Company Stability: Are Early Warnings Valuable?
By Chris Burand

We recently surveyed a large group of agents that subscribe to our email news service. The survey covered insurance company stability issues. One question we asked was if early warnings of insurance company stability issues were valuable.

100% said yes! This is great, however, many respondents classified our email news service as an early warning. The information we provide through this email service is not an early warning because we merely send out news releases, such as company downgrades, that have already hit the media wires. We simply make this information more easily accessible and bring it to the fore-front by delivering it to our subscribers' inboxes.

A true early warning requires an in-depth analysis of a company's financials and operations. We offered examples in the survey of true early warnings which were the result of a separate service, our Company Stability Analysis. Our Company Stability Analysis has the proven ability to predict insurance company stability problems six months to four years before actual downgrades are assigned by rating companies.

Early warnings of company stability issues provide many benefits. For example, agents that choose strong, stable companies should make more money and lead less stressful lives. This is especially true if an agency takes its time, say three years, to move its business from a weak carrier rather than having to rush its clients with only a six month or two-week lead.

Kemper makes a great example. Through our Company Stability Analysis, we specifically warned two insightful clients that Kemper had stability problems in 1999. They had four years to move their books slowly and carefully. Conversely, I recently read an article about how an agency with a very large book with Kemper was caught by surprise when the company was downgraded below B+. Which agencies are in better shape now? Which agencies' retentions with their Kemper clients will be higher? Which agencies now have a competitive advantage? The agencies that had already moved their business can now focus on writing new accounts while the other agency is struggling, trying to find a new company(s) to quickly move a large book in a hard market.

Some readers might be thinking all agencies will eventually be blind-sided by companies going down the tubes quickly. This need not be the case if agents realize three keys:

- Knowledge is power. Agents with knowledge of their companies' stabilities are better able to manage their company relationships.
- The Kemper example was an isolated occurrence. Our in-depth analysis has provided early warnings preceding all rating companies' downgrades to less than acceptable levels for many companies, including Legion, HIH, and Reliance.
- Ratings downgrades are NOT the same as a company being unstable. A downgrade is largely related to the ability to pay claims and a company can conceivably go out of business without ever being downgraded provided it has enough money in reserves to

pay all its claims.

One particular comment accompanying the survey results shines a bright light on this last issue. A respondent noted that companies such as CIGNA and Commercial Union have survived bad times before. However, neither company survives in the United States as a P&C carrier in any form of what they once were. They did not go bankrupt. They were not placed in receivership. Their claims are being paid.

As an agent, is it important for you to not only know whether the rating companies think a company has enough money to pay its claims but whether:

1. The company will remain a going concern?
2. The company will be cutting commissions?
3. The company may try to save money by changing its claims practices?
4. The company will reduce its writings?

If you answered "yes" to any of these four questions, I strongly recommend you complete a full Company Stability Analysis every year on your key carriers, especially those rated A- or less.

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