



CLIENT ADVISORY

Financial Management

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Manage Your Insurance Premiums Wisely: *Keep Rating Info Aligned with Current Operations*

Managing cash flow in today's chaotic economic environment is crucial to every business, regardless of size or industry. Cash is king and since insurance costs are a major component of your monthly expenses, making sure they are based on your current operating environment is a must.

ACTION:

If your company experiences significant changes during your policy term, you can request an adjustment by your insurance company.

Despite Washington's recent efforts to increase commercial lending via its stimulus programs, access to short-term credit for operating capital continues to be a difficult proposition even for the most reputable of firms. One strategy to maximizing your cash flow is to closely monitor commercial insurance underwriting data such as payroll, sales estimates and inventory levels.

Align Rating Information with Current Operations

Most insurance brokers request updated payroll and sales information prior to policy renewals. However, assessing the accuracy of your rating estimates during the policy period could mean a significant decrease in your monthly payments or an immediate return of premium for those who pay in full at policy inception.

Companies throughout the nation, as well as our local area, continue to adjust staffing levels and sales projections to adapt to the changing marketplace. If your company experiences significant changes during your policy term, you can request an adjustment by your insurance company. Be prepared to provide underwriters with details and explanations to support your new estimates. By asking your insurer to adjust payrolls downward at the time of a change in workforce, insureds may generate an immediate and positive impact on cash flow. *Why wait six, nine or 12 months for a return of premium when you can affect the change today?*

Sales & Payroll Changes

Sales and payroll estimates are the primary rating factors for general liability coverage. If your budget projections for these items are lower than previously estimated, ask your general liability insurer to adjust these factors accordingly.

Inventory Levels

Monitoring your inventory values against insurance limits is another means of managing cash flow. If you are not stocking your warehouses or stores as initially expected, submit revised inventory valuations to your insurer. Keep in mind that your inventory valuation should, in most cases, represent the highest inventory level during the policy period. For most businesses, insurance premiums for inventory are not as large as workers compensation or general liability, therefore the return of premium or monthly reduction in payments will not be nearly as substantial.

Property Values

A note of caution: Reducing building values to reflect depressed sales prices in the local real estate market is not a good strategy for improving cash flow. Your property insurance policy is based on actual cash value (ACV) or replacement cost (RC), neither of which bears a direct correlation to real estate sales. Inappropriate building valuations can result in serious problems in the event of a claim, but that's a discussion for a future article.

ACTION:

Sales and payroll are the primary rating factors for GL coverage. If budget projections are lower than previously estimated, ask your insurer to adjust.

Higher Deductibles

Another expense control and cash flow strategy worth discussing with your insurance broker is higher deductible levels. If you have good workers compensation claims experience, you can reduce premiums in Georgia by requesting a deductible up to \$2,500. Higher deductibles on physical damage (*comprehensive and collision*) coverage for your fleet and eliminating physical damage coverage on older vehicles are two other areas to consider. Increasing deductibles on property and inland marine coverages can also provide cost savings; however, the key to a successful deductible strategy for all coverages is a thorough review of your claims experience. Your premium savings should always be greater than the discounted cash value of your expected claims expense.

Summary

Changes in business plans are a routine part of today's environment. Most insurance policies are rated on a "provisional" basis which allows for premium adjustments due to differences in estimated and actual rating data. Adjusting your insurance rating information to reflect changes in your business is a good management practice and will improve your cash flow.

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