

The Association of Average Adjusters of the United States

The Chairman's Address
Presented at
The Annual Meeting
October 6, 2005

Presented by
Jay McGuire
Chairman

Good morning ladies and gentlemen and welcome esteemed guests.

We have a number of honored guests with us today and I would like to recognize their presence: Mr. Nigel Rogers the Chairman of the Association of Average Adjusters in the UK, Mr. Tom Rue of the US Maritime Law Assoc., and special recognition to Mr. Takeshi Okada of the Tokio Marine Claims Service. Mr. Okada flew all the way from Tokio to join us this week.

I have been extremely proud to serve as chairman of the association this year and I would like to thank all of the association's members, particularly the executive committee, chaired by Richard Carney, for all of their support and encouragement throughout the year. I would also like to recognize Eileen Fellin's hard work as, Secretary of the Association. She was the one who told me where to go, what to say and how to act as a chairman. Also to the members of the Viewpoints committee. I would also like to thank Liz Arnold who is the chairperson for our annual dinner which we will be enjoying this evening.

Again, thank you all for your hard work and efforts throughout the year.

As chairman, I was fortunate to experience the warm hospitality from a number of other professional maritime associations here in North America and across the Atlantic. I would like to thank Jim Craig of the American Institute of Marine Underwriters, Tom Rue of the Maritime Law Association, Mr. Michael Harvey of the Association of Average Adjusters in the UK, and Mr. Maurice Gesner of the Association of Average Adjusters of Canada. That meeting was held in conjunction with Canadian Board of Marine Underwriters and I would like to thank them for their warm hospitality as well. I have to admit, the most unusual experience I had this year was dining with a teddy bear. I gather that a tradition at

the Savoy in London is that if you have 13 guests at the dinner table, a fourteenth chair must be filled. Fortunately, one of the guests brought Teddy along for the occasion.

Thank you all for attending our meeting today.

I would like to speak to you today about our special industry.

Our Special Industry

I was flattered to be asked to be the Chairman of this Association as it is a rare occasion that an underwriter is asked to fill this position. In fact, I believe I am the first underwriter to be asked to serve since John Hickey was Chairman of the association back in 1987 to 1988.

Interestingly enough, my very first public speaking engagement in this industry was as a result from an invitation from the Richards Hogg folks to participate on a panel discussion about Hull underwriting. It was the first time I met Jonathan Spencer and Phil Gran. The purpose of these seminars was to broaden the education of some of the younger employees of their shipowner clients. I think they worked very well. I know it was my first exposure to the ship owning community and their first introduction to the underwriter's world. That was quite a long time ago; in fact it was such a long time ago, that Phil still had an American accent. (Sorry, Phil, I couldn't resist.) Of course by that time I was a seasoned veteran of the business myself, I think I had about 3 years of underwriting under my belt! But that was a sign of the times; young people like myself had tremendous opportunities ahead of them. I believe that similar opportunities are out there for the younger generation of our industry today.

Normally, the chairman's address focuses on a topic of a technical nature associated with the practice of average adjusting; however, there are far more qualified individuals than I who can handle these topics. In fact, we had a wonderful panel of speakers at our "Viewpoints" program yesterday that covered the very interesting topic on what is involved in a major maritime disaster. It was a very stimulating discussion and I think that all of those who attended learned quite a bit.

I tell, when you get three Admiralty attorneys on one panel, it's a sight to behold. And I thought Divorce lawyers were tough!

I am not an Average Adjuster; I have been a Hull and Machinery underwriter for my entire career in marine insurance. I suppose by definition, a Hull underwriter gives me free license me to be completely illogical in my approach to marine insurance.

It's been almost 30 years to the day when I first started my career in the marine insurance industry. I was fresh out of college and I didn't have a clue about what I was getting myself into. Back then there were numerous Bluewater underwriting entities, representing scores of insurance companies, today, you can count those entities on one hand. We are still a multi- billion-dollar industry, but we shrink relatively every year. Our industry has changed considerably from that time when I started, but much of the inherent philosophies have not and that is what makes us special. As the maritime industry is forever evolving, and information technology and resources are driving insurance practice, our underlying principles remain in tact in that we will always act with utmost good faith.

This past year has been a particularly tumultuous one for me personally, and it has given more free time to reflect on our industry than I had anticipated.

I have titled this speech "Our Special Industry" and while it's changed dramatically over the years in its size and scope, I truly believe we are in a unique time and we participate in what can be an extremely rewarding career.

