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SPECIAL REPORT

CASH IS KING:
TOP 10 WAYS TO REDUCE INSURANCE COSTS

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This Special Report was written by Daniel P. Hale, J.D., CPCU, ARM, CRM, LIC, AIC, AIS, API of Marsh & McLennan Agency LLC. Mr. Dan Hale can be contacted at 734-525-2429 or dhale@mma-mi.com. More Special Reports are available at www.mma-mi.com.

INTRODUCTION

Dollars are precious. As many businesses continue to fight for survival and plan for the future, insurance premiums are just one expense that must be scrutinized.

The purpose of this Special Report is to review some of the ways that organizations can reduce their insurance costs while maintaining an appropriate level of coverage.

1. Only Insure Essential Exposures

Many insurance coverages are optional. In order to conserve premium, businesses may want to consider trimming “frill” coverages. Businesses should begin by asking their agent for a breakdown of premium by coverage and then determine which coverages can be eliminated. Businesses should consider self-insuring those exposures that would not be catastrophic to operations. By self-insuring nominal exposures (i.e. paying for losses out of cash assets), insureds may be able to conserve a substantial portion of their premium.

2. Update Building Values

Property premiums are based on reconstruction cost. Building insurance values must reflect the actual cost to repair or replace the property. Arguably, the slow down in the construction industry as well as other factors have reduced reconstruction costs.

Over-insuring building values will not achieve a better settlement because the insurance carrier will only pay up to the actual replacement cost. Building values should be scrutinized in order to ensure that the limits are not overstated but rather a fair representation of the actual replacement cost.

3. Update Business Personal Property Values

As with Building insurance, the premium for Business and Personal Property coverage is a function of the coverage limit. When determining an adequate property limit, insureds must determine actual cost to replace their inventory, raw materials, work in progress, stock, machinery and any other personal property exposed to loss. One way to analyze property values is to develop a schedule showing each location and its corresponding property exposure by category.

Unlike building coverage, machinery values need not reflect that actual cost new, but rather the cost to replace that machinery with its functional equivalent could be used. In recent years, the used equipment market has been flooded with supply. This used equipment can be acquired for far less than its original cost new. Thus, insureds should review their business property limit to ensure that it is not overestimated and that it reflects the actual replacement cost.

4. Update Business Interruption Values

Most policies include coverage for business interruption losses arising out of a covered cause of loss. For example, if there is a fire at your facility, the policy might cover the interruption in revenue, loss of profits, continuing expenses (such as mortgage payments, taxes, or rent) and extra expenses (such as the cost to set up operations elsewhere or the cost of overtime to catch up on lost time).

The appropriate limit of Business Interruption coverage is difficult to determine, especially when revenues are inconsistent and costs are uncertain. One way to reduce premiums is to lower your business interruption coverage to reflect current conditions.
In order to assess your business interruption limit, you should complete a business interruption worksheet which details some of the exposures that should be considered.

5. Maintain Blanket Property Coverage

Property insurance can be written on a blanket basis which provides for a single limit for both building and contents rather than separate limits. In addition, some companies will also combine locations to create one blanket limit for all exposures.

The advantage of blanket coverage is that by combining limits and/or locations you have the benefit of one large coverage limit which is available for building or property at any one location. In short, this allows for greater flexibility in determining individual property values.

6. Exclude Ordinary Payroll

Insureds have an option in developing business interruption values to exclude ordinary payroll for people other than executives, supervisors or persons under contract. If excluded, the insurance company will not provide coverage for these payrolls following a business interruption loss. This means that most employees will have to be laid off after a claim and it may be difficult to rehire them when the business is ready to be reopened. In the alternative, ordinary payroll coverage can be limited if necessary (to 90 days, for instance) rather than excluding it altogether.

7. Maximize Payroll Capping

Premiums for Workers' Compensation coverage are determined by payroll levels. One way to reduce Workers' Compensation premiums is to take advantage of payroll capping rules for company officers and partners or to exclude coverage for partners and officers altogether. For purposes of deter-mining Workers' Compensation premiums, officer payrolls can be capped at approximately $70,000, no matter how much they actually earn.

8. Apply For Premium Dividends or Use A Self-Insured Group Fund

Some Workers' Compensation policies will offer dividend plans that could return premiums to you in the form of dividends if you have a favorable claims year. Usually, these programs are only available to insureds with extremely high premiums or those participating in a self-insured fund. Small business should inquire whether their trade or industry association has access to a self-insured fund.

9. Consider Higher Deductibles

Increased deductibles for Property insurance can provide cost savings that will minimize insurance premiums. It is important to remember that insurance companies take into account loss history in determining policy premiums. The more claims you submit, the higher your premiums will be. With this in mind, it is generally not advisable to submit relatively small insurance claims. Thus, the insured should take advantage of the premium savings associated with higher deductibles.

10. Make Midterm Changes

Barring major developments, most policyholders do not make changes to their insurance coverage during the policy term. In reality, revenues, inventories, and payrolls can change frequently throughout the life of the policy.

Annual premiums are usually based on estimates or forecasts that are made at the time of renewal. Businesses that encounter major mid-term changes should update their policy limits to reflect the reduced exposure and take advantage of any cost savings.

CONCLUSION

There are a number of ways for businesses to reduce their insurance expenses while maintaining an appropriate level of coverage. At a time when each dollar matters so much, policy coverages and limits should be scrutinized regularly to ensure alignment with actual exposures.