

BESTWEEK

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January 24, 2000

Release 4

INSIDE

- Preferred Employers
Is Delisted by Nasdaq4
- Australia's Reac Expects
Difficulties Doing Business . . .6
- Factory Mutual, Lexington
Named in Y2K Lawsuit7
- Risk Capital Holdings
To Sell Reinsurance Arm . . .8
- Allstate Corp. Introduces
Chief Marketing Officer9
- Orion Capital Settles
With Unicover Members . . .10
- Acceptance Insurance Sells
Long-Haul Trucking Book . .10

Mounting Storm Losses May Spur Market Turn

By *Brendan Noonan*

Claims from the storms that ravaged Europe in late December are pouring in and raising reinsurers' hopes of a turn in chronically soft rates for catastrophe coverage.

Munich Reinsurance Co., the world's largest reinsurer, said total insured losses from the storms, dubbed Lothar and Martin, would reach 6 billion euro (\$1 = .9871 euro), or about \$6 billion, somewhat higher than the \$5 billion that had been widely forecast immediately after the storms. While the European storms came too late in the season to affect Jan. 1 renewals, the long-term effect on the prolonged soft reinsurance market should be positive, Munich Re said.

These events have made 1999 a costly year for insured catastrophe losses and "will add to the momentum of rate

increases for catastrophe insurance," Guy Hengesbaugh, president and chief executive officer of Bermuda-based LaSalle Re Holdings Ltd., said in a statement.

A spokeswoman for the French reinsurer Scor, which has forecast a 50 million euro impact on its bottom line, said the company expects claims to be divided more or less equally between primary insurers and reinsurers. Primary companies will retain more of the losses this time than in the last comparable bout of European winter storms, which hit in 1990, she said.

Loss estimates released in the past two weeks included the following:

French insurer AGF, a unit of Germany's Allianz AG Holding, said it still was difficult to give a precise estimate of claims, but if industrywide

■ See **STORMS**, Page 2

Lincoln National May Spend \$40 Million to Settle Disputes

Lincoln National Corp. estimates it could spend up to \$40 million to settle disputes over its participation in a pool of workers' compensation reinsurers run by Unicover Managers Inc.

Lincoln also said it expects to pay \$13 million more than the \$114 million charge it planned in December for pension-mis-selling liabilities in the United Kingdom. The new charges will be offset by a \$42 million tax benefit in the United Kingdom, yielding an after-tax charge of \$11 million for the fourth quarter, the company said.

Company spokeswoman Lanella Hooper said the \$40 million is a "high estimate," covering Lincoln's role as a pool member and a fronting company that accepted Unicover business.

4th-Quarter Results Expected To Reflect Industry Retrenching

By *Meg Green*

From property/casualty companies squeaking out modest gains to life companies soaring on new variable annuity sales and managed care companies that are performing relatively well on the balance sheet, if not in the stock market, the fourth quarter should be a mixed bag, analysts said.

For property/casualty companies, "It hasn't been a great year all around," said Adam Klauber, managing director of equity research for Cochran, Caronia & Co. "A fair amount of companies have been showing weakness in commercial business and weakness in reserves."

Insurers traditionally use the fourth quarter to shore up reserves and take charges to clean up the books and start the new year fresh, he said.

For instance, Allstate Corp. said it would post about \$100 million in fourth-quarter charges as it restructures and cuts about 10% of its non-agent work force (*BestWire*, Nov. 10, 2000) and Reliance Group Holdings Inc. said it would post a \$100 million after-tax charge to settle disputes over a workers' compensation pool run by Unicover Managers Inc. (*BestWire*, Jan. 10, 2000).

■ See **EARNINGS**, Page 3



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The Insurance Information Source

STORMS: European Claims Are Mounting

■ From page 1

losses reached 4.6 billion euro, its exposure before reinsurance would be 550 million euro, based on market share. The impact would be 120 million euro after reinsurance and 75 million euro after taxes.

- Swiss Reinsurance Co. said it expects losses of about 900 million Swiss francs (\$1 = 1.594 Swiss francs) from the storms, with the bulk of the claims coming from hard-hit France. But Swiss Re said equalization reserves set up for such a catastrophe should absorb a large portion of the loss. The company said it had negligible exposure to the storms through retrocession, or risk assumed from other reinsurers. Despite the losses, Swiss Re said its 1999 earnings should be higher than 1998's results.

- PartnerRe Ltd., Pembroke, Bermuda, said it expects claims of \$110 million from the pair of windstorms, with an after-tax impact of \$90 million. PartnerRe owns France's fourth-largest reinsurer, SAFR PartnerRe, which it acquired in 1997. It also purchased the Switzerland-based reinsurance operations of Winterthur Group in 1998. France was by far the hardest hit country in the storms, and Switzerland also took a heavy blow. A PartnerRe spokeswoman said the company wouldn't release a breakdown of the losses among the various units.

- LaSalle Re said it expects insured losses of \$29.1 million from Lothar and Martin. In an unrelated event, a major storm that hit Denmark Dec. 3 is expected to result in \$7 million in net claims, LaSalle Re said in a statement. Lothar, which struck northwest Europe Dec. 26, will result in about \$23.5 million in net claims for LaSalle Re, while Martin, which swept across western Europe the next day, will result in about \$5.6 million in net claims to the company.

- Munich Re said its groups of primary and reinsurance companies expect claims of about 500 million euro (\$1 = 0.9897 euro) from the storms. Claims costs from the December storms and other catastrophes will drive Munich Re's profit for the year lower than 1998's result, the company said.

- London-based Royal & Sun Alliance Insurance Group plc predicted an impact of £50 million (\$1 = £0.6076) on its fourth-quarter earnings. Royal & Sun said its estimated

loss was net of reinsurance recoveries. It also increased its estimate of claims from last year's Taiwan earthquake to £15 million after reinsurance. The company said business interruption claims in Taiwan have driven losses higher than many insurers had initially expected.

- Reinsurance Corp. Australia Ltd. didn't release a firm estimate of its storm exposure but said it would push losses for 1999 well in excess of A\$281 million (US\$1 = A\$1.502). After that announcement, A.M. Best Co. lowered Reac's rating to B++ from A- and kept it under review with negative implications. Reac responded with a statement indicating that the downgrade would make it difficult for the company to continue doing business (see related article, page 6).

- Australia's AMP Ltd. said the battered reinsurance unit of GIO Australia Holdings Ltd., which AMP bought out last year, would face a loss of A\$85 million after reinsurance, adding to more than A\$1 billion of losses sustained in 1999.

A.M. Best recently forecast notable insurance-rate increases stemming from 1999's frequent natural catastrophes, which included not only the December storms but earthquakes in Turkey and Taiwan, Hurricane Floyd in the United States, Venezuela's floods and Japan's Typhoon Bart.

Lothar and Martin are being considered Europe's worst storms of the 20th century. With total damage estimates approaching 10 billion euro, these storms are on par with the damage caused by Hurricane Floyd in September 1999.

Loss estimates won't be finalized for several weeks, and insurers are only beginning to receive claims and interpret contracts. The greatest impact is expected among the localized, limited-line insurers and, in particular, among the regional mutuals in the most-affected areas of France.

On Jan. 4, leading French reinsurers agreed to treat Lothar and Martin as two individual climatic events, as they each affected separate parts of the country. But treaty clauses remain subject to interpretation between parties, and other market participants haven't yet disclosed their intended treatment of these storms as one or two events. ■

EARNINGS: Wall Street Expects Varied 4th-Quarter Results

■ From page 1

More companies will likely take charges related to Unicover, said Harry Fong, an analyst with Deutsche Bank. "There's never just one cockroach," he said.

The zeal to accept huge margins of business in a highly competitive workers' compensation market led to an industry-wide dispute as business that could yield losses of \$1.9 billion wound its way through a pool of reinsurers managed by Unicover Managers Inc.

Resolving the Unicover mess is good for the industry as it might foster the hardening of the workers' comp market, said Hugo Warns, an analyst with Legg Mason.

"It's the medicine we needed," Warns said. "You've now kicked out one of the major crutches that was holding this irrational price environment." He noted in California, companies have raised their workers' comp rates by an average of 18% this year.

Personal lines have seen modest growth in 1999, and on the commercial side, "We're hearing very positive feedback on January renewals, but that won't impact 1999," Warns said.

Analysts said catastrophe damage in the fourth quarter should be light for domestic insurers, although European insurers and reinsurers are likely to be hit hard by losses from European storms in late 1999, they said.

The fourth-quarter earnings outlook should be stronger for life/health companies, analysts said.

Variable annuity sales could hit record levels for the quarter, reflecting the aging population and growth of Internet sales, said Colin Devine, an equity analyst with Salomon Smith Barney.

"I would expect sales from companies such as Hartford Life, Nationwide and Axa Financial to be exceptionally strong. I expect record sales from all three companies," Devine said. He said

term-life sales have been strong as consumers tried to buy before Regulation XXX—and possible higher rates—kicked in Jan. 1.

Higher earnings aren't likely to mean higher stock prices, Devine said. With the threat of higher interest rates in 2000, coupled with a flood of new life insurance stock on the market, life stock prices will continue to weaken, he said.

Prudential Insurance Company of America, John Hancock Mutual Life Insurance Co. and Metropolitan Life Insurance Co. are all poised to launch initial public offerings this quarter. That will mean a re-allocation of investor holdings, Devine said.

