If you are business owner or the manager of a business, then you probably have some working knowledge about general liability insurance and workers compensation insurance. At Clinard Insurance Group in Winston Salem, NC, we specialize in insuring contractors and other small businesses who need these types of policies.

And we have found time and again how many small businesses are seduced into the cash flow nightmare I call "the audit trap".

For most contractors, their general liability and workers compensation insurance policies are rated based on payroll, and in some cases gross receipts as well.

Since the exact amount of payroll or receipts is unknown to the insurance company when the policy is first written, the policy holder has to give the insurance company an estimate of the total payroll for the coming policy year.

Many contractors and small businesses are tempted to "low ball" this estimate to reduce the total premium on their policy.

While this strategy can work well if the company plans ahead for it, just shooting in the dark with low estimates can create a cash flow disaster.

Here's why. Let's say your actual payroll on for your company is $500,000 per year. And let's also assume your general liability rate is $5 per $1000 of payroll.

This means your policy costs would be $2500.

Now let's assume you start your policy with a low ball estimate of $250,000.

This means your new policy is issued at a cost of $1250 instead of $2500.

Looks pretty good so far.

But now jump ahead 15 months and the insurance company has now performed an audit of your payroll and found that your actual payroll during that policy term was $500,000.

So they send you a bill for the additional premium due of $1250.

Now that wasn't really unexpected, but if you didn't budget for this, it could put a crimp in your cash flow.

But here's the kicker.

The insurance company will now increase the payroll on your renewal policy and send you another bill for $1250 due right away.

Suddenly you have to come up with $2500 to square yourself with the insurance company.

And that can make for a real cash flow problem.

Again, if you plan for the audit and reserve funds to make the payment then you can gain a cash flow "float" advantage by low balling your payroll and gross receipts estimates. But more often than not, the business owner fails to implement a plan to reserve these funds and instead faces a cash flow crunch at audit time.

At Clinard Insurance Group in Winston Salem, NC, we specialize in insuring small contractors l ocated all over the state of NC.

If you would like help with your
general liability
or
workers compensation
policy, please give us a call, toll free at 877-687-7557 or visit us on the web at
www.clinardinsurance.com
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