interested in investigating the possible benefits of a life settlement is someone who:

Is older, generally over 65.

Holds a high face value policy that may have rising premiums due.

May be considering letting the policy lapse because estate or business needs have changed.

Has some decline in health since the policy was originally written (enough to change table rating, but not life-threatening).

For high-net-worth clients who share these not-so-uncommon characteristics, life settlements can offer an attractive option to realize the current value of a common investment whose purpose may have changed over the years. A life settlement can unlock the value of a large life insurance policy, offering the flexibility to pursue new opportunities.

Insurance Times: Employee Benefits & Managed Care
July 4, 2000, Vol. XIX No. 14

i.Choose Aetna Life simplifies benefits

Hartford - A new web-based system, i.Choose Aetna Life Insurance, permits eligible employees to apply for life insurance coverage, change their beneficiary or apply for additional coverage at their convenience as life events occur.

The system also provides online benefits education and communication to employees through the employer's internal web site.

i.Choose Aetna Life Insurance relieves benefit managers from the hassle of administering group life programs. Since employees will connect directly with Aetna electronically, employers no longer have to process paper enrollment forms, beneficiary forms, or evidence of insurability paperwork.

"With i.Choose, employees can apply for coverage or coverage increases without waiting for annual enrollment periods giving them more protection as they need it and more control in designing an overall financial portfolio," said Ann Bryan, vice president, Aetna Life products. "As employers move toward a defined contribution plan of benefits, where employees determine how and where to spend their benefit plan dollars, our goal is to provide access to reliable and helpful information."

"Employees need the flexibility to update and revise coverage as their life insurance needs change. Having a baby or buying a new house can bring on additional financial responsibilities that can devastate a family if income stops unexpectedly," said Bryan. p

BenefitPort signs group pact with Prudential
GREENWICH, Conn. - BenefitPort, an Internet-based network for health insurance sales and employee benefits, has signed a national agreement with The Prudential Insurance Co. to distribute group insurance

benefits, including group basic term life, accidental death and dismemberment, and disability products and services. BenefitPort was created through a combination of independent insurance agencies and insurance software firms and now serves over 17,000 brokers across the U.S. It is already doing business with over 50 insurance carriers and 35,000 employer groups. A broker can open his BenefitPort Internet desktop every day and manage his or her whole book of business. The system alerts the broker to policy renewals and tracks appointments with new prospects. Proprietary BenefitPort software provides access to nearly instantaneous quoting from a vast array of carriers, inclusive physician disruption analysis and easy, efficient electronic enrollment. Other electronic services also currently available include: online product and benefit descriptions; electronic generation of sales proposals, customized for each carrier; electronic provider directory distribution to brokers and employer groups; and commission tracking for all producer payments. Prudential's Group Insurance products to be added to BenefitPort's expanding online portfolio will include basic term life; accident death and dismemberment coverage; short term disability and long term disability.

Mass. plan would help parents take time off
BOSTON - New parents would be able to collect up to 12 weeks of unemployment benefits under a plan being considered by lawmakers. The plan would use the state's \$1.8 billion unemployment insurance trust fund to extend benefits to parents of newborn or newly adopted children. Supporters say the proposal is needed to help working parents meet the needs of new children without facing a fiscal crunch. ``Under this bill, when a new child is born or a new child is adopted, working families get the crucial time they need at home,'' said Sarah Nathan, spokeswoman for the Massachusetts AFL-CIO. Opponents say the trust fund should only be used for its original purpose - helping workers who have lost their jobs. "If you expand the program to meet other social needs, by the time you need it to pay for the benefits of laid-off workers, you don't have it," said Alan Macdonald, of the Massachusetts Taxpayers Foundation. The state's unemployment insurance trust fund is supported with contributions from Massachusetts employers.

URI pushing for domestic partnership bill
PROVIDENCE - The University of Rhode Island is pushing for a bill that would grant domestic partners the same health benefits that spouses and children of state employees receive. President Robert Carothers said the proposal -- which applies to gay and straight partners -- is a recruitment tool to help URI compete with other universities. "We are in an extremely competitive labor market. We just can't afford to lose good people because of an inequity in the system," said Carothers, who testified before the House Finance Committee. The bill, sponsored by Rep. Gordon Fox, D-Providence, was introduced late in the legislative session and will not be taken up this year because the costs are still unclear. But the House committee still held a hearing on the measure to educate lawmakers and get a head start for next session.

