

## Insurance cost containment for tough economic times - Part 1

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During tough economic times there are ways to trim insurance expenses without losing important protection for your company. While it is likely that the current "soft" insurance market has caused your insurance premiums to come down, insurance remains a major expense item in most company's budgets. Every organization wants to maintain adequate catastrophic protection and at the same time, keep insurance expenses down. By knowing the appropriate alternatives, many organizations can enjoy reductions in their insurance costs, yet remain secure knowing they have not eliminated coverage for their most critical exposures.

Here are some practical techniques to help a company evaluate its insurance program expenses.

### Consider Increasing Deductible Amounts to Reduce Premiums

In strong economic climates, insurance premium expenditures may not capture as much management attention as other corporate expenses might. As expenses generally have increased and cost containment efforts are significant, controlling insurance premiums becomes a more strategic effort. It might be appropriate to evaluate whether using higher deductibles effectively reduces insurance premiums. Analyze the risks vs. the reward of more available cash for operations with higher deductibles. If you accept the consequences and emphasize financial protection for a catastrophic event vs. emphasizing coverage for smaller losses, your insurance premiums, and with good fortune your total expenses, will go down.

Property insurance is most frequently considered when looking at higher deductibles to reduce insurance premiums. Premiums for other types of insurance, however, can also be reduced by deductibles. For example, if your company has a large vehicle fleet, the cost of automobile insurance takes on more significance within the realities of today's business climate.

By increasing physical damage deductibles or self-insuring this exposure, you can assume more risk of a known magnitude and save significant up-front costs. Evaluate your past loss experience, examine how many vehicles you have, and calculate the premium savings vs. the increased assumption of risk.

There are many different methods of employing deductibles to reduce insurance premium expenses. Large companies should evaluate different plans such as flat deductibles, annual aggregates, and franchise deductibles. Keep in mind that to realize your immediate and long-term plans with higher deductibles, you need to employ strategies for preventing and controlling loss exposures.

### Identify Those Insured Risks That Could be Assumed; Not All Insurance is Necessary

A firm's desire to insure in certain areas may have little to do with actual risk to the firm. Review past losses and evaluate the likelihood of a future loss occurring for given exposures. Examine what the maximum financial impact could be and determine to what extent the risk could be assumed. What is the worst case financial scenario from not having certain kinds of insurance?

Make sure you are not insuring against exposures where you are already sufficiently protected by

your business practices. Consider the following examples:

\*A firm was maintaining expensive insurance for loss of money and securities. For the amount at risk, they could certainly afford to absorb a loss. In this situation, the likelihood of theft was remote in light of their physical and internal controls, so it made sense for the firm to eliminate the coverage and its substantial premiums.

\*Another company was maintaining data reconstruction insurance. Yet with appropriate record back-up procedures and redundant systems in place there was no need to purchase this coverage. Part two will appear in the August 8th edition of NEREJ in the Appraisal and Consulting section

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