"That's about \$10 billion worth of demutualization IPOs. I don't think that much new capital will be attracting new investors," Devine said. "We've increased the supply without increasing the demand. That will bring prices down." ■

Union Fund Sues Chubb Over Poison Pill Provision

By Meg Green

A health benefits fund said it has filed a lawsuit against Chubb Corp., challenging the company's refusal to let shareholders vote on its new poison pill provision.

The Eastern States Health and Welfare Fund of UNITE, the Union of Needletrades, Industrial and Textile Employees, said it filed the lawsuit in U.S. District Court in Newark, N.J. Jan. 18. The health fund wanted to put the poison pill provision up for a binding shareholder vote, but the company has refused to include the vote on its 2000 proxy materials, said Hillary Horn, director of corporate and financial affairs for UNITE.

"We're hoping to compel the company to contain our proposal in its proxy," said Horn.

She said the fund had a similar proposal on the proxy for the 1999 shareholders meeting, but before shareholders could vote on the proposal, the board adopted an anti-takeover measure, called a poison pill. Shareholders approved the measure with a 70% vote, but the board did not implement their request. She said the 1999 measure had a loophole so it wasn't binding to Chubb.

This new proposal would be binding, and would nullify the poison pill the company adopted last year "behind the backs of shareholders," Horn said.

Poison pills are designed to discourage unwanted takeovers by raising the cost of a possible acquisition. In Chubb's case, it gives the company the right to issue additional preferred stock in the event of an unfriendly takeover. Under the plan that Chubb adopted last year, the poison pill would be invoked if an investor acquires or submits tender offers for 20% of the company's shares, down from 25% under the old plan (*BestWire*, April 28, 1999).

Horn said poison pills make hostile takeovers more expensive and can have the effect of entrenching a company's management.

"The issue is it can be a management interest that is not in the best interest of shareholders," Horn said.

In a written statement, Chubb said the suit would violate New Jersey corporation law, which gives exclusive authority to a company's board of directors to fix the terms and conditions of a rights plan or to redeem shares. "In fact, the rights plan...reflects shareholders' interests by

requiring an annual review of the plan by Chubb's independent directors," the company said.

In April, Chubb Chairman Dean R. O'Hare said a law firm had determined that the proposed vote would violate state law. According to the management's response to last year's proxy, New Jersey law places the responsibility for developing anti-takeover measures in the hands of the company's board. Studies have shown that companies with anti-takeover measures tend to fetch higher acquisition prices, O'Hare said (*BestWire*, April 28, 1999).

The Eastern States Health and Welfare Fund of UNITE is a health and welfare benefits plan sponsored by UNITE. The fund owns 11,900 shares of Chubb stock.

Chubb is traded on the New York Stock Exchange under the symbol "CB".

The Chubb Group of Insurance Cos., Warren, N.J., has a Best's rating of A++ (Superior).

Chubb Group of Insurance Cos. had \$3.76 billion in net premiums written and \$3.14 billion in policyholders surplus for the first nine months of 1999, according to A.M. Best Co. data. ■

Travelers P/C Posts 9% Increase in Net

By Meg Green

Travelers Property Casualty Corp. posted an 8.9% increase in fourth-quarter 1999 net income, citing lower weather-weather related losses and higher realized investment gains. The company said it saw higher rates on renewal business, and turned away unprofitable business.

Parent company Citigroup also boasted strong earnings, with net income of \$2.62 billion, or 75 cents a share, more than triple the \$677 million, or 19 cents a share from fourth quarter 1998.

Travelers' net income was \$400.9 million, or \$1.03 a share, up from \$367.9 million, or 94 cents a share. Travelers posted operating earnings of \$347.7 million, or 90 cents a share, up 0.6% from \$345.4 million, or 88 cents a share for the same period a year earlier.

Travelers, Hartford, Conn., posted net realized after-tax investment gains of \$53.2 million, up from \$22.5 million for the same period a year earlier.

Per share results are based on 388.3 million average shares outstanding in the current quarter, down 0.9% from 392.1 million shares in the 1998 quarter.

Net premiums written for the quarter were \$1.98 billion, down from \$2.01 billion for the 1998 quarter.

In a statement, Travelers said it was pleased with a pilot program to sell Travelers homeowners and auto insurance

through Citigroup's subsidiary, Citibank.

The company said commercial lines operating income remained level with the 1998 period, but earnings were boosted by the strong investment income. Also, improved pricing in the middle market helped to boost earnings.

Travelers said it continues to see higher rates on renewal business, but not in all regions and all lines. The company said it would continue to reject unprofitable business, which is reflected in a decline in new business in the middle market.

The statutory combined ratio was 109.2, up slightly from 108.5 for the quarter a year earlier.

Parent company Citigroup said it has completed its goal of \$2 billion in annual expense reductions and turned a 22.3% return on equity for the 1999 fourth quarter. The company said its revenues were twice the level of expenses.

The company's strong financial position—stemming from the successful 1998 merger of financial giant Citicorp with Travelers—will “enable us to take full advantage of new financial modernization legislation in the coming year,” said John S. Reed and Sanford I. Weill, Citigroup's co-chairmen and co-chief executive officers in a statement.

Total operating income from all Citigroup's insurance products increased 9% to \$344 million from \$315 million.

Operating income from Travelers Life & Annuity was \$135 million, up 9% from \$124 million for the 1998 fourth quarter. Operating income from Primerica Financial Services was \$115 million, up 12% from \$103 million for the period a year earlier.

Citigroup's operating income from banking and lending increased 43% to \$612 million.

Citibank North America grew 578% to \$122 million; operating income from mortgage banking was up 4% to \$57 million; operating income from credit cards was up 11% to \$325 million; and operating income from CitiFinancial was up 71% to \$108 million.

About 30% of Citigroup's earnings were generated from outside the United States.

The company has also repurchased \$4 billion in stock in 1999.

Travelers Property Casualty is traded on the New York Stock Exchange under the symbol “TAP”

Travelers Property Casualty group had \$6.31 billion in net premiums written and \$7.26 billion in policyholders surplus for the first nine months of 1999, according to A.M. Best Co. data.

Travelers Property Casualty Pool has a Best's rating of A+ (Superior).

Citigroup is traded on the NYSE under the symbol “C.” ■

Preferred Employers Holdings Delisted by Nasdaq

By Eric Thorsen

Preferred Employers Holdings Inc., Miami, a provider of business insurance and temporary staffing services, said it will be delisted from the Nasdaq stock market because it no longer meets market requirements.

The company said its common stock was “cease to be quoted” on Nasdaq at the close of the market on Jan. 18. The delisting followed a stock buy-back last year in response to shareholders' repeated requests to sell their shares, said William Dresback, senior vice president and chief financial officer of Preferred Employers.

“We had shareholders calling wanting to know if we were interested in buying shares back,” he said. “We never really thought we were going to get that much stock back.”

The company had purchased 3,224,392 shares of its common stock at \$5 a share, raising its total share count to about 82%, he said. Currently, 2,261,581 shares are outstanding, with 1,604,706 shares held by management.

Dresback said the company no longer met Nasdaq's requirement of having at least 300 stockholders, falling to 175 from more than 400. He said that they also failed to meet the requirements of the Securities and Exchange Commission.

The SEC will deregister its common stock within 90 days and the company's obligation to file regular reports will immediately be suspended, the company said in a statement.

Part of the reason stockholders wanted to sell their stock back to the company was because of confusion over where the company's interests lie.

Insurance-oriented shareholders were comfortable with the company's business plan for the insurance business, and the staffing-oriented shareholders were confident with the company's interests in the staffing business. “But nobody understood both,” said Dresback.

“There is not a lot of similarities in those businesses,” he said. “The lack of understanding of the overall focus of the company was an understanding how both companies fit together.”

As a result, we really never had any significant movement in our stock price.”

So far, the company has not said what its future plans will be, but becoming a private entity is possible. “We are still a publicly held company,” Dresback said. “I am not sure what the plans are.” ■

Analysts Mixed on the Lessons of Citigroup

By Meg Green

Analysts have mixed opinions on whether insurers will follow in Citigroup Inc.'s footsteps and join banking and insurance companies in the hopes of increasing profitability.

Citigroup, which was formed in October 1998 when Travelers Group joined Citicorp, posted fourth-quarter net income of \$2.62 billion, or 75 cents a share, more than triple the \$677 million, or 19 cents a share from fourth quarter 1998.

For the year 1999, Citigroup, posted net income of \$9.87 billion, or \$2.83 a share, up 70% from \$5.81 billion, or \$1.62 a share for 1998.

"The merger is creating the earnings they were talking about over a year ago," said Adam Klauber, managing director of equity research for Cochran, Caronia & Co.

In a conference call Jan. 18, Co-Chairman and Co-Chief Executive Officer Sanford I. Weill said Citigroup "is the best performing consumer company in the world."

John S. Reed, co-chairman and co-CEO, agreed. He said 1998 was a rough year, with problems in the global markets. A year ago, Reed promised that the company would grow based on its strong 1997 performance.

"We have delivered on the promise," Reed said.

Klauber said subsidiaries Salomon Smith Barney and the bank's credit-card operations performed well for the quarter, and insurance was also strong.

