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## **Insurance With Assurance**

### **The Changing Insurance Marketplace** *by Rick Janis*

#### **How have the changes in the economy affected the insurance marketplace?**

Although the past decade has seen a rosy and robust economy in practically all areas of the country, some of the bloom is starting to fall off the rose thanks to a “stormy” economy. Wall Street is weakening, oil prices are substantially increasing and interest rates have risen.

These changes in the economic picture are often a precursor to a changing insurance marketplace. For alarm dealers, this means changes not only in prices, but also the availability of the insurance itself.

One significant impact of the economy is that investment income has not been able to buoy up substantially increasing losses. In the past, a ratio of insurance premiums plus investment income minus losses/claims has provided the insurance companies a bottom line net profit. For many carriers, the losses have substantially increased so that the bottom line has now turned to a negative, or to the chagrin of many CEOs, has come dangerously close to a negative.

So not only have losses increased, but with the Dow Jones not growing as aggressively, investment income is not what it had been during the past couple of years. Now that the investment income, which had been buoying up and providing the profits has fallen off, the potential for red ink and the reality of red ink for many companies has emerged. That means we’re going to see insurance companies make some hard choices.

What’s driving this changing insurance marketplace? The same thing that drives any company that is publicly traded: CEOs are under pressure to produce profitable results and to encourage investors to produce investment income.

A number of carriers are being downgraded by A.M. Best, the independent rating source of insurance companies, from an “A” to a “B” or “C” company. As we’ve discussed before, you don’t want to be insured by a B or C company, because a company with that rating, doesn’t have the financial capability to continue to pay claims and may very well go out of business.

We’re also starting to see some major providers of Workers Compensation withdrawing from the marketplace because Workers Compensation has recently proven to be very unprofitable for many of these large carriers. Those companies that remain in are stringently tightening their underwriting acceptability standards and procedures. These decisions ultimately affect the consumer with less lenient financing plans for insureds, stricter underwriting controls and more classes of business being listed as undesirable.

We don't want to frighten anybody – and the sky is certainly not falling - but this is information you probably won't hear from your agent or broker. The main point of our answer is to be aware of what's happening to the insurance marketplace and to have your house in order. Make sure you have good solid contracts with your subscribers and that they are in place and signed. Make sure your installers are clear on installation procedures, testing and following through with your central station that the right codes are listed. Within the select group of companies who will still offer insurance to the alarm industry, there will be great pressure from the top down to weed out dealers who have had claims problems.

So be aware, position yourselves with a good solid carrier, have solid contracts and we'll all weather the storm.

*Rick Janis is a Certified Insurance Counselor and president of the Alarm Insurance Agency. With over 7 years of experience in the security industry, he has been responsible for developing and managing comprehensive insurance and bonding programs for alarm dealers and monitoring companies. Rick is CEU certified by NBFAA and teaches CEU courses to the alarm industry on General Liability/Errors and Omissions and Worker's Compensation. He can be reached at 800-474-0933 or by fax at 800-240-0631. You may also e-mail him at [rjanis@alarmins.com](mailto:rjanis@alarmins.com).*