Why are we special? I think if you look at the person sitting next to you, you will recognize a similarity in that person that you have in yourself. He or she may come from a completely different background than you, may have a very different accent than you or be vastly different in age. Yet, you know in your heart that you share something special; there is a commonality between you. What is it you share in common? You are passionate about what you do, you have been shaped by tradition, you grant and command respect, your are an expert at what you do, and most of all you practice a profession known only by a few, yet effect a vast majority of our global citizens.

Passion

Passion. What is it? I truly believe this is the most important underlying emotion that drives our industry. It is what makes us strive for excellence.

Passion can be defined as devotion or an intense enthusiasm to some activity, object or concept. All of us, who are successful, possess it.

Where does this sentiment come from? Why are we so fiercely attached to what we do for a living? It is not a particularly lucrative occupation. I can't recall seeing any marine insurers on the *Forbes* top 100 List of the world's wealthiest individuals. It is a good living, but, I haven't met too many of us that are in it purely for the money.

Fame? I don't think so. The only headline news our industry produces is when a maritime disaster strikes the environment, or when scandal hits us. No, you'll never read a headline when a claim get adjusted fairly and paid promptly. Maybe you'll be lucky and get a pat on the back from your boss or a thank you note from a shipowner. This is not an ego boosting business.

What is it then? I venture to guess that this zeal for this business comes from the fact that what we do is very different from our other non-marine colleagues. After all, they think those "Marine -types" are all crazy. Maybe we are. What we do know is that we are not encumbered by actuarial tables or overly regulated by the authorities. By and large, we make our own rules. We actually get to use our brains and intuition. We can address a problem by using our creativity, experience and judgement to solve that problem in a fair and compassionate manner. Our decisions and actions can make a real difference in the relative success of a maritime venture.

That is what drives us; we know we can make a difference.

Tradition

We are special because we are an industry that is steeped in tradition. The fundamental principles of General Average trace themselves back to ancient Maritime law. We use policy wordings that have stood the test of time for centuries and centuries. Not to mention there is this somewhat idealistic notion of protecting our clients against the perils of the Seas, Men of War, Pirates, Assailing Thieves and of course the ever dangerous Letters of Mart and Counter Mart. I believe underwriters think of themselves as swashbucklers, as they battle against the formidable "Broker". They certainly know how to slash rates. I think the broker has had the upper hand lately.

Tradition plays an important role in our industry. What exactly is tradition? It is the handing down of information, beliefs, and customs by word of mouth or example, from one generation to another. I doubt there is anyone in this audience who can say they got to be where they are today all by themselves. All of us were lucky to fall under the influence and guidance of a mentor. Who was that mentor?

It was a professional who selflessly gave their time to teach you the skills you need to be successful today. Why? Because that passionate individual understood the importance of preserving this time honored profession for future generations.

Perhaps, the biggest challenge facing our industry today is not one of relevancy, but of one regarding procreation? Who are today's mentors, and where will the next generation come from? Can we generate the passion and germinate the starry-eyed notion that this is an industry worth pursuing? In order to survive, we will have to build a new generation to pass our traditions on to.

Respect

Respect is one of the most fundamental principles practiced in all successful and satisfying business relationships. It is a principle that must be nurtured and cherished.

The practice of Average Adjusting is a respected profession because in order to be successful at it, the adjuster must live up to the highest standards of integrity. This integrity comes from a balanced objectivity in dealing with a multitude of interests in a maritime casualty. If you attended the "Viewpoints" session yesterday, you'll have gained a greater respect for how complicated these cases are. Many of those interests conflict with each other and only a healthy respect for those positions can achieve a fair and successful resolution of the problem.

It is a very challenging position to be in; ultimately, you must stand on your own individual reputation. Yet, this is what makes you special. You are bombarded by pressures from your client, from your boss and from the insurers, from all over the place, yet it is you, you the individual adjuster who has to make the suitable decision. For this you must be respected.

As an Association you must be respected for creating very specific rules to deal with these potential conflicts of interests in order to arrive at an impartial result to the satisfaction of all the parties involved. Out of respect to the industry, you constantly re-examine these rules as to the relevancy of your practice to the ever-changing maritime industry.

For this, you should be commended.

Expertise & Professionalism

I would like to comment on a point K.H. Mao made in his address to this body last year. He was commenting on the underlying strength of the adjusting profession and its indispensable function to the maritime community. In fact it was such a profound statement that Mr. Dalcher paraphrased it as well in his presentation yesterday.

I quote, "...the Average Adjuster, while not a lawyer, not a surveyor, not an engineer, not a salvage expert, is in the center of all these professional functions....Any one particular professional will perform his part efficiently but no one professional, other than the Average Adjuster; will perform all of the above overlapping functions for the benefit of all concerned...the Average Adjuster is – and always was – the General Manager of any multifaceted maritime disaster."