"But even if Salomon Smith Barney was down, they still would have had a strong quarter," Klauber said. "They really showed diversified financial services is actually working. It's been a contested theory in the past, whether a company of this magnitude could work, but it seems like the operations are improving every single quarter."

However, Diane Glossman, an analyst with Lehman Brothers, said Citigroup had a great 1999 but it's too early to tell how successful the financial services conglomerate will prove in the long run.

"The cross-selling of products across the entire company has only just begun," Glossman said. "To suggest that proves beyond a shadow of a doubt that (this kind of merger) would be a good idea for

Citigroup to Buy Schroders Unit

By Meg Green

Salomon Smith Barney, a subsidiary of Citigroup, Inc. said it would acquire Schroders plc's investment-banking business in a \$2.2 billion transaction that will double Citigroup's investment banking and equities platforms in Europe.

"It puts us two to three years ahead of where we would be," Sanford I. Weill, Citigroup's co-chairman and co-chief executive officer, said in a conference call Jan. 18. "The weak link in our investment banking unit was Europe. This puts us in a very good position in the future."

Schroders is the largest independent U.K. investment banking and asset-management firm. Headquartered in London, the firm has offices in 34 countries. Schroders' investment banking activities include three major businesses: corporate finance, equities and financial products.

Salomon Smith Barney is acquiring

the global investment-banking business and related assets of Schroders, including all corporate finance, financial markets and securities activities.

The acquisition will add about 1,400 people to Salomon's staff, Weill said.

Schroders' shareholders will receive about \$1.46 billion in cash, Citigroup shares and loan notes for the U.K. operations of Schroders, with the balance of the purchase price being paid to the company in cash for the investment banking operations outside of the United Kingdom.

The book value of the assets to be acquired on a GAAP basis is about \$1.3 billion—purchase price transaction of 1.7 times book value.

The combined European operations will be known as Schroders Salomon Smith Barney. Serving as co-chief executive officers will be James Boshart, currently co-CEO of Salomon Smith Barney Europe and Will Samuel, currently group managing director, Investment Banking at Schroders.

all sorts of companies is a stretch of the imagination."

"Citigroup will be successful," she said. "But that doesn't mean that we look for many deals of this type in the United States."

While companies in Europe have been successful mixing banking and insurance, many U.S. banks are skeptical about owning an insurance underwriter, Glossman said. She added most insurers don't have enough market capital to buy a bank of a significant size.

"So we continue to believe that Citigroup will be a relatively unusual phenomena in the United States," Glossman said.

Klauber disagreed. He said three of the largest, most diverse financial services companies in the United States—Citigroup, American International Group Inc., and American Express—are performing better in the stock market than either banks or insurers.

Citigroup's stock is trading at 19 times this year's earnings. AIG—which owns the second-largest aircraft-leasing company in the world—is trading at 30 times its earnings. American Express is trading at 25 times its earnings.

On the other hand, most banks are trading around 12 to 13 times their earnings, and insurers are trading around 10 to 12 times their earnings, Klauber said.

"There's a significant gap between these diversified financials and the one-line type of company," Klauber said. "Three companies isn't enough evidence to say that diversified financials are going to work...but the evidence so far suggests the market likes those models and has rewarded those models."

He said AIG is still able to produce 15% earnings increases in a highly competitive property/casualty market.

The market has thought poorly of companies concentrated in one financial services area; should business suffer, those companies don't have another area to make up growth, Klauber said.

Banking and securities going forward will be the key for insurers, Klauber said.

About 30% of Citigroup's earnings were generated from outside the United States. The company has also repurchased \$4 billion in stock in 1999.

Citigroup is traded on the New York Stock Exchange under the symbol "C." ■

New SEC Revenue Rule Boosts First American

SANTA ANA, Calif. — First American Financial Corp. said new accounting procedures should help the company more accurately report results for its tax service business.

First American, which owns First American Title Insurance Co., said it would record an after-tax charge of \$55.6 million for first quarter of 2000. The new accounting should increase the company's earnings a share by 25 cents for the first nine months of last year, First American said.

First American posted earnings of \$75 million, or \$1.13 a share, for the first nine months of the year.

The new SEC rule, released as Staff Accounting Rule 101 at the end of 1999, spells out the basic criteria that must be met before registrants can record revenue. The rule allows companies to take a one-time charge to increase deferred revenues on contracts issued before the accounting change.

First American sells real estate-related financial and information services to property buyers and mortgage lenders. In addition to title insurance, the company offers tax monitoring, mortgage credit reporting, property-data services, flood certification, field inspection services, appraisal services, mortgage loan origination and servicing systems, mortgage document preparation and home warranty services.

Hong Kong's Role Is Seen As Intermediary in China

*By Michael Mackey
Hong Kong Correspondent*

HONG KONG — Hong Kong's insurance industry is well placed to profit from China's accession to the World Trade Organization, although the territory's own domestic companies have some obstacles to overcome if they are not to be left behind, one expert said.

David Ruan, deputy chief executive of Axa Investment Managers, chaired a working group set up by the Hong Kong General Chamber of Commerce to look into the matter. Speaking at a seminar Jan. 18, he said the Hong Kong insurance industry was good overall, offering "an ideal platform for expanding operations in China."

"The main weakness lies in the lack of significant domestic players," Ruan said. This, he said, reflected a lack of collective industry thinking, a strong focus on the local market and a problem of identity in terms of mainland China, where they are seen as neither foreign nor domestic.

Ruan advocated a five-point strategy to help companies capitalize on the "excellent opportunities" that he foresaw arising after China joins the WTO. These included subsidiaries of multinationals establishing themselves as regional centers; making the most of the change in entry procedures from a political basis to

business merits; leveraging existing operations; using e-commerce; and utilizing local knowledge and expertise.

For Hong Kong companies, he especially recommended two points. One was leveraging operations through alliances, suggesting local companies "play the brokers in the middle to tie up both the international and domestic Chinese players." The second, a point he repeatedly stressed, was that Hong Kong companies should try to use their local knowledge and experience to operate across the border in the adjacent Chinese province of Guangdong.

"It certainly seems logical for Hong Kong insurers to follow their clients and explore the possibility of extending their services into the Pearl River Delta," Ruan said. Much of Hong Kong's manufacturing has relocated to that region.

The initial emphasis would be on health and pension business, but it would grow in time to include investment-linked products, he said.

This, he acknowledged, would require more advocacy by the industry acting collectively—something it hasn't done to date—and "assistance from the SAR (Hong Kong) government." The government, he later added, should "promote Hong Kong as a partner to overseas multinationals and promote expertise to mainland." ■

Reac Expects Difficulties in Conducting Business

By Brendan Noonan

Reinsurance Australia Corp. Ltd. said it expects to have difficulty doing business after A.M. Best Co. downgraded its rating to B++ (Very Good) from A- (Excellent), because the revised rating doesn't meet the security requirements of major reinsurance brokers.

The rating, which also applies to Reac's subsidiary, Monegasque de Reassurances, Monaco, remains under review with negative implications. "This will adversely impact the company's ability to carry on its reinsurance business," Reac said in a statement. "The reinsurance markets in which the company operates generally require a rating of at least A- or other security

Reac faces claims from the windstorms that struck Europe in late December, as well as from earthquakes

which the company is unlikely to provide.

"It is anticipated that major brokers are likely to take the company off their security lists which means that they cannot place business with the company unless clients specifically approve," the statement went on to say.

A.M. Best's downgrade followed the announcement that Reac's loss for 1999

would exceed A\$281 million (\$1 = A\$1.50), including a loss of A\$165 million for the second half of the year. Reac faces claims from the windstorms that struck Europe in late December, as well as from earthquakes in Turkey, Greece and Taiwan, windstorms in the United States and the Caribbean, Japan and Denmark, and floods in Mexico and Venezuela.

The rating downgrade reflects Reac's diminished capital strength, poor operating performance and constrained liquidity profile, the result of heavy catastrophe activity coupled with weak risk management, A.M. Best said. The rating agency also said it was concerned over Reac's statement that it was reviewing strategic options. ■

Rating Actions: Section 1

"Ratings Actions: Section 1" lists the property/casualty ratings that have been assigned since this section last appeared in BestWeek on Jan. 10, 2000. Additional ratings and "Section 2: Rating Rationales" appear in Best's Monitor, which is contained

in the Best's Viewpoint supplement sent separately to BestWeek subscribers. For free access to all A.M. Best ratings and the opportunity to purchase full company reports, please visit our Web site at www.ambest.com/ratings/access.html.

Rating Action	Company	AMB#	Current Rating	Effective Date	Prior Rating
New	Evergreen USA RRG, Inc VT	11155	B+	01/14/00	NR-2
U	Health Care Insurance Company NJ	03671	B+ gu	01/12/00	B+ g
U	Princeton Insurance Companies NJ	05650	B+ u	01/12/00	B+

Rating Action	Company	AMB#	Current Rating	Effective Date	Prior Rating
U	Princeton Insurance Company NJ	02873	A- u	01/12/00	A-
-	Texas Hospital Ins Exchange TX	03650	C++	01/14/00	B+

Rating Action: (+) or (-) Rating upgraded or downgraded; (**New**) Assigned initial rating; (**U**) Rating placed under review.
Effective Date: Represents effective date of Rating Action.

Factory Mutual, Lexington Named in Y2K Suit

By Dennis Kelly

Factory Mutual Insurance Co. and Lexington Insurance Co. are among the defendants in two Y2K-related lawsuits seeking to recover nearly \$100 million in computer-related costs, a Washington-based attorney said.

