

# BESTWEEK

## Life/Health Insurance News and Analysis

January 31, 2000

Release 5

### INSIDE

- **Policyholders Seek Share In MetLife IPO . . . . . 4**
- **13 Investors or Buyers Interested In Harvard Pilgrim . . . . . 4**
- **Coverage of IBC European Captives Convention . . . . . 6-8**
- **American General Posts \$255 Million Rise in Net . . . . . 8**
- **Northwestern Mutual's 1999 Net Grew 65% . . . . . 9**
- **Survey: More Plans Offer 3-Tier Copayment System . . 11**
- **NAIC Passes Model Act For Agent Licensing . . . . . 12**

## Hancock's IPO Fights Clamor for 'Dot-Coms'

By Meg Green

John Hancock Financial Services must prove it can produce strong earnings and raise its stock price to reap the benefits of its initial public offering, equity analysts said.

Most analysts had limited hopes for the life insurer's stock price, in part because of consumer concerns over possible higher interest rates. Another concern is that competition from many technology-related stocks also making their market debut last week may draw investors' interest, analysts said.

"We agree with the general predictions that the stock is probably going to come out and remain flat," said Ben DiSylvestre, chairman of Robert E. Nolan Co., a management consulting firm specializing in the insurance industry. "If the stock stays flat, it renders the IPO somewhat moot. They need stock to make acquisitions, instead of using cash."

Hancock, which launched 102 million shares of stock in its initial public offer-

ing Jan. 27 at an opening price of \$17.75 a share, will have to immediately show it can grow through acquisitions and squeeze out cost efficiencies, he noted.

John Hancock Financial Services Inc. closed at \$17.63 a share after hitting a high of \$18.3125 a share.

The IPO raised about \$1.73 billion for John Hancock and was the second-largest insurance IPO in the United States. In 1993, Allstate Corp. raised \$2.12 billion when it went public.

Maitland Lammert, an analyst with Edward Jones Investments in St. Louis, said the company has a window of time to prove that it's a strong investment or face the possibility of becoming an acquisition target itself.

"They have a two-year protection period, and it would probably be another year after that before any merger could be approved," Lammert said. "So they have

- See **IPO**, Page 3
- **Charge Reflects Unicover Costs**, Page 2
- **New York Clears Way for IPO**, Page 3

### Sun Life Will Set Aside \$103 Million for Settlement

Sun Life Assurance Company of Canada, Toronto, said it plans to set aside \$103 million to cover the costs of settlements of disputes over business generated by Unicover Managers Inc., including the recent settlement with Reliance Group Holdings.

Sun Life said the settlements reduced its \$910 million exposure to gross losses from business generated through Unicover, now known as Cragwood Managers LLC, South Plainfield, N.J.

The \$103 million, along with money Sun Life set aside as it leaves the reinsurance business and pays for costs to cover pension mis-selling costs in the United Kingdom, will yield an overall loss for Sun Life's fourth quarter, the company said.

## Pharmaceutical-Industry Mergers Could Mean Cost Hikes for HMOs

By Eric Thorsen

With deals in the works among four major drug companies that could create two of the largest pharmaceutical companies in the world, insurers are questioning how such consolidation will affect drug prices.

Many insurers expressed concern that the drug giants won't live up to their initial promises of delivering savings to consumers.

The question remains, "can they deliver on these promises?" said Scott Serota, acting president and chief executive offi-

cer for Blue Cross and Blue Shield.

"There is concern that they can turn around and use whatever savings are generated from economies of scale and return value to the shareholder as opposed to investing in the consumer's interest," he said.

The resulting companies might not maximize potential from a health-care delivery standpoint, he said.

Glaxo Wellcome plc and SmithKline Beecham plc reached a merger agreement in January that could create the

- See **MERGERS**, Page 5



**BESTWEEK**

Published Since 1953

January 31, 2000

Release 5

PUBLISHER  
**Arthur Snyder**ASSISTANT VICE PRESIDENT  
**Lee McDonald** ([mcdonal@ambest.com](mailto:mcdonal@ambest.com))INTERNATIONAL EDITOR  
**Brendan Noonan** ([noonanb@ambest.com](mailto:noonanb@ambest.com))EDITOR, BEST'S REVIEW  
**Marilyn Ostermiller** ([osterm@ambest.com](mailto:osterm@ambest.com))MANAGING EDITOR, BESTWEEK  
**Caroline Saucer** ([saucer@ambest.com](mailto:saucer@ambest.com))MANAGING EDITOR, BEST'S REVIEW  
**Leslie Werstein Hann** ([hannl@ambest.com](mailto:hannl@ambest.com))NEWS EDITOR  
**Mark Dobrow** ([dobrowm@ambest.com](mailto:dobrowm@ambest.com))SENIOR ASSOCIATE EDITORS  
**Barbara Bowers** ([bowersb@ambest.com](mailto:bowersb@ambest.com))  
**Theresa Miller** ([miller@ambest.com](mailto:miller@ambest.com))  
**Ron Panko** ([pankor@ambest.com](mailto:pankor@ambest.com))  
**Sally Whitney** ([whitnes@ambest.com](mailto:whitnes@ambest.com))ASSOCIATE EDITORS  
**Lynna Goch** ([gochl@ambest.com](mailto:gochl@ambest.com))  
**Meg Green** ([greenm@ambest.com](mailto:greenm@ambest.com))  
**Dennis Kelly** ([kellyd@ambest.com](mailto:kellyd@ambest.com))  
**Eric Thorsen** ([thorsee@ambest.com](mailto:thorsee@ambest.com))COPY EDITOR  
**Sue Johnson** ([johnsos@ambest.com](mailto:johnsos@ambest.com))SENIOR EDITORIAL ASSISTANT  
**Sue LaCorte** ([lacorts@ambest.com](mailto:lacorts@ambest.com))DESIGN COORDINATORS  
**Karen McNamara**  
**Laura Plumpton**PUBLISHED BY A.M. BEST CO.  
PRESIDENT AND CHAIRMAN  
**Arthur Snyder**EXECUTIVE VICE PRESIDENTS  
**Arthur Snyder III**  
**John H. Snyder**GROUP SENIOR VICE PRESIDENT  
**Larry G. Mayewski**SENIOR VICE PRESIDENTS  
**Shaun Flynn**, International  
**Eric M. Simpson**, Property/Casualty  
**Paul C. Tinnirello**, Information ServicesGROUP VICE PRESIDENTS, Life/Health  
**Michael L. Albanese**  
**Manfred Nowacki**

BESTWEEK, Life/Health edition (ISSN 1075-8747), is published weekly by A.M. Best Co., which also publishes BEST'S REVIEW, the monthly insurance industry magazine.

Subscriptions are included with Gold and Platinum subscriptions to most A.M. Best products. Separate annual subscriptions are available for \$425, less for quantity orders. Please send orders to Customer Service Department, A.M. Best Co., Ambest Road, Oldwick, N.J. 08858, or call 908-439-2200, ext. 5742. Other services include:

BESTLINE SERVICES: Visit [www.ambest.com/bestline](http://www.ambest.com/bestline) to access Best's Ratings, Best's Company Reports, and Best's Insurance News—24 hours a day.BESTWIRE SERVICES 908-439-2200 ext. 5717  
BEST'S CD-ROM SERVICE 908-439-2200 ext. 5184  
REPRINTS, BACK ISSUES 908-439-2200 ext. 5557

©2000 by A.M. Best Co. BESTWEEK is a trademark of A.M. Best Co. All rights reserved and reproduction without permission is expressly forbidden. While the information presented in this publication is subject to the highest standard of care in preparation and editing, its accuracy isn't guaranteed. When presented herein, Best's Ratings reflect A.M. Best Co.'s opinion as to the relative financial strength and performance of each insurer in comparison with others, based on analysis of the information provided to A.M. Best Co. However, these Ratings aren't a warranty of an insurer's current or future ability to meet its contractual obligations.

