

CASH FLOW PROTECTION – An Invaluable Risk Management Tool

The significant initial medical costs associated with catastrophic claims can result in the self-insured retention being paid out in *months* rather than years. As a hedge against such cases, employers often seek a lower SIR, but this is often cost-prohibitive (and sometimes unavailable at any price). To provide employers with a cost-effective alternative, US Specialty Underwriters offers their CASH FLOW PROTECTION endorsement, which limits the insured's payment for a single occurrence within an accident year to a level far below the typical SIR.

In **TABLE A**, below, we assume that the insured experiences a claim that pays \$750,000 over a ten year period. Through US Specialty Underwriters, the insured purchased an Excess WC policy with a \$500,000 self-insured retention, plus a Cash Flow Protection endorsement with an annual limit of \$150,000.

TABLE A

YEAR	TOTAL PAID LOSS PER YEAR	Insured Payment WITHOUT Cash Flow Protection	Insured Payment WITH Cash Flow Protection
1	\$ 275,000	\$ 275,000	\$ 150,000
2	\$ 225,000	\$ 225,000	\$ 150,000
3	\$ 40,000	\$ -	\$ 40,000
4	\$ 40,000	\$ -	\$ 40,000
5	\$ 40,000	\$ -	\$ 40,000
6	\$ 30,000	\$ -	\$ 30,000
7	\$ 25,000	\$ -	\$ 25,000
8	\$ 25,000	\$ -	\$ 25,000
9	\$ 25,000	\$ -	\$ -
10	\$ 25,000	\$ -	\$ -
TOTALS	\$ 750,000	\$ 500,000	\$ 500,000

But what happens if a claim with a similar payout pattern settles much earlier (say, after three years)? As illustrated in **TABLE B**, below, there is an even *starker* contrast between having - and not having - Cash Flow Protection.

TABLE B

YEAR	TOTAL PAID LOSS PER YEAR	Insured Payment WITHOUT Cash Flow Protection	Insured Payment WITH Cash Flow Protection
1	\$ 275,000	\$ 275,000	\$ 150,000
2	\$ 225,000	\$ 225,000	\$ 150,000
3	\$ 40,000	\$ -	\$ 40,000
TOTALS	\$ 540,000	\$ 500,000	\$ 340,000

In the **TABLE B** scenario, the insured *without* Cash Flow Protection still pays out his full \$500,000 retention in just two years. But with Cash Flow Protection, his net loss is only \$340,000*.

In both scenarios described above, Cash Flow Protection provided many of the benefits of a lower SIR, but invariably does so at a much lower cost. Contact your USSU underwriter to find out how Cash Flow Protection can benefit your client.

[*NOTE: USSU's Cash Flow Protection endorsement has no "recapture" of claim payments or retroactive SIR adjustment when a claim pierces the Cash Flow limit.]