

American Names Assn. Badgers Lloyd's Over Effort To Reduce Trust Fund Level

RANCHO SANTA FE, Calif., April 10 — With a sense of timing more associated in American minds with English comedy than business, Lloyd's of London appeared in Washington one day after the fall of Baghdad to lobby Congress for regulatory relief. At a press conference, Lloyd's outlined efforts to remove a requirement that it maintain U.S. trust funds equivalent to 100 percent of its outstanding reinsurance liabilities.

This observation was offered in a statement released today by Jack Shettle, chairman of the American Names Association, an organization that for several years was in a series of legal contests with Lloyd's over the London insurance giant's attempts to recoup money from individual Names for what it alleged were outstanding claims under its contractual membership pledge. The members, through the association, charged that Lloyd's committed fraud in inducing them to become members. The American Names lost every final legal contest.

Citing the "unbreakable bond" formed by the Iraqi war efforts and stopping just short of wrapping himself in the American flag, Lloyd's Chairman Lord Peter Levene is asking U.S. regulators and legislators to abandon a 73-year-old protection for American insurance customers that guarantees U.S. insurance claims are properly collateralized, Shettle said.

Shettle cited remarks attributed to Bradley Kading, senior vice president of the Reinsurance Association Of America (RAA): "Bi-lateral relations between the U.K. and U.S. is no reason to undermine U.S. policyholder security by releasing billions of dollars from Lloyd's U.S. trust funds."

While the 300-year-old foreign insurance society has issued a call to be treated "as a loyal partner," it has remained silent on its dismal performance from 1997 to 2001 when it lost more than \$14 billion (8.7 billion pounds), Shettle said. He added that Lloyd's has admitted in numerous press accounts that its net loss from the

September 11, 2001 attacks was around \$2 billion, indicating that flaws in Lloyd's underwriting and reserving practices — not acts of terrorism — are the root cause of its alarming level of losses.

Maintaining its U.S. trust funds at 100 percent of liabilities, Shettle said, is the price Lloyd's must pay for not operating as an "admitted" carrier under U.S. regulation. Admitted carriers must meet stringent capital and surplus requirements and are capitalized with blue chip assets, while Lloyd's is capitalized with IOUs, "promises-to-pay" pledged by its members, he said.

Responding to Chairman Levene's assertion of Lloyd's good reputation and relationship with the U.S. being built on trust, Shettle stated "if Ronald Reagan was responding to Lloyd's plea for regulators to reduce its trust fund requirements he would say, trust, but audit.

"'Trust' has no place in the vocabulary of a regulator, especially one who has a sacred duty to ensure that policyholder claims are properly collateralized and paid timely," Shettle cited Ernest Csizar, director, South Carolina Department of Insurance and vice president, National Association of Insurance Commissioners (NAIC), as saying.

In its press release, Shettle said, Lloyd's justifies its request by saying that deregulation would "permit insurance to be priced more competitively and economically." The fact is that Lloyd's is notorious for undercutting the pricing of top-rated firms by as much as 50 percent to 75 percent in order to generate cash flow and retain business in the U.S. market. Reducing trust fund security requirements won't reduce costs to policyholders, it is simply a ploy by Lloyd's to underpin its currently underfunded liabilities that are the result of its predatory pricing practices, Shettle said.

Lloyd's also contends that it is subject to detailed regulatory oversight in England. However, based on a Private Act of the U.K. Parliament in 1982, Lloyd's is a "self-regulating insurance enterprise," according to Shettle. That means that Lloyd's Council has unilateral authority to govern and regulate Lloyd's insurance syndicates without outside interference, he said.

The only external agency with any responsibility to "monitor" Lloyd's is the U.K. Financial Services Authority ("FSA"), which is supposed to verify on an annual basis that the Lloyd's market is "solvent." The FSA and its predecessor the U.K. Department of Trade and Industry

CONTINUED ON PAGE 47

READERS WRITE

Carbajal Chastised For 'Pretense' As N.Y. AIP Expert And For Breach Of Confidence On Private E-mail

April 17, 2003

Dear Editor:

I found it amusing that my private, unanswered e-mail to Mr. Michael Carbajal ended up as the subject of an article entitled "Communications And Rebuttals" in the April 7, 2003 edition of *The Insurance Advocate*. My e-mail was meant to personally convey my distaste for the fact that Mr. Carbajal holds himself out as an expert on what occurs at The New York Governing Committee meetings, yet I have never seen him there. As I indicated to him in my private communication, the meetings are open and minutes of what occurs are provided to attendees.

Similar to how Mr. Carbajal editorializes about being an expert on New York AIP Governing Committee matters without adequate information, he seemingly holds himself out as an expert on me. Contrary to his "relative certainty" about my background, the fact is that I have sold AIP policies in my career — a career that began on the agency side. I would hope to be considered someone that "associates" with producers as my family owned an insurance agency for many years. My private communication stated my objection to his holding himself out publicly as an expert in

areas where he had incomplete knowledge. Need I say more?

I am interested in what occurs at the New York Governing Committee meetings. It is not up to me to send the minutes to anyone, much less a "columnist" simply for the purpose of keeping him or her up to date. Mr. Carbajal, do your own job. I attend the meetings regularly in order to stay informed and responsive. So may Mr. Carbajal. I simply suggested that as someone that holds himself out as an expert on what occurs at open Governing Committee meetings, he is more than welcome to attend. Failing this, I believe he has an obligation to advise the readership that any information he provides is hearsay.

If history serves I am sure my response will be the subject of continuous editorials (or as you would classify them "columns") in order that my opinion, which was conveyed privately and directly to Mr. Carbajal, might be shouted down. Perhaps a better use of time and energy may be toward focusing on the real problems confronting the New York AIP marketplace. This is where I will direct my energy. Mr. Carbajal, on the other hand, may either decide to become involved, or may continue to "throw eggs" if he has no more productive way to spend his time.