BESTWEEK'S E-Mail address is [bestweek@ambest.com](mailto:bestweek@ambest.com)**John Hancock's \$134 Million Charge Includes Cost of Uncover Settlement**

By Meg Green

John Hancock Mutual Life Insurance Co. said it would post a \$134 million fourth-quarter after-tax charge relating to settling workers' compensation reinsurance disputes, including those stemming from a pool created and managed by Uncover Managers Inc., now Cragwood Managers LLC.

John Hancock said it is discussing a settlement with some of the companies involved in the Uncover business.

"Based on current information, we believe that this charge to earnings covers the exposure John Hancock has to workers' compensation carve-out reinsurance, including the Uncover business," Stephen L. Brown, Hancock's chairman and chief executive officer, said in a statement.

Hancock made the announcement just days before it launched its initial public offering Jan. 27.

John Hancock isn't the first company to post a charge relating to Uncover.

Reliance Group Holdings Inc. said Jan. 24 it has finalized its \$100 million settlement to resolve issues relating to the Uncover pool and has also filed a lawsuit against Uncover.

Also, Lincoln National Corp. estimates it could pay \$40 million to cover the cost of any potential settlements over disputes surrounding its participation in the pool.

Lincoln National Life Insurance Co.

held an 18.75% stake in the Uncover pool. The pool's other members were ReliaStar Financial Corp., with a 5% stake; Connecticut General Life Insurance Co., a 35% stake; Phoenix Home Life Mutual Insurance Co., a 23.75% stake; and Cologne Life Reinsurance Co., a 17.5% stake.

Cologne Life Re, which has already estimated its losses at \$275 million, joined Phoenix and Sun Life Assurance Company of Canada to provide retrocessional coverage to the pool. Such companies as Lincoln reinsured the business beyond those initial layers.

Equity analysts have estimated that business generated through Uncover could yield gross losses of \$1.9 billion. For months, it appeared that the retrocessionaires might have to pay the bulk of the claims, until Sun Life and Phoenix—facing total gross loss exposure of \$910 million each—filed lawsuits seeking to rescind their contracts with pool members. That sparked negotiations among direct writers, reinsurers and retrocessionaires.

Orion Capital Corp.—one of the pool's biggest direct writers—said it commuted its contracts with pool members as part of a settlement with them. Orion didn't release terms of the settlement.

John Hancock Mutual Life Insurance Co. had \$7.57 billion in net premiums written and \$4.98 billion in capital and surplus and asset valuation reserve for the first nine months of 1999, according to A.M. Best Co. data. ■

**Corrections**

• A table in an October 1999 special report, "Life Reinsurers Seek Growth Through Innovative Techniques," contained incorrect data for two companies. The correct information is:

**Munich American Re**

1998 Reinsurance Assumed Face Amount in Force: \$124,977,807,749.

Gross Premiums Written: \$137,891,938

1997 Reinsurance Assumed Face Amount in Force: \$102,876,971,547

Gross Premiums Written: \$114,673,405

**Gerling Global**

1998 Reinsurance Assumed Face Amount in Force: \$62,622,453,000

Gross Premiums Written: 63,872,370

1997 Reinsurance Assumed Face Amount in Force: \$43,030,998,000

Gross Premiums Written: \$62,186,579

A report containing the table with the revised figures and the changes in global rankings can be found at [www.bestweek.com/reports/bwresr102099.pdf](http://www.bestweek.com/reports/bwresr102099.pdf).

• A Jan. 10, 2000, *BestWeek* article, "CEOs Optimistic About Future of Insurance Industry" misreported several findings of a survey by Limra International. Four out of five insurance leaders expect that industry conditions will be better at the close of 2000 than they were at the end of 1999. Also, the percentage of surveyed CEOs agreeing that the regulatory climate will be friendlier in three years rose 24 points, to 57%.

# Hancock, New York Pact Clears Way for IPO

By Theresa Miller

John Hancock Mutual Life Insurance Co., New York, reached a last-minute agreement with New York insurance regulators to gain approval for its conversion to a stock-owned company. The approval helped clear the way for the company's initial public stock offering.

The agreement gave the New York Insurance Department oversight over Hancock's IPO of 102 million shares, priced at \$17 a share. It also resolves disputes over Hancock's closed block of business and dividend payments, along with other issues, according to documents filed Jan. 26 with the Securities and Exchange Commission.

Hancock could have launched its IPO without New York's approval, but New

York regulators could have prevented the Boston-based insurer from doing business in the Empire State.

About 21.7% of Hancock's premiums came from New York in 1998, according to A.M. Best Co. data. About 28% of Hancock's business came from Massachusetts, its strongest state.

The agreement also calls for Hancock to settle its dispute with Mutual of America Life Insurance Co., the company said in its SEC filing. The New York life insurance company maintains that it reinsured its pension business with John Hancock, but then became a full-fledged insurer and converted its contract to a group annuity policy that would be eligible for Hancock shares. Hancock maintains Mutual of America still has a reinsurance contract.

Hancock plans to put Mutual of America's potential shares in a trust until the dispute is resolved. If Mutual of America wins the dispute, it would get the shares. If not, they would be distributed to eligible policyholders, the SEC statement said. Massachusetts and New York regulators have approved the proposal.

Analysts estimate Mutual of America could be eligible for about 1.9 million shares. Hancock expects to distribute 229.7 million shares among 2.8 million eligible policyholders. It has about 3.3 million total policyholders.

Hancock, the nation's 13th-largest life insurer, has an A++ (Superior) rating from A.M. Best Co. For the first nine months of 1999, the company had net premiums written of \$8.3 billion, and capital and surplus of \$5 billion, according to A.M. Best. ■

## IPO: John Hancock Demutualization Challenged by 'Dot-Com' Fever

■ From page 1

two to three years to get their stock price up, and get their returns up. Otherwise, they will be gobbled up by another financial institution."

One factor keeping a lid on Hancock's stock is concern over interest rates, said Michael McGrath, a financial-services analyst with Gruntal & Co. Wall Street is concerned that the Federal Reserve will raise interest rates at its next meeting, set for Feb. 1 and 2.

That concern could affect John Hancock because "the first couple days after an IPO are pivotal to see if the people who buy the IPO hold onto it," McGrath said.

John Hancock is in danger of getting lost in the current enthusiasm surrounding Internet-related stocks, DiSylvester said.

"When people are looking at some place to put their money, they look at insurance as somewhat conservative," he said.

Internet stocks carry the potential for tremendous growth, despite the fact that many such companies are trading at several times their earnings, Lammert said.

"Everyone is looking for the next Microsoft. The problem is that not all of these companies will be the next Microsoft," Lammert said.

But investors in Internet stocks might turn to financial-services stocks when the over-valued technology sector begins to fall, McGrath said.

### Some Recent Insurance IPOs

Company	IPO Date	Opening Price	Stock Symbol
Axa Financial Inc. (Equitable Cos.)	7-22-92	N/A	AXF
Allstate Corp.	6-2-93	\$29.00	ALL
MONEY Group	11-10-98	\$29.00	MNY
MIX Group	7-29-99	\$17.38	MHF
<b>John Hancock Financial Services Inc.</b>	<b>1-27-00</b>	<b>\$17.75</b>	<b>JHF</b>

Financial services "are one thing a lot of people fall back on when these esoteric companies fall out of bed. It's rare that markets go straight up without some kind of a shakeup. I don't know when it will happen, but I think investors should be prepared."

Lammert said insurance companies have two roads to success in the stock market: they can either be global and diverse, such as American International Group Inc. or Citigroup; or they can narrow their focus and be very good at what they do, such as Aflac, best known for selling supplemental insurance in Japan.

John Hancock will take a similarly focused approach, having sold its health business to concentrate on savings and retirement products, Lammert said.

DiSylvester agreed. "Historically, we have seen [John Hancock] sticking to their knitting."