This duty as a facilitator is exactly what makes you special. Can you think of another industry where such a function exists? I can't.

I attended an event this year and was quite taken aback by a comment made to me by one of the guests. He asked me if I thought there would be a need for Average Adjusters in the next 5 years. I have to admit, I really was stunned. I thought about it for a minute and said, "of course". I then turned to him and, asked "who or what would take their place"? After he gave my question some thought, he couldn't come up with an answer. Interesting, undoubtedly, there is an impression throughout our industry that Average Adjusting is a fading practice, but on reflection, who would replace them if they failed to exist?

Who indeed would replace the Average Adjuster? Where would this unique expertise come from - claims personnel in insurance companies, law offices? Who is going to be willing to make the time commitment necessary to qualify as an expert in handling these complex claims problems? Who will train them?

My answer is: that it can only realistically come from the existing Adjusting associations throughout the globe.

Maritime casualties are not going to disappear. Sure, technology has improved safety, government regulations have focused the attention of shipowners on sound operating practice, but have we eradicated human error? Have we tamed Mother Nature?

The tragic events that have hit the Gulf coast region of our country this past month have painfully illustrated this. The eyes of the world are going to be focused on response of the insurance community to the suffering experienced by these victims.

Now is the time to demonstrate our expertise and professionalism and to prove to the world our worth to society.

Illogical?

It would be remiss of me, as an underwriter, and not as Chairman of the Association, to make an observation about the underwriting community.

Those of you who know me will certainly detect a note of sarcasm in these next comments.

Our industry is “special” in the fact that we do things that defy logic.

Whereas fundamental insurance practice requires a very methodical, mathematical and logical approach to risk assessment, it never ceases to amaze me how some of our decision-making defies this logic.

In the typical underwriting cycle, Hull underwriters are lucky if they make an underwriting profit three out of every ten years. Yet, decade after decade, basic pricing continues to fall below the levels of the previous decade. Just a couple of weeks ago IUMI reported at their annual conference that marine premium is down about 3% in spite of an increase in overall tonnage and the number of vessels. I am not aware of any global marketplaces, reporting a profit on their Hull book in the last decade. Why are prices continuing to decrease?

I think one of the reasons is that underwriters are passing more of the risk along to owners through greater retentions. There is something fundamentally wrong with our pricing methods when the basic per accident deductible is often more than five times greater than the net annual premium for that particular vessel.

Yet underwriters continue to come up with novel concepts as “pre-paid profit commissions”.

If you are unfamiliar with this concept, let me explain it. As you know, a broker’s job is to try to negotiate the best possible price from the underwriter. Most of the time he is trying to achieve a price reduction from the owner’s previous year’s premium. However, due to the disastrous results hull portfolios have experienced in the past, management, reinsurers and particularly actuaries have demanded price increases from their underwriters to offset the losses sustained in the previous years. As a result, edicts are issued that no reductions can be quoted. Now what we have here is a conundrum for the underwriter, pressure from the broker, and

pressure from his management and financial supporters. He's stuck between the proverbial "rock and a hard place". What can he do to comply with the management edicts and satisfy the broker at the same time?

He doesn't quote a reduction; instead, he grants the owner a pre-paid profit commission! In other words, he discounts the expiring annual premium by a certain percentage in anticipation that the fleet will run profitably in the current year. If it doesn't he'll collect the discount at the end of the policy period. Pretty clever, huh?

Not really. Why? Because normally, these discounts are based on the current year's claims experience and not subject to adjustment in the future for the inevitable deterioration that will occur.

Realistically, how many claims from the time they are reported and to the time they fully adjusted and resolved, fall within policy period in which they occurred? I mean really, what are we thinking about? This practice is pure window dressing to cover up underwriting weakness. Gimmicks do not fix fundamental flaws. Courage does, and this is the real opportunity for the underwriter to become special.

Act courageously in the face of a market climate that anticipates and expects weakness. The Hull market will never reach a level of reasonable profitability unless there is courageous leadership in all of the markets around the globe. Someone is going to have stick there head above the parapet and say enough is enough. We are on a suicide mission here. It's a time to be special. It is a time to be courageous.

(I had to get that off my chest.)

I conclude with this observation. Yes, we are special. And again, I ask you to look at each other and see yourself in your neighbor. We do something very different in the insurance world. We think. We make our own rules. We make our own decisions. We are accountable for our actions. We make a difference.

Thank you