Kmart Corp. and ITT Industries have each filed suits contending property policies dating back to 1996 should cover the nearly \$100 million in combined costs spent heading off potential Year 2000 computer problems.

The suits seek unspecified damages and jury trials, said attorney Bob Carter, a member of the insurance recovery group at the Washington office of McKenna & Cuneo, the plaintiffs' attorneys. The firm also represented Unisys Corp. in its attempt to get its insurer for pay for its Y2K repairs (*BestWire*, Jan. 6, 2000).

Kmart has spent about \$80 million since 1997 in computer costs, said Lino Lipinsky, an attorney at McKenna & Cuneo. Since Jan. 1, Kmart had no material Y2K problems, Lipinsky said.

ITT has spent about \$19.5 million, Carter said. "The expenses are specifically covered in the policies." Sue-and-labor, or preservation of property clauses in the policies, are also a basis for the suits, he said.

But Jack Pomeroy, Factory Mutual's senior vice president and general counsel, disagreed, saying he doesn't think the policies include Y2K remediation coverage costs.

Kmart's suit was filed in Wayne County, Mich., against Lexington Insurance Co., which wrote policies from August 1997 through August 2000. It also names excess insurers Allianz Insurance Co., American Empire Surplus

Lines Insurance Co., Clarendon National Insurance Co., Gan National Insurance Co., General Star Indemnity Co., Investors Insurance Company of America, Mt. Hawley Insurance Co., Reliance Insurance Company of Illinois, the Travelers Indemnity Company of Illinois, and Zurich American Insurance Co., Carter said.

Lexington Insurance Co. spokesman Joe Norton said the company would not comment on pending litigation.

ITT Industries has filed suits in state courts in Indiana and New York. Named in the New York suit are Factory Mutual Insurance Co., successor to Allendale Mutual Insurance Co., American Guarantee and Liability Insurance Co., Industrial Risk Insurers and others, Carter said.

The Indiana suit names Factory Mutual, again as successor to Allendale Mutual, Allianz Insurance Co., AIU Insurance Co., Zurich American Insurance Co., Royal Insurance Company of America, and Continental Casualty Co., Carter said.

"There's a duty placed on policyholders by the insurers to prevent losses whether to computer data, media or electronic systems," Carter said. "Whenever there's a threat of a loss there's an obligation on the part of the policy holder to prevent or stop a loss."

Factory Mutual hasn't been formally served with the New York suit, Pomeroy said, and while the company was named in a similar suit brought by Nike Inc. (*BestWire*, Dec. 14, 1999), Pomeroy said this is not a growing trend.

"This is very much the exception, when you contrast the number of companies in the U.S. who have taken remediation steps, which could be hundreds of thousands, only a handful of

companies asserted remediation claims, and an even smaller number have filed suits. Most companies and their professionals realize there is no remediation for Y2K expenses," Pomeroy said.

Nike, a Michigan school district, the Port Authority of Seattle, GTE, Xerox Corp. and Unisys Corp. sued to get their insurers to pay for fixes designed to prevent computers from failing when the date changed. Combined, the six companies said they spent more than \$700 million. Lexington Insurance was also named in the Port Authority of Seattle suit (*BestWire*, Dec. 14, 1999).

Nike, the Seattle authority and the Royal Oak, Mich., school district filed their complaints in November, based on sue-and-labor clauses in their insurance policies.

Those clauses require policyholders to repair property in order to prevent imminent and more-expensive damage, with insurers covering the costs of those repairs. The sue-and-labor clause traces its history to maritime insurance. Often, insurers would pay for repairs to a sinking ship, or dumped cargo, to avoid having to pay for a new ship (*BestWire*, Dec. 14, 1999).

Insurers have argued that Y2K remediation costs don't stem from the type of imminent failure that a sinking ship faces.

A.M. Best Co.'s A++ (Superior) rating of Factory Mutual Insurance Co., Johnston, RI, is under review. Lexington Insurance Co., Wilmington, Del., is rated A++ (Superior) by A.M. Best Co. Allianz Insurance Co., Burbank, Calif., is rated A++ (Superior) by A.M. Best Co., and Zurich American Insurance Co., New York, is rated A+ (Superior) by A.M. Best Co. ■

Risk Capital to Sell Reinsurance Arm

By Theresa Miller

Risk Capital Holdings Inc., Greenwich, Conn., said it plans to sell its reinsurance operations to Folksamerica Reinsurance Co., which is continuing its aggressive acquisition strategy.

Folksamerica, based in New York, said it would buy Risk Capital Re's operations for \$20.3 million in cash. In addition, it plans to assume Risk Capital Re's liabilities and assets. The transaction also includes \$5.4 million in severance costs. Risk Capital Re had a book value of \$361.4 million as of Sept. 30, Risk Capital said.

Folksamerica said it wanted the company's business in part because of its specialty lines, along with its Integrated Solutions business. It already plans to buy PCA Property & Casualty Insurance Co. from Humana Inc. and last year acquired USF Re Insurance Co. from the Centris Group Inc.

Risk Capital, meanwhile, would retain the shell of the company, including its licenses.

Risk Capital has just wrapped up a tough 1999, in which it posted a net loss of \$12.8 million for the first nine months of the year, including a third-quarter operating loss of \$10.5 million. The

company said it would face \$5.2 million in losses for the fourth quarter from the Egypt Air crash and other aviation losses. Fourth-quarter earnings are scheduled to be released Feb. 2.

"We have a high regard for some of their underwriting units," said Folksamerica Chief Executive Officer Steven Fass. "And the transaction has been structured to protect us from previous mistakes they had made."

Fass said the companies hope to close the transaction by the end of the first quarter. Folksamerica is owned by the Bermuda-based White Mountains Insurance Group Ltd.

Risk Capital said it would set aside \$20 million to protect Folksamerica from ongoing losses from reinsurance produced through a managing general underwriter. Risk Capital will also pay tax costs and pay for reinsurance to cover any losses stemming from its discontinued aviation and space lines.

XL Capital Ltd., Marsh & McLennan Risk Capital Holdings Ltd., and Trident Partnership L.P., which collectively own about 37.5% of Risk Capital, have agreed to vote in favor of the transaction.

In a separate, unrelated transaction, Risk Capital said it plans to buy back its shares from XL Capital, which holds

a 27.8% stake in the company. Risk Capital said the value of that transaction would amount to about \$71.3 million, based on a share price of \$15. Risk Capital would also give the Bermuda-based XL its ownership interests in Latin American Reinsurance Co. Ltd., a joint venture between Risk Capital, XL and Annuity & Life Re (Holdings) Ltd.

Once the transactions close, Risk Capital's assets would include investments, including the company's \$25 million in Trident II L.P. It would also retain about \$20 million of statutory surplus each for Risk Capital Re and Cross River Insurance Co.

A.M. Best Co. placed Risk Capital Re's A- (Excellent) rating under review with developing implications. A.M. Best said it would likely suspend Risk Capital's rating after the transaction closes because it will become inactive. For the first nine months of 1999, the company had net premiums written of \$232.7 million and policyholders surplus of \$308.7 million.

Risk Capital trades as "RCHI" on the Nasdaq stock market.

Folksamerica's A (Excellent) rating was already under review, pending its PCA acquisition. ■

Accel Completes Allegiance Insurance Acquisition

By Eric Thorsen

Accel International Corp., Stafford, Texas, said that it and its subsidiary, Acceleration National Insurance Co., will focus on the nonstandard automobile business after having completed its acquisition of Allegiance Insurance Managers Ltd., a Simsbury, Conn.-based underwriting manager, managing general agency, and claims administrator.

In a statement, the company said the nonstandard automobile business is a specialty of newly acquired Allegiance and its president, chief executive officer and principal shareholder, Gerald H. Pastor.

In October 1999, Pastor had been elected president and CEO of Accel's subsidiary, Acceleration National, during the time acquisition intentions were announced. He was then named to the same role of Accel the following month. Accel said Pastor will also continue as president and CEO of Allegiance, which will become a subsidiary of Accel.

Accel said Acceleration National is running off all of its underperforming products in anticipation of the acquisition and subsequent new business focus. Accel said it and Acceleration National plan to focus on actuarial analysis, claims handling, computer systems and control or acquisition of production sources.

To complete its acquisition of Allegiance, Accel said it issued 529,040 shares of its common stock to shareholders of Allegiance and 997,036 shares to Pastor. It said that if clearance is not granted by the Ohio Department of Insurance for the stock transaction, it will issue Pastor a different "consideration," which could equal a smaller amount of Accel common shares and other securities.

In addition, Accel will also issue up to 2,180,110 shares of its common stock to former Allegiance shareholders if certain performance criteria are met in the six years following the acquisition. If earnings goals are not met by Dec. 31, 2002,

Allegiance shareholders will have to return half the Accel shares received.

Accel said it has also created a credit facility with a minimum aggregate credit value of not less than \$5 million. It said it expects to close the credit facility in the near future.

If Accel fails to maintain the credit facility until fully drawn or fails to approve proposals submitted for the acquisition and development of retail insurance agencies, the former Allegiance shareholders have the right to rescind the acquisition, the company said.

If the acquisition is rescinded, all shares of Allegiance capital stock will be returned with no consideration, the company added.

