Dear Friend:

Welcome to the first issue of The RHA Review, a publication aimed at providing you, the friends of Robert Hughes Associates, Inc., with news and information that is important to you and your business. Our goal is to provide a reliable, regular and informative source that will enable you to better understand the insurance, actuarial and risk management business from many positions and perspectives.

Over the next year we hope to bring you information pertaining to, but not limited to, insurance litigation, risk management, actuarial studies, captive formation, insurance program design, insurance company management, Lloyd’s and the London market.

Our format will be to include several regular features, one of which is “From Near and Far,” a column featuring news snippets from home and abroad. We also hope to bring you the serialized history of Lloyd’s of London, which will later be available in its entirety from our Dallas office.

The RHA Review will be published quarterly and mailed to you free of charge. Our intended publication dates are the last Friday of November, February, May, and August of each year. If you or any of your colleagues would like to add someone to our mailing list or would like to offer a comment or suggestion, please call or write to us at our Dallas office.

Thank you in advance for your input and support.

Sincerely,

John Oakley
Editor
(PARACHUTE, cont'd from cover)

The value of the environmental and asbestos claims now being litigated in the U.S. is $2,000,000,000,000. Yes, that’s two trillion bucks. Furthermore, it is estimated that the discounted present value of that figure is 72 percent of the entire insurance industry’s capital and surplus.1 If you add to that the billions of dollars of premises, operations, products and completed operations claims that are currently outstanding, the mind boggles.

Who’s going to pay? Will it be the world of commerce and industry, or will it be the insurance industry? The jury is still out, so to speak, and it will take years to know the final answer. In the meantime, however, there are lessons to be learned and precautions to be taken to eliminate, or at least reduce, the chances that, in the future, your own coverage will be decimated or nullified when the insurance company says, “You don’t have any coverage and if you don’t agree, just sue us.” (That presumes the company hasn’t already sued you to void the coverage.)

Where to start is the problem. I think the best place to start is to try to buy

"This issue of 'disappearing coverage' involves, for certain, billions of dollars and possibly even trillions."

your insurance from companies that pay their claims and avoid those that don’t. Sounds simple, doesn’t it? Not so...the process is complicated — first, by confusion over real value versus cost (remember our parachute) and

second, by a lack of easily accessible data. To illustrate the first point I will use an actual example. (No names, of course, to protect the guilty.) There is a prominent insurance organization that has a reputation for providing coverage in circumstances and at prices that cannot be duplicated by their competition. So, great! You save $20,000 per year on your $5,000,000 excess of $10,000,000 umbrella layer. The fact is, however, you won’t even know for years whether you have any claims that will penetrate this layer. The other fact is As far as the second problem is concerned, all I can say is, “We’re working on it.” We have so far been somewhat successful in analyzing certain aspects of Schedule P in insurance company annual statements

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to determine whether they pay their claims. Probably the most dependable source for information in this regard, however, is “the street.” Brokers and agents know who is paying their claims and who isn’t...they just don’t want to get into it unless you ask them. Lawyers specializing in insurance litigation also know who’s saying “sue us,” so you might ask them. (Actually, if you should decide to tell your agent/broker that you want a policy that costs more, he or she might suffer a heart attack, so be careful.)

Seriously, however, it is imperative that all policyholders concern themselves with real value, particularly in the liability area. If you fail to do so, you might find that instead of a parachute in that sack on your back, it was really only someone’s lunch. And guess what — when you hit the ground you won’t need a sandwich.

The editor says I’m out of space for this edition so I’ll have to go. In future editions I’ll talk about such things as “Notice of Loss,” “Definition of Occurrence,” “Occurrence vs Claims Made Coverage,” “Lost Policies,” etc. Stay tuned.

1BestWeek, March 28, 1994, ©1994, A.M. Best Company, Inc.
FROM NEAR AND FAR

The sinking of the passenger/cargo ferry *Estonia* in the Baltic Sea and the ensuing loss of more than 900 lives was the biggest maritime disaster in European history. Insurance claims are expected to exceed $100 million.

Lloyd's of London has issued guidelines for corporate capital participation in 1993. This is the first time that corporate investors have been permitted to have a stake in Lloyd's.

Worldwide insurance premiums had reached $1.4 trillion by the end of 1992, according to figures in a just-released report by Swiss Re, Zurich. The report said that the United States has a 45.8% share of the market. Japan is second with a 12% piece of the pie.

In India the government looks set to lift restrictions on competition in the insurance industry. Until now all insurance companies have been government-owned. New legislation is expected to open up the industry to private entities and foreign competition.

An early estimate of damage to insured properties from recent flooding in Southeast Texas is $175,000,000. More than 46,000 claims are expected.

HOLIDAY GREETINGS WITH

VERY BEST WISHES

FOR YOUR HAPPINESS

IN THE NEW YEAR

The staff of Robert Hughes Associates, Inc.
BLowing our horn

While we were studying the “correct” way of putting together a newsletter, one of the things that we ran into over and over again was, “Don’t blow your own horn too much.”

Well, as this is our first issue, we are going to blow it loud and clear. This year Robert Hughes Associates, Inc., is celebrating its 15th anniversary. Because of this significant landmark for the company, we are going to share a brief history with you.

In 1979 Bob Hughes decided to form an insurance consulting company based upon the ideal of providing independent and unbiased counsel to insureds and self-insureds. The responsive, innovative and professional way in which the company has held on to its ideals has propelled it to the forefront of the insurance consulting field.

Today, in 1994, the firm has a far-reaching international reputation in insurance management, actuarial consulting and risk management, as well as in its primary source of business — insurance consulting. In addition to RHA’s traditional business, the firm’s consultants are also becoming heavily involved as expert witnesses in insurance litigation cases.

Throughout the highs and lows that come with running a business, RHA has always maintained its reputation and credibility. It is this consistency that has enabled the firm to expand its services and open offices in Houston and, more recently, in England.

So it is with great pleasure and pride that we announce to you our 15th anniversary. We hope that we can stick around for at least another 15 years and continue to provide you, our friends, with the type of services that we know can make a difference to you and your company.