



WHY DO I NEED AN INSURANCE AUDIT?



M: Davis GROUP
COMMERCIAL INSURANCE CONSULTING

111 Howard Blvd, Suite 202
Mt. Arlington, NJ 07856
P 973.770.6700
F 201.701.0202
www.mbdgrp.com

TABLE OF CONTENTS

- 3 What is an Insurance Audit?
- 5 One Size Doesn't Fit All
- 8 Some of the Things We Look For
- 11 What About Brokers?
- 13 Just the Beginning

WHAT IS AN INSURANCE AUDIT?



WHAT IS AN INSURANCE AUDIT?

How well do you really understand your company's insurance?

While insurance is a fundamental part of nearly every business, we find that it's something very few business owners and senior managers are truly comfortable with. If you're running a successful business, you likely have a sophisticated understanding of your company's products, services, assets, leases, financial structure, client base, and regulatory oversight, not to mention the many other things that make your business successful. But if you're a typical manager, you probably don't understand your insurance as well as you understand the rest of your business.

What kind of insurance do you have, and why do you have it? How does it fit into your company's strategic needs? Does it help you run a safer company? Does it address your company's most specific existential, structural exposures?

Do you know the answers to these questions? Or does your attention wander and your eyes glaze over whenever you even have to think about insurance? Is it something that you buy grudgingly, thinking that "it's a necessary evil ... my bank requires me to have it ... it's confusing, but of course I have to buy it ... " Is there any other aspect of your business that is so fundamental, so expensive, and so potentially vital, yet about which you know so little?

The insurance audit helps address this knowledge gap. When we perform an audit, we help you understand your insurance, how it works, what it does and doesn't do, how it fits into your company's overall strategy, and how, if necessary, it should be fixed.

Preparing an audit for our clients is usually a four- to six-week process consisting of interviews, questions, analysis, and lots of reading. A large part of the insurance audit process involves us getting to know you and your company so that we can better understand what your needs are, which in turn helps us all understand what changes in your insurance and risk management programs can best address these needs. We'll then prepare our report and present it to you personally, and give you the chance to ask as many questions as you'd like. And at the end of the process, you will understand your insurance much better, and have a clear sense on how to improve it.

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ONE SIZE DOESN'T FIT ALL



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*How do we go about learning about our clients' work?
How can the insurance needs of different companies be
so different from each other?*

Every company is different, even those operating in the same fields. Take pharmaceutical research, for example. A small, independent biotech startup may not invest in the most expensive diagnostic equipment; they might instead elect to send samples out to larger labs, or else use other analytical methods when available. On the other hand, a very large research facility might have multiple devices available, perhaps even with a staff dedicated exclusively to their upkeep and more advanced protocols. These two companies, in the same business, have very different exposures, creating different insurance and contractual needs.

Or consider a school that collects its tuition revenues at the start of the term. If the school has a loss in early September that forces a temporary shutdown, the impact might be much worse than if the same loss had happened in late June. The same logic applies to a seasonal business, such as a retailing, whose inventory and credit lines peak in August. The date of the loss impacts its severity.

Or finally, consider a technology company that hosts data or sensitive personally-identifiable information, or else performs analytic research on behalf of others. Are this company's "assets" truly physical, or is the exposure mostly cyber and software? If cyber and software, what are the perils that could corrupt or destroy their data, and does the insurance program address these perils? Here, the nature of the company's assets dictates the need for an entirely different class of insurance product.

Why would we expect different companies, in vastly different industries, to have the same insurance needs? A standard insurance policy—even one whose limits and deductibles have been selected with respect to assets and exposure—isn't necessarily strategically suited for your business.

**EVERY COMPANY
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Of course, most companies, especially smaller ones, don't have full-time employees managing their insurance programs. In fact, the employee responsible for making a company's insurance decisions is not usually an insurance expert. This can often make it difficult to determine whether a particular policy is truly necessary, or whether another one is properly designed. As a result, virtually all companies have insurance programs that are not optimized for what they do. Some might only have minor issues, such as unnecessary, overlapping coverage or unusually high deductibles, while others might have critical exposures that they aren't even aware of, simply because it hasn't occurred to them that such a particular risk existed.