Under the bill, any partner of a state worker who has been living with the employee and sharing finances for at least two years would be

eligible. The person also has to be over 18 years old and not married to anyone else.

``They either need to give us the same benefits or allow us to get married,'' said Judith Anderson, a gay woman and retired URI professor. Anderson worked at the school for 30 years and was never able to extend her health benefits to her longtime partner.

A similar bill was filed last year but never made it out of committee. Other states that provide the benefits are California, Connecticut, New York, Vermont, Hawaii and Oregon.

Two private employers in Rhode Island already extend the benefits including Brown University and Fleet Bank, according to the Rhode Island Alliance for Lesbian and Gay Civil Rights. Also, 20 percent of Fortune 500 companies offer the benefits.

``If I do my job I should be able to take care of my partner just as the married man next to me can,'' said Kate Monteiro, who belongs to the alliance.

Carothers said more than 200 colleges and universities offer the benefits including the University of New Hampshire and the University of Vermont.

There are about 15,600 state employees. Early estimates show that about 30 people would be eligible for the benefits, according to Robert Carl, state Director of Administration. That would cost about \$90,000, he said.

``This, to me, is not a controversial bill. This is a very straight forward sense of fairness for people that work for us,'' Carl said.

Fox said he will reintroduce the bill next year.

``It's imperative that we get up to date on issues like this,'' he said.

Insurance Times: Harvard Pilgrim HMO Back In Business With New Board
July 4, 2000, Vol. XIX No. 14

Mass. seeks end to receivership; NH authorizes writing in state

by Mark Hollmer
InsuranceTimes

BOSTON - Harvard Pilgrim took two big steps toward stability on June 19. Commissioner of Insurance Linda Ruthardt and state Attorney General Tom Reilly asked the Supreme Judicial Court to vacate its Jan. 4 order placing the struggling HMO in receivership. They also announced the appointment of 10 people to the Harvard Pilgrim board of directors.

Rehab Plan

The dual actions follow a judge's approval last month of a state plan to rehabilitate Harvard Pilgrim, which lost an estimated \$226 million in 1999, according to state officials.

In prepared statements, both Ruthardt and Reilly spoke favorably about the new board members.

"We have found a group of sincere, knowledgeable volunteers who are committed to doing their very best to restore Harvard Pilgrim's fiscal health," Ruthardt said.

The new board members provide a public service by agreeing to join the

board in two ways, Reilly said, "by working to protect Harvard Pilgrim's members and providers ...(and) by helping maintain stability in the health care system here in Massachusetts."

Among the insurance industry-related professionals on the board: John Budd, former senior vice president, secretary and general counsel of the old Paul Revere Companies; and Barry Shemin, senior vice president and corporate actuary for John Hancock Financial Services.

Voluntary Directors

Board members will serve on a voluntary basis. Previous board members, who were dismissed by the receivership, were each paid a \$10,000 annual stipend.

Naming a new board of directors is the last step needed from Ruthardt, as temporary receiver, to make Harvard Pilgrim eligible to be released from receivership.

But Ruthardt's involvement would continue. If the court approves releasing the request, she would become the HMO's administrative supervisor.

Administrative supervision is a milder level of regulatory oversight than receivership, according to the Division of Insurance.

In related news, New Hampshire officials authorized Harvard Pilgrim to resume writing new health coverage in that state effective June 1.

New Hampshire Insurance Commissioner Paula Rogers commended Massachusetts officials for their handling of the Harvard rehabilitation.

Rogers noted that Harvard has signed a consent agreement designed to give the state more oversight. This agreement requires Harvard to notify the department and its policyholders of the status of its provider network. It also requires Harvard to file monthly financial reports and to maintain a \$1.5 million special deposit for the protection of New Hampshire policyholders.

Insurance Times: Bill Clears Up Status Of Church-Based Benefits
July 4, 2000, Vol. XIX No. 14

WASHINGTON - Legislation approved by the House clarifies the legal status of church-based health care and pension plans, ending the uncertainty that has discouraged some health insurance companies from doing business with church plans.

