

Editorial Contact: Richard Hahn (716-372-2443)
rich@richardhahn.com

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Insurance With Assurance

Competitive Insurance Rates

by Rick Janis

Why do rates vary for the same insurance coverage?

It's easy to understand how tangible products like automobiles, televisions or clothing vary in price when you take into account factors such as brand names and the quality of the materials used. Insurance is an intangible commodity and therefore is a bit different. While insurance is not a solid, material substance, there are number of reasons why rates may differ between insurance companies for the same coverage.

I'll use personal automobile insurance as an example because it's probably the most common type of insurance and the one you're most familiar with. Auto insurance is also a good example because it has all of the direct and factual actuarial components involved in developing rates as well as the company's own expense and loss ratios which also contribute to the make up of those rates.

First, the insurance marketplace runs in cycles. Rates become lower in a free-market economy due to competition and financial investments. As investment income from insurance premiums is invested in the financial marketplace, companies obtain greater rates of return, which are used to buoy up the rates to pay for claims. When the financial marketplace doesn't provide a high rate of return, then losses actuarially continue at a constant pace and the rate of return is too low to pay for the claims that come in. The insurance company's only choice is to increase the rates to compensate for the loss of income from the financial marketplace.

Second, an insurance company's own underwriting experience within the market segment is a key factor that affects whether their business is developing an abnormally high amount of losses.

For example, motorists who are insured in the snow belt of the northeast are more likely to be subject to higher collision frequency and severity due to the weather conditions. On the other hand, losses are more balanced for insurance companies that are not as regional in their focus but write policies for motorists all cross the country. In that case, they are probably experiencing a lower frequency and severity of claims and therefore may be able to offer more competitive rates.

A third contributing factor in developing competitive rates is the insurance company's own expenses and cost of doing business. A company that has no insurance agents, no regional offices and solicits directly through the media from one central office probably has lower expenses and overhead than the more traditional insurance company with

multiple regional offices. I'm sure you've heard advertisements from direct writers who promise that they can save you 15% of what you are currently paying.

That's why premiums can differ widely for the same limits for liability, the same deductibles for physical damage, the same coverage for uninsured motorists and the same coverage for PIP (no-fault coverage for those in no-fault states). The bottom line is that these examples don't necessarily make one carrier more competitive than another. A company can also suppress its rates to gain market share

You'll also find that rates do change. While they are not volatile they are not static either and if you do change carriers, you may gain savings only for a few months. You might also find that if you check around with three or four carriers your rates are higher than the others. Then it may be time to make a change. But always keep in mind that what appears to be a competitive rate may be in reality just a lower premium. In many situations, the lower premium has a direct correlation to substantially less coverage.

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.