Accel is an insurance holding company specializing in the underwriting and sale of property/casualty insurance products, with a concentration on commercial lines.

Acceleration National, domiciled in Dublin, Ohio, is rated B- (Fair) by the A.M. Best Co. ■

Allstate Creates Position Of Chief Marketing Officer

By Lynna Goch

Allstate Corp. has created the position of chief marketing officer to help promote its new multi-access business model. It's a relatively new title that is increasingly popular with companies marketing consumer products, said Raymond Perrier, global director of brand value management of Interbrand, a branding consultant.

Robert S. Apatoff, the new chief marketing officer, has a consumer-product background, having been senior vice president of marketing services with LA Gear, where he helped to introduce children's lighted shoes. Most recently, he served as vice president of corporate marketing at Aetna Inc. He has also held senior marketing positions with Anheuser-Busch and Reebok.

At Allstate, Apatoff will coordinate marketing efforts company-wide, covering brand strategy, advertising and customer relations. He reports to Edward M. Liddy, Allstate's chairman and chief executive officer.

Apatoff described Allstate as a "hybrid" company structure, featuring centralized and decentralized makeup. "My job is to have control over the brand and the brand image," he said.

A chief marketing officer could find himself challenged, however, by the insurance industry's decentralized company structure, Perrier said.

"If a CMO has several heads of divisions reporting to him and doesn't have control of their budgets or authority over their marketing he or she will be a piggy in the middle," said Perrier. The officer should also have authority over internal aspects of the brand, such as how phones are answered, the design of forms and customer service, Perrier said.

But Perrier questioned what exact impact the position will make. "My query is how much authority does the title bring? It's a nice title to report to the shareholders, but is there anything behind it?"

Steve Johnston, vice president of marketing for Nationwide, said the CMO title isn't as common in insurance as the consumer products industry. Insurance companies usually don't follow a centralized line of marketing, but think in terms of products, he said.

Apatoff's success as a hands-on marketer with a strong customer and consumer orientation will be valuable when Allstate launches its multi-access service channels to consumers this spring, Liddy said in a statement.

"My job is to bring a fresh perspective to the industry and tie the pieces together of the new business model," said Apatoff. He hasn't made any changes yet, and is currently sitting down with his management team working on this year's agenda, he said.

Allstate has increased the number of products sold internationally and is developing lines of business through an expanded distribution system. Allstate has embraced selling via the Internet, through 800 numbers and through its 15,500 full-time agents.

In May, Allstate customers in Oregon can go online or call for sales and service of Allstate-branded products. By year-end it plans to have direct access rolled out in 16 states covering 40% of the nation and countrywide (except Massachusetts) by the end of 2001. In addition to auto and homeowners, direct access shoppers will be able to buy the Allstate's term life and parts and labor insurance online.

Fueling Allstate's strategy is Liddy's desire to mold the insurer into the nation's foremost personal-lines carrier. In auto insurance Allstate still trails State Farm Group, which in 1998 controlled 17.6% of the U.S. market share in total auto lines, according to A.M. Best Co. data. Allstate has an 11% market share. In homeowners insurance, State Farm captured 22.7% of market share compared to second-ranked Allstate's 11.5% (*Best's Review*, August 1999).

Apatoff will oversee Allstate's ad campaign that debuted during the summer's All-Star baseball game. The campaign modernizes Allstate's well-known slogan to "You're in Good Hands--Mine" and personalizes the message using Allstate employees and agents. In 2000, Allstate will continue using the TV ads and placing them in "varied buys" with a mix of network prime time, sporting events and cable, said Apatoff.

In May, Allstate signed an agreement with the Village of Rosemont, Ill., to rename the Rosemont Horizon Allstate Arena. ■

AMP Denies Reports Of Massive Layoffs

SYDNEY, Australia — Australian insurer AMP Ltd. denied a report that it was planning to lay off 3,500 workers in the wake of its buyout of the troubled GIO Australia Holdings Ltd.

Responding to a report in the *Sydney Morning Herald*, AMP said it expected to eliminate about 700 positions out of the combined Australian work force of 10,000 at AMP and GIO. The company said it would try to minimize the job losses through transfers, normal attrition and reducing the number of temporary workers and consultants where possible.

AMP said it had been consulting with union officials and would continue to do so.

The *Herald* quoted an unnamed source within AMP as saying the company planned to cut its work force by more than 30% as it pursues its goal of reducing costs by A\$140 million (\$1 = A\$1.54).

AMP won approval in December to buy out the 43% of GIO shares it failed to obtain in a hostile takeover bid in 1998.

GIO has posted more than A\$1 billion of losses in its reinsurance division since that initial takeover, but AMP stuck to its buyout plan, insisting it would be advantageous in the long run.

Assurance Managing Expands Underwriting

PLANTATION, Fla. — Assurance Managing General Agents Inc., said it has agreed to underwrite and manage automobile insurance products in Florida for State National Specialty Insurance Co.

The company, which targets automobile and mobile home lines, said it's looking to expand within Florida and other states, said Richard Widdicombe, Assurance president, in a statement.

Also, Widdicombe said the company's new homeowners' program will be introduced in this year's first quarter.

A wholly owned subsidiary of 21st Century Holding Co., Assurance underwrites business for many insurance carriers, including Federated National Insurance Co., American Colonial Insurance Co. and Coastal Insurance Co., Assurance said.

Orion Settles With Unicover Pool Members

By Theresa Miller

Orion Capital Corp., Charlotte, N.C., has commuted its contracts with members of a pool of workers' compensation reinsurers managed by Unicover Managers Inc.

Orion Capital, bought by Royal & Sun Alliance USA last fall, did not disclose terms of its settlement with the pool. The pool comprises Connecticut General Life Reinsurance Co., ReliaStar Life Insurance Co., Cologne Life Reinsurance Co., Lincoln National Life Insurance Co and Phoenix Home Mutual Life Insurance Co.

A commutation allows for the reinsurers to pay a lump sum payment to be released from future losses.

Orion was one of the largest pool customers, contributing about 30% of the pool's premium.

In a statement, Royal & Sun President Terry Broderick said: "This commutation and settlement ends this relationship and eliminates and receivables issues for us." The company called its workers' comp business one of its "premier performers," but said it settled the contracts to put to rest the continuing controversy surrounding Unicover.

Equity analysts have estimated that losses generated by the pool and other Unicover facilities could reach \$1.9 billion.

The pool fell apart early last year when its retrocessional reinsurers pulled out of the business. Sun Life said it faced exposure of up to \$910 million for its participation as a retrocessionaire. Phoenix Home, also a retrocessionaire, shared an equal amount of the pool's risk. The third, Cologne Life Re, had to beef up its

reserves by \$275 million to cover Unicover-related losses.

Other direct writers that passed risk to the pool included Fremont General, FCCI Mutual, Paula Financial, Lumberman's Mutual and Ohio Casualty. Other companies, such as Zenith National and Hartford Financial, avoided the pool.

The settlement follows a similar deal reached last week between Reliance Group Holdings Inc. with several reinsurers and direct writers. Reliance was not a pool member, but acted as a fronting company for Unicover and accepted risk as a workers' comp reinsurer.

Orion Capital has an A (Excellent) rating from A.M. Best Co. For the first nine months of 1999, Orion Capital Cos. had net premiums written of \$944.4 million and policyholders surplus of \$663.8 million, according to A.M. Best data. ■

Gainsco to Expand Line To Nonstandard Liability

FORT WORTH, Texas — Gainsco said it plans to expand its nonstandard personal lines business to include umbrella liability insurance and other nonstandard products.

As a result, the company has hired Ann M. Boman, former vice president of personal lines for the Underwriters Insurance Group in Los Angeles.

The products are geared for a segment of the nonstandard market interested in umbrella liability coverage, Boman said in a statement. Such customers may have some problems with their driving record, or may have multiple underlying carriers.

Gainsco has been working to expand its product line and expand geographically. The company recently closed on its purchase of Tri-State Ltd., which owns the North Dakota-based Midwest Casualty Insurance Co. In addition to owning the nonstandard auto insurer, Tri-State also runs a managing general agency and a motor vehicle driver-records service company.

Gainsco also recently bought the Miami-based Lalande Group.

Gainsco continues to rebound from 1998 through the end of the third quarter, posting net income of \$5.4 million for the first nine months, up from a loss of \$11.7 million.

Acceptance Sells Trucking Book

By Eric Thorsen

Acceptance Insurance Cos., Omaha, Neb., said it has sold its long-haul trucking insurance business to Seaboard Underwriters Inc., Burlington, N.C., as part of its effort to shift focus to its crop insurance business.

Terms of the agreement were not disclosed.

In a statement, the company said Seaboard will take over the staff of its Omaha, Neb.-based Redland Transportation unit and will lease the unit's office facilities to Seaboard.

Seaboard will provide policyholder services and quote-renewal coverage to current Redland customers, the Acceptance said.

Acceptance's departure from the business will let them focus on areas where it has "better levels of underwriting expertise," said Stephen Fitzpatrick, chief underwriting officer for Acceptance's property/casualty division.

"The commercial auto business is a tough line of business," said Fitzpatrick.

Now, all that remains is a "very small" commercial automobile insurance business, with a focus on local delivery and local retail types of auto exposures, he said.

"Most of the auto business is gone,"

he said. "We're really downsizing our property/casualty operations and focusing on those of lines business that we think have the best profit opportunities."