Only four states - Florida, Minnesota, South Dakota and Texas - have laws giving special protections to church-sponsored benefit programs, potentially making those programs subject to state insurance regulations and raising concerns among some health insurance companies that they could be classified as unlicensed entities.

The bill makes clear that a church welfare plan is considered to be sponsored by a single employer that does not engage in the business of insurance for purposes of state insurance laws.

Sen. Jeff Sessions, R-Ala., author of the bill in the Senate, said denominational plans provide health and pension benefits to more than one million clergy and church lay workers nationwide.

"The churches have been providing affordable insurance for their employees, but feel threatened by the uncertain legal status of these plans. Our legislation makes it clear that the states need not interfere

with these plans," Sessions said.

The House approved the measure by voice, sending it to the president for his signature. The Senate passed the bill last November.

The bill is S. 1309.

Insurance Times: NY City Mayor Giuliani Proposes Kids' Health Plan
July 4, 2000, Vol. XIX No. 14

NEW YORK (AP) - Facing his own health problems, the mayor announced that the city will try to provide health care coverage to about 900,000 uninsured residents.

Mayor Rudolph Giuliani, who announced the program Wednesday, was diagnosed with treatable prostate cancer in April, which led him to drop out of the U.S. Senate race against first lady Hillary Rodham Clinton. He has not disclosed how or when he will begin his cancer treatments. Giuliani said the health problems were part of the impetus behind the new program, called HealthSTAT, which began six months ago.

The program will direct city agencies to aid the uninsured in applying for benefits for various city, state and federal health programs, including Medicaid.

There are about 1.8 million uninsured city residents, two-thirds of whom have jobs. Some of the uninsured do not qualify for health insurance because they earn more than various federal income guidelines. About a quarter of the city's uninsured are children.

Giuliani said the program will use a computer database to find and target neighborhoods with large populations of the uninsured.

Public schools, fire stations, police precincts, hospitals and other facilities throughout the city will distribute health insurance applications and other information.

It is unclear how much the program will cost the city, Giuliani said.

Insurance Times: NJ Wants Owner Of Bankrupt HMO To Pay
July 4, 2000, Vol. XIX No. 14

TRENTON, N.J. (AP) - The owner of a bankrupt HMO and three associates should pay the state \$16.7 million in damages because they raided the insurance company's bank accounts, the state said in a lawsuit.

Those withdrawals helped doom the company financially and the executives hid the company's dire financial situation from state regulators, the state alleged in court papers.

American Preferred Provider Plan was one of two HMOs that went bankrupt in the early 1990s.

In April Gov. Christie Whitman signed a bill that would cover the \$150 million in debt left by the bankruptcies. Remaining health care providers would forgive \$50 million in debt, but the state and the surviving HMOs will each pay \$50 million to cover the remaining losses. The lawsuit names APPP owner Dr. Magdy Elamir as well as Harold E. Smith, Joseph Randazzo and Mohamed Hanafy.

Randazzo was the company's chief financial officer and with Smith oversaw the company's claims processing system. Hanafy, a certified

public accountant, supervised the ledger, bank accounts and check books. "Dr. Elamir and his associates operated APPP in a way that allowed them to use company funds for personal purposes," Department of Banking and Insurance Acting Commissioner Karen L. Suter said in a statement.

Founded in 1994

The insurance company was founded in March 1994 and by August 1995 was licensed to provide HMO services in 13 counties. Membership grew from 2,738 in 1995 to more than 44,000 and 1,900 medical providers in mid-1998.

But the group had financial difficulties from the start, according to the lawsuit.

Beginning in 1996, Elamir and his associates funneled \$6.4 million in payments to other companies he controlled, according to the complaint. The lawsuit alleges payments of \$500,000 and \$317,000 from the company to Elamir.

Financial records also detail payments of over \$5.7 million by Elamir and his associates to unknown accounts, the lawsuit contends.

As the insurance company expanded, those payments further eroded its fiscal stability, and it was unable to meet state financial guidelines, according to the lawsuit.

Insurance Times: AIDS Disability Claim Upheld Despite Non-Disclosure
July 4, 2000, Vol. XIX No. 14

by Scott Andrews
Associated Press

SAN FRANCISCO - The California Supreme Court on June 19 unanimously upheld a man's insurance claim for AIDS-related disability, despite his decision not to disclose a positive test for HIV in his original application for a policy.

