

PERSONAL RESPONSIBILITY AND YOUR FUTURE FINANCIAL SECURITY NOTWITHSTANDING INSURANCE

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Our exposure to financial risks and ruin in today's society has changed, driven in part by large natural disasters and in other ways by capitalism forces (some say by the global economy) that require us to re-think and prepare for our future economic security. Business and personal publications across America are heralding a new era. Almost daily, the print and broadcast media bring yet another story of the shifting of what used to be the delegated responsibility to others for our security and safety from the many risks and perils both financial and physical that we all face in today's world of uncertainty.

As an example, the freezing of company pensions and gutting of traditional retirement plans show the American culture is evolving in a way not seen since Roosevelt's "New Deal" in the 1930's where our country's social security scheme was connived. This change is no less true in the world of insurance, where a cultural revolution of sorts is taking place following recent cataclysmic events both natural and man made.

It is not difficult to understand these changes considering 9/11, and four hurricane landfalls in Florida in 2004, followed by what has been reported to be our country's worst natural disaster that resulted when Hurricane Katrina made landfall in the Gulf states in 2005. According to Insurance Service Office figures from January 2006, the U.S. Property & Casualty Insurance is expected to pay homeowners and businesses a record \$56.8 billion dollars for the 2005 insured property losses for 24 catastrophic events, twice the record amount of 2004.

How, you may ask, will these changes affect you, your family, and your business? Very simply, you will be sharing in the risk in some subtle and some not so subtle ways going forward. The world of insurance is rapidly changing so your share of the risk is likely to be more than you expected, and you may not be aware of it. Nowhere is this more evident than in hurricane battered Florida. Hurricane Wilma's late arrival in 2005 shed new light on how difficult it is for Floridians to recover insurance proceeds given the rapid changes underwriters have made in property policies in this state. Million-dollar deductibles are now the norm for commercial losses. High percentage deductibles are common in most homeowner policies for windstorm coverage. Major loss events and the adjusting of losses have become so common and unwieldy that the Florida legislature passed a "new" property bill with effective changes for renewals taking place in 2005. It may turn out that this piece of legislation is not so bad (relatively speaking) as it seems neither side is particularly happy with the result.

Professional loss adjusters, regardless of the legislative intervention or endorsement in the contract, must press on and deal with issues and coverages that are given to us. It is our job to triage and manage the loss and at the same time be mindful of the insurance contract with its many limitations as well as setting reasonable expectations for our clients of the likely outcome of the adjusting process.

Typically the loss adjuster hears a chorus of discourse at a major loss from management, stockholders, and others with a stake in the claim, with the comments typically starting with, "They told us it was going to be fully covered, "We asked for the best", "They said we would be taken care of should this happen", and "What do you mean it's excluded!"

Some insiders in the business pejoratively referred to the insurance contract as "the big print giveth, the little print taketh away." In today's new era, the little print is carving huge sections from insurance policy coverage in unprecedented ways. In most cases the policyholder has no understanding of the effect these exclusions and limitations will impact their attempts to be made whole following a loss.

As an example, there was such a hue and cry across Florida following the 2004 hurricanes that a committee was mandated in the "new 2005" legislation requiring it to conduct an investigation into the possibility of having the scribes craft simplified policies so presumably the consumer would understand the meaning of their insurance contracts.

Few could fault the need for this committee if you consider for a moment a few traditional common policy terms, clauses, and legal doctrines that may apply to today's insurance contract in ways not understood by even the sophisticated policyholder. Terms such as "co-insurance, percentage deductibles, anti-concurrent causation language, law and ordinance exclusions, period of restoration for business interruption limitations, application of valued policy laws, efficient proximate cause, broad evidence rule, actual cash value, and, last but not least, ubiquitous exclusions in the "losses not covered" section of an insurance contract. These are all "adjuster speak" terms often spoken at a loss site to the shell-shocked policyholder. Based on fact-specific losses, these terms and conditions can have huge unanticipated consequences.

