

# Self-audit for insurance success

How to protect your company and get the best insurance deal at the same time **By Bridget McCrea**

**E**very business owner knows that he or she needs insurance coverage, but very few understand the importance of frequent self-audits, which can reveal coverage gaps, over-insurance, redundant coverage and other issues that are much easier to resolve before a claim situation than after. Sometimes, all it takes is one type of insurance to make all of the difference in the wake of such events.

“Failure to understand your business interruption exposure is the leading cause of business bankruptcy, after fire or other covered claims,” says Eric Ewing, CEO, NexTier Insurance Services LLC in Wexford. “It’s one of the smallest components of a company’s insurance policy, yet it’s so vital to its long-term survival.”

*Smart Business* spoke with Ewing about how companies can assess their own risk using a simple self-audit process that can reveal insurance gaps and other issues that, if addressed now, can help them ward off problems down the road.

## What is a risk management program?

Risk comes in all varieties and flavors. One of the criticisms of American business is that we don’t always address all of our business risks. Small businesses in particular, because of their concern about economic survival, fail to address many of the risks that they take, and that is one of the leading causes of early business failure. The key is to look at your company on a holistic basis by paying attention to all of the different ways that it touches the various constituencies. Understand how your business interacts with vendors, customers, competitors and employees, and then create a risk management plan that addresses all the risks your business encounters.

## Why should companies be thinking about risk assessments right now?

As a company grows, one area that’s often neglected is property insurance, which protects not just your buildings but your equipment and product. Too many companies just throw a number out there,



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assuming that when the day comes, they’ll deal with the problem. Usually it’s too late, particularly in today’s environment where companies are dealing with just-in-time deliveries and very lean supply chains. If your business flow is disrupted, the ripple effect takes over, and your customers and vendors are all affected.

## How can a company go about assessing its risk management programs?

You can use this 10-point self-audit. Answer “no” to four or more of these questions and it’s likely that your risk management program is in need of an overhaul:

**1.** Are your insurance carriers rated at least A-VIII by A.M. Best? (You want to be with a quality company that has financial size and staying power.)

**2.** Have you reviewed the insurance certificates from vendors and subcontractors for compliance with contract terms such as: Best’s rating; limits of liability; coverage; and if you are named additional insured / loss payee where appropriate?

**3.** Do you annually assess the magnitude of your “total cost of risk” (premiums, deductibles and administrative costs)?

**4.** Do you explore pricing of coverage at various deductible/retention levels?

**5.** Do you have a strategy for maximum annual aggregated self-insured retentions? (Provided your firm is of the size that lends itself to self-insurance, you’ll want to assess whether its exposure is at the right level or if it needs to be adjusted.)

**6.** Based on your loss history, retention levels and cost of risk transfer, are your insurance placements economically efficient for your corporation?

**7.** Has a risk management philosophy been developed and communicated to all appropriate levels of management? You are responsible for the actions of your employees who drive for your business, even in their own cars. If an employee has an unsuitable driving record, you can be exposed to uninsurable punitive damages.

**8.** Do you review underwriting submissions to assure that your risks are appropriately differentiated from your competitors’ and not just done on accord forms (industry-standard application forms)? Have you made certain that you have received all available credits for good experience and safety programs, like Pennsylvania’s Certified Safety Committee Credit Program?

**9.** Do you have a written broker/agent “services agreement” that is evaluated annually?

**10.** Have you conducted a broker competition or validated your broker’s services in the last five years?

## What else should firms know?

Companies must deal with insurance in a very realistic manner.

The right time to examine your company’s risk and insurance program, however, is before the claim. Look at all of the different ways that your company is exposed and find an effective way to deal with each of these risks. Sometimes, this could mean ignoring a risk that happens only one time in a blue moon, and other times it means stepping up coverage in a certain area.

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