Whatever happened to all those insurance principles we learned?

The public is losing faith in insurance companies and brokers, alike. Is this happening because the Industry has abandoned basic underwriting principles? Is it because the companies are too far away from the consumer? Read this broker's viewpoint on a nation-wide problem.

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MANY years ago, when I joined the insurance industry, I met with several people who were underwriters. And I was told about the importance of the knowledge required — not only in understanding the policy wordings, but to acquire the art of inspection and fire prevention.

To offer a risk to an underwriter, they stressed, you had to assess the risk first and decide whether you personally would really accept it, if you were the insurance company. Furthermore, you assess a risk not only from a physical point of view, but also from the point of view of its neighborhood and housekeeping; the cooperation of the owner and his willingness to improve his premises and lessen the hazards of a claim. Also, the owner must be of good moral character.

In those days the underwriter did not accept a risk haphazardly but waited until the premises were inspected and a complete report was submitted. Then, if a company found the risk acceptable and there was a need to subscribe more companies, each company requested a copy of the inspection report — and only *then* they decided whether or not they would follow and commit the name of their company to be put on the policy.

I was told about "Board and non Board companies" and how the C.U.A. members had a vast experience with engineering departments, etc. Also, you had to remember the spreading of a risk and that the name of the game was "underwriting profit".

Yet, with all these precautions, companies in general did not show too much of a profit and, in fact, the statistics show that many companies were in the red more often than they were in the black.

Somehow, something ironic must have happened in the last few years; the Industry has taken a tail spin and now is in complete and total disarray and chaos.

Many old timers, "underwriters and inspectors", are totally disappointed, disheartened and speechless over the turn of events. Everybody is asking "when will all this end?" This is the biggest crisis we have ever seen in our industry — especially after the shockwaves of 1975-76. Large and respectable brokerage houses have closed their doors and gone bankrupt while more are on the verge of bankruptcy. Why?

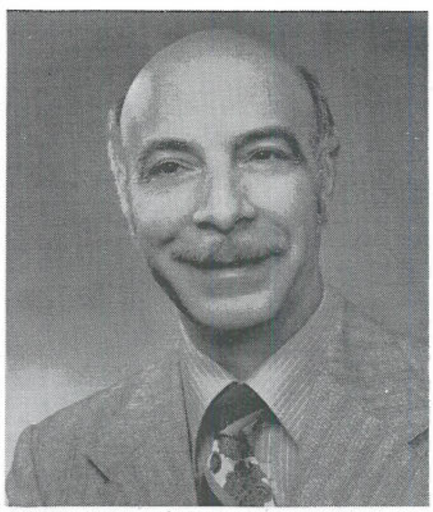
The public consumers are suddenly aware of something being drastically wrong. They are losing their faith in insurance companies and brokers alike.

When the British pound lost ground against the dollar, it became apparent that hundreds of millions of dollars had to be raised just to keep up with the reserve requirements. And this was one of the reasons why many insurers were not able to pick up new business as the reinsurance market had dried up.

Recently, as the pound has gained ground — plus some "oil money" floating around — a new source of reinsurance has appeared on the horizon. Also, the stock market and short term investment profit have gone up. The companies realized their investment income had risen sharply and, not wanting to show huge profits in the "green book", the word went out and the price war on cutting rates became the name of the game.

Handwriting on the wall

I declare here and now that, if the insurance companies do not behave responsibly and get together very soon and set up the proper procedure to be followed with good, sound underwriting, it seems to many of us that the handwriting is on the wall. Soon the governments may intervene in order to protect the public and, possibly, take over most of our business.



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It appears that insurance companies, today, have forgotten their underwriting principles and have become, instead, "money managers and pure gamblers".

The insurance industry was not built as a gambling casino. You just cannot take chances on a one shot deal and hope and pray for the best. Insurance is a long term commitment and loyalty between "client-brokers and insurance companies". Unfortunately, this trend is being eroded.

I do not remember how many times I was asked by clients in the last 18 months: "How come that for years you have charged us $10,000 premium and now we can get the same thing for $4,000?" They politely assure me they have nothing against me, personally. "But surely," they say, "somebody was overcharging for so many years."

"How come," I ask, as if echoing their question, "we charged so much for so many years and hardly showed any profits?"

"How come, for so many years, the rate on certain risks was $5 a hundred and now the same risk (with no improvements) can be obtained for 60¢ a hundred?"

Could it be that the companies are making a tremendous profit on their investments and do not care anymore if their underwriting departments gain or lose? Then, what is going to happen when investment income drops? Are they going to scramble to raise the premiums drastically and give rise to a public outcry?

Is it not one of the principles of insurance to provide an umbrella for a rainy day?

A way must be found

A way must be found in order to keep the industry from regurgitating and get some stability at last.

Here are some suggestions as to what to do with the excess profits:

- Raise the salaries of the underwriters from the low starvation level and give them a profit sharing plan.
- Offer the public a "no claims bonus" at the end of the contract. That way, the consumers will be interested to learn more about fire prevention and other claim hazards, and will keep their place immaculate.
- Give discounts to people who install fire and smoke and burglar alarm systems.
- Enlarge on the coverages themselves

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and delete some of the exclusions.

- Offer an "All-risk policy" for homeowners for the price of a standard form.
- Encourage the public to take photographs inside their homes, accompanied by a list of certain items with serial numbers, etc., in order to give a better and faster way to adjust a claim.
- Delete the 80% co-insurance clause and encourage owners to insure to "actual cash value".
- Unify insurance forms across the country and enlarge the type used in printing so that everybody can easily read a policy without the need of a magnifying glass.

Furthermore, if the Industry is coming up with new plans, then *do it right*. For example, the new fashion of insuring "personal effects" on a replacement cost value; in my humble opinion, the idea is great but will prove financially disastrous for the companies in its present format.

We are all aware that most people do not insure their contents to value; in other words, if you take into account "furniture, carpets, clothes, shoes, kitchenware and utensils, etc. . . ." you will realize that it may cost $20,000 in an apartment, rather than the usual $10,000 coverage. The present rate structure of just adding a thousand extra premium, with a minimum of $15 to $25 (between different companies) is not sound. The best way of doing it is by asking the client to complete an inventory, once a year, and only then can you insure to value. Otherwise, a problem will arise when you have a claim of, say, $15,000 on a replacement cost value while, at the same time, not all the client's effects have been destroyed, and the policy was written for $10,000 maximum. How are we to satisfy the client? Will we pay him $15,000 to replace his lost belongings or pay just $10,000 as the amount of the policy?

We can no longer afford the luxury of thinking and hoping that a client is well aware of the coverages he bought and then just deny a claim at the time of occurrence telling the client "You should have known better".

The time has come for insurance companies to work more closely with their brokers. If they do they will become more aware of what the public wants since it is the broker who is on the firing line, and it is the broker who is best able to assess the situation and, as a result, develop sound ideas.

We are not little discount stores on Spadina Avenue, or on St-Laurence Boulevard . . . and we must behave responsibly. Our Industry is one of the great financial institutions in the world and cannot afford to be operated on a 2-3 year cycle of surcharge and high premiums, followed by a cycle of cutting rates.

I beg to differ with Mr. Horsford, who commented last year in Winnipeg that a little competition doesn't hurt. This is not just a "little competition" — this is sheer madness. It is extremely irresponsible to accept ANY RISK AT ANY PRICE.

Just imagine what would happen if banks would decide to loan anybody, any amounts without collateral? The result would be total chaos.

I sincerely hope that the industry will heed and stabilize for good, before it is too late. ■