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Vice President & General Manager
Information Systems & Services Corporation*

allows members to self-refer to any in-network provider. Employers have the flexibility of selecting any one of 12 different co-pay and coinsurance options that best meets their specific needs.

Approval for a similar POS product for employer groups 51+ is currently pending with the New York State Department of Insurance.

WellChoice, Inc. is the largest health insurance company in the State of New York based on PPO and HMO membership. WellChoice has the exclusive right to use the Blue Cross and Blue Shield names and marks in 10 counties in the New York City metropolitan area and one or both of these names and marks in selected counties in upstate New York. Additional information on WellChoice can be found at www.wellchoice.com.

NYPIUA Expiring

CONTINUED FROM PAGE 5

protection, as well as extended coverage. It also administers New York's Coastal Market Assistance Program, a network of participating insurance carriers that assists coastal homeowners purchase insurance.

Each month, NYPIUA writes about 1,500 new policies. Eighty-five percent are for dwellings; the remaining 15 percent cover commercial properties. NYPIUA renews several thousand more policies on a monthly basis, mostly in coastal areas of Long Island and urban centers around the state. If NYPIUA's authorization lapses, the program will be forced to stop accepting new applications for coverage from home and business owners and non-renew current policies.

"Banks and other lenders won't issue mortgages without proof of insurance," said John R. Costello, IIAANY Chair of the Board. "So, if you are closing on a home or attempting to sell a property, especially in a coastal area, you might have to put off all your plans until the program is reauthorized. And, a delay could prove costly."

Seward's bill would also reinstate provisions in the Insurance Law that had been in effect for many years and gave insurers some needed flexibility in setting personal auto insurance rates and canceling and non-renewing policies. One provision, the so-called "2 Percent Rule," requires insurers to renew 98 percent of their in-force auto policies. IIAANY has been a strong advocate for extending the "2 Percent Rule" and flex-rating law, which allows insurance companies to increase or decrease rates by up to 7 percent without the prior approval, but with the oversight, of the state Insurance Department. Both

provisions expired in August 2001.

"The Senator's legislation is right for consumers as it helps property owners and motorists," said Costello, who is also a principal owner in the Rochester-based agency Costello, Dreher, Kaiser & Associates. "Each house of the Legislature has dealt with these issues in incremental ways, but now that they're linked together, the Senate and Assembly should not delay in passing S.3467.

"This is a unique opportunity for our Senators and members of the Assembly to step forward and continue to protect property owners at the same time they are helping stabilize the state's auto insurance market. But they must act by April 30."

American Names

CONTINUED FROM PAGE 6

("DTI") are currently under investigation by the European Commission due to the U.K. government's failure to conduct audits of Lloyd's since 1972, Shettle asserted in his release

The American Names Association — is a non-profit corporation dedicated to protecting the interests of its members who have provided capital to Lloyd's insurance syndicates as underwriters known as "Names." Since ANA members could be subject to liability for unpaid claims on Lloyd's policies written in past years, the ANA supports current regulatory policy as outlined by the National Association of Insurance Commissioners ("NAIC"). In addition, the ANA believes that Lloyd's trust funds should be subjected to regular independent audits, verifying that estimated liabilities are accurate and trust fund balances are maintained at statutorily required levels.

Insurer Exiting

CONTINUED FROM PAGE 25

requested by registrants. The course has already been approved in accordance with the requirements of the New York State Continuing Legal Education Board for a maximum of 14.5 credit hours

Registration can be made by calling 1-888-ACI-2480 or online at www.americanconference.com.

ASSURE Campaign

CONTINUED FROM PAGE 26

Lawson, Ph.D.

NAIC president, Mike Pickens, congratulated South Carolina on being the first state to undertake the ASSURE campaign. "We hope this effort will persuade other states to quickly move forward so that we can put an end to the federal regulation movement once and for all."

Recent Publications

CONTINUED FROM PAGE 30

senior medical director for Paidos.

Paidos says the report points out that many decisions made daily in neonatal care "are minimally supported by the literature, but rather adhere to local training, factors that lead to less than the most favorable outcomes, primarily with respect to infections and antibiotic resistant bacteria."

Benchmarking Data, according to Paidos, also indicated promising developments regarding changing criteria for hospital discharge, especially for low birth weight infants. In addition, the report reviews other areas of NICU care, including feeding practice, respiratory management and complications in the care units themselves.

To order the report call Paidos at 800-396-0706, ext. 311.

American Financial Group

CONTINUED FROM PAGE 42

Corporation ("AFC"). AFC has one series of publicly held voting preferred stock, Series J, which represents the other 21% of AFC's voting securities. Under the proposal, AFG and AFC would merge, pursuant to which Series J preferred shareholders would receive \$22.00 per share in common stock of the surviving corporation. All record holders of Series J Preferred on April 15 will be paid the regularly scheduled \$1.00 semi-annual dividend on May 1.

The transaction would be subject to (i) the negotiation of specific terms and final documentation, (ii) the approval of the Board of Directors of each of AFG, AFC, and a special committee of independent directors of AFC, and (iii) the receipt of all required shareholder, stock exchange listing and regulatory approvals. As a result of certain shareholder approval requirements related to the proposal, AFC will not hold its meeting of shareholders until later this year.

This announcement does not constitute a solicitation of proxies or consents of AFC or AFG shareholders, which will only be made by means of a prospectus/proxy statement relating to the proposals which has yet to be filed with the Securities and Exchange Commission.

American Financial Group and American Financial Corporation are engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of annuities, life and supplemental health insurance products.