For example, if you live in Florida and your building exterior is damaged, you will find most policies have an exterior paint exclusion. For some property owners this can be another type of hidden deductible as their cost can be well into six figures depending on the building size and coating that is damaged. For the typical homeowner the wind blown flying debris causing damage to exterior coatings puts you in the same soup as the commercial property owners, no coverage for the exterior paint on your home. The lay person may feel some consolation in that surely this cost can be applied to the big percentage deductible. Unfortunately this little detail has been taken care of in that the courts have stated that the deductible will be applied to the "covered loss" and not "the loss". If you have interior water damage with resulting mold, you guessed it, the lobbyists in Tallahassee have had their way, and you have little to no coverage for mold remediation. If you have a business policy with Citizens Insurance Company for wind coverage in Florida, you will not have business interruption coverage if that peril put you out of business. When windows and doors are blown out in the high-rise condominiums along the Florida ocean front, the insurance companies point fingers at each other (condo unit owner carriers versus the master association insurance company), each saying they are not responsible for repair and replacement of the window cladding on these buildings.

Have sections of your roof blown off, you may be given a definition of "replacement cost," the meaning of which is that the insurance company will not replace your roof but may only repair or replace a slope

or section of your roof tiles or shingles. Given their interpretation of the term "replacement cost" the result likely will be a mismatched roof in appearance. Today this unilateral interpretation of "replacement cost" often favors the insurance industry and may well leave you with a checkerboard roof on one side or a slope of your roof different from the other side.

As if in tune to the beat of a far off drummer, the underwriters are in a dance today to reduce loss payments, claim severity, and maintain low loss ratios in order to shore up the bottom line. Florida, as always, is in yet another insurance crisis, or perhaps it is merely a continuation of crises that seemingly never ends in this state. Historically, the insurance industry has always wanted to pay on the lowest estimate, however, with new restrictions being placed in policies you may not even get to the point of negotiating upwards from the lowest estimate. Make no mistake, the business of claims is a business dynamic in which the old adage of buy low, sell high applies. In many loss situations the outcome might well be a declination of coverage due to some obscure and ambiguous language buried in the bowels of an insurance contract, or the high threshold deductible for which you will have to go out of pocket.

Times are changing and to their credit some insurance companies are openly admitting that change is required. Allstate Insurance Company's chief executive, Mr. Edward Liddy, quoted in a January 11, 2006 Wall Street Journal article stated, "The spate of hurricanes could lead to changes in deductibles, coverage and underwriting of the common policy." As evidenced by large ads in the national print media, Allstate has embarked on a campaign urging a national catastrophe plan to be put in place to help offset future catastrophic losses. Presumably this national catastrophe plan is now required to ensure the solvency of the insurance industry because the green-shaded actuaries did not have the foresight to see the recent large loss events. But on the other hand, who among us can step up and say we knew how the events of the last few years would have unfolded.

This upheaval portends multiple changes in the protection business with one certainty: You are going to be on your own for a greater piece of your protection umbrella.

There will always be insurance and in most cases there will be some contribution from an insurance carrier. After all, they took a premium and there is the lead-in language in the policy that typically states, "in exchange for the premium we will. . . ." But the clear and unambiguous message from this writer's perspective is to plan now, understand the limitations and exclusions, and make it a point to study the recent large catastrophic events, particularly as they have had an effect on others, your industry, your clients, and your competitors. Learn from their mistakes and misfortunes.

The old saying that the "big print giveth and the little print taketh away" is not something new, but has been in this industry's culture from the creation of the insurance products in the old London coffee houses of the last century. Your challenge today is to understand just how much the little print is now taking away.

If there is one lesson that the big "CAT" events have taught us, it is that personal responsibility for your financial security is clearly in your court. As we have discovered, government is not going to save you, and as others are finding out, an insurance policy is not a disaster recovery plan.

Your future financial security is in your hands! Plan now by understanding the exposure and risk that you face on a daily basis. The new era for personal responsibility is here. You must maintain a vigil for your own future financial well being.