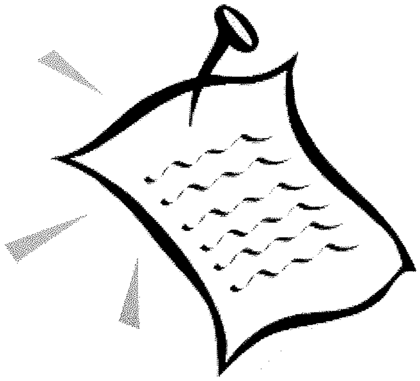
ROUTE TO:

THE RHA REVIEW

Vol. 9, No. 4, Third Quarter 2003

A publication of Robert Hughes Associates, Inc., an international litigation support, actuarial, risk management and insurance consulting company.



Top Ten Worst Excuses for Buying Lousy Insurance

By Robert N. Hughes, CPCU, ARM

Good evening, ladies and gentlemen. I have in my hand my list of the top 10 worst excuses for buying lousy insurance. Here they are (drum roll).

Number 10
"Giant Broker, Inc., had a better-looking brochure than Home Town Agency had."

Number 9
"The president's brother is our agent."

Number 8
"But we discussed it thoroughly on the golf course."

Number 7
"I love going to London."

Number 6
"My spouse loves going to Bermuda."

Number 5
"My agent said not to worry; we'd be covered."

Number 4
"So who can read an insurance policy anyhow?"

Number 3
"They gave me a country club membership."

Number 2
"But the company was rated 'A' by Best's."

Number 1
"Who cares if they don't pay claims? I saved a bundle."

Okay, you laugh (as you are supposed to). But here's the rub. Every single one of these comes from at least one actual client, and some of them have been used by almost every client over my 40-year career. I can't give you chapter and verse because of the confidential nature of the consulting relationship. I can, however, give you some snippets, disguised to protect the guilty. You'll get a giggle and, who knows, maybe see yourself in time to change your ways before it costs your company a "whole bunch" of money.

Number 10 - *"Giant Broker, Inc., had a better-looking brochure than Home Town Agency had."*

The client was a large agricultural business in a small remote town. The big broker blew through town, leaving fancy brochures and a sense of uneasiness that maybe the big-city folks were better and smarter than the hometown agent. The client moved the business and found, to its dismay, that the broker actually had fewer people on the service team, was located several hundred miles away, and knew more about bowling alleys than farming. After a miserable year the business was returned to the hometown agent, never again to depart.

Number 9 - *"The president's brother is our agent."*

The Fortune 500 energy company started small but had grown rapidly. It had a tradition of nepotism which

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began to throw off sparks as the company grew. The president's brother acted as both the risk manager and the insurance agent. His commission income probably topped out at about $300,000 per year. A new nonfamily CFO hired my firm to review the insurance program. In addition to filling huge coverage gaps, we reduced the cost by $600,000 per year. The brother stayed on, but under the continual supervision of outside consultants.

Number 8 - *"But we discussed it thoroughly on the golf course."*

This is one of the generic ones. Many, if not most, of the most successful insurance brokers are the gregarious ones who play a good game of golf, entertain lavishly and have good personalities. I have met many risk managers who made little effort to hide the fact that they did business with their golfing buddies and enjoyed all of the extra "perks" that were provided by them. I am now advising the lawyers who are trying to resolve the nightmare of coverage problems that has been created by such relationships.

Number 7 - *"I love going to London."*

Now if you want to watch a risk manager's objectivity dissolve in the twinkling of an eye, just go to London with him or her. British insurance people have a marvelous historic and romantic background from which to weave their magic. They are polite when required, garrulous when given the chance, and they know all the tricks of making their clients fall head over heels in love with London and Lloyd's while, at the same time, convincing them that they (the brokers) are all-knowing and invincible. The biggest problem, however, is that when you are no longer a premium-paying client, they disappear, leaving you and your attorneys to try to negotiate with underwriters.

Number 6 - *"My spouse loves going to Bermuda."*

Same as number 7 except with better weather.

Number 5 - *"My agent said not to worry, we'd be covered."*

(**Top Ten**, continued opposite)

FROM NEAR AND FAR

Texas – Hurricane Claudette proved to be stronger than forecasters predicted when it slammed ashore in South Texas on July 15. President Bush declared five South Texas counties federal disaster areas. Calhoun, Jackson, Matagorda, Refugio and Victoria counties' residents will now be eligible for federal assistance. Early estimates state that structural and auto damages could reach $80 million, with most of the damage in Victoria County.

Louisiana – Tropical storm Bill dumped up to 10 inches of rain in parts of Louisiana at the end of June, causing some extensive flooding and leading to about $16 million in insured losses. Damage also occurred in Alabama, Florida, Mississippi and Tennessee.

Texas – On June 10, Governor Rick Perry signed into law major insurance reform. The new rules will force all insurers that write homeowners and/or auto insurance to adhere to strict standards, which will supposedly result in a fair and competitive market. For more information, take a look at the Texas Department of Insurance's website at www.tdi.state.tx.us/.