John Hancock's stock performance could affect the fate of upcoming IPOs at Metropolitan Life Insurance Co., Prudential Insurance Company of America and Sun Life Assurance Company of Canada, the analysts said.

But those companies have done too much preparation to back away now, she said. They could, however, delay their IPOs depending on the market.

The initial public offering gives Hancock a market capitalization of about \$5.64 billion. It's trading on the New York Stock Exchange under the symbol "JHF."

In addition to the 102 million shares being sold in the public offering, about 229.7 million shares of common stock of John Hancock Financial Services will be distributed to policyholders under the company's demutualization plan.

Net proceeds from the offering are expected to be \$1.65 billion, which will be used to pay policyholders of John Hancock Mutual Life Insurance and pay some expenses related to the demutualization.

As part of the demutualization, John Hancock Mutual Life Insurance Co. will be renamed John Hancock Life Insurance Co. and will become wholly owned by John Hancock Financial Services Inc.

John Hancock Mutual Life Insurance Co. is rated A++ (Superior). ■

# Policyholders Seek Share of MetLife IPO

By Theresa Miller

NEW YORK — Several policyholders of Metropolitan Life Insurance Co. say they should have the first chance to buy stock in MetLife's upcoming \$6.5 billion initial public stock offering, expected by the end of March.

A handful of policyholders and trial attorneys argued for stock subscription rights Jan. 24 at the New York State Insurance Department's public hearing on MetLife's proposed demutualization. The policyholders argued that they would be shut out of any early trading "pop" in the price that could give them a tidy profit on their stake in MetLife.

"I think it's nice for people who bought policies to participate in that gain if they want to," said Bijay Shah, who runs a New York stock brokerage.

The policyholders' complaints are similar to those raised when the Mutual Life Insurance Company of New York converted to the stock-owned MONY Group Inc. in 1998.

Goldman, Sachs & Co. and Credit Suisse First Boston are serving as joint underwriters for MetLife's IPO.

MetLife, which would become MetLife Inc., has said it plans an IPO of about 255 million shares at a price ranging between \$14 and \$24 a share. The company plans to set aside an additional 576 million shares in a trust for policyholders (*BestWire*, Nov. 24, 1999). The company expects proceeds of between \$4.6 billion and \$5.3 billion.

MetLife is the nation's largest life/health company based on net premiums written. According to A.M. Best Co. data, MetLife had net premiums written of \$22.7 billion in 1998. The company had about \$1.7 trillion of life insurance in force during 1998.

Based on assets, MetLife ranks sec-

ond to Prudential Insurance Company of America. Prudential, which is gearing up for its own IPO later this year or early next year, had \$195.9 billion in admitted assets at the end of 1998. MetLife had \$178.1 billion.

Howard Silverstein, a managing director for Goldman Sachs, said major investors could shy away from the IPO if MetLife gives its 11 million eligible policyholders subscription rights. "It will be extremely expensive to have subscription rights for that number of policyholders," he said.

In addition, Silverstein said subscription rights would encourage people to buy life insurance policies speculatively, with hopes that they could be part of the IPO. A policyholder estimated it would cost MetLife about \$60 million to give policyholders subscription rights.

One policyholder, Lance Gad, said he specialized in investing in such policies and that he didn't believe MetLife's plan was fair. "Any pop in the IPO will go to the best customers of Goldman Sachs and Credit Suisse First Boston," he said.

Even without subscription rights, MetLife's stock offering could be the largest-ever IPO in the United States. Also, each eligible MetLife policyholder would get 10 shares for their membership rights, plus extra shares in exchange for their past and future contribution to the company's surplus. By the time the offering is over, MetLife could have the highest number of shareholders of any publicly traded company. The policyholders' shares would be kept in a trust and managed by a trustee, but policyholders may buy and sell shares within the trust and tell the trustee how to vote those shares.

MetLife Chief Executive Officer Robert Benmosche said MetLife tried to

come up with a plan to benefit all of its policyholders. "We can't look at one small constituency," he said. "We wanted it to be easy for people and not be cost-prohibitive."

The plan also calls for MetLife to cordon off the eligible policyholders' book of business so they can continue to earn dividends. Assets set aside for their business would also cover claims. The company estimates it could take 100 years for the business to run off.

The number of policyholders eligible for stock, cash or policy credits could increase. Like Hancock, MetLife has been searching for people who hold small industrial policies sold decades ago. MetLife has been working to track down those policyholders for about 10 years and has about 600,000 to find.

MetLife is going public because it needs more financial flexibility, the ability to expand products and to buy and sell other companies—particularly in an environment in which stock can be used as currency—Benmosche said.

Benmosche said the Gramm-Leach-Bliley Act, which revamps financial services and allows banks to get into the insurance business, changes the competition and forces the company to operate in uncharted waters. "We do know that if we maintain our corporate structure, that would preclude us from strategic options down the road."

New York Insurance Superintendent Neil Levin said his office would accept written testimony through Feb. 14. After that, he has 60 days to make a decision on MetLife's plan. A policyholder vote is scheduled for Feb. 7.

MetLife is rated A+ (Superior) by A.M. Best Co. It plans to trade on the New York Stock Exchange as "MET." ■

## Thirteen Investors or Buyers Interested in Harvard Pilgrim

By Meg Green

Massachusetts's regulators said they have 13 potential investors or buyers interested in Harvard Pilgrim Health Care Inc.

"The preference has been to recapitalize Harvard Pilgrim and get it back on its feet, but all options are open at this point," said Stephen Bilofor, a spokesman for Massachusetts Attorney General Thomas Reilly.

The potential investors and buyers have signed confidentiality agreements,

Bilofor said. He said regulators would not release how many of the companies were interested in buying Harvard Pilgrim outright vs. those who wanted to invest in the struggling health maintenance organization.

Regulators placed Harvard Pilgrim in receivership Jan. 4 after Harvard Pilgrim said it would post year-end 1999 losses of more than \$150 million—more than \$50 million higher than the \$100 million it had expected to lose.

Regulators have hired investment

banker Salomon Smith Barney, a subsidiary of Citigroup Inc., to investigate options for Harvard Pilgrim, the state's largest HMO (*BestWire*, Jan. 18, 2000).

Harvard Pilgrim Health Care posted a third-quarter net loss of \$26.5 million on revenue of \$776 million for the third quarter, and a net loss of \$75.4 million on revenue of \$2.3 billion for the first nine months of the year.

Harvard Pilgrim Health Care has a Best's Rating of E (Under Regulatory Supervision). ■

# MERGERS: Drug-Industry Consolidation Might Cost HMOs

## ■ From page 1

world's largest drug maker. Despite putting up a months-long fight, it appears that Warner-Lambert Co. has been unable to fend off No. 2 U.S. drug company Pfizer Inc.'s \$74 billion takeover bid.

The field of drug companies has been reduced from about 80 companies in the mid-1980s to about 35 companies today, according to a recent article in the *Washington Post*.

A merging pharmaceutical industry could likely equal higher drug prices, said Lee Newcomer, senior vice president of health policy and strategy for UnitedHealthcare.

"It would only cause drug prices to rise if a merger actually combined all the drugs in an available class," Newcomer said. "Then, like any oligopoly or monopoly, you would expect prices to rise."

Prescription-drug prices have risen 12% since 1998, according to a paper published in September by ExperTeam, an executive-consulting organization based in Irvine, Calif. The paper said expectations are for the pharmaceutical sector to generate a 1.5% to 2% increase in costs.

Newcomer explained that each drug class is composed of a group of drugs that have a common chemical property. Some examples in the cardiac area include angiotensin-converting enzyme (ACE) inhibitors, which would be one

class, and calcium channel-blockers would be another.

"If one class was under the control of one company, that would present some problems from both a pricing and a negotiating standpoint," he said.

At Humana, increasing cost is also a concern. Fewer drug companies could mean a monopoly, said Jose Marques, a spokesman for Humana. "In many cases, that leads to higher prices," he said.

