

MARKETING

PROTECTING THE PROTECTORS

Izzo Insurance crafts winning solutions for agents
and their clients in the security industry

By Elisabeth Boone, CPCU



Photo: Karen Izzo with Anthony E. Cairo, general manager of Loss Prevention, Inc., located in Chicago, and field supervisor Capt. Theodis Jackson. Cairo was Izzo's first client 25 years ago.

In the wake of the 9/11 terrorist attacks that destroyed the World Trade Center and brought death and destruction to the Pentagon and to a placid field in Pennsylvania, the long-held ideal of Fortress America vanished in a fiery cauldron. From lengthy searches at airport check-in lines to intense scrutiny at office buildings, Americans are learning what it means to live under the threat of terror. Billions are being spent at the national, state, and local levels in support of governments' homeland security initiatives.

With the threat of terror now a daily fact of life, the demand for highly trained, competent security personnel is growing exponentially. For the owners of office buildings, apartment complexes, warehouses, stores, plants, and transportation facilities, the days of friendly old Joe at the front desk, dozing over the sports section and trading quips with employees, are as unequivocally over as the Stone Age. Throughout the United States, security guard companies are facing a multitude of challenges. Chief among these is the urgent need to train employees to deal with the new and sophisticated threats of terror, from explosive devices in shoes to so-called "dirty bombs" that deliver deadly toxins such as smallpox and nerve gas.

An equally serious concern is the quality of the people charged with protecting us from these terrors. According to a copyrighted article in *USA Today*, 29 states and the District of Columbia require no training for unarmed guards. In 22 states, these guards don't have to be licensed. Efforts in Congress to mandate training and background checks nationwide have come to naught. As a result, many security guard firms are responding to the increased demand for their services by hiring people literally off the street, putting them in uniforms, and placing them on duty with no screening or training. The typical security guard earns just a few dollars above minimum wage, has no health insurance or paid leave, and often is ill equipped to handle even routine problems, let alone deal competently with the myriad of challenges that security personnel confront in the post-9/11 world.

And that's not all. Inadequately screened and trained security guards have been charged with crimes ranging from petty theft to grand larceny, from improper detention to slander, from assault to rape and murder.

And the good news ...?

Given this depressing catalog of realities, a logical question is: How is it possible for security guard companies to obtain insurance? Can this business be written profitably? How have availability and pricing been affected by the double-barreled impact of the hard market and the ongoing threat of terror?

Arranging coverage for security firms and related risks clearly is no task for amateurs--or, for that matter, generalists. Karen Izzo, owner and president of wholesaler Izzo Insurance Services, Inc., in the Chicago suburb of Elmwood Park, brings to the table more than 25 years of experience in insurance and risk management for the security industry. Established in 1980 as a retail agency, Izzo Insurance Services specialized in writing security risks while also offering all lines of personal and commercial coverage. In 1991 Izzo developed a monoline workers compensation program for the security industry. Known as the Gold Shield Advantage™, the program was offered exclusively through Izzo Insurance Services. Based on the success of this program, Izzo began marketing a comprehensive general liability program for the security industry through retail brokers nationwide. Since that time, the Gold Shield Advantage program has been expanded to include employment practices liability insurance and third-party fidelity bonds for security guard firms, security consultants, alarm companies (installation, repair, and monitoring), and investigative agencies. In 1996 Izzo established a monoline division to provide workers compensation for all industries other than security firms.

Today Izzo Insurance Services has more than 20 employees and works with more than 1,400 retail agents and brokers nationwide to serve some 5,000 clients. Amid the pressures imposed by heightened security threats and a tight market, Karen Izzo says the Gold Shield Advantage program is able to maintain strong markets through a commitment to selective underwriting and scrupulous loss control efforts. Class underwriting is not used; instead, each risk is evaluated individually on its own merits.

Filling coverage gaps

By focusing its efforts on the insurance and risk management needs of the security industry, Izzo Insurance Services has been able to design coverages that offer comprehensive protection. "We saw gaps in the coverage provided by other programs," Izzo says, "and we wanted to make sure, for the benefit of our insureds, that we closed as many of those gaps as we could. That's always been the priority for us, and it's what's made us successful."

