

Resurrecting “Law Enforcement Loss Control”

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Law enforcement budget cuts mean police aren't responding to traditional intrusion alarms as overworked officers complain, "It is only a property crime and it is insured anyway." This growing attitude towards property crime is bad news for underwriters. It is time to return to our roots and rebuild the alarm/police/insurance partnership and help police make arrests again. The alarm industry was birthed by the insurance industry in the early 1900s. Underwriters pushed policy holders to install intrusion alarms because they worked - underwriters had smaller claims because police made arrests. The alarm/police response concept worked so well that underwriters soon mandated that high-value policy holders such as banks and jewelry stores install UL certified intrusion alarms before issuing a policy. The partnership was successful for all the stakeholders; security companies installed alarms, insurers reduced loss, and police made arrests. At that time, a profitable insurance business model depended on loss control and not just investment income and certified alarms delivered value. In the decades that followed things changed; what hasn't changed is that police still like to make arrests.

While this alarm/police/insurance model was strong into the 70s, market forces began to erode the value of the partnership. During the unprecedented bull stock market, insurers' drive for profitability shifted from loss control to investment-income. Security also evolved during this period; the digital phone dialer appeared creating a mass market for inexpensive burglar alarms. The numbers of traditional alarm systems exploded into the tens of millions, creating a tsunami of false alarms for responding officers. Because over 98% of dispatched alarms were false, alarm response decayed as law enforcement began to consider them a nuisance and waste of resources. Police no longer made arrests as alarm companies focused on selling "deterrence" instead of alarm response. From the insurance perspective, police wasted resources on false alarms and insurers lost interest in alarm systems to reduce claims. The police/alarm/insurance partnership had atrophied and neither the police nor underwriters saw value in traditional alarms. Detroit police recently underscored the scope of this trend.

Detroit Police took an extreme approach when hit with declining resources and decided to end response to traditional alarms altogether. In their opinion, draconian budget cuts meant there simply weren't enough officers to go around anymore. In a feature article on August 16, 2011 in the Detroit Free Press, Detroit Police Chief Ralph Godbee Jr. declared that any triggered alarm will require a verified response before dispatch sends a cruiser to the location. To justify such an extreme approach, Detroit said that since 1991, approximately 30 police departments in the U.S. and Canada have adopted similar policies, including Las Vegas, Salt Lake City, Milwaukee and Madison, Wis., and Fremont, Calif. Chief Godbee sees video intrusion alarms as the solution to more effective policing – using video to verify that the alarm is an actual crime. The answer is technology. Detroit Police Cmdr. Todd Bettison stated, "Our main goal is to respond to crime, and if we can utilize modern technology, then so much the better. We feel very passionate about this. We've been looking at this for a long time and from what we've observed this is definitely the way to go." Degraded alarm response is often presented in seemingly "citizen friendly" language but the result is the same – no response and higher claims. "Broadcast and file" is an example of a policy of non-response. For the Denver police, a "broadcast and file" policy

means that alarms are simply broadcast over the radio and an officer responds only if he feels like it. This fictional response changes, however, if the alarm has been verified with video, in that there is mandatory response and the officers actually race to the crime scene to make the arrest. The good news is that video intrusion alarms are now affordable mainstream technology in the security industry. These video alarms confirm a crime-in-progress for priority response by law enforcement.

It is a new world. A world that is ripe for the rebirth of the police/alarm/insurance partnership. On the insurance side, the stock market crash and economic downturn have radically impacted the insurance business model and profitability. A recent KBW study cites insurers' problem with this revenue stream. "Investment income continued to decline in 3Q11, down 3% on average due to lower portfolio yields and weak results from alternative investments...With expiring yields likely 100 bps higher than new money yields, we view that investment income will continue to decline into 2012 and likely into 2013." Underwriters are again forced to price policies that depend upon loss control for profitability. The downturn has also created new crime categories, such as copper theft, that result in expensive property claims with losses orders of magnitude greater than the scrap value of the stolen copper – recovery is impossible. All this pressure on profitability comes at a time when the premium base is actually shrinking. Insurers again are pursuing "law enforcement loss control."

It is also a new world for alarm companies. While response to traditional alarm systems is decaying, video intrusion alarms are helping police make arrests again - transforming security and providing new value to law enforcement. Low cost video intrusion alarms enable alarm companies to see crimes in progress and dispatch police as an actual eyewitness. Alarm monitoring companies are even sending video clips of the intruders to police cell phones, making them even more effective. This is making a dramatic difference in combatting property crime, a paradigm shift for police and sheriffs. A recent case study published by the IACP (Intl. Assn. of Police Chiefs) Police Chief Magazine documents the results of this new approach at Detroit Public Schools. In the article, Detroit Public Schools installed video intrusion alarms in 30 vacant schools that were targeted for copper theft. During the 2010/2011 school year, there were 101 burglaries in these facilities. According to the report, the police closed 70 incidents with arrests of 123 people - a 70% arrest rate compared to the typical 12% of a good dept. From an underwriter's point of view the results change the game – a few thousand dollars for video alarms saved millions in damage for Detroit Public Schools. These results are not unique, video intrusion alarms are delivering arrests across the country, saving insurers millions.

It is also a new world for law enforcement. The draconian budget cuts of the past few years have some law enforcement agencies even considering non-response to traditional alarms, a dangerous trend, but one thing the cuts have not changed is that officers still love making arrests. Both police and sheriffs embrace solutions that deliver arrests and make them more effective. Law enforcement sees video intrusion alarms as a fundamental paradigm shift and they want to encourage them, so much so that they are directing the 911 dispatch centers to create special dispatch codes that designate video alarms for high-priority response, treating them as a crime-in-progress. Priority response to video alarms means that the historical alarm/response concept has value and works again protecting property and reducing losses. Police respond to video alarms and make arrests that reduce claims. Law enforcement is being proactive, encouraging their citizens to help them protect their property. Sheriff Larry Amerson of Calhoun County wrote a letter to his constituents, "We believe that video alarms offer enhanced protection to you and help us in our efforts to keep Calhoun County citizens safe and protect their property." Law enforcement is making arrests again, and it matters.

The insurance industry is embracing the concept and becoming educated on the details; looking to answer the question, "How do insurers encourage policy holders to use video alarms and police response to reduce losses?" ILCA (Insurance Loss Control Assn.) recently had the Central Station Alarm Assn. (CSAA) present at their annual meeting. The topic was rebuilding the insurance/alarm partnership. The CSAA also presented at the annual meeting of the PCIAA (Property Casualty Insurance Assn. of America) on how insurers and alarm companies shared a common problem; declining police resources fighting property crime means non-investigation for insurers and non-response to alarm companies. One proposal is to bring the insurers, law enforcement and security companies together at a county level to begin to develop some guidelines that could be used by underwriters for specific markets. Another proposal is to form a security/insurer working group that would analyze loss data for specific applications, such as construction, and create guidelines for minimum requirements needed to actually bring the police and stop the losses – an updated reincarnation of certificated alarm systems. In any case, the alarm industry is working hard reaching out to insurance industry associations including the CPCU (Chartered Property Casualty Underwriters), the NICB (National Insurance Crime Bureau), ISO (insurance Services Corp.), PIAA (professional Insurance Agents Assn.), and others to educate them and solicit their support as we attempt to resurrect the partnership that worked so well in the past - security companies installed alarms, police made arrests, and insurers reduced loss.