Insurance Strategies in a Recession

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In these current economic times, with stiff competition for work, cost cutting is a top priority for contractors. One of the areas that many companies will look at to save costs is their insurance. However, caution is needed because imprudent cost cutting with your insurance could lead to gaps in coverage or having coverage placed with financially questionable insurance companies.

The following ideas can be helpful hints to save costs and still manage risk without endangering your company:

- Know your carrier and its financial strength. Know the A.M. Best rating of your insurance carriers. The recent troubles of some well-known insurance carriers and the continued uncertainty in the rocky economy have brought this often overlooked part of the insurance purchase decision to the forefront. A.M. Best provides a letter rating which is a measure of the rating company's belief in the direction and quality of the insurance company's management, while the numerical portion of the rating reflects the amount of capital available to pay claims. The higher the numerical portion, the higher the level of confidence that an insurance carrier will be able to respond years from now when a claim is made. Finally, you should know if you are insured with a surplus lines carrier or an admitted carrier. Surplus lines carriers are not regulated by the Office of the State Insurance Commissioner and policyholders are therefore not protected by the State Guarantee Fund, which depending on the State and coverage provided may pay up to $300,000 per claim in the event that an admitted insurance carrier becomes insolvent. Without the guarantee fund you may be on your own.
- Get to know your underwriter. Most contractors have gotten to know their bonding underwriters very well, but couldn't name their insurance underwriter. During tough times in which you may need assistance from your carrier it is helpful for the underwriter to feel a personal connection with your company and to understand your circumstances in some detail.
- Cut coverage from the bottom rather than the top. Take on more risk by considering larger deductibles rather than reducing the overall limits you have on your policies. You need insurance to protect the catastrophic loss of all your assets in the event of a truly serious claim. Deductibles can be increased on most liability policies up to $25,000 or in some cases $50,000 without securing them with collateral. Higher deductibles on equipment and property coverage should also be considered. Be careful to compare the payoff in premium savings with higher deductibles against your ability to handle losses and make the deductible payments.
- Emphasize Safety. The most effective way to reduce insurance expenses is to proactively avoid losses. Review your safety procedures and manuals and ensure they are up to date. During tougher economic times claims for wrongful terminations and employee dishonesty tend to increase so it would be a good time to review your employment practices procedures, particularly if you are forced to begin laying people off.
- Review loss history. Just as it is important to check your individual credit score once a year and correct any inaccuracies, it is equally important to your insurance rates to check your company loss history. An inaccurate loss history report could cost you money. Your loss history is your annual report card that is viewed by the underwriters and does impact your annual rate. Higher reserves should be questioned and reduced if at all possible, while old claims should be closed and duplicate claims eliminated.

- Develop a renewal strategy. We have all heard the old adage: failure to plan means that you plan to fail. It is important therefore that you and your broker develop a comprehensive renewal strategy. Discussions with underwriters need to start well in advance of the renewal date. The following cost cutting strategies should be explored:

  a) Consider combining coverages and sharing limits. For instance, if you have separate pollution and professional coverages, they can often be combined for a savings.

  b) Ask for multiple year deals to lock in rates before insurance premiums go up.

  c) Lower your minimum earned premium percentages. Insurance companies will negotiate these. Providing a lower estimate will ensure you do not pay for coverage that isn't needed. The insurance company will make adjustments in the audit to true up premiums.

  d) Suspend insurance coverage for vehicles that are not being used. No need to insure a deactivated vehicle. However, take care to "decommission" such a vehicle to ensure it is not inadvertently used without proper coverage.

  e) Eliminate physical damage coverage from your fleet vehicles or portions of your fleet that are older or have lower values.

A dedicated, full service construction broker will be able to help you with all of the above. Make sure your broker also provides claims and risk management assistance. You should be familiar with all the services that are offered and make use of them.

During these tough times it may be tempting to drop important coverages and reduce limits, but it is critical to calculate the benefits against the potential exposure. You and your broker should be pro-actively finding creative ways to cut costs to make you more competitive, but without assuming excessive risk. The construction professionals at Parker, Smith & Feek welcome the opportunity to sit down and talk to you about all the ways we can help you manage cost, become more competitive and protect everything you have worked so hard to gain.