Business First of Buffalo - January 28, 2002
/buffalo/stories/2002/01/28/focus1.html

BUFFALO BUSINESS FIRST
WESTERN NEW YORK'S BUSINESS NEWSPAPER

Friday, January 25, 2002

Insurance still on course

Business First of Buffalo - by Tom Hartley Business First

Forecasters foretold a new world of blended financial services a few years ago when the walls separating insurance, banking and securities companies came down.

Some predictions were on target, but there has been no Oklahoma Land Rush-type race to change. Instead, the traditionally cyclical business continues to look much like it did before, particularly the property and casualty insurance business.

Even after the unparalleled Sept. 11 terrorist attacks, which are expected to result in the most expensive insured loss in world history -- preliminary estimates range from $40 billion to $70 billion -- some experts point out that the insurance industry has undergone no cataclysmic change.

"In many ways the industry hasn't changed as much as a lot of people thought it would," says Robert Zak, president and CEO of Buffalo-based Merchants Insurance Co., a 17-year veteran of the business.

"There were predictions a few years ago that independent agencies would not be around now and that banks and insurance companies would consolidate. To a large extent, that hasn't happened," he said.

The experts agree, though, that in time, more fundamental change will come. The metamorphosis is in its infancy -- a work in progress, not a finished project.

In Western New York, some banks already have their own insurance agencies, one of the new era's most noticeable features. First Niagara Group acquired Warren-Hoffman & Associates in 1999, and M&T Bank purchased Matthews, Bartlett & Dedecker in 2000, and Evans National Bank acquired M&W Group, also in 2000.

The old, traditional insurance business ended in 1999. That was the year federal legislation was enacted allowing the broad range of financial services companies, including banks, insurance companies, securities firms and mutual fund houses, to cross over into each other's businesses.

"Basically banks are pro-actively doing investment management and financial planning as are the insurance carriers. It is called convergence," says Jonathan Weir, principal in Weir Financial Resources LLC, a Buffalo executive benefits, business continuation and private wealth planning firm.

"There is a tremendous amount of it between all forms of professional financial services, including financial planning, benefits planning, insurance and investments as well as accounting and legal services," he said.

Weir's firm recently aligned its multi-disciplinary practice interests into a new entity, Level VII Companies, which embodies personal and group insurance, including all forms of group insurance such as health and life, and investment funding for corporations and individuals.

Nelson Civello, Oishei Visiting Professor of Finance at Canisius College, says one impact of reform will be tougher times for insurance agencies, large and small alike.

Larger ones in particular will be eventual takeover targets for banks, he says. They will be appealing because of the new revenues banks would gain from the sale of insurance products and by charging fees for related services.

"I think that part of the equation is set," Civello said. "It will be very difficult for big agencies to survive on their own. All major agencies in due course will be acquired. Bankers have become more marketing-oriented in the recent past and will like the crossover opportunity."

Insurance was much simpler 42 years ago, when Gerald Saxe was starting out.

"Back then," says the president of Matthews, Bartlett & Dedecker, "the state insurance department regulated rates and forms. Generally speaking, a business owner could go to any number of insurance agents and get the same proposals.

"The insurance business also was more personal. We had a number of agents who were very successful in building relationships. You built relationships and maintained them," Saxe said.

In today's multi-product, multi-rate environment, relationships are not the dominating elements they once were, though they still can be decisive.

Change has also come to the relationship between agency and carrier.

As recently as 10 years ago, Buffalo housed offices of most of the major insurance companies that independent agents dealt with. Today, by contrast, only one major company handling large accounts (Boston-based One Beacon Insurance) has a local full-scale service facility. Other companies maintain only local claims or special offices, Saxe said.

"In many cases, we could walk to an insurance company or companies and sit down with an underwriter and discuss an account and the pros and cons. Today, it is all done by fax, the Internet and through the mail.

"In many cases we have people traveling to Syracuse, Rochester and New York City and Boston because that is where the underwriters are. That is where the terms and conditions are determined," he said.

Other differences in the insurance industry today are the rising rates, a growing difficulty some businesses have obtaining some forms of property and casualty insurance such as contractors insurance, and the different exclusions that underwriters are writing into policies.

The latter trend is not limited to terrorism exclusions, something that was precipitated by the Sept. 11 attacks, but also includes environmental issues such as mold and fungus removal from buildings and certain construction techniques. One of the biggest issues today involves what party is liable if a worker falls and is injured at a construction site.

Sept. 11 also accelerated the rise in rates which began in 2000 and is likely to continue into 2003. In insurance, when rates go up it's called a hardening or tightening of the market.

"There really has been a rate war or pricing war over the last 10 years. It was reflected in lower pricing, more coverage, more bells and whistles, in an attempt to attract business," says Paul Babbitt, treasurer and CEO of Niagara National Insurance Agency in Cheektowaga.

Babbitt, who also is a former president of the Western New York Independent Insurance Agents Association and the Independent Insurance Agents Association of New York, says that in today's environment of higher-priced premiums and carriers' more conservative philosophy, "it is more difficult to place business than ever before from the agent's and consumer's point of view."

As a result, he thinks more companies and agents will decide to specialize in certain types of risks.

Michael Tylwalk Jr., president of Warren-Hoffman & Associates in Amherst, says the insurance industry is emerging from the longest soft market in his 30 years in the business.

"Rates are escalating so insurance companies can go back to providing better returns to stockholders than in the recent past," he says. "The big difference between now and 10 years ago is in pricing and availability of insurance at reasonable cost, especially in the construction industry.

"General liability has become a huge issue in New York state. General liability insurance for contractors poses a very difficult problem in cost, and in some cases, availability," Tylwalk said.

"This is not an insurance issue or even a construction issue, though. It is an economic issue. The cost to construct a building in New York state, because of general liability rates, is far greater than in any of the 49 other states," he said.

The net worth of the nation's 100 largest property and casualty companies exceeds $268.49 billion.

Owen Ryan, managing partner of Deloitte & Touche's national insurance practice, says insurers, including life insurance companies, will exploit new opportunities to make money.

"Insurance companies do a good job assessing risk and pricing insurance for their clients. They will find ways to provide it for a fee much the way that banks have created revenue streams by charging fees for new services," he said.