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INSURING YOUR BUSINESS

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THE DOs AND DON'Ts OF SAVING MONEY ON INSURANCE *By Michael R. Kelley*

Everyone is looking to cut costs. Since insurance premiums rank in the top 4 of business expenses for most companies, cutting insurance coverages is high on the list of areas to scale back. But, there are smart and not-so-smart ways to save money on insurance coverages. Here are some tips:

DO

- **Increase your deductible or self-insured retention.** You will not be covered for smaller claims, but will maintain coverage for larger claims that could adversely affect your business. The higher the deductible, the lower the premium. Talk with your agent or broker to find the right ratio for you.
- **Shop Around.** Many businesses and individuals are slashing coverages, so the insurance market is down overall. Companies are offering very competitive prices to either lure you away or keep your business. Don't hesitate to shop around for the best price for the coverages that you need.
- **Conduct an insurance audit.** Do you have the right coverages? Are there coverages that you are paying for that you do not really need? Most insurance is sold using the same forms for a large group of often diverse businesses and individuals – a one-size-fits-all approach. Tailoring insurance coverage to your needs could result in cost savings on your premium. The McNees Insurance Recovery and Counseling group regularly conducts such audits.
- **Focus on Safety.** Some policies, like workers' compensation, are priced directly based upon claims experience. But, virtually all policies will cost more if you have heavy claims under the policies. Many will cost less if you consistently keeps claims to a minimum. So, make safety a priority with your employees and your family members. Safety equals savings on insurance premiums.

DON'T

- **Eliminate or reduce needed coverages.** Many insureds are tempted to reduce coverage amounts or eliminate necessary coverages to save money. You should avoid minimal up-front cost savings that reduce or eliminate coverages for large losses. In tight economic times, having the right coverage for your risks becomes even more important. In good economic times, you may be able to recover from even a large uninsured loss. In bad times, it is much more difficult to overcome large losses. Make sure that you are covered for the large loss exposures.
- **Reduce or eliminate UIM/UM coverage.** This is the auto coverage that pays you if you are injured in an accident, the other party was at fault, and the other party had no or insufficient insurance coverage. We have seen clients lose the right to $500,000 plus in insurance coverage to save $50 a year on premiums. That is not a smart bargain for policy holders.
- **Elect Limited tort.** This is auto coverage that limits your rights to seek recovery from a third party unless you suffered a "serious injury." While premium savings certainly vary, the typical insured will save less than $100 per year in return for forfeiting the right to recover damages of up to $100,000 or more. Not a good bargain. If you do need to cut either UM/UIM or tort liability, we would recommend electing limited tort and not reducing UM/UIM. At least with limited tort, you still have full coverage in the event of a serious injury. ■

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THE RISING COSTS OF DISASTER: HOW TO OBTAIN PROTECTION FOR FLOOD RELATED INCIDENTS

*By Dana Windisch Chilson and Kelly Horein**

As flooding in the United States continues to escalate, so do the costs associated with the phenomenon. Recent flooding of the Mississippi River, for instance, has resulted in catastrophic damage to countless homes and businesses. Although much of the recent damage has occurred in southern states, such natural disasters can be found all over the country. In fact, Pennsylvania has claimed more losses under the National Flood Insurance Program (NFIP) than most other states.

Today, the federal government, through the NFIP, subsidizes the vast majority of flood insurance policies. Private insurance companies generally only sell and administer these policies. To be clear, insurance companies can, and often do, write flood insurance policies. Even in such cases, however, the Federal Emergency Management Agency (FEMA) still pays the claims through the NFIP.

Since the creation of the NFIP in 2008, Congress has extended the program ten different times, each on a short-term basis. Congress has even permitted the NFIP to expire twice, including once in June 2010. Although Congress retroactively renewed the NFIP late last summer, the government had temporarily stopped issuing new policies. As a result, it became nearly impossible for home and business owners to obtain flood insurance during that time.

Unless Congress once again extends the program, the NFIP will expire in September 2011. In mid-July, the House of Representatives approved legislation to extend the NFIP for five years. It is still unclear whether the Senate will pass the bill, and thus the future availability and reliability of flood insurance policies is equally unclear.

In addition to the difficulties presented by the recent expiration (and subsequent reinstatement) of the NFIP, the rising costs of premiums may present another barrier for many home and business owners looking to buy flood insurance. In 2005, the NFIP incurred more than $17 billion in losses due to Hurricanes Katrina and Rita. To help the NFIP minimize its debt, Congress has suggested various solutions, including the implementation of premiums and placing more responsibility on private insurance companies.

Other factors may also cause a rise in flood insurance premiums. Natural disasters across the country – and even around the world – may increase the cost of reinsurance, which directly affects the rates of insurance companies. Moreover, some insurance companies have factored the rising cost of oil and building materials into their policies. Despite the potential hardships in acquiring it, flood insurance may be a necessity for many homeowners and businesses. Flood insurance is the only policy that covers direct damage from flooding. Purchasing flood insurance, therefore, may prove to be an invaluable investment – even if the property is not located in a flood zone. Nearly 27% of all flood claims result from homes or businesses outside of flood zones.

It is important to note that, despite the potential difficulties, flood insurance is currently available. In the event that flood insurance cannot be acquired, however, it is important for property owners to be familiar with their coverage under their current home and business policies. Homeowner's insurance does cover some forms of "sudden and accidental" water damage. Common examples of covered damage include:

- Water damage resulting from rain that entered through a leak in a roof;
- Damage caused by a homeowner's own plumbing system or faulty appliance;
- Loss, theft or fire resulting from water or flood damage; and
- Certain damage to property caused by freezing groundwater.

Property owners may be surprised to learn that homeowners' policies often do not cover damage from overflowing sewers, sump pump failures, or swimming pool leaks, without a special endorsement or rider. Additionally, policies may not cover damage resulting from broken water pipes if caused in part by a homeowner's failure to reasonably maintain his plumbing system.

Every insurance policy contains different and specific exclusions. The McNees Insurance Recovery and Counseling group works to help clients understand their insurance policies, submit claims and, where appropriate, sue insurance companies for failing to honor legitimate claims. Please contact the McNees Insurance Recovery and Counseling group for more information. ■

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