In evaluating a security guard risk, Izzo says, the agency's program underwriters thoroughly examine the wording of the firm's contracts with its clients. "This is where security guard companies get into the most trouble," she comments. "They will obligate themselves to a client contractually beyond the scope of coverage. For example, the client may ask the firm to indemnify the client for its sole negligence, and the policy excludes that; it's even prohibited by state law. Or a security firm may sign a contract saying its coverage will respond, but it's picking up an exposure that is not covered and for which the firm should not have liability. For example," she continues, "a standard construction contract says that the security guard firm will keep the premises free from litter or debris. Then someone slips on a fruit peel, and the client

says it was the security firm's fault. A majority of claims against security guard companies are premises liability claims that rightly belong to the property owner, not the security firm."

To ensure that a security guard firm does not contractually assume liability that is outside the scope of coverage, Izzo's first step in underwriting a submission is to scrutinize the firm's standard contract with clients. "We call to the prospect's attention wording that may cause problems and suggest alternative wording, then request that the prospect review our wording with its attorney," Izzo says. "Unless an attorney has seen where the claims have developed over the years, he or she may draft a contract that can really get the security firm into trouble," she adds. "We try to fill the holes we see not only in general liability policies, but also the holes that security firms may have as an industry that they don't see until the time of a loss."

Karen Izzo and her underwriters thrive on the challenge of meeting the complex needs of the security industry. "Our goal is to find each firm the most comprehensive coverage with the strongest coverage at the best price," she says. Izzo's longevity in insuring the security industry definitely has not bred complacency. "After more than 25 years, I still learn things every day about the industry, about coverage, about exposures, about contracts. As long as I've been involved in this specialty, I've never had a boring day, because almost every day I see a new contract, a new claim scenario, a new type of exposure or operation for the security company."



Photo: Susan Romberg, office manager, and Michael Jones, program manager.

Retention is high at Izzo Insurance Services. "I still provide coverage for the first security company I ever wrote," Izzo comments. "We've insured Loss Prevention, Inc., in Chicago for 25 years. The owner, Tony Cairo, appreciates our efforts to minimize his loss exposures by reviewing his contracts and evaluating the loss experience of the clients who request his services."

Where claims arise

As mentioned earlier, many security guards are hired without appropriate screening or training, and their actions often give rise to claims against their employers. "The claims we encounter most frequently are false arrest claims," Izzo says. "They involve personal injury situations like false arrest, slander, and defamation of character. If a customer is walking out of a store and a guard asks her publicly if she has stolen something or calls her a thief, the guard is causing the customer humiliation, or personal injury." The second most frequent type of claim against security firms is bodily injury. "If a guard physically harms someone by striking him or restraining him too forcefully, that gives rise to a bodily injury claim, which is covered under our assault and battery endorsement," Izzo explains.

"The third most frequent type of claim is errors and omissions claims," she continues. "An E&O claim arises from any kind of failure to perform that results in bodily injury, property damage, or financial loss. For example, security guards are supposed to make rounds at certain times and make sure doors are locked at specific times. If they don't do what they are supposed to do and a loss occurs, that gives rise to an E&O claim." As noted earlier, security guard firms also face

premises liability claims as a result of assuming inappropriate contractual obligations. For this reason, Izzo's program underwriters not only scrutinize a security firm's standard contract but also examine the client's contract to ensure that the security firm does not assume liability for safety hazards on the client's premises, like a crack in the sidewalk or a burned-out light bulb in a parking lot. "We review the wording to make sure the security guard company does not obligate itself to perform security consultant or loss control functions," Izzo explains. "Probably the most beneficial thing we do for our security guard insureds is to make them aware of their exposures. Once they're aware, they don't accept those risks or liabilities from their clients on a contractual basis."

Underwriting for quality

At Izzo Insurance Services, stringent underwriting is the key. Each applicant is required to provide a list of the kinds of accounts it services. The firm's owners also must supply details of their experience in the security industry and explain how they screen, train, and supervise guards. "We have a reputation for strict underwriting, and it's hard to qualify for coverage under our program," Izzo says. "For security guard firms that qualify, we have what we believe is the most comprehensive coverage available in the industry today. The only way we can offer all the coverages we do and add extra benefits is by maintaining a book of business that's extremely profitable for our carriers. When the book is profitable, the carriers will allow us to provide additional coverages and benefits that we couldn't offer if the book were unprofitable, and to do so without significantly increasing premiums."

Photo: Underwriter Donna Boyd (left) speaks with Karen Izzo (right) at the Elmwood Park office in Illinois.