An insurance audit isn't ultimately about reading insurance policies. It's about reading insurance policies in the context of your company. By undergoing an insurance audit, you get a detailed understanding of all the individual elements of your insurance program and how those elements interact with your business.

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SOME OF THE THINGS WE LOOK FOR



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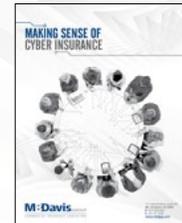
Generally, if we've been engaged to complete an insurance audit for a particular company, it's likely that they already have an insurance program in place. However, that doesn't mean that that program provides appropriate coverage. Of course, exactly what "appropriate" is depends on the context.

So we start with a lot of questions about your business. Does your company handle physical assets, and thus require a traditional asset-based insurance solution? [Or, does it have more of an intellectual property and data exposure, requiring a different type of insurance and risk-management treatment?](#) If your data is compromised, or if your records are breached, what obligations do you have to your customers, or to the government? Do you know how much it will cost to fulfil these obligations?

Does your company provide services to others, on their sites, thus making you contractually responsible for their facilities and personnel? What other types of contracts do you have, and what do these contracts obligate you to do in the event of an accident or financial loss? Does your company work with unusual assets, such as unique equipment, or with proprietary processes that could create insurance claim valuation issues?

Do you have your assets all in one place, or are they spread around at different locations? Are your products or raw materials potentially dangerous? Are your facilities isolated, or are they located in populated, urban areas? Do your people travel extensively, or internationally? [Is your business a potential terrorist target, or located near a potential terrorist target? Do you have non-traditional exposures in other countries, and are exposed to social or political unrest?](#)

After we've gotten a thorough understanding of your business, we'll look at your insurance policies, through the specific lens of your own particular needs. For example, if your company is a manufacturing facility with underground property and utility supply, does your insurance program appropriately cover these underground assets? What other property do you have that may fall outside of a standard insurance policy's "Covered Property" definition, and has your policy been endorsed to address this need? If you're temporarily out



MAKING SENSE OF CYBER INSURANCE

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TERRORISM RISK AND INSURANCE

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POLITICAL RISK AND INSURANCE

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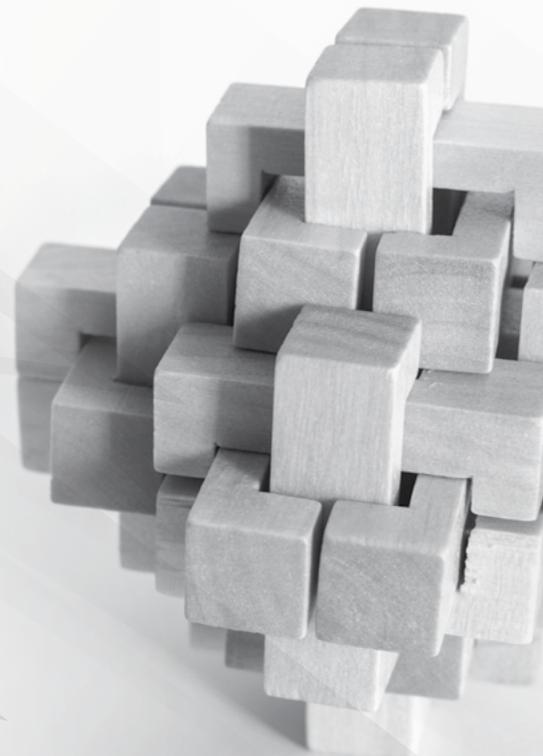
of business because of a loss, how will your Business Interruption insurance calculate the amount of the settlement? Will this settlement process be subject to disputes, or will it be as transparent as possible? If you need to rebuild your business, will your policy allow you to rebuild in a different place?