The outcome will depend on what drug companies do with their new resources, Marques said. Still, Newcomer doesn't believe these mergers will hurt drug costs quite yet because a sufficient amount of competition remains in the drug classes.

Consolidation has the potential to be "very positive," explained Serota, if the pharmaceutical companies lower prices for consumers based on economies of scale and invest in greater innovation as a result.

Because we're living in a "time of incredible inflation in the cost of drug prices," he said, these merged drug companies could make a difference.

Between 1993 and 1998, the average cost of prescription drugs rose 40% from \$26 to \$38 because of costs per basis, innovation and new drugs, he said.

According to Jeffery L. Pittsburg, an analyst for Pittsburg Institutional, pharmaceutical companies will continue to merge in order to reduce competition and keep prices down.

"I think it's absolutely necessary," said Pittsburg, adding that most major drug companies are looking to curtail a pattern in which they were spending a lot of money developing new drugs.

Merging could help prices stay on an even keel because two companies can have one big budget, he said.

"You're not fighting each other, so there is no increased cost to pass on," Pittsburg said.

In addition, consolidating pharmaceutical companies will be able to avoid producing similar drugs, Newcomer said.

"The advantages of the merger are that there is probably more money available for good research that a small company couldn't generate," Newcomer said.

Another advantage would be eliminating what Newcomer calls the "me-too" drugs, which are created after one company discovers a break-through drug and that product is duplicated a short time later by a competing company. One example is the stomach-ailment drug Tagamet, developed a few years ago that was duplicated shortly thereafter by a drug called Zantac. "The two drugs are equivalent," he said.

Currently, the "me-too" drug syndrome is most prevalent in the area of antibiotics where there can be 15 different types of "essentially the same drugs," he said.

"There is no reason to have two drugs that do the same thing," he said. ■

## 36% of Employers Would End Coverage if Right to Sue Expands

By Theresa Miller

A survey by a human resources consultant reports that at least 36% of employers would eliminate health-care coverage for employees if laws allow patients to sue plan them for malpractice, according to a survey of employers.

The survey tapped about 600 corporate executives and administrators who work with health-care plans.

The findings come as federal lawmakers continue to work on bills that could impose new standards on health insurance companies and attempt to make coverage more affordable for 44 million uninsured people. One version would give patients the right to sue health insurance plans in state courts for denying care or failing to provide adequate treatment.

Among legislative efforts, 36% of the

employers said they would eliminate coverage if they could become subject to malpractice legislation. Also, 60% said they would oppose individual tax credits for employees to buy their own insurance as a way to get out of providing direct health coverage.

Managed care has helped control medical costs, say 85% of employers recently surveyed. But 60% of those employers say managed care has cut employee satisfaction with and access to medical care.

The survey by Hewitt Associates, also found that executives list quality of care as their top concern, followed by employee satisfaction and administrative ease.

About 37% said managed care has improved the quality of care, while another 37% said it's gotten worse. About 26% said the quality of care has remained unchanged.

Employers listed cost-cutting as a key priority in light of expected rate hikes of 9% this year, and a 25% to 49% total increase by 2005, the study said. As a result, employers are also focusing on disease management plans, with 32% already starting programs and another 39% considering them, Hewitt said.

The survey also asked executives about Internet use. Few said the Internet would revolutionize health care, but many said it would help make it more efficient and convenient. Findings included:

- More than half said the Internet would provide more efficient plan enrollment administration and access to real-time provider directories.

- 61% said the Internet could help communicate information about the health care marketplace and strategies. ■

# Tax Breaks Fade as European Incentive

By Adrian Leonard  
London Correspondent

LONDON — Growth of captive insurers in Europe is now being driven by nontax efficiencies, the head of one captive manager said.

"If the focus of a captive is tax, the focus should be changed," said Christopher Johnson, director of Gibraltar-based European Insurance Management Services, speaking at the IBC European Captives Convention in London Jan. 24.

"European tax harmonization is undoubtedly a threat to those captives whose *raison d'être* was purely tax," he said. "However, many owners have been taking a long, hard look at their captives and are taking action—which may, of course, mean closure." But Johnson was bullish on the future of the vehicles. "Captives and the reasons for forming them may be changing, but they are definitely here to stay."

He said that the word "captive" has become a broad term used to describe not only "pure" captives but also customer insurers, warranty insurers, cell captives, special purpose vehicles and other new insurance-related businesses that are being formed for the benefit of their non-insurance owners. These expanded roles of captives are leading their growth, he said.

An EIMS survey shows 4.5% growth in the number of European captives in the leading domiciles in 1999, with all but the Isle of Man enjoying a net increase in captive numbers. Uniquely, the EIMS research counts each active cell of protected-cell companies as an individual captive, providing a truer reflection of comparative growth and the number of companies retaining risk in each jurisdiction.

Protected-cell companies isolate the capital, reserves and claims of several companies into "cells," but for regulatory purposes are considered as single legal entities. However, there is much debate of over the enforceability of reserve isolation, which faces rigorous legal challenges to the structure of protected-cell companies.

The Channel Islands domicile of Guernsey, a U.K.-dependent territory, continues to rank as Europe's top-ranked captive location and is the third largest in the world in terms of the number of captives it hosts, behind Bermuda and the Cayman Islands. "Guernsey is seeing much more activity in esoteric areas such as special purpose vehicles, risk bonds and the secu-

ritization of risk, as well as stand-alone captives," Johnson said. "It has also seen growth from protected-cell companies, especially with the success of Aon's White Rock Insurance Co., which has more than two dozen cells."

Guernsey now has 20 protected-cell companies with 90 cells. Its regulator pioneered the framework of protected-cell companies three years ago, and many other major domiciles have followed, Johnson said, citing Cayman's Segregated Portfolio Companies. The Isle of Man, also in the Channel Islands, is Europe's leader in terms of net written premium and capital and surplus per captive, but it has rejected protected-cell structures, judging them unsustainable in the face of legal challenges.

Between the two domiciles, the Channel Islands host more than 54% of Europe's offshore captives, according to the EISM study. The past year saw great concern over challenges to the fairness of what are seen by some as tax havens, but they have had little bite. Johnson said the Edwards Report, a 1999 investigation by the U.K. government into the efficacy of Channel Islands regulation, was positive despite expectations to the contrary. "It showed that they are fairly watertight. Ironically, it is seen as an endorsement of their regulatory systems, and has become a marketing tool."

Ireland, Gibraltar and Liechtenstein are attracting increased attention, because captives in those jurisdictions can underwrite insurance in European Economic Area countries directly, without fronting, which isn't possible from Channel Islands captives. The domiciles also offer captive-friendly laws and regulations. Johnson said Ireland is seeing a strong trend toward self-managed captives and is currently examining the possible introduction of protected-cell structures. Unlike the other EU offshore domiciles, Ireland enjoys numerous tax treaties with other nations. For U.K. business, start-up domicile Gibraltar has the advantage of using the British pound for its native currency. It is home to Euroguard, a cell captive owned by American International Group Inc. and Munich Reinsurance Co.

Tiny Luxembourg hasn't attracted direct-writing captives because it taxes them 40% of profits. However, it has become Europe's second-largest domicile because of reinsurance captives, which are permitted to accumulate large reserves

and offset them against tax. But recent aggressive enforcement of taxation clauses in foreign-controlled company legislation, particularly in France, is disallowing the previous level of reserving, decreasing the advantage. "Tax men throughout the world want their pound of flesh, and if you find a way of keeping back half a pound, eventually he will find a way of getting it back," Johnson quipped. ■

## Captives Pose Challenges In Managing Risk, Capital

LONDON — Improper use of captive insurers can destroy value through errors in risk retention or capitalization, a captive manager warned.

"A common value destroyer is an inadequate retention strategy, either retaining too little risk when the captive could easily retain more, or retaining too much when conventional risk transfer is very effective," said Ken MacDonald, managing director of IRMG Risk Advisory Services Europe, which manages more than 200 captives worldwide. MacDonald spoke Jan. 25 at the IBC European Captives Convention in London.

