

BLAIS EXCESS & SURPLUS **AGENCY OF TEXAS LTD.**



PRESS RELEASE
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SIDE A COVERAGE ***WHAT IS THE VALUE?***

A public company who had recently purchased D&O Side A coverage and dropped Side B & C coverage asked if they had done the right thing.

As a refresher: Side A coverage protects the directors & officers, Side B coverage reimburses the Corporation for its obligations to indemnify the directors and officers and, Side C coverage provides coverage for the corporation (SEC claims only) itself. Side B & C can be referred to as “balance sheet” protection.

The CEO felt there was little need to purchase corporate reimbursement coverage and/or entity coverage. The rationale for not purchasing Side B & C was:

1. The organization had never received a D&O claim in its many years as publicly traded entity;
2. The firm had an extremely strong balance sheet and the ability to self-insure a sizable obligation far in excess of its current policy limits of \$30,000,000;
3. The CEO and a number of directors and officers had read various articles (produced by insurance companies such as AIG and Chubb) highlighting the fact that coverage payments made to organization under Clause B & C would dilute and/or impair their individual coverage;
4. The premium generated a rate on line of 2% or \$600,000 for all three coverage components and the cost for the Side A program was approximately two-thirds that or \$450,000.

RESPONSE:

Considering that only about 12 percent to 15 percent of all claims – and even fewer claim dollars – are paid out under Side A of all D&O policies, it’s not a good deal. In effect, the organization will be paying two-thirds of the premium for only about 15 percent of the risk. Another way of looking at this is to say that by buying a Side A program, the firm has forgone the opportunity to pay just an extra one-third of the premium in return for covering an additional 85 percent of its exposure, a clearly more effective use of the firm’s premium dollars.

As a wholesale broker specializing in financial service products, Blais Excess & Surplus Agency of Texas, Inc.'s knowledgeable and experienced staff assists agents/brokers with the acquisition, placement and service of Directors & Officers Liability (D&O), General Partners Liability (GPL), Employment Practices Liability (EPLI), Crime (Fidelity), Kidnap & Ransom (K&R), Errors & Omissions (E&O), Media Liability and Loss Mitigation products for a variety of industries. Clients assisted include but are not limited to energy, biotech, high tech, financial institutions, profit and non-profit entities, partnerships, healthcare, companies making Initial Public Offerings and companies in the process of merger or acquisition.

Contact: Philip L. Blais
Phil@blaisexcess.com

Houston Office

820 Gessner, Suite 1750
Houston, Texas 77024
(713) 780-7787 Phn (713) 780-3533 Fax

Dallas Office

4570 Westgrove, Suite 245
Addison, Texas 75001
(972) 818-4090 Phn (972) 818-4088 Fax

Austin Office

P.O. Box 92824
Austin, Texas 78709
(512) 894-3460 Phn (512) 858-1266 Fax

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