Alternatively, let's say you work in healthcare and one of your employees misplaced a document that would have resulted in a different treatment regimen for one of your patients two years prior. Suddenly, your facility is being sued for malpractice. However, you changed malpractice insurance providers in that time. So does your current provider cover you for damages resulting from past issues? Or would your old provider's coverage extend to the current situation? Could both? What if neither do? Again, these determinations can only be made after checking for exclusions or other provisions, and even if the situation might seem clear, there might be extenuating circumstances that complicate matters.

During an audit, we review your insurance program and determine what effect implicit or explicit exclusions might have on your business. It's very possible you might not be interested in covering underground pipes in your building, or that you don't need coverage for damages resulting from events before the coverage period. But, we'll help you understand the issues and ask the questions so that you can come to your own conclusion, rather than allowing that conclusion to be drawn for you.

Naturally, everybody wants to save money, so an important part of the insurance audit process is to examine the pricing and efficiency of your insurance program. Is your insurance program the most inexpensive it can be while still providing you with the coverage that you need? Do some of your policies overlap unnecessarily? Are separate pieces of coverage cut across so many different companies that it's impossible to keep track of who covers what, and of what broker to call when you run into a problem?

Very frequently, we'll come across insurance programs that are extremely complicated due to the way that they developed over time. Frequently, this is because companies don't have the time or know-how to consolidate. Of course, we aren't suggesting that you get all your coverage from a single company—in fact, we frequently encounter situations like this too, and suggest running competitive marketing exercises to try and reduce the cost of individual policies. However, it's important to make sure that the complexity in your program is the result of getting the best possible price and coverage from a diverse group of companies, and not due to inconsistent management or historical accidents.



WHAT ABOUT BROKERS?



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I am delighted and proud to have great professional and personal relationships with hundreds of brokers around the world.

When a broker wakes up and goes to work in the morning, they want to do a good job, just like everybody else. Most are highly-trained and hard-working professional men and women who want to do the right thing for their clients. They are an essential and urgent part of the insurance and risk management process.

But it is also true that brokers have a commercial imperative to sell insurance policies, and while they often give good advice, they must always be mindful of their genuine business need to make the sale. And brokers are stretched—commercial insurance brokerages have been consolidating for over twenty years, and as a result, brokers often don't have the time or the resources to provide a client with a "deep-dive" understanding of their program.

So what happens? You don't fully understand your insurance program, so you ask your current broker to provide you with a full review of your insurance coverage. They give you a spreadsheet that's supposed to explain what you're paying for. You then make a phone call and ask one of your broker's competitors to provide you with a full review of your insurance coverage. The competitor tells you what's wrong with your insurance, and why you should buy insurance from them instead. And maybe your current broker and the competitor broker are both somewhat right in what they're saying. But you're still no closer to a sophisticated understanding of your insurance program than you were before.

That's why the service that we offer is different—by not having the need to make a sale, we can provide a more objective analysis that helps our clients understand the positives and negatives of their coverage, regardless of the broker from whom they purchased it. What's more, our expertise is much broader—we deal with many different policies instead of selling just a few. And because we aren't looking to sell you an insurance policy, we aren't automatically motivated to offer insurance as a solution to a problem when a better one might exist.

WE CAN PROVIDE OBJECTIVE ANALYSIS THAT HELPS OUR CLIENTS UNDERSTAND THE POSITIVES AND NEGATIVES OF THEIR COVERAGE.

JUST THE BEGINNING



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Overall, insurance audits are an invaluable tool for any company to better understand how their business and insurance interact, which is in itself a critical step in improving the way your company operates.

Of course, the potential issues that we raise here just scratch the surface—the complexity of insurance means that we often run into new problems, and have to come up with creative solutions for them, every time we complete an audit. Regardless, whatever the problems we run into, the thorough understanding that you get from our review will help clarify the way forward.

We always find insurance audits to be a very satisfying experience. They serve as a fantastic learning experience for not just our clients, but for us as well, and we take pride in being able to translate that new understanding into positive action. If what you've read here has convinced you that your company can benefit from an insurance audit, or even if you're just curious about something and want to learn more, feel free to contact us.

