
Counting the Cost

Accurate asset management can reduce insurance premiums

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By Marcus Scholes, Real Asset Management International

U.S. companies may be continually complaining about escalating insurance premiums but, in reality, the majority are actually over insured. Endemic failure to maintain accurate asset registers results in the majority of companies insuring assets they no longer own.

With less than 40% of assets on the register easily identified during a physical audit and an estimated 20% no longer in existence, organizations are hardly getting value for money from expensive insurance premiums. Furthermore, poor asset descriptions typically result in claims being challenged by insurance assessors. Without detailed information, such as a serial number or bar code, and proof of location, why should an insurance company pay out?

Most organizations are aware that the asset register is inaccurate. But just how many realize the potential business cost?

Business Value

Insurance is a standard business overhead; it increases annually and organizations work hard to negotiate better deals where possible. The cost of insurance is, of course, based on the assets held. For asset-heavy organizations in areas such as manufacturing and distribution, insurance is a significant annual overhead.

Yet most companies openly admit the asset register, upon which the insurance premium is based, is not up to date. Information on new purchases is, of course, recorded. However, few organizations record any real detail about the asset - such as the serial number or a comprehensive description.

Indeed, in instances such as an office refurbishment, it is not unusual for an entire \$500,000 investment -- which incorporates furniture, telephone systems as well as decorating costs -- to be bundled under one 'office refurbishment' entry in the asset register.

Little or no effort is then made to keep track of assets as they move around the company, either with specific individuals or as a result of reorganization. Nor do many companies update the register when an asset is scrapped or sold.

So just what assets do the majority of U.S. companies think they are paying to insure?

Financial Penalty

Despite admitting poor processes and a reliance on personal knowledge to determine asset location, most organizations' awareness of the quality and accuracy of asset information is woefully inadequate. The majority believe the asset register to be, at worst, 5% inaccurate. They are shocked when a physical audit reveals just how badly the asset register has been maintained.

On average, physical assessment reveals only 40% of assets are well described on the register and can be easily found; a further 40-50% probably exist but are so poorly described it is impossible to prove, and the remaining 10-20% are well described but cannot be found, indicating they no longer exist.

This means that, on average, by basing insurance requests on the asset register, organizations are over insuring by upwards of 20% -- a significant cost that any financial director would be keen to reclaim.

Challenging Claims

The problems caused by poor asset information extend beyond the initial insurance premium. What happens if a company has to make a claim? As soon as a good insurance assessor sees a ten-year old PC on the asset register,

alarm bells start to ring. With minimal likelihood of such an item still being in use, the assessor will be extremely unlikely to pay out.

More critically, the assessor will then be in a position to challenge every item on the register. Suddenly the fire/flood/theft that caused the initial claim becomes ever more serious as the challenge in confirming assets' existence and location results in long term delays in receiving a payment. This can only cause further problems to an organization desperate to get back to business as usual.

The only way organizations can speed up the claim process is to provide a highly accurate, highly verifiable asset register. Barcoding all assets during a physical audit and storing the information in an integrated asset register alongside a detailed description and location information is the first step.

With this single record in place, it is a simple process to ensure any changes, such as scrapping or selling an asset or its relocation, are updated within the system. At any time, therefore, the organization has an up-to-date record of complete asset value and location -- key for the smooth progress of any insurance claim.

Too Late

Unfortunately for most companies, the accuracy -- or lack of it -- of the asset register is a low priority. Finance teams regard the issue as self-resolving: the majority of the assets no longer actually in use have already been depreciated down to zero, so there is no impact on corporate value.

And the impact only appears when a claim is made and then challenged by the insurance assessor due to the obvious inaccuracy of the register. In the worst case scenarios where assets have been moved in mass from one location to another -- and the move not recorded in the system -- the insurance company will simply refuse to pay out. While companies can perhaps cover the cost of replacing office furniture, losing payment on a network server or two would be far from ideal.

Yet in reality, the ease with which holes can be punched in the majority of asset registers should be a major concern not just to financial directors currently paying over the odds on insurance, but also internal auditors. The asset register has a significant affect on company value, especially in industries such as manufacturing. By failing to ensure the asset register is up to date, internal auditors are not undertaking the required corporate due diligence.

It costs less than \$60,000 to undertake a full physical audit on assets that could be worth up to \$200 million. Combine this one-off event with sound processes for keeping the register up to date and an organization can reduce its insurance premiums and ensure any claims are rapidly processed. Can U.S. organizations really afford not to take asset value