CONNER STRONG & BUCKELEW | MassBio
MASSACHUSETTS BIOTECHNOLOGY COUNCIL

Insurance Policy Pitfalls: Why Tactical Insurance Planning Doesn't Work

BY DAN BRETTLER | JULY 2018

"It is what it is."

That's the mantra of most life science firms when it comes to insurance renewals. Every year, it's the same. Your renewal comes up. You look at your deductibles and evaluate if there are any ways to save money next year. Your insurance carrier pushes back, unwilling to negotiate. So you renew. It is what it is.

Long-term strategic insurance planning is a foreign concept to many life science firms. Securing insurance is seen as a tactical function, not a strategic priority.

But aligning your insurance program to your one- to three-year business plan is critical, especially if you're a high-growth firm nearing commercialization. Your growth strategy should dictate the amount of risk you can and should retain over time and the best vehicle to deliver your coverage. Planning ahead also gives you more power in the marketplace – to find the most effective carrier partner, negotiate the best possible rates and properly account for your insurance costs in your financials.

In mapping out your strategic insurance program, there are three things to consider:

1. Your risks

A lot can change in a year. Your firm may acquire a company, product or ingredient; add a new third party to your supply chain; strike a new licensing deal; or begin a new clinical trial.

Any one of these changes can introduce new liabilities for your organization, and failing to properly plan for these risks could result in coverage gaps, inadequate insurance limits or an unexpected jump in your insurance costs.

By anticipating and preparing for these changes, you can ensure your coverage reflects your current risks and also negotiate rates with your carrier – which becomes more difficult once you've already acquired a new risk. What's more, you can incorporate these rates into your annual budget.

2. Your risk tolerance

Your risk tolerance is the specific, quantifiable measure of the levels of risk your firm is willing to retain. It establishes the amount of losses you can sustain without adversely affecting the business. Especially when you're positioned for growth or increased earnings, it's critical to map out your long-term risk tolerance.

It starts with considering the metrics that matter most to your business – earnings per share, credit ratings or other balance sheet indicators. From there, you can determine at what point a retained loss will cause your firm financial pain and the best way to chart that over time.

By bringing a knowledgeable broker into the planning process, you can more strategically map your risk tolerance against your current and future market positions, ensuring your insurance program can mature alongside your business.

Your broker can also help you control your story and message to the insurance marketplace. Too often, carriers will continuously charge companies for their growth, even when the structure of their policy no longer makes sense. By getting out in front of the marketplace, your broker can identify the best carrier partner for your growing business and negotiate the most cost-effective program at your desired retention.

3. The best vehicle for your insurance program

As your firm grows, purchasing first-dollar insurance coverage can become untenable. This policy structure relies on high premiums rather than triggering a deductable after covering a loss, and it becomes increasingly costly as your firm grows.

When laying out your long-term insurance program, it's important to evaluate all options for structuring your coverage. This is especially important if your firm will be taking on more risks in the coming years.

There are a number of ways to fund these risks, from insurance policies written with deductibles to self-insured retentions. There are also more creative approaches, such as a captive insurance program. An alternative to self-insurance, captives provide individual companies or groups of companies the opportunity to keep the profits typically earned by insurance carriers when losses are low.

In the life sciences world, captives have historically been used primarily by large corporations with unique levels of risk. However, middle market firms have begun using captives to structure their employee benefits. This approach, which gives companies more control over their insurance program costs, can more easily scale when a firm is growing quickly and needs to rapidly hire employees.

Transitioning from a tactical to a strategic insurance program often requires organization-wide support. Working with a specialist broker who serves firms from start-up stage through commercialization and beyond can help streamline the process.

> *"Planning ahead also gives you more power in the marketplace – to find the most effective carrier partner, negotiate the best possible rates and properly account for your insurance costs in your financials."*

Daniel Brettler and Timothy Gosnear lead Conner Strong & Buckelew's Life Science Practice, where they design comprehensive risk solutions and insurance programs for development stage companies through large enterprises.

Daniel S. Brettler

Managing Director, Senior Vice President, Life Science and Technology Practice Leader

P: 973-659-6456 | dbrettler@connerstrong.com | connerstrong.com

CONNER STRONG & BUCKELEW