Is Valuable Cash Tied Up in Your Insurance Programs?

By Joseph A. Rinaldi

Many high deductible, retrospectively rated and captive insurance programs require the insured to post cash or letters of credit to secure the future payment of self-insured losses. After a number of policy years, accumulated liabilities should stabilize. However, should you switch insurance companies, change deductibles or sell or close a business, these liabilities should eventually decline or "run off." Unless asked, the insurance companies holding your money may take their time returning it. The opportunity cost of tied up cash and letters of credit combined with other program expenses can be significant.

Cash Recovery Checklist

Tactic #1 Reduce or eliminate excessive escrow accounts held by your workers compensation and liability insurance carriers for self-insured losses.	
✓	Conduct an actuarial review of your ultimate loss costs.
✓	Utilize the actuarial review results to negotiate with insurers for reduction your escrow requirements.
✓	Project the cost of capital savings.
Tactic #2 Reduce or consolidate Letters of Credit collateralizing your retained losses.	
✓	Conduct an actuarial review of your ultimate loss costs.
✓	Utilize the actuarial results to negotiate a reduction in the LOC's required by your insurance company or fronting carrier.
✓	Project the savings in bank LOC fees, which can range from under 100 basis points to as high as 5 percent, depending on your credit rating.
✓	If you have a captive insurance company, consider negotiating for a parental guaranty as a replacement for the LOC.
Tactic #3 Close out or buy out old retrospectively rated policies.	
✓	Conduct an actuarial review of your ultimate retained loss costs.
✓	Perform a present value analysis of these retained losses.
✓	Project the claim adjustment service fees and premium tax charges and add them into the final cost projection.
✓	Negotiate with insurer to close the retrospective plan, and either pay for it with cash, or purchase a loss portfolio insurance policy from a special financial products insurance company.
✓	Project the after-tax savings achieved by accelerating payment for liabilities for which you may already have accrued in prior periods but were unable to tax-deduct.

Montclair Risk Advisors can formulate a financial plan that incorporates their knowledge of loss-sensitive insurance products with claim audit and actuarial skills and their experience negotiating financial solutions that free up cash. For more information, contact Mr. Rinaldi at JAR632@ATT.net or visit www.RiskConsult.com.