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Insurance With Assurance

The “Changed” Insurance Marketplace *by Rick Janis*

Why have insurance premiums gone up and why are many in the security industry finding it difficult to receive coverage?

About two years ago, I began writing articles warning the security industry that the insurance marketplace would change. Many of you didn't believe me.

In a way, I don't blame you, The last eight years has been the longest and most stable period in the insurance industry. In fact, our rates have gone down for the last 7 years. Now it seems that all of a sudden, everything has changed and both alarm dealers and monitoring companies countrywide are aghast at the increase in their insurance premiums.

To briefly reiterate, the investment income that was available to insurance companies from the aggressive insurance marketplace has dissipated and sunk the financial investment portfolios of most corporations. There is no “income” coming in from Wall Street to buoy up underwriting losses. Again, underwriting losses are due to the fact that dollar amounts of claims paid out exceed the premiums taken in.

This change in the marketplace prompted two things to occur. First, some insurance companies involved in writing E&O coverage have now said there is too much of a risk and have left that part of the business. That has left alarm companies and monitoring stations without a carrier because these companies came in with low-cost rates, only looking for premium dollars for investment income.

Secondly, the carriers that are going to stay in this market (there are now only three left in the entire country that are writing policies for alarm and monitoring companies) have no choice but to increase premiums. Understand that they are not just increasing premiums for the security industry but it's a general rate increase across the board for all commercial businesses.

While the basic rate increase had nothing to do with whether or not your company was a risk, you should still have been prepared and positioned yourself to be viewed as a superior account just as we suggested. If you haven't positioned yourself to be attractive to the underwriter, then you may find either that the insurance is totally unavailable or priced beyond your means.

What does it mean to be attractive to the underwriter? You should have signed sales, installation and monitoring contracts with every single subscriber that contain the accepted wording for liquidated damages and third party liability. You're also a lot farther ahead if you've been doing this with your subscribers for quite some time. To start today may be a little too late.

Proper training, whether in-house or through NBFAA courses or CEU credits, is another area that will have made your company attractive with underwriters.

Underwriters will also look at whether you submitted every single claim not matter how small. They don't want to be "nickel and dimed" in today's market. (Keep in mind however that by notifying the insurance company of an incidence, you're protected under the terms of the policy and the insurance company cannot deny a claim for failure to report the incident.)

On the other hand, I wouldn't be concerned if you had one large single claim, whether it's paid or still outstanding. We've already renewed clients in that position with little or no impact.

So if you have paid attention to the details of good risk management techniques, you'll benefit and ride out the storm. And, hopefully, I will soon write another column about how the insurance marketplace is changing back the other way.

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.