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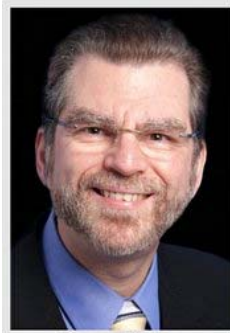
INNOVATION: Insurance costs are killing us

By Steve Epner

Friday, March 19, 2010



Recently, I discussed the ever rising cost of insurance with Bill Goddard, director of insurance consulting at Brown Smith Wallace LLC. Increases in premiums are hurting everyone. It is not always easy to find the "right – best" deal. Bill spent many years on the inside, finding the necessary coverage for one of St. Louis's premier companies.



Steve Epner
Innovation

CEOs, CFOs, or the owners in most companies that do not have full time insurance professionals on staff, do not have time to understand all of the ramifications of various insurance options. They do not want to burrow through the paperwork and translate the small print to determine what the best deal is and how much is enough protection for any given business.

Most companies bid out their insurance. However, just getting bids from your friendly insurance agent does not guarantee you end up with the most cost-effective program for your situation. There are hidden costs that average business owners will not recognize.

Smaller company executives have little or no knowledge of how to calculate the proper levels of deductibles that are right for their business. Each business has its own risks, some

unique, and a detail analysis can help you identify the correct coverage and cost for your business.

To make sure you buy enough protection in the right areas for your business, consider these questions:

- Do you have business interruption coverage that will cover costs while you are unable to operate for specific reasons?
- What if your place of business burns down? Do you have coverage to pay for temporary facilities, temporary phone systems, computer systems, and other support functionality?
- What if one of your suppliers is unable to fulfill their obligations to you and prevents you from doing business?
- What if ...? What if...? And what if...?

Do you have safety programs in place that can reduce the cost of workers' compensation coverage? How about safety programs to protect you and your customers from recalls or product safety concerns?

Are there people enrolled in your health insurance plan who are not eligible? Do you have the right health insurance plan design? Does your health insurance plan design encourage employees to be smart consumers?

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Does your company provide wellness programs that can reduce the cost of medical premiums? Is your third-party claims administrator paying claims properly? Can this person be more efficient?

Getting insightful answers to these questions can lower costs and ensure that you have proper protection for your business. One big opportunity may be to participate in insuring yourself.

Consider the option of setting up a captive insurance company. It works for small and medium-sized businesses as well as Fortune 500 companies. There are both insurance and tax benefits to forming a captive insurance company.

Essentially, you can finance your insurance costs more efficiently by using your captive to insure your business — the profits stay in your insurance company.

You can finance traditional insurance, like workers' compensation deductibles or insurance risks that are more complicated and hard (expensive) to purchase, such as pollution liability. An independent consultant can determine whether a captive insurance company will work for you and help you take advantage of this lower cost method of buying insurance.

All companies can benefit from the focused services of a professional (who is not paid a commission) to help figure out how to best purchase insurance. You may want to consider obtaining this expertise from an independent risk manager if no one in house has the background or experience.

Most companies don't review their policies often enough. Even if you think you have a great insurance program and you trust your broker or provider, you don't know what you don't know. As Bill told me, "I've never walked into a company and not found money lying on the table in this arena. It is a shame, but very few consumers of insurance really understand what they are buying."

An independent risk manager can work with your accounting department or CPA to identify potential areas for insurance savings. The best will be able to quickly identify low-hanging fruit that can reap immediate savings and more than pay for ongoing assistance.

Whenever I am working with companies on projects related to changing the status quo, I like to give them a favorite quote from Mark Twain: "it is not what you don't know that will get you in trouble, it is what you know for sure that just ain't so."

Open your mind to the possibilities and see how valuable it can be.

Steve Epner is founder and president of the Brown Smith Wallace Consulting Group. The company assists clients with the integration of strategic business planning, information systems and tactical requirements. Epner currently is an Innovator in Residence at Saint Louis University. www.bswllc.com

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