Indianapolis – According to a story published on www.insurancenews.net, Prudential Financial is selling almost all of its property and casualty business to Liberty Mutual. It will also sell its New Jersey business to Palisades Group. The sale will make Liberty Mutual the eighth-largest personal lines company in the United States.

(**Top Ten**, continued from opposite)

Insurance has a historic background of utmost good faith. Stories abound in London about underwriters paying millions in claims on coverage memorialized on a napkin. This tradition causes many to foolishly believe that the business is still conducted on a handshake ... that a person's word is his bond. I'm sad to say, "Ain't so no mo'." I'm not sure it was ever so in the American insurance market.

"By the time a rating agency such as A.M. Best is able to publish information that unequivocally indicates the ultimate demise of an insurer, that tragedy has usually already occurred."

Number 4 - *"So who can read an insurance policy anyhow?"*

Policyholders are often just as much to blame for misunderstandings regarding coverage as are their agents/brokers and underwriters. In my experience, very few insurance buyers read their policies, and even fewer actually try to resolve misunderstandings or ambiguities before the claims event occurs. I would estimate that 90 percent of the some 300 coverage suits in which I have been involved never would have occurred if the buyer had read the policy and resolved the coverage problems before they arose.

Number 3 - *"They gave me a country club membership."*

Don't laugh. I have seen the following "incentives" provided to risk managers by their brokers ... club memberships, cars, condos, cash, and, sadly, drugs and sexual favors. One of the more famous examples involved kickbacks, cocaine, sex and, eventually, murder. As a result, a large and well-respected consulting firm simply disappeared.

Number 2 - *"The company was rated 'A' by Best's."*

Virtually every large coverage case today involves at least one insolvent carrier. The pavement is littered with the carcasses of "broke" insurance companies. Most of those companies boasted good ratings from the professionals such as Moody's, S&P, A.M. Best and others. The problem is not a matter of competency on the part of the rating agencies. The problem is one of timing. In short, by the time a rating agency such as A.M. Best is able to publish information that unequivocally indicates the ultimate demise of an insurer, that tragedy has usually already occurred. Take the case of Reliance Insurance. Reliance was declared insolvent in October 2001. The earliest any agency had cast any doubt on the company was in February 1999, when Moody's re-rated its senior debt. Best's placed the company "under review with negative implications" in October of the same year. While Best's also eventually downgraded the company's rating from "A" to "B," that information first became available to the general public with the publication of the 1999 volume, which was distributed in July 2000. By then it was simply too late to do anything about the thousands of policies that had been written in 1999 and 2000.

Number 1 - *"Who cares if they don't pay claims? I saved a bundle."*

And finally, folks, the number-one bonehead insurance play of all times. I have seen boards of directors force the insurance department to take the low price without regard to payment history, and I have seen executives and partners do the same. I have one client, a small energy company, which, for a savings of $20,000 per year, has been forced by its money partners to purchase $40,000,000 in excess liability coverage from a company that is notorious for forcing its policyholders to sue it for coverage. The cost to sue the insurer can run into millions. At $20,000 per year, you can see it would take about a century to amortize the "savings." Short-sighted? Yes. Stupid? Yep. Prolific? You bet.

"I have seen boards of directors force the insurance department to take the low price without regard to payment history, and I have seen executives and partners do the same."

Well, there it is ... my top ten list. Hey, am I complaining? Heck, no. It's keeping me in bidness! RHA

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THE BIG 1-0

In July, Jeanne Greene celebrated her tenth anniversary with Robert Hughes Associates. Jeanne joined RHA in July 1993 and, since that time, has been the voice most of you hear when you call us.

Aside from being the voice of RHA, Jeanne is also responsible for accounts payable, accounting and report preparation as well as providing complete administrative support to the senior vice president. She also supports some of our other consultants and associates. We would sincerely like to thank Jeanne for 10 years of loyalty, dedication and a job well done.

The other RHA members of the 10-year-club are Robert Hughes, chairman and CEO, who founded the company in 1979; Joan Lee, who joined us in 1980 and is, aside from Hughes, the company's longest-serving employee; and Michele Martin, senior vice president, who came aboard in 1989.

Jim O'Malley, an associate of RHA, has also been working with us for more than 10 years. RHA

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Publisher .... Robert N. Hughes
Editor .... John R. Oakley
Assistant Editor .... Alice H. Oakley

The RHA Review is published quarterly by Robert Hughes Associates, Inc. — an independent international litigation support, actuarial, risk management and insurance consulting company based near Dallas, Texas, with offices in Houston, Texas, and London, England. The purpose of this publication is to offer insurance-related information and critical comment pertinent to the clients, friends and fellow professionals of Robert Hughes Associates, Inc. This publication is available free to interested parties. The information contained in this publication is intended to be general in nature; readers should obtain professional counsel before taking any action on the basis of this material.

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