MORRIS & REYNOLDS INSURANCE PRESENTS

YOUR PROTECTION

WINTER 2012

WHEN INSURANCE IS "*TOO GOOD TO BE TRUE*"

The *insurance graveyard* is filled with insurers that offered prices or coverages (or both) that were too good to be true only to go bankrupt or disappear when their clients most need them. As with most things in life, when something sounds too good to be true, and this is especially true in insurance, the buyer must beware. In order to help determine whether an insurer's offer is *too good to be true* or if danger might be lurking, we are pleased to offer this issue of **Your Protection.**

Insurance policies are highly complex legal contracts based on sophisticated financial devices from businesses (insurance companies) that make but can't always keep long term promises to protect you. If an insurer lacks experience, or does not have the financial strength to back the promises their policies make then consumers and their assets can be left unprotected. While life insurers rarely go out of business (even when in trouble a competitor often buys them), that's not always the case with property casualty insurers.

Over time insurers too numerous to mention have offered cut rate costs one year only to be gone the next. That new company can typically only offer one thing to seduce you. **Price**. Deals that are too good to be true are especially prevalent in high risk industries, such as trucking, energy, malpractice or convenience stores as well as for volatile coverage such as insuring home in catastrophe prone regions or low limit auto policies.

Consider recently "dead" home insurers such as Coral, Poe Financial, Northern Capital and, just weeks ago, Homewise. For a short time each offered prices below others in the market and, while seductive, such an approach is never sustainable. They too are all gone forever.

In order to help you evaluate an insurer's offer, and whether it might be too good too be true, consider the examples and suggested warning signs that follow. As always, thank you kindly for allowing us to provide your protection.

PRUDENTIAL PROPERTY CASUALTY

Most of us have heard of the esteemed life insurer Prudential and their *"Get a Piece of the Rock"* slogan. What you might not know is that they expanded into property casualty coverage and were nearly bankrupt in 1992 after Florida's devastating Hurricane Andrew. At a time when insurers wanted to leave in mass, the insurance commission mandated that a company could non renew no more than 15% of its policies each year. One insurer, Prudential, was in such severe financial distress that the commission made an exception to its rule and allowed them to cancel all of their policies mid term. The reason?

The parent company explained that if another storm were to strike that their subsidiary could not pay its claims and that the parent would not likely invest the funds needed to honor its claims. So fearful was the State that tens of thousands of consumers would be left without coverage, **the State allowed Prudential to cancel its policies mid term.**

GEORGIA CASUALTY

I'll never forget a long time business client calling my father early in my career about a quote that another agent had presented from a B+ rated insurer named Georgia Casualty. The insurer touted supposed expertise in certain industries (a propane dealer in this case) while its agents shouted about cut rate prices as they told prospective clients that they were surely paying too much and could save thousands while bragging about other similar businesses that had decided to buy from them.

Our client called that Saturday morning to say that the other agent had badgered him all week boasting that ***"we think you are paying too much, name your price and I will get it for you. We want your business".*** The shady nature of the calls made our client uncomfortable and he decided to renew his coverage with us. **Six months later Georgia Casualty was bankrupt; gone forever.**

RELIANCE INSURANCE GROUP

Reliance is a remarkable story and an epic failure. Founded in 1817, they declared bankruptcy in 2001 and went from being an industry giant to dead in just a few greed-filled years. With profits of over $300 million and sales of over $3 billion in 1998 the insurer chased new sales by offering cut rate prices, an approach known as 'cash flow underwriting' and entered volatile new areas of business it knew nothing about. Their lack of expertise to properly price and underwrite business resulted in losses over $2 billion and killed them when they could no longer pay their claims.

When it died, Reliance was writing petroleum distributors/jobbers, convenience store operators, waste oil haulers, long haul truckers as well as pollution and workers compensation coverage. All high risk businesses or coverages that can suffer severe losses that take years to settle and often settle for very large amounts of money.

Alas, the insurer and its agents seductively offered broad coverage and lower premiums than more established, expert insurers in those industries. Sadly, when those businesses needed their insurer most, the company was gone and buried by a failed short term desire for cash. Many clients were left uninsured and some were forced out of business because their insurer had failed.

POE FINANCIAL GROUP / SOUTHERN FAMILY

Bill Poe founded the insurance agency Poe & Brown, known today as Brown & Brown. Poe moved on to open a number of insurance companies that specialized in homeowners and condo associations. His insurers (Atlantic Preferred, Florida Preferred and Southern Family) aggressively offered low prices and grew to become one of the largest property insurers in Florida before dying a very fast, painful, public death.

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POE FINANCIAL GROUP (*Continued*)

I vividly remember it as if it were this morning when two of Poe's well dressed executives visited me in early 2003 to ask us to sell their policies. They arrogantly touted rock bottom rates, unlimited capacity and other aggressive features. They boasted having previously worked for large firms such as Marsh and suggested that their firm had figured out the challenges of the property and wind market in ways that the largest, most experienced insurers could not.