Another value destroyer is improper capitalization. "Holding excess capital in a captive can be very, very costly. Often captives have built up funds over the years, and their level of capital needs to be re-evaluated," MacDonald said. He noted that a large number of IRMG clients currently are assessing the level of capital their captives require. "They are asking: how much capital is needed to support the captive and its strategy?"

MacDonald said overexposing profit-generating capital is also a threat to value. "In a highly leveraged company, taking a lot of risk can have a negative impact on the share price. Greater analytical rigor about how much risk and capital should be placed in a captive will be rewarded."

Evaluating capital requirements is increasingly important as captive strategies evolve.

"The functions of a captive are limited only by the imagination," he said, citing functions ranging from credit enhancement programs and employee-benefits plans to providing hostile bid cover and acting as a conduit to offer customers insurance over the Internet. ■

# Captive Owners Face Pitfalls in Taxation

By Adrian Leonard  
London Correspondent

LONDON — Tax is no longer the main motivation for using captive insurers, but they continue to offer tax benefits, including tax deferral, an accountant said.

Rob Moore, a partner in the London tax group of PricewaterhouseCoopers, said that protected-cell companies might offer renewed tax-reduction strategies by circumventing foreign-controlled-companies legislation.

However, the ongoing crackdown on tax havens in Europe will continue to reduce the tax advantages enjoyed by captives, Moore said at the IBC European Captives Convention Jan. 25. He raised four tax areas of current concern.

"The European Commission has identified about 60 harmful tax practices, including five each in Ireland and Luxembourg, three in Gibraltar, and 20 in offshore territories including Guernsey. Tax treatment of captives is central to 11 of these practices," Moore said. He expressed confidence that pending European Union regulations intended to eliminate the practices by 2003 would fail to muster the required, unanimous support by EU member governments. But even if the practices were eliminated, he predicted minimal impact on captives.

"The onshore tax measures would clearly have to go and that would include those in Gibraltar," he said, but he pointed out that Ireland reached agreement with the European Commission over its concerns without seriously reducing the tax benefits of Irish establishment.

However, Moore said that removing tax measures in offshore territories would be very difficult. The constitutional position is unclear, and the U.K. government has stated it wouldn't impose tax measures on its Channel Island dependencies Guernsey and the Isle of Man, which together host 592 captives, without local consent. Moore suggested that the islands might seek full independence from Britain if faced with dismantling their financial-services-friendly tax regimes.

Secondly, Moore identified the expanding scope of transfer-pricing legislation in European states. The laws

are designed to ensure that profit isn't artificially shifted to overseas affiliates at tax-favorable prices, he explained. Most European countries are extending such laws to encompass financial and financing transactions, as well as transactions routed through third parties.

"Fiscal authorities are making expertise available and are taking control of investigations in these more complex transactions," he said, adding that many regulators, particularly those in the United Kingdom, have introduced mandatory documentation requirements, with "draconian" penalties for captive owners that fail to comply. "For captives, the crackdown means it is more important than ever to show that pricing of insurance is arms-length, supported by comparable pricing valuations or actuarial evidence." Quotes from brokers, he said, wouldn't suffice.

Taxation of protected-cell companies is the third area of concern. "Protected-cell companies can give quite a different tax answer than the conventional captive," he said. "While a PCC has a number of the attributes of a collection of companies, including ring-fenced assets, separate share structures, and separate distribution of profits, I would expect most jurisdictions to fall on the side of taxing a PCC on the basis of it being one company with many shareholders." However, it is the attitude of the tax authority in the parent's home country that counts.

Controlled foreign companies legislation is designed to prevent companies from carrying out passive activities such as insurance in offshore, low-tax jurisdictions by treating the profits of such companies as profits of the parents. Such regulations are in effect in nine European countries, including the United Kingdom, France and Germany. Moore said that controlled foreign companies legislation alone has done a great deal to reduce the tax advantages of captives, but he said that cell captives could escape the tax net.

"The rules and the way they apply have not been tested, but undoubtedly they will give some good answers." For example, if an individual U.K. cell owner controls less than 25% of a protected-cell company, or if U.K. companies don't control the entity comprising the cells, then the parent of the cell probably isn't

subject to controlled foreign company legislation and would be subject only to tax in the local domicile.

Insurance premium taxes are the fourth area of concern. "Premium tax rates are relatively high and are increasing. In the U.K. they have doubled to 5%, and I would not be surprised if they double again in the next 10 to 15 years," Moore said. Premium taxes are due in the country where the risk is located, so a captive may be liable for premium taxes in a number of different countries. "Currently premium taxes are not very well policed, but I think, sooner or later, we will see some quite big companies caught out in premium tax noncompliance. The head-in-the-sand approach is not good enough any more." ■

## *Fund Manager: Captives Invest Too Much in Cash*

LONDON — Too many captive insurance companies invest purely in cash, a fund manager for many such companies said.

Ed Britton, fixed-interest fund manager at Newton Investment Management Ltd., said 28% of his companies have only cash investments, while "72% allow some bonds in their portfolio, but only 7% allow equities, which is pretty low."

Speaking at the IBC European Captives Convention in London, Britton cited growth in the Nasdaq index of 848% in 1999; the 24.2% growth of the London Stock Exchange's FTSE index; cash appreciation of 5.6%; and sovereign bond performance of -0.9%. "Bonds are the main source of performance for captives, which could be too narrow. I am not sure enough captives evaluate their investments and liabilities with a view to determining if bonds really should be the main asset they hold," he said.

Britton said captive managers should be asking whether their asset mix is correct based on their liabilities, rather than examining how their fund manager has done relative to the group. "They could be missing a far greater return," he said. "Captives should try to move away from cash, because it gives such a low return, and use bonds to match liabilities to take risk out." And investing in equities, he said, allows captives to "keep up with the insurance market." ■

**IBC Captives Convention*****Pan-European Captives Called Simpler Solution***

LONDON — European owners of captive insurers are following the U.S. example of using pan-European, direct-writing captives for their European exposures, a captive management executive said.

Mike Matthews, regional director for Europe and Asia at AIG Insurance Management Services, cited DaimlerChrysler Reinsurance Europe Ltd., the Dublin captive reinsurer and open-market insurer set up in December by the transatlantic automobile manufacturer, as one example. It plans to underwrite directly in as many as six European states.

"Pan-European captives provide the ability to cover multijurisdictional risks from a single domicile. Because of European insurance directives, captives can issue a single policy directly anywhere in the Europe Economic Area."

Challenges to the strategy include deductibles that may be unsuitable for some subsidiaries, cultural and linguistic barriers, and local legal idiosyncrasies. For example, policy endorsements in France must be in French, although policies can be issued in English. And captives may be required or compelled to join national pool schemes such as the United Kingdom's terrorism fund, Pool Re, or the Spanish catastrophe fund Consorcio.

Matthews said the advantages would outweigh the disadvantages for many companies. "As you can unify your approach to claims handling so you are no longer at the behest of the fronting company or the loss adjuster," he said.

**American General Posts \$255 Million Rise in Net**

*By Eric Thorsen*

American General Financial Group, Houston, posted a sharp increase in fourth-quarter net income, rebounding from the effects of a \$288 million after-tax charge taken in the fourth quarter of 1998 as the result of market conduct litigation settlements and the costs of getting systems ready for 2000.

Net, which includes net realized gains and other nonrecurring items, rose to \$257 million from \$1 million in the year-ago period, including a \$36 million charge related to the settlement of a previous satellite dish-financing business.

The company said that it had exited the satellite-financing business in early 1996. Its consumer-finance division had provided financing to consumers who purchased satellite dishes in the early 1990s from independent distributors. Litigation stemmed from consumers who claimed they were not fully informed on the terms for purchasing the dishes, a company spokesman said.