The court's decision strongly encourages insurers to ask about medical conditions before a disability policy is issued or to ferret them out within two years. After two years, the court ruled, consumers can make disability claims based on illnesses that were not specifically excluded from the policy - even if those illnesses existed before the policy was purchased.

A lawyer for Mark Galanty, the man with AIDS, said the ruling has broad implications for many consumers.

"People who become disabled - regardless of the cause - need no longer worry that an insurance company will dig through their medical files in an attempt to find a previous lab result, genetic test or medical condition to use as an excuse for refusing payment," said Jon Davidson of the Lambda Legal Defense and Education Fund, which handles civil rights case for gays, lesbians and people with AIDS or HIV.

Larry M. Golub, a lawyer for Paul Revere Life Insurance Co., which denied benefits to Galanty, said he had not read the ruling and declined to comment. Lawyers for the American Council of Life Insurers, which supported the company in court, did not respond to requests for interviews.

Galanty, of Studio City, was working as a freelance transcriber of court depositions when he tested positive for HIV in June 1987. He was told the result was unreliable unless confirmed by a second test. He chose

not to get a second test at the time.

In March 1989, Galanty bought his Paul Revere disability policy from a salesman. The company did not ask Galanty whether he had AIDS or whether he had tested positive for HIV, and the policy did not exclude people with either of those afflictions.

It was not until September 1994 that Galanty claimed disability based on AIDS and on an AIDS-related condition that causes numbness and pain in the hands and feet. Paul Revere initially paid benefits, but denied coverage for about two years once it found out about the positive HIV test - which the company said amounted to a pre-existing condition. Justice Kathryn Mickle Werdegar, who wrote the opinion for the Supreme Court, said there were three clauses in Galanty's policy that were at issue.

One said the company would not pay benefits for a sickness or disease that predated the policy.

A second said no benefits would be paid for a pre-existing condition that Galanty did not disclose in his application for the policy.

A third clause said that, after two years, the company would not reject a claim based on any statement in the application. It also said the company would not reject a claim for a pre-existing illness unless that illness were specifically excluded from coverage.

Although Galanty's claim might reasonably be rejected under the first two clauses, the third clause overruled them because it is the only one required by a state law, the court found.

Such "incontestability clause" laws are common throughout the United States.

They arose out of 19th century charges that insurance companies routinely collected premiums for many years, then rejected claims on minor technicalities, Werdegar said. To prevent that, states strictly limited the time period during which companies had broad authority to reject claims for pre-existing illnesses or for mistakes on the application.

According to Werdegar, Paul Revere argued that her interpretation would destroy its ability to control the risks it assumes. But she said the company reduces its risk simply by excluding more diseases from its policies, and by investigating policyholders thoroughly within the first two years.

"Only an insurer, like Paul Revere in the case before us, that chooses to forgo timely verification of the insured's medical condition runs the risk of having to pay a claim that may turn out to be related to a sickness that first manifested itself before the policy's inception date," said Werdegar.

About two years after Paul Revere cut off Galanty's AIDS-related benefits, he began collecting for a different, non-AIDS disability: tremors in his hands. The June 19 ruling, which overturns two lower court rulings, means he will get about \$72,000 in compensation. The case is Mark Galanty v. Paul Revere Insurance Co., S073678. The court's opinion can be read at www.courtinfo.ca.gov/opinions/

Insurance Times: Market Strength For The Independent Agent
July 4, 2000, Vol. XIX No. 14

The Gencorp Insurance Network is

helping to build stronger independent agencies in New England.

Major Carriers
P&C, Life & Health, Financial Services
Sales & Marketing Support
Underwriting & Claims

Insurance Times: Employee Benefits & Managed Care
July 4, 2000, Vol. XIX No. 14

NCM America Inc.
5026 Campbell Blvd., Suite C
Baltimore, MD 21236

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

June 20, 2000

Teachers Insurance and Annuity Association of America
730 Third Ave.
New York, NY 10017

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

June 20, 2000

Preferred Professional
Insurance Company
10707 Pacific St., Suite 205
Omaha, NE 68114-4735

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

Insurance Times: PIA elects NY's Wilson national VP; Petras joins Sun Life; Holcumb heads Trumbull; ISO President and CEO Coyne approved; Maine Mutual promotes 4; NAIW-RI elects officers
July 4, 2000, Vol. XIX No. 14

National PIA

Lewis L. Wilson was elected national vice president of the National Association of Professional Insurance Agents during the group's national board meeting in Washington, D.C. Wilson will serve a one-year term that begins on October 1, 2000. The Cobbleskill, New York, resident is chairman of PIA National's Government Affairs Committee. He oversees the association's Capitol Hill lobbying efforts and grassroots program around the nation.