For this reason, Izzo Insurance Services doesn't accept firms that service liquor stores, bars, movie theatres, and other venues that are sources of claim frequency and severity. Lower-risk establishments, Izzo explains, are office buildings, manufacturing plants, and similar facilities where a security guard is stationed at a door or gate or in a lobby to answer questions, assist with entry and exit control, and is not ordinarily called on to use force. By focusing on these risks, Izzo says, her agency is able to screen out "Rambo" types who may tackle a patron in a nightclub or a convenience store.

Another important underwriting consideration is the wages paid to the firm's security officers, Izzo notes. "We have found that firms with higher-paid guards present less exposure," she says. "In most general liability policies, the premium basis is payroll, so if the average industry rate is six dollars and you're paying your guards twelve dollars, you're paying double the liability insurance rate for the same hours your guards are going to work. Theoretically, you're providing a lower risk to the carrier, because you get a different person for twelve dollars an hour than you get for six dollars an hour. To encourage our insureds to pay their guards the highest wage available, we provide in our policy a wage freeze endorsement. For premium computation purposes, the endorsement limits the payroll to a specified amount per hour. To calculate payroll, the security guard company simply multiplies the hours billed to the client by the payroll rate specified in the endorsement. The resulting "frozen" payroll is used to calculate the premium.

This allows the security contractor to pay his staff higher wages without paying the resulting higher premiums, as would be necessary if the premium were based on the entire payroll."

Shape of the market

In the wake of the September 11 terrorist attacks, Izzo says, the public's perception of a security guard's responsibilities has changed dramatically, with a resulting impact on coverage availability and pricing. "Before 9/11, people generally didn't perceive security guards as people who provided protection. They were usually relied on to direct visitors, open and close doors, and perform other routine, low-risk functions," she explains. "Now that the climate in our country has changed, the perception of what security guards should do to protect us has also changed, so the carriers that routinely would have provided excess and umbrella limits of \$5 million or \$10 million are now either not offering those coverages at all or are writing limits of only \$1 million. Unfortunately, that coverage also has become extremely expensive, with premiums increasing by a factor of three."

Before 9/11, Izzo says, "The odds of actually using up your primary limits and going into excess and umbrella limits were minimal. Now, if someone gets past a security guard with a package that contains a bomb and there's a large loss, the insured may penetrate that excess and umbrella limit. Now, when an account is underwritten, the reinsurers are looking at what exposures that account has to terrorism, both the type of property that's being protected and where that property is located. Now this friendly Barney Fife who used to sit at the front desk and joke with employees is being expected to protect a property from all kinds of risks, including terrorism."

In light of these developments, Izzo says, "Our competing carriers have restricted coverage, lowered limits, increased deductibles, and significantly raised premiums. We're fortunate because our carrier has implemented only modest price hikes." Understandably, there's little competition for security industry business these days. "Only about six carriers in the country write this class, and our competitors' underwriting guidelines are becoming more restrictive on a daily basis," Izzo comments.

Izzo Insurance's markets for security guard risks are A rated Berkley Group subsidiaries Carolina Casualty and Riverport, both of which operate on an admitted basis. In states where Izzo's program filings have not been approved, the agency uses North American Capacity, a surplus lines subsidiary of Swiss Re, and thus is able to write coverage in all 50 states.

Working with agents

As a specialty wholesaler for the complex and challenging security industry, Izzo Insurance Services prefers to work with retail agents and brokers who have developed a strong book of business in this class. "We will accommodate a retail agent who has just an occasional need for our coverage," Izzo says, "but it's easier for us to work with agents who specialize in the security industry. We go through a lengthy and detailed process of educating retailers about coverages, forms, endorsements, clients' contracts, and so on. We don't want a security firm to be harmed by an agent who doesn't have expertise in the industry, so we prefer to work with agents who are familiar with the industry. Those agents know we have the most comprehensive coverage and the strongest markets, and that makes it easier for us to meet their needs."

A key tool for retailers is a checklist that's available on the Izzo Insurance Services Web site. "Brokers have told us that this is one of the most valuable things a wholesaler has offered," Izzo says. "The checklist identifies each of the forms and endorsements that should be included in a

policy for a security firm, plus the specific questions the retailer should ask about that form or endorsement. This helps the retailer understand the differences between our policies and those of our competitors."

The bottom line? For both experienced and less experienced retailers who work with the security industry--including alarm companies, investigative agencies, and security consultants--the go-to market in these challenging times is Izzo Insurance Services. *

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