Last month, Acceptance announced it would focus on crop insurance as part of its restructuring plan, moving away from its property/casualty business (*BestWire*, Dec. 15, 1999).

The company's property/casualty business will continue to operate a remaining \$130 million specialty book.

Under one specialty program, Acceptance provides coverage for both personal and fine art collections. Another program includes coverage for condominium and common interest communities.

"We think that's a growing segment of the economy with more people moving back to the city," he said. "The continuing business tends to be program business, tends to be very specialty-oriented."

In May, Acceptance had sold its nonstandard automobile business to Millers American Group Inc. for \$25 million (*BestWire*, May 13, 1999).

Acceptance is rated B++ (Very Good) by the A.M. Best Co.

Acceptance trades as "AIF" on the New York Stock Exchange. ■

Virginia Supreme Court Overturns Nationwide Mutual Redlining Verdict

By Theresa Miller

The Virginia Supreme Court has overturned the \$100 million verdict against Nationwide Mutual Insurance Co., saying that the consumer group that won the case has no standing before the court because it was not injured.

The court ruled 4-3 Jan. 14 to overturn the verdict, which also included \$500,000 in compensatory damages for Housing Opportunities Made Equal Inc., a fair housing organization in central Virginia.

The dissenting judges said HOME did have standing in the case, but said it "held that the jury's award of punitive damages in the amount of \$100 million is so excessive as to shock the conscience of this court." However, the dissenters said a 1991 state law allows organizations to pursue housing discrimination claims.

The ruling should help slow the pace of class-action suits, said Ann Spragens, general counsel for the Alliance of American Insurers. "There is no doubt that when the verdict came in—because of the size of it—it encouraged others to go out and try to do the same thing," she said.

"It is important that it was overturned and overturned decisively," Spragens said. "Virginia is not a class-action state and very clearly this was an attempt to bring a class action by another name."

A few other insurers targeted after the Nationwide suit had settled out of court, she said. She also said HOME was teaching other consumer groups how to bring similar lawsuits.

The majority, which ruled that HOME didn't even have standing in the case, didn't consider the group's allegations.

"No one condones racism," Spragens said, "but by the same token, we cannot condone this kind of abuse of the judicial process."

HOME alleged that Nationwide excluded minorities from coverage by creating a list of ZIP codes for agents to use that favored affluent, white neighborhoods. HOME used 15 pairs of people to test the company's underwriting practices, and discovered that agents quotes on nine of 15 homes in minority neighborhoods, but only four of 15 in white neighborhoods.

Nationwide agents testified that Nationwide denied the insurance

quotes because the company did not insure homes that were more than 50 years old or worth less than \$60,000. Nationwide also required 30 days notice before a sale closed before insuring a house.

However, the court ruling said an agent admitted he lied when he told someone the company did not insure homes older than 50 years.

HOME said it was injured by the "frustration of its mission, the diversion of its resources and the discrimination practiced against its tester/agents."

Nonetheless, HOME's investigative work wasn't enough to allow for the \$100 million verdict, the court ruled. "The testers suffered no recognizable injury," wrote Chief Justice Harry Carrico for the majority. "They had no bona fide interest in purchasing insurance from Nationwide. Indeed, HOME stipulated that none of the testers were authorized to purchase insurance."

Nationwide has an A+ (Superior) rating from A.M. Best Co. For the first nine months of 1999, the Nationwide group of companies had net premiums written of \$7 billion and policyholders surplus of \$8.9 billion. ■

Brown & Brown Net Increases 16%

DAYTONA BEACH, Fla. — Brown & Brown Inc. said fourth-quarter net income increased 16%, attributing the results to success of its sales force.

Net income was \$7.1 million or 52 cents a share, up from \$6.1 million or 45 cents a share from 1998's restated results, the company reported.

Operating income was \$13.5 million, up from \$11.8 million for restated fourth quarter 1998, said Jeffrey R. Paro, vice president, treasurer and chief financial officer.

Total revenue for the quarter was \$43.3 million, up from restated \$40.6 million.

Fourth-quarter results capped a "very good year" for Brown & Brown, Paro said.

"We're operating in a difficult environment of declining prices, and the sales-driven culture in our organization

continues to drive the numbers," he said.

Net income for 1999 was \$27.1 million, up 16.4% from restated \$23.3 million for 1998.

Operating income for 1999 was \$53 million, up from restated \$46 million for 1998, Paro said.

Total revenue for 1999 was \$176.4 million, up 11% from the restated 1998 revenue of \$158.9 million.

The 1998 earning results had to be restated because of Brown & Brown's acquisition that year of the Daniel-James Insurance Agency Inc. of Indianapolis, and Toledo, Ohio, Paro said.

Brown & Brown Inc., with offices in Daytona Beach and Tampa, Fla., provides insurance, risk management and employee benefit administration services through offices across the United States. ■

Penn-America Projects \$650,000 in Cat Losses

HATBORO, Pa. — Penn-America Group Inc. has announced that its fourth-quarter results will be lower than expected as it faces \$650,000 in insured losses in its property insurance business, primarily from Hurricanes Floyd and Irene, along with other windstorm damage.

The company said it expects to report a net operating profit of 12 cents to 14 cents a share, lower than analysts' estimates of 17 cents a share. Penn-America said it would release its fourth quarter earnings on Jan. 26.

September's Hurricane Floyd caused an estimated \$1.8 billion in insured property damage, according to the Property Claims Services Unit of the Insurance Services Office Inc.

One Analyst's View

P/C Industry at the Turn of the Century: Global Market 'Meritocracy' Is Coming

By Terry Clarke

To sum up in a phrase where the property/casualty industry is headed at the turn of the century, "global meritocracy" might serve well. It captures the essence of what we see as the dominant theme of this business in the year 2000 and beyond.

How the 21st century figures to shake out:

- National boundaries will largely not matter as barriers to market entry or as defining the competitive playing field.

- "Pedigree" and personal relationships will matter far less than merit in earning customer loyalty and creating competitive advantage on that playing field. What will count for success is what you know about capital, about customers, about risk and how to manage the relationships among them.

- Being a "pretty good" insurance company will no longer be good enough. The strong, efficient and the smart will survive.

- More and more premium income will be concentrated in fewer and fewer companies or groups. Some of these companies or groups will be very large players, competing in most—if not all—industry segments, doing business around the world, serving customers who themselves are doing business around the world. Others will be more narrowly focused, concentrating on a particular global region, a particular market niche or a particular part of the insurance value chain. They will all be disciplined and efficient.

That is a quite different world from the one we have just left. For much of the 20th century, the industry's markets were largely defined by national borders and distinct national regulatory environments, where a number of "pretty good" companies could safely thrive. Regulations ostensibly promulgated by nations, states and localities also served to insulate insurers from many of the risks of more unbridled competition—especially price competition.

Terry Clarke is managing principal of the property/casualty practice of Tillinghast-Towers Perrin.

In this environment, successful companies could depend on their "pedigree" and network of personal relationships as much as their actuarial, investment and management skills to succeed. Who you were and whom you knew within the bounds of a national or local community counted as much in gaining and assuring customer loyalty as what you knew or could do. In the century we have just entered, that aspect of our industry will no longer exist.

We base this view of the industry's future on a handful of common trends that we see in countries around the world. The trends defining this change are:

Global Consolidation

Industry consolidation through mergers and acquisitions continues in most markets throughout the world and will continue for most of the first decade of the 21st century. Earlier consolidations—especially in the United States and Europe—have created companies with the size, reach and potential to be true global competitors. More recent consolidation, such as that proposed in Japan, is in part a reaction to this globalization of competition. While these more recently proposed Japanese mergers have better positioned their participants to meet internal competition from within Japan, they have also served to gain the size and efficiencies to effectively compete against companies who are on the verge of entering the market from the West.

While consolidation among national companies in Japan makes sense as a defensive strategy, the companies attempting this strategy will have a number of challenges in making the strategy work. They already have a very high cost basis compared to their likely competitors from the United States and Europe who will enter the market. Historically, they have had a cultural reluctance to take many of the steps, including right sizing necessary to achieve lower costs and higher efficiencies. With the rapid deregulation of Japan's property/casualty insurance industry has come very sharp price competition, leading to an overall reduction in premium income. The result, we believe, will be the

successful entry into the market of one or two very large foreign competitors who quite likely will become among the leading players in the Japanese market.

What we see happening in Japan epitomizes the fundamental change in the worldwide property/casualty insurance market. It will be a truly global market in which a company's competitors will not come from "down the street" but can easily come from across the ocean. One result will be a concentration of premium income in relatively few, very large players, perhaps fewer than 200 globally. Some of these will follow a strategy of being everywhere in the world. Some will focus on a particular global region. Some will occupy a particular niche—either defined by product, customer segment or distribution system—within the global system. And some may focus on a particular segment of the insurance value chain. They will do that by ungrouping the business into its principal components—distribution, risk-bearing, servicing—and concentrating on the aspect where they have the competency to gain competitive advantage and outsource the rest. In any case, these players will all be true global strategists.

Deregulation and Privatization

Facilitating the globalization of markets is the continuing deregulation and privatization of markets in many countries, particularly the privatization of what have long been treated as "social security" benefits, including workers' compensation benefits. First, privatization puts more risks into the marketplace, where private companies can compete to provide these benefits. Second, privatization tends to make national markets more and more alike, so that players from outside a nation's borders will feel it makes sense to consider entering them.