In December 1998, American General said it would take a \$246 million after-tax charge to settle lawsuits against several of its life insurance subsidiaries that allege that the company used deceptive sales practices. (*BestWire*, Dec. 16, 1998).

Also, American General said it expected to spend more than \$100 million to ensure its systems safe passage into the Year 2000 (*BestWire*, Dec. 1, 1998).

Operating earnings increased 12% to \$297 million, or \$1.17 a share, from \$264

million, or \$1.02 a share, because of a higher level of separate and general account reserves, an increase in insurance in force, and reduced operating expenses, the company said in a statement.

Revenue and deposits were up 10.2% to \$5.38 billion from \$4.88 billion.

Retirement services earnings were up 22% to \$137 million from \$112 million. The life insurance business earnings were up 9% to \$189 million from \$174 million and the consumer-finance business earnings rose 7% to \$59 million from \$55 million.

The company said life and annuity sales were up 58% to \$504 million, citing strong sales in both individual and corporate markets, predominantly from variable life, variable annuity and term life products. Return on equity improved to 12.5% from 12.2%, the company said.

In addition, American General's board increased the quarterly cash dividend on common stock by 10% to 44 cents a share, with a new annual rate per share of \$1.76.

Also, the board declared a regular quarterly cash dividend of \$.6433 on its 7% mandatorily convertible preferred share.

Both dividends are payable March 1 to shares of record as of Feb. 10.

For the first nine months of 1999, American general had net premiums written of \$9.48 billion and capital and surplus of \$6.11 billion, according to A.M. Best Co data. American General Life Insurance Co. is rated A+ (Superior) by A.M. Best. The company trades as "AGC" on the New York Stock Exchange. ■

**Hanway Named Cigna's CEO as Taylor Steps Down**

*By Theresa Miller*

H. Edward Hanway has been named chief executive of Cigna Corp., effective immediately, as William H. Taylor steps aside with plans to fully retire by the end of the year.

Hanway, 47, was positioned to be Taylor's successor but his ascension to the top spot wasn't expected quite so soon. Taylor, 56, decided to retire by year's end after serving as CEO for 12 years. Taylor will remain chairman.

In a statement, Taylor called Hanway's appointment "the next step in an

orderly transition" that began when Hanway was appointed president and chief operating officer a year ago. Hanway is also a board member and previously served as president of Cigna HealthCare.

Together, Taylor and Hanway reorganized Cigna from a multiline insurer to an employee benefits specialist, most recently shedding its property/casualty businesses in a \$3.45 billion sale to Ace Ltd. Cigna now focuses on health-care business, along with group life, accident and disability insurance, and retirement and investment management services.

Hanway has been with the company

since 1978, when he worked for Cigna's former subsidiary Insurance Company of North America as assistant controller. By 1986, he became vice president of Cigna Corp., Philadelphia. He later became president of Cigna International in 1989 before leading Cigna's health-care division.

Cigna's lead subsidiary, Connecticut General Life Insurance Co., has an A+ (Superior) rating from A.M. Best Co. For the first nine months of 1999, the company had net premiums written of \$10.2 billion, and capital and surplus of \$2.3 billion. Cigna trades as "CI" on the New York Stock Exchange. ■

# Northwestern Mutual 1999 Net Grew 65%

By Theresa Miller

Northwestern Mutual, Milwaukee, posted net income of \$1.3 billion for 1999, a 65% increase from \$809 million in 1998. The company cited a gain in first-year premiums and investment income.

Northwestern said it had revenue of \$14 billion, up from \$13.5 billion a year ago. Net income from operations grew by 51% to \$491 million, from 1998's \$325 million. Individual life sales grew by 5.6%.

Premium revenue grew to \$8.3 billion, from \$8 billion. The company expects to pay \$3.1 billion in dividends.

Northwestern Mutual remains committed to its mutual corporate structure, even as many of its peers—including John

Hancock, Metropolitan Life and Prudential—are in various stages of becoming stock-owned companies. While remaining steadfast, however, Northwestern spent much of the year getting ready to compete with other life insurers, brokers and even banks.

Early last year, it bought the Tacoma, Wash.-based Frank Russell Co., an investment management and advisory firm, with plans to offer Russell's mutual funds through Northwestern agents. Northwestern also added the funds to its variable life and annuity products.

Later in the year, Northwestern applied for a charter to establish its own trust company and forged an alliance with the Northern Trust Co., Chicago, to cooperate in offering trust services to

Northwestern Mutual's customers and in referring customers to each other.

At the beginning of this year, Northwestern changed its name from Northwestern Mutual Life Insurance Co. to the shorter Northwestern Mutual. It also changed its sales and distribution system Northwestern Mutual Financial Network, effective in July (*BestWire*, Jan. 18, 2000).

The company said that the new names more accurately reflect the diversity of products and services it currently offers.

During 1999, individual life insurance in-force grew to \$583 billion, up 8.8% from 1998. Total sales grew to \$1.2 billion. The company wrapped up the year with \$7.4 billion in surplus.

Northwestern Mutual has an A++ (Superior) rating from A.M. Best Co. ■

## Holocaust Commission Delays Payment of Claims

By Dennis Kelly

The Jan. 31 start of the Holocaust-era claims-paying process has been delayed by up to two weeks, a member of the International Commission on Holocaust Era Insurance Claims said.

The commission originally chose that date to make public the process for filing Holocaust-era claims and provide information on how people are to pursue their claims.

But Lawrence Eagleburger, chairman of the commission, said he was concerned about technical aspects of the claims process. For instance, if the call center were not ready, the claims process would need to be delayed.

The start may be delayed until Feb. 15, said Glenn Pomeroy, North Dakota insurance commissioner and Holocaust commission member.

Eagleburger could not predict how many claims the center might receive. "And anybody who says they have a clue, I don't believe them," he said. "The insurance companies believe they have a number but I don't think anybody has an idea of who all the claimants might be."

The commission is mounting an effort to search archives in Europe. "We're likely going to find a significant number of names no one ever knew of," said Eagleburger, a former U.S. secretary of state.

Eagleburger urged Dutch insurer Aegon NV to join the International Commission on Holocaust Era Insurance Claims.

Aegon has not joined because it and other Dutch insurers already had helped establish the Holocaust Foundation for Individual Insurance Claims in the Netherlands, and the company was concerned about having to pay twice. Insurers that join the international commission are expected to shoulder the cost of setting up the commission's claim-paying operation, a process that could take years, become costly and duplicate Aegon's Dutch efforts.

The World Jewish Congress' U.S. branch launched a consumer boycott against Aegon NV for not joining the International Commission.

Aegon representatives met with the commission for the first time earlier this month.

"We're not going to make them pay twice," Eagleburger said. "If they paid 'X' amount of money, then we'll subtract 'X' from 'Y'. Whatever money has been paid, they will be credited for." Eagleburger also complimented Aegon's efforts to find Holocaust survivors and those entitled to a claim.

Aegon hopes to join the international commission, said Pat Baird, chief operating officer of Aegon USA. "The discussions ahead of us will center around integrating the existing initiative in the Netherlands and ensuring that we will only have to pay once."

Chuck Quackenbush, California's insurance commissioner, in November reached a settlement with Aegon to resolve unpaid Holocaust-era claims.

Aegon agreed to cooperate with the insurance department to investigate any California resident's claim and vowed to work with the Dutch Holocaust Claims Foundation to access Holocaust-era policyholder information. The company also agreed to pay any rightful claims and establish a \$1.2 million humanitarian fund for Holocaust victims who live in California.

Quackenbush subpoenaed eight insurers to attend hearings on unpaid Holocaust-era claims and threatened to revoke the insurance license of any company that has delinquent claims or refuses to participate in the investigation of unpaid claims. Aegon was excused from the hearings after it agreed to the settlement with Quackenbush.

Eagleburger had asked Quackenbush to exempt five of the insurers from the hearing because they were very cooperative International Commission members, but Quackenbush refused.