Chubb Executive Risk

Chubb Executive Risk Inc., based in Simsbury, Connecticut, and a subsidiary of the Chubb Corp. headquartered in Warren, New Jersey, announced three officer appointments in its claims department. Gregory P. Barabas, vice president of claims and manager of specialty claims, announced the appointments. Diane M. Parker, of Springfield, Mass., is now assistant vice president and claims counsel. Julianne Splain, of West Hartford, Conn., is now assistant vice president and manager of errors and omissions (E&O) claims. Louise Van Dyck, of Avon, Conn., was promoted to assistant vice president and manager of commercial/financial claims.

Sun Life

Sun Life Insurance and Annuity Company of New York announced that Jim Petras has accepted the position of group sales manager. Petras has been with Cigna for the past seven years and, before that, Prudential. He will manage the company's group sales of life and disability products in New York.

Rhode Island

Governor Lincoln Almond has named Marilyn Shannon McConaghy of Pawtucket as the new director of the Department of Business regulation. She replaces Tom Schumpert who was approved as the new executive director of the Economic Development Corporation. She has served since 1997 as executive counsel at DBR. She is also a former state senator.

Trumbull Services

The Hartford Financial Services Group has appointed Stephen M. Holcumb as president of Trumbull Services, its subsidiary that provides outsourcing solutions to insurance and financial services firms. Holcumb comes to Trumbull from Specialty Risk Services, another Hartford subsidiary, where he was senior vice president. He replaces Ellen Wilcox at Trumbull. Wilcox has been named chief executive officer of ClaimPlace, an Internet-based claims filing service in which The Hartford is a major investor.

Maine Mutual Fire

Maine Mutual Fire Insurance Co announced several several promotions:

Pamela Johnson, vice president and commercial lines manager; Steven Chandler, vice president and personal lines manager; Timothy Vernon, assistant vice president and property claims manager; and Michael Young, assistant vice president and accounting manager.

Insurance Services Office

Shareholders of Insurance Services Office, Inc. (ISO) approved changing its corporate charter, enabling Frank J. Coyne to become president and chief executive officer July 1, succeeding Fred R. Marcon, who will remain chairman.

ISO shareholders also elected to the board Walter R. Bateman, II, chairman, president, and chief executive officer of The Harleysville Insurance Cos.

The Mony Group

Bart Schwartz has been appointed senior vice president and general counsel of The Mony Group. Schwartz will report directly to Chairman and Chief Executive officer Michael I. Roth and will oversee all legal operations.

NAIW Rhode Island

The National Association of Insurance Women of Rhode Island held its 57th installation of officers on June 13. Installed were President Joan D. Fury; President-Elect Brenda D. Miller; Vice President Carol A. Glowacki; Corresponding Secretary Donna L. Varin; Recording Secretary Donna A. Liro; Treasurer Lynne A. Lamarre; and Directors Karen V. Holman, Margaret M. O'Meara, and Julia M. Cahoon. Installing officer was Francine A. Ledo.

The Hartford

Stephen R. Minihan has been appointed to the newly-created position of senior vice president and director of the Office of the Chairman at Hartford Financial Services Group, inc. Minihan will become a key strategic advisor in his new role.

In a related change, Stuart M. Carlisle was named vice president and director for investor relations.

PIA New Jersey

Officers of the Professional Insurance Agents of New Jersey for 2000-2001 were elected during last month's annual business meeting in Atlantic City. Kenneth R. Auerbach of Ocean was elected president. He is director of operations and general counsel for E&K Agency in Eatontown. In his inaugural remarks, Auerbach said agents must be prepared to deal with three key issues: trial lawyers, disintermediation, and banks.