That similarity of markets is partly "deliberate," as regulators from countries around the world have been meeting regularly over the last few years to "discuss issues of mutual interest." In Western Europe, the regulatory framework, of course, will be identical across countries as a condition of membership in the

Analyst (continued)

European Union. And many of the former Eastern Bloc countries are adopting the same framework so that they will be better positioned to seek entry into the EU.

Elsewhere, the similarity of regulatory frameworks is more a matter of regulators and political leaders trying to learn from the experience of their peers across the globe. Japanese regulators are certainly paying attention to what is going on in the United States and Europe. And in Latin America, regulators are learning not only from the experiences outside their continent, but from within. Brazil, for instance, is using the Argentina and Chile experience to better manage its own transition to privatization.

To be sure, regulatory differences from national market to national market continue to exist. But the similarities will help to make globalization a reality. Moreover, the similarities in the processes of privatization mean that companies that have successfully managed those processes in one country have quite likely acquired competencies that better enable them to manage similar processes in another country—and be stronger competitors because of those competencies.

Profitability Squeeze

At least in the near term, the combination of deregulation, privatization and increased competition across borders will drive a continuing squeeze on profits. For a while now, the squeeze has come from the top because of the intense price competition, partly the consequence of deregulation in many markets.

But the squeeze will also start to come from the bottom, with a hardening of prices in the reinsurance market that we have begun to see recently and expect to continue. The price hardening has come about, in part, because of the recent catastrophe experience of reinsurers; and it has come about because of consolidation and concentration of companies within the reinsurance market. Fewer, stronger players can command higher prices.

The squeeze from the bottom will likely have two effects for the primary insurance market. It may very well serve to harden prices in the primary market and create some relief in the sheer price competition we have been witnessing throughout the industry. But it may also well serve to put further stress on the weaker—"pretty good"—players in the primary market

and, in that way, be one more contributor to the industry's concentration.

Technology

As a driver of change in the industry, technology is a double-edged sword. As the recently published Tillinghast-Towers Perrin survey of industry chief executive officers shows, most company heads believe that "technology" will be the solution to their competitive challenges in this changing marketplace. Technology, they say, will help them lower costs, better service customers and more effectively distribute their products.

But the technology blade has a second edge that may be sharper. Technology—especially Internet technology—allows new competitors to enter markets around the world through virtual companies whose distribution system need only exist in the virtual reality of the Internet.

Traditional insurers say they will meet this potential threat by creating multiple distribution systems of their own, including Internet distribution. In our view, only the largest, most efficient companies will be able to carry off this multiple distribution strategy, and then only if they can adapt effectively to the different ways of operating.

Moreover, traditional insurers may discover that Internet distribution today looks a lot like direct response did a few years ago. It was much easier then to say "direct response" than to actually successfully create a direct response system. Today, insurers will likely find that Internet distribution has an unfortunate parallel to direct response: capabilities and costs are far more daunting than they anticipated.

It may very well be easier for Internet companies—especially those in some other branch of financial services—to learn the insurance business than it is for traditional insurers to learn the Internet business. The result will be a handful of technology-based niche players, including ones new to the insurance industry, which will exist alongside the multinational companies that will command the lion's share of the industry's premium income.

Customer Value Expectations

Customers exposed to the increased choices of a privatized market are raising the competitive bar for companies. These customers will be much more demanding

about price and service—and many of them will use Internet technologies to do price shopping around the world. They will also be more demanding about the channels that they want to use for product distribution and service. Some will value the personal touch of traditional agency distribution systems. Others will value the ease, convenience and even the relative anonymity of using the Internet. What they won't particularly value is the company's pedigree, its place of origin. They may want to do business with known brand names, but the brands are likely to be international household names. It is likely, in other words, that we will see the branding equivalent in this industry of Coke and Marlboro in consumer products.

The challenge for insurers will be to make rational choices about which customers to serve and how to serve them. While all customers will become more demanding, all customers won't provide the same value to companies that meet their demands. Just as customers will become more selective in deciding which companies to deal with, successful companies will become more selective in deciding which customers they can afford to serve. Risk segmentation and customer-value-added assessment will become increasingly important, if not essential.

The Requirements for Survival

As we have observed elsewhere, property/casualty companies will be placing big bets on their futures. They will need to make substantial investments in new products, new distribution channels, new technology and new markets.

We won't predict which particular companies will make the right bets on the future. But we can say with confidence what kind of companies they will be. They will be the companies that make well-informed, well-reasoned judgments about how to allocate capital to the right businesses, the right markets, the right products, and the right channels, based on the risk of each.

They will figure out that the best use of capital is likely not going to be in trying to be all things to all people. Even when they compete across the world they will be very selective about the customers they choose to serve. They will allocate capital to developing those channels whose risks they understand and whose returns will exceed the risk-adjusted costs. ■

Commission Clears Generali Aquisition

By Robert O'Connor
London Correspondent

LONDON — The European Commission has approved the takeover by No. 1 Italian insurer Assicurazioni Generali SpA of the country's third largest underwriter, Istituto Nazionale delle Assicurazioni. The purchase, which is proceeding after protracted maneuvering within Italy's insurance and banking sectors, is worth 12 billion euro (\$1 = 0.9869 euro).

The commission's approval was conditional upon Generali's agreement to sell its controlling interests in three life subsidiaries: Prime Augusta Vita, Casse e Generali Vita, and Aurora. Generali will also have to sell its controlling stake in Fondiaria, the Florence-based underwriter. And Generali must sell INA's controlling interest in Banco di Napoli and BNL-Vita, a joint venture with Banca Nazionale del Lavoro of Rome.

Jonathan Lawlor, an analyst at Dresdner Kleinwort Benson in London, said the divestments wouldn't be onerous for Generali. The transaction, he said, has gone according to expectations. "It certainly panned out pretty reasonably from

Generali's point of view," Lawlor said.

The divestments, the commission said, were necessary to keep the new group from achieving a dominant position in the Italian life market. "The combined entity's market power would have been fostered by the strength of its distribution network, which is the main competition driver in the insurance sector," the commission said. "The new group would have been much stronger than its competitors in the most important distribution channels, i.e. in the agency and banking channels."

A second analyst, who asked not to be identified, agreed that Generali has done well. "It seems that they have not had to make too many concessions to get the deal done," he said. He described the disposals as "pretty minor businesses, for the most part."

Despite the hurdle of the EC, Lawlor noted that antitrust decisions within the European Union are still mainly a matter for national authorities. Norms, he noted, can vary widely from country to country. He said a market share that might raise few eyebrows in one country might be seen as monopolistic in another.

Lawlor said that Generali, having

secured its domestic base, would likely go through 12 to 18 months of consolidation before undertaking any further expansion. "Integration in Europe is a more complex procedure than you get in the Anglo-Saxon markets," he said.

The unnamed analyst also predicted a period of consolidation. "They are going to have to do a bit of work to combine the groups effectively," he said. "It's going to take management time. I think they are going to be working what they have before they step out again. They do have scope to do something outside of Italy, but I think they are pretty much done for the domestic market."

Trieste-based Generali, Europe's third-largest underwriter, launched its hostile bid for the privatized, Rome-based INA last September. In addition to INA's lack of receptiveness, Generali faced complications caused by merger talks between INA and the Turin-based San Paolo IMI bank. San Paolo IMI's assent was assured through an agreement that gave it a share of INA's bancassurance operation. INA's agreement to Generali's overture came after Generali agreed to allow INA to offer its shareholders a special dividend. ■

State Farm Wants Ill. Appeal Moved To Higher Court

BLOOMINGTON, Ill. — State Farm Mutual Automobile Insurance Co. asked the Illinois Supreme Court on Jan. 20 to speed up its appeal of the \$1.2 billion aftermarket parts verdict against State Farm for using non-original equipment manufacturer parts in car repairs.

State Farm filed its appeal Dec. 17 in Williamson County Circuit Court, Marion, Ill., to be sent to the 5th District Appellate Court in Mount Vernon, Ill.

The property/casualty insurer wants to bypass the appellate court because the verdict has an adverse effect on its customers, on state insurance regulation and because it invites "excessive and unwarranted litigation" in Illinois, said State Farm Mutual Automobile spokesman Dick Luedke.

Berkshire Hathaway Subsidiary To Buy Furniture-Rental Company

By Meg Green

A subsidiary of Berkshire Hathaway Inc., Omaha, Neb., said it has agreed to buy a furniture-rental company for \$467 million, including about \$83 million in assumed debt.

The Berkshire unit, Wesco Financial Corp., Pasadena, Calif., said it would buy CORT Business Services Corp., Fairfax, Va., a national provider of rental furniture.

Wesco is a publicly traded, 80.1% owned subsidiary of Berkshire Hathaway. Berkshire Hathaway is also the parent of the Geico, General Reinsurance and National Indemnity insurance companies.

Wesco's subsidiary, Wesco Holdings Midwest Inc., plans a cash tender offer, all of the outstanding shares of CORT's common stock for \$28 per share. The cash tender offer is scheduled to begin Jan. 24 and is not subject to any financing conditions.

CORT's board has unanimously approved the agreement and recommends

to CORT shareholders that they tender their shares in the tender offer.