He wouldn't say if Quackenbush's efforts interfered with the International Commission's work, but Eagleburger said he didn't fault California's insurance commissioner for acting in the best interest of his constituent Holocaust survivors and claimants.

However, "I personally believe doing it nationally -1. -0.0001 Tc0.0079 Tw-0.0001 Tc0.00

# Quackenbush Expands Executive Life Suit

By Meg Green

California Insurance Commissioner Chuck Quackenbush said he has expanded a lawsuit concerning the rehabilitation of Executive Life Insurance Co. to include another insurance company, an investment company and a French billionaire.

The new defendants are Aurora National Life Assurance Co., the successor company to Executive Life, and its parent company, New California Life Holdings Inc.; billionaire Francois Pinault and his company, Artemis SA; and a related investment company, Artemis Finance SNC, the department said.

Last year, Quackenbush sued French government-owned bank Credit Lyonnais, five related corporations and three individuals. The lawsuit alleged that defendants fraudulently concealed the involvement of Credit Lyonnais and its subsidiary in acquiring Executive Life's insurance business and junk bonds, thereby skirting California insurance laws and regulations and possibly a federal law that prohibited bank ownership of insurance companies (*BestWire*, Dec. 27, 1999). Altus Finance SA is a subsidiary of Credit Lyonnais. Former insurance commissioner John Garamendi put Executive Life into rehabilitation in 1991.

"This is an extremely complex case," Quackenbush said in a statement. "When I started this lawsuit, I had evidence of Credit Lyonnais, Altus and their French and Swiss co-conspirators' plan to illegal-

ly obtain Executive Life's insurance business and junk bonds. Now we've learned that French billionaire Francois Pinault and his companies bought some of the junk bonds as early as 1992 with knowledge of the secret agreements, hid that knowledge, and filed false applications to acquire Aurora."

The lawsuit demands that the profit on the transfer of the junk bonds be returned to the state to be given to Executive Life's former policyholders. The lawsuit also seeks compensatory damages, punitive damages and the return of profits.

In December 1991, Garamendi selected a bid by Altus and a group of French and Swiss investors to purchase Executive Life's junk bonds, while the French and Swiss investors would set up a new insurance company to take over Executive Life's life insurance policies and annuities. The new company was Aurora National.

Quackenbush said Altus and the investors had secret agreements that would make Altus, not the French and Swiss investors, the true owner of Aurora. Altus' ownership of Aurora violated the federal Bank Holding Company Act and California laws that restrict the ownership of insurance companies by foreign governments, Quackenbush said.

After the Altus/French bid was approved and Aurora took over Executive Life's policies, Artemis bought 67% ownership in Aurora's parent company, New California. Since filing the original lawsuit, Quackenbush said he's learned that

Artemis bought a large portion of Executive Life's junk bonds from Altus in the fall of 1992 and that Artemis knew of Altus' secret ownership of Aurora. When Artemis applied to the Department of Insurance for approval to buy Aurora, it hid its arrangement with Altus and the secret Altus agreements, Quackenbush said. Francois Pinault owns Artemis.

The original defendants are: Credit Lyonnais, Altus Finance SA, CDR Enterprises, Mutuelle Assurance Artisanale de France SA, Jean-Claude Seys, Jean-Francois Henin and Jean Irigoien.

The Los Angeles U.S. attorney's office and the Federal Reserve Bank of New York are investigating whether the French bank violated federal and state laws in the acquisition (*BestWire*, Dec. 27, 1999).

The vast majority of Executive Life policyholders, who elected to participate in the court-ordered rehabilitation plan for the company, were fully covered by state guaranty funds and will receive 100% of their account values at the time the company was seized (*BestWire*, Jan. 7, 1997).

The balance of the policyholders, many of whom didn't participate in the rehabilitation plan, will receive about 92.5% of their account values, Quackenbush said.

Executive Life's insolvency was the first in a series of high-profile failures of life insurers that also included the collapses of San Diego-based First Capital Life Insurance Co. and Newark, N.J.-based Mutual Benefit Life Insurance Co. ■

## Humana Hopes Juror Can Help Overturn Verdict

By Meg Green

Humana Inc. officials hope that a juror who said he was pressured into voting for an almost \$80 million award against Humana Inc. could help the company overturn the verdict.

Juror Michael David Anderson told the Fort Lauderdale, Fla. Sun-Sentinel that he felt pressured to approve the verdict and went along with it because he lost his job during the three-week trial.

The jury in the trial at Palm Beach Circuit Court ordered Humana and a subsidiary, Humana Health Insurance Company of Florida, to pay \$1 million in compensatory damages and \$78.5 million in punitive damages to the family of 9-year-old Caitlyn Chipps, who has cerebral palsy. The jury found that Humana

wrongly changed her treatment (*BestWire*, Jan. 5, 2000).

After speaking to the newspaper, Anderson contacted Humana's attorney, Glenn Waldman and also told him that he had felt pressured to vote for the verdict, said Humana spokeswoman Pam Gadinsky.

She said the court has set a hearing to interview jurors Feb. 10. Humana has filed several motions, from asking the judge to lower the damages awarded to asking the judge to toss out the verdict and order a new trial.

"We want to right the wrongs of this outrageous judgment," Gadinsky said. The public "will ultimately pay the \$80 million bill in the form of higher health care costs."

The Chipps family sued because

Humana removed Caitlyn from its chronically ill case management program. The program is designed to step up the level of treatments to improve the health of patients so they can return to regular benefits. Gadinsky said the decision to remove Caitlyn from the program was medically appropriate, and she wasn't harmed in any way. Caitlyn's medical benefits weren't interrupted, Gadinsky said.

Caitlyn was reinstated to the case-management program after her parents filed the lawsuit.

Humana had \$2.21 billion in net premiums written and \$460.6 million in capital and surplus and asset valuation reserves for the first nine months of 1999, according to A.M. Best Co. data.

Humana Health Insurance Company of Florida is rated A- (Excellent). ■

# Survey: More Plans Offer 3-Tier Copayment System

By Eric Thorsen

During the fall of 1999, 67% of health maintenance organizations and pharmacy-benefit managers offered a three-tiered pharmacy copayment system—up from about half of HMOs in 1998, according to a new survey.

Most of these systems allow members to pay the lowest price for generic drugs, a higher price for brand-name drugs on a plan's formulary, and the highest price for drugs that aren't on formulary, the company said.

Scott-Levin, a pharmaceutical consulting firm, administered the survey, which tracked the formularies and related prescribing controls of a pharmacy director panel representing about 56% of nation's managed-care subscribers.

According to the 1998 survey results, only about half of the managed-care organizations had offered a three-tiered co-pay system, Scott-Levin said in a statement.

Still, some plans use nonpreferred status to distinguish the third tier from the other two tiers, the company added. Some patients may pay more for drugs in the third tier but also have greater access to the drugs than before, the survey showed.

The survey showed that only 36% of the plans offered a tiered copay system in spring 1998. That number jumped to 52% in fall 1998 and then to 60% in spring 1999.

Drug costs and copays increased between the spring and fall of 1999.

Last spring, the survey found that generic drugs covered under the lowest tier cost between \$5 and \$10 and had average copays of \$6.19. Brand or preferred drugs covered by the middle tier cost between \$5 and \$20 and had average copays of \$12.56. Nonformulary or non-preferred drugs covered by the highest or third tier cost between \$10 and \$50, with average co-pays of \$26.53.

In the fall of 1999, generic drugs covered by the first tier cost between \$5 and \$12 and had average co-pays of \$6.63. Brand drugs in the middle tier cost between \$5 and \$29 and carried average co-pays of \$13.94. And nonformulary drugs in the third tier cost between \$10 and \$55, with average co-pays of \$28.32.

The survey also found that 52% of the HMOs and pharmacy-benefits managers didn't charge higher co-pays for third-tier drugs deemed "medically necessary." But 27% of the panelists said they do charge higher co-pays for third-tier drugs, even if the plan approves them as a medical exception.