Joining Auerbach as officers are Lisa Gomez Galante, of Bayone's Summit Insurance Advisors, as president-elect; David J. Madara, of The Madara Co. in Laurel, as vice president; Steven A. Reichman of NIA Group in Somerset, as vice president; John Latimer, with Barclay Group in Riverton, as secretary/treasurer; and Paul R. Monacelli, of ADP/Statewide Insurance Agencies in Morristown, as immediate past president.

PIANJ honored Edward F. Drag of Selective Insurance as Company Person of the Year and Carl Radespiel of Upper Saddle River as Professional Agent of the Year.

Insurance Times: Personal Lines

July 4, 2000, Vol. XIX No. 14

July 4, 2000

Country Life Insurance Company
1701 N. Towanda Avenue
Bloomington, IL 61701

The above company has made application to the Division of Insurance for a license to transact Accident, Health and Life insurance in the Commonwealth.

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

July 4, 2000

Country Casualty
Insurance Company
1701 N. Towanda Avenue
Bloomington, IL 61701

The above company has made application to the Division of Insurance for a license to transact Fire, Ocean, and Inland Marine, Workers' Compensation, Liability Other Than Auto, Auto Liability, Glass, Water Damage, and Sprinkler Leakage, insurance in the Commonwealth.

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

July 4, 2000

Country Mutual
Insurance Company
1701 N. Towanda Avenue
Bloomington, IL 61701

The above company has made application to the Division of Insurance for a license to transact Fire, Ocean, and Inland Marine, Fidelity and Surety, Workers' Compensation, Liability Other Than Auto, Auto Liability, Glass, Water Damage, and Sprinkler Leakage, Burglary, Robbery, Theft, Forgery, Larceny, and Livestock insurance in the Commonwealth.

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

July 4, 2000

ACE American Insurance Company
1601 Chestnut St.
Philadelphia, PA 19101-1484

The above company has made application to the Division of Insurance for a license/ Certificate of Authority to transact Accident & Health insurance in the Commonwealth.

Any person having any information regarding the company which relates to its suitability for a license of Certificate of Authority is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02210 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

June 20, 2000

Jewelers Mutual
Insurance Company
24 Jewelers Park Drive
Neenah, WI 54957-0468

The above company has made application to the Division of Insurance for a license/ Certificate of Authority to transact liability other than auto insurance in the Commonwealth.

Any person having any information regarding the company which relates to its suitability for a license/ Certificate of Authority is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02210 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

June 20, 2000

The Travelers Indemnity
Company of Missouri
One Cityplace Drive
St. Louis MO, 63141

The above company has made application to the Division of Insurance for a license/ Certificate of Authority to transact Workers' Compensation insurance in the Commonwealth.

Any person having any information regarding the company which relates to its suitability for a license or Certificate of Authority is asked to notify the Division by personal letter to the Commissioner of Insurance, One South Station, Boston, Massachusetts 02210 Attn: Financial Surveillance and Company Licensing, within 14 days of the date of this notice.

Insurance Times: Commonwealth Of Massachusetts Department Of Consumer Affairs- Division Of Insurance
July 4, 2000, Vol. XIX No. 14

July 4, 2000

ManagedComp Insurance Company
100 Fifth Ave.
Waltham, MA 02354-9146

Pursuant to Massachusetts General Laws Chapter 175, Section 44 an application has been made to the Massachusetts Commissioner of Insurance ("Commissioner") by ManagedComp Insurance Company ("Applicant") for approval of a proposed plan to terminate its powers to transact insurance and to continue as a corporation subject to the business corporation laws of the Commonwealth ("Plan").

The Applicant has no insurance policies currently in effect. The applicant has reinsured one hundred percent of its insurance contract obligations. Pursuant to the Plan, the Applicant proposes to commute its liabilities to the Massachusetts Workers Compensation Assigned Risk Pool. The Applicant also proposes to distribute certain of its assets to share holders by means of a dividend.

Information about the Plan is available for public inspection at the Financial Surveillance and Company Licensing Section at the Division of Insurance, One South Station, Boston, MA 02110.

Any person having information regarding whether the Plan should not be approved is asked to notify the Commissioner by personal letter, setting forth the nature of the person's information and relevance to the Plan, addressed to Commissioner of Insurance, One South Station, Boston, MA 02110, Attention: Financial Surveillance and Company Licensing, within fourteen days of the date of this notice.