Citicorp Venture Capital Ltd., which owns approximately 44% of the outstanding CORT shares, has agreed to tender all of its shares and has granted Wesco Holdings Midwest an option with respect to such shares exercisable under certain conditions.

The companies said they expect the tender offer to be completed in late February and expect to finalize the merger by late in the first quarter or early in the second quarter of this year.

In a statement, Charles Munger, chairman of Wesco and vice-chairman of Berkshire Hathaway, said, "CORT is a classic example of a fine company that can be even better as a result of the strength and stability that result from inclusion in the Berkshire group of companies."

Wesco is a holding company that sells property/casualty insurance through its subsidiaries. ■

Tax Changes Could Benefit Some Insurers in Germany

By *Brendan Noonan*

German insurers are expected to reap a windfall and gain new opportunities for mergers and acquisitions from proposed changes that would reduce or eliminate capital gains taxes for publicly traded corporations.

The changes, proposed by the Social Democrat/Green coalition government, would lighten a burden that has caused many of Germany's corporate giants to sit on huge, not always productive cross-shareholdings. Companies are looking forward to selling some of those holdings and investing them more productively—or using the proceeds for acquisitions. The proposed change also has caused share prices to soar, making the companies' stocks a more potent currency.

"The reaction was surprised but positive," said Rainer Kueppers, a spokesman for Munich Reinsurance Co., of the proposal that was quietly put forward just before Christmas. It is now embodied in legislation that might take four to five months to be enacted.

Kueppers indicated that the change wouldn't lead to a wholesale liquidation of portfolios, as some of the holdings are part of strategic relationships. "Here, the tax rate is not the decisive factor," he said.

Munich Re has a new structure in place to manage what could become a much more liquid portfolio: Munich Ergo AssetManagement GmbH; which is now handling more than 200 billion marks (\$1 = 1.93 marks) of assets on behalf of the group's reinsurance and primary operations. Its services also will be offered to third parties.

A report by HSBC Securities in London predicted that the tax change

would add as much as 50% to the net asset value per share of German insurers' stocks and free the companies to invest for greater returns, buy back shares and pursue mergers and acquisitions more easily.

Major cross-shareholdings currently include the 25% stakes that Munich Re and Allianz AG Holding hold in each other; Allianz's 22% stake in Dresdner Bank; and large stakes for both Allianz and Munich Re in Bayerische Hypo-und-Vereinsbank.

Allianz's Diethart Briepohl said in a statement that "a restructuring of the German corporate landscape would be possible" if the changes take effect.

For Allianz, the proposal coincided with the arrival of Paul Achleitner, the former head of the Frankfurt office of Goldman, Sachs & Co., to head the finance division at Allianz. When that appointment was announced last year, one analyst predicted that Achleitner's role would include leading an effort by Allianz to drive consolidation in the German financial services sector. The analyst, Michael Lindsay of Lehman Brothers in London, said the next challenge would be to use the cash wisely (*Best's Review*, December 1999). "Unwinding an investment portfolio at a reasonable tax rate is quite a bit easier than spending the proceeds," Lindsay said.

The proposed tax break also comes in the midst of a move by German companies toward financial reporting under International Accounting Standards, which put a more realistic valuation and generally higher value on investment portfolios than long-standing German accounting rules. The result has been to expose the excess capital carried by many companies. ■

In Best's Viewpoint

This week's highlights include:

- *An examination of Massachusetts' managed-care woes, including Harvard Pilgrim's move into receivership.*
- *Continuing consolidation of the property/casualty industry in 2000.*
- *Influence of financial reform and technology on insurers' business models.*
- *Impact of this year's NAFTA changes on Mexican insurance companies.*
- *An updated list of rating changes and selected ratings rationales.*

Best's Viewpoint is mailed separately to BestWeek subscribers.

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Monday

- *U.K.'s Prudential Jolted by Chief Executive's Early Exit*
- *South Africa's Old Mutual Bids for U.K. Fund Manager*

Tuesday

- *Brants Co. Merges with John L. Wortham and Son*
- *Maritime Life Finalizes Aetna Canada Merger*

Wednesday

- *Lincoln Re to Market Reinsurance in Japan*
- *Viatical Association Names New President*

Thursday

- *Insurers and Home Builders Meeting to Resolve Florida Code Differences*

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Agents' Trade Group Cancels Annual Convention

ALEXANDRIA, Va. — The National Association of Professional Insurance Agents has canceled its annual conference and exposition, which had been scheduled for September in New Orleans.

The PIA has posted the cancellation on its Web site, but provided no details. PIA officials could not be reached for comment. The meeting was scheduled for Sept. 8-10. A board meeting remains

scheduled for those dates, according to the Web site.

Recently, the Massachusetts Association of Insurance Agents decided it wouldn't renew its membership with PIA, instead opting to remain members only of the Independent Insurance Agents of America Inc. The Massachusetts' group's membership expired Jan. 1.

The Massachusetts group, PIA's largest state affiliate, tried to persuade the PIA to

merge with IIAA. Also, the IIAA—almost twice the size of PIA—said it has tried several times over the last three years to work on a consolidation plan with PIA, according to Jeff Yates, chief executive officer of industry and state relations for IIAA (*BestWire*, Jan. 6, 2000).

The PIA was founded in 1931 and represents about 180,000 agents and their employees. The IIAA was founded in 1896 by a group of local fire agents. ■

Washington Review

President Clinton Proposes Long-Term Care Tax Credit

By Lynna Goch and Dennis Kelly

President Clinton proposed a \$3,000 tax credit for long-term care costs, part of a proposed \$138 billion health-care plan. The tax credit would be phased in, beginning with \$1,000 in 2001 and rising in \$500 increments. Eligible people would receive \$3,000 in 2005 and each year after that, according to a White House statement.

The proposed tax credit is triple the amount proposed last year and increases the total investment in long-term care to \$28 billion over 10 years. The proposal will show up in the fiscal 2001 U.S. budget.

However the tax credit would be phased out beginning at a \$110,000 income level for couples and at \$75,000 for unmarried taxpayers.

The tax credit would be triggered for people of all ages when three or more basic activities of daily living can't be accomplished.

The Health Insurance Association of America commended the president for the tax credit and called long-term care "the largest looming unfunded liability facing Americans today," in a statement. The association also called for a 100% tax deduction for the cost of purchasing long-term care insurance, noting this need is covered in several bi-partisan bills currently in Congress.

Insurers have been seeking support for long-term care insurance from the federal government, according to an A.M. Best Co. report on the long-term care industry. Insurers said the industry needed tax incentives, increased education and strong messages from the government to support the need of long-term care insurance.

The White House said private insurance "is an important but relatively new and untested option." Only 4 million American, or 1.5%, have private long-term care insurance, according to the White House. The number of American 65 years and older will double by 2030 (from 34.3 million to 69.4 million), so one in five Americans will be a senior citizen by then, the White House reported.

Long-term care insurance sales have increased more than 20% in three of the past four years. The top three writers of long-term care insurance in 1998 were General Electric Capital Assurance; Conesco Senior Health Insurance Co.; and American Family Life, a member of the AFLAC Group, according to A.M. Best Co. data.

Insurers: N.J. Seat Belt Law Won't Bring Direct Savings

Insurance trade groups don't think a mandatory seat-belt law in New Jersey will translate into direct savings for the industry, but believe that indirectly, it could be helpful.

Police in New Jersey can stop and ticket drivers for the sole reason of not wearing a seat belt under the new law signed by Gov. Christie Whitman. It becomes effective May 1. Under cur-

rent law, police can ticket unbelted drivers and passengers if the car was first stopped for another reason.

Some states will allow a reduction in legal judgments if a plaintiff is not wearing a seat belt at the time of an accident. However, Lynn Knauf of the Alliance of American Insurers said someone not wearing a seatbelt would not be denied policy benefits. In the long run, any improvements in highway safety could have a positive effect on rates, said Knauf.

Jeff Brewer of the National Association of Independent Insurers said it would be hard to make a one-to-one connection because many factors can affect rates.

The National Highway Traffic Safety Administration estimates automobile crashes cost society more than \$830 per-person every year in lost productivity, medical expenses and other economic losses

The National Highway Traffic Safety Administration estimates automobile crashes cost society more than \$830 per-person every year in lost productivity, medical expenses and other economic losses, said David Snyder of the American Insurance Association.

"In combination with the anti-health care fraud automobile reform legislation passed last year, the state has acted in a very constructive way to try to restrain health care costs paid through auto insurance," Snyder said. "It's particularly important in a state like New Jersey where the automatic benefits are so high."

He said if New Jersey can do something about its "intrusive and expensive" insurance regulatory environment, which he said interferes with natural marketplace competition, then New Jersey would be a "very healthy insurance market."

New Jersey passed cost-saving medical protocol regulations in its Automobile Insurance Cost Reduction Act last year.

Insurers in the state argued they could not accomplish the rate cutting mandated in the law without the medical protocols, which were challenged in court by doctors, chiropractors and trial attorneys (*BestWire*, June 15, 1999).

Former New Jersey Banking and Insurance Commissioner Jaynee LaVecchia issued an order in March mandating a 15% auto insurance-rate reduction totaling \$750 million. To accomplish this, she included guidelines requiring medical providers to demonstrate and document the medical necessity of treatment they provide for auto-accident injuries (*BestWire*, March 30, 1999). ■