In addition, drugs with high formulary and preferred status are less likely to appear in a plan's third tier, the survey found.

Scott-Levin provides consulting services to more than 80 U.S. and international pharmaceutical clients. ■

## News From BestWire

### Monday

- *Arthur J. Gallagher Posts 17% Increase in Fourth-Quarter Net*
- *Reliance Sues Unicover; Finalizes Settlements*
- *Anthem Awaits Hearing On Planned Maine Blues Acquisition*
- *New SVP Joins Gallagher Heffernan Insurance Brokers*
- *AIG's Greenberg Confirms Son Will Succeed Him*

### Wednesday

- *Progressive Posts Dramatic Drop In Fourth-Quarter Net*
- *Taiwan to Begin Selloff Of State-Owned Reinsurer*
- *Quake Insurance Pool Planned in Taiwan*
- *American Safety Adopts Stock Buyback Program*
- *21st Century Stakeholder Offers to Replace CEO*

### Thursday

- *Penn-America Posts 47% Drop In Fourth-Quarter Net*
- *St. Paul Cos. Posts Higher Fourth-Quarter Net*
- *Lloyd's Amlin to Sell Members Agency Business*
- *New Zurich Property Unit To Be Spun Off*

**For a free 30-day trial of A.M. Best's comprehensive daily insurance news services visit [www.bestwire.com](http://www.bestwire.com), or call (908) 439-2200, Ext. 5742.**

# Safeco Corp. Posts Decline in Fourth-Quarter Net

By Dennis Kelly

Safeco Corp. posted a drop in fourth-quarter net and operating earnings, citing underwriting losses and reduced prices in its property/casualty lines.

Net income was \$44.5 million, or 34 cents a share, down from \$96.2 million, or 70 cents a share, for the fourth quarter of 1998. Operating income was \$37 million, or 24 cents a share, down from \$95.8 million, or 55 cents a share, said Safeco spokeswoman Lori Gleichman.

For the year, Safeco posted net income of \$252.2 million, down from \$351.9 million the previous year, and operating income of \$214.6 million, down from \$368.2 million, Gleichman said.

The company saw an overall earnings decline because its subsidiary Safeco Property & Casualty Cos. had underwriting losses of \$114 million for the fourth quarter and \$367 million for the year.

Gleichman said the company has decided it can't underprice its products, despite intense competition. "We are aggressively increasing rates for all the P&C companies. Our subsidiaries are doing well and our life insurance company is doing very well."

Safeco lowered prices to retain market share because of a very competitive property/casualty industry, Roger Eigsti, chairman and chief executive officer, said in a statement. Price increases, coupled with aggressive management of

expenses, should restore Safeco's profit margin and improve property/casualty results this year, he said.

Safeco Life Insurance Co. posted a \$179 million pretax operating profit for the year, up from \$119 million for 1998. Safeco Credit reported pretax profit of \$23 million for 1999, unchanged from 1998. Safeco Asset Management posted a \$14 million pretax profit, up from \$9 million in 1998, the company said.

A.M. Best Co. rates the property/casualty Safeco Insurance Cos. A+ (Superior), and Safeco Life Insurance Co. is rated A+.

Seattle-based Safeco provides insurance and financial services to individuals and businesses. ■

## Washington Review

# NAIC Passes Agent Licensing Model Act

By Theresa Miller, Dennis Kelly and Eric Thorsen

The National Association of Insurance Commissioners has adopted a model law that could help standardize how insurance agents are licensed across the country.

"We just think it was the right thing to do," said Larry Kibbee, vice president of public affairs for the Alliance of American Insurers. "It certainly enables uniformity in the states that pass this model."

The model, called the Producer Licensing Model Act, would allow licensed agents to obtain licenses for all lines of business from other states through reciprocal agreements between states. The NAIC adopted it during a special conference call meeting Thursday after a year of work among regulators and trade groups from across the industry.

The process started "because everyone agreed—both the industry and regulators—that something needed to be done to combat this crazy quilt of licensing laws," Kibbee said.

As the process rolled along, the federal government passed the Gramm-Leach-Bliley Act which revamped financial services and set requirements for uniform licensing provisions. Under that law, state legislatures have three years to adopt a law that allows for uniform laws across the state or reciprocal laws that recognize other states' provisions. At least 29 states must pass such laws within three years.

If states don't act, the National Association of Registered Agents and Brokers provisions within the recently passed federal financial services law will mandate uniformity and wrest regulatory control from state insurance commissioners.

"This model is critical to our ongoing efforts of functional regulation and the establishment of uniform licensing of insurance producers," NAIC President George Nichols III said in a statement. Nichols is Kentucky's insurance commissioner.

Kibbee said lobbyists and regulators should first target states with the most agents, including such states as California and New York. "We realize there's a challenge ahead to get this passed in enough states to make it useful," he said. Kibbee said the NAIC should form a list of critical states to launch licensing changes across the nation. Eventually, he said, "you should have uniformity and reciprocity in every state in the union."

So far, Missouri and Kentucky legislators have begun considering agent licensing bills.

The provisions are important, particularly to insurers such as the Prudential Insurance Company of America, which licenses its agents as securities brokers and insurance agents. Kibbee has said the agents can become licensed to sell securities nationwide within two days, while it takes at least eight months to become licensed to sell insurance in all 50 states. Many of the insurance licensing programs overlap in such areas as criminal background checks and fingerprinting.

The model had been delayed because of questions concerning limited licenses that allow people to sell such things as credit insurance or rental car insurance. Requirements vary widely among states. The model adopted Thursday includes limited licenses.

Meanwhile, the NAIC plans to charge a committee with the task of more clearly defining limited licenses.

Hartford Financial Approved for Thrift

Hartford Financial Services Group Inc. said it has received approval to open a federal savings bank from the Office of Thrift Supervision, allowing the company to expand its financial services.

The Hartford Bank will begin operations around midyear, offering institutional and personal trust services, the company said in a statement. Charitable remainder trusts, irrevocable life insurance trusts and investment management accounts will also be offered.

Hartford Bank will allow Hartford Financial Services to participate in the convergence of insurance and financial services, said Ramani Ayer, chairman and chief executive officer of Hartford, in a statement.

John F. Beckert has been appointed president and chief executive officer of the Hartford Bank, the company said. Beckert is former president and chief executive officer of Farmers & Mechanics Bank, Middletown, Conn., a former regional president of Citizens Bank of Connecticut, and previously founded Advest Bank in Hartford.

Hartford Financial, Hartford, Conn., provides automobile and homeowner coverages, commercial property and casualty reinsurance, and a life insurance, investment products, employee benefits, group retirement plans and institutional liability funding products.

A.M. Best Co rates Hartford Accident and Indemnity Co. and Hartford Life Insurance Co. A+ (Superior).

## Speakers Named for Property/Casualty Summit

Two speakers at next month's Commercial Insurance Legislative Summit will be George Nichols, president of the National Association of Insurance Commissioners, and James Lee Witt, director of the Federal Emergency Management Agency.

The conference is being presented by the American Insurance Association, the Council of Insurance Agents & Brokers and the Reinsurance Association of America and is scheduled to run from Feb. 6 to Feb. 9.

It will be held at the Loews L'Enfant Plaza Hotel in Washington, D.C.

At the Feb. 9 session, Nichols will talk about state regulation for the future after the passage of S 900, the Financial Services Modernization Act, a CIAB spokesman said. Witt will speak on the need to require states and municipalities to buy commercial insurance to acquire flood and disaster recovery relief, the spokesman added.

In addition to presentations, a general panel representing insurance associations, think tanks and other industry experts will touch on such topics as e-signatures and privacy related to the insurance industry.

Congressional speakers will talk about issues relating to the property/casualty insurance industry as well, but so far the speakers' list hasn't been confirmed.

The CIAB calls the gathering the first-ever vertically integrated commercial insurance political conference. ■