Their story sounded too good to be true.

By late 2003 an industry article screamed **Poe Financial Group's Commercial Division Hits $100 Million Mark** in condo association sales. It still sounded too good to be true, yet a few clients decided to renew with Poe's Southern Family Insurance Company and agents that promised to *dramatically* reduce their premiums.

By 2005 an industry article announced that Poe was awarded another 4,500 policies by the state insurer, Citizens. The author gushed and wrote *'even in light of Florida's unprecedented four storm season Poe Financial has remained resilient, in fact of over 40,000 claims better than 92% are paid and the company ended its fiscal year with a record $500 million in sales'*. Wow! Sounds pretty good, right?

Alas, **that summer the fairy tale ended**. By March 2006 it was clear Poe was in deep trouble and by May they were bankrupt, leaving tens of thousands of homeowners without coverage and hundreds of condo associations searching for a new insurer in a market already in shambles following Hurricanes Wilma and Katrina. **In a few short years, greed had, once again, hurt many good people and had proven that something that sounds too good to be true can be awfully dangerous in insurance.**

ENERGI

Energi is a six year old insurance agency based in Delaware and working from Massachusetts that began writing petroleum insurance in June 2009. In 2010, they entered Florida with agents promising enormous savings to prospects in high risk businesses such as petroleum and propane by using a combination of inexperienced insurers, like National Interstate and Navigators, to cobble together coverage. In some cases agents are advising their prospective clients that past claims have little bearing on getting low rates. Sounds a bit familiar.

We can't yet say what Energi's future will hold, but their lack of experience, rising rates and turnover of staff and insurers could be alarming. Consider:

Experience: Prior to the start of this brand new program National Interstate had no real experience with petroleum distributors or convenience stores.

Coverage: The insurer offers auto, liability and workers compensation but not property nor have the coverage enhancements available from long time experts such as Chartis, Crum, Federated or Zurich.

Strategy?: Energi's executives have explained to us that they are '*aggressively buying business'* in hopes of "building" their program. IT is our experience that such an approach nearly never works and can lead to price increases or a failed insurer once claims are reported.

Strength: In late 2001, Standard & Poors commented about National Interstate's "bbbpi" rating, saying that their concerns included; ***'the company's limited business scope and volatility in its premium revenues growth'.*** Earlier this year Best affirmed National Interstate Corporation, the parent company's, credit ratings as "bbb+" and while the insurer is currently rated "A" it is prudent to deeply study their finances and future plans.

Stability: Our firm contacted Energi in 2009 to discuss a Texas client. **Energi was largely non-responsive** and both of the people involved are no longer with Energi. **This program is both very new and has suffered from a turn over of staff as well as an evolution of involved insurers**.

It is our understanding that new insurers have been brought in as some initial ones became uncomfortable that rates are on the rise and that staff continues to change. Given the nature of the catastrophic risks faced by the businesses this insurer seeks, we would not suggest **a program that has nearly no track record and very limited experience amongst other warning signs that it too might be too good to be true**. Time will tell.

TIPS & TRAPS TO CONSIDER

1) REAL EXPERIENCE? Insurers offering 'deals' that are too good to be true and that are new to insuring a given industry or coverage are often "chasing" premiums for their cash flow. History has shown, time and again, that insurers that offer cut rate costs, 'relaxed' underwriting and thus cut corners compared to more established insurers can never sustain such an approach. **How long has the insurance company and its key people specialized in, and been in, the industry and at the insurer?**

2) RATING HISTORY & OUTLOOK? What is the proposed insurer(s) Best rating and what is the history of that rating? What is Best's long term outlook for the insurer? What is their financial rating and claims paying ability? Dig deep.

3) ADMITTED OR NON-ADMITTED? An admitted insurer is typically regulated by a State's insurance department and the state reviews the coverage, its rates and officiates consumer complaints. An admitted insurer is typically protected by a State's guarantee fund, such as Florida Insurance Guarantee Association (FIGA), which backs every policy by up to $500,000.00. **A Non-Admitted, *Excess & Surplus* insurer is not regulated by the State nor protected by the guarantee fund**.

4) NICHE INDUSTRIES & VOLATILE COVERAGE BUYERS BEWARE! The insurance company that insures the local bookstore, plumber or grocery does not typically collapse but those that aggressively offer volatile coverage to unique businesses in a difficult market often lead to trouble. Over time insurers with 'specialty' programs selling the promise of much lower rates or broader coverage frequently find trouble.

5) COMPETITIVE OFFERS? If the new 'kid' on the block offers coverage or costs dramatically better than the most experienced insurers then there likely is a reason why, and the reasons are typically not good ones. Consider what expert, industry leaders are willing to do and understand that price might be the only thing a new company can offer. Low price, however, along with a volatile coverage or industry where severe claims are the norm is simply not sustainable and when that cut rate company is truly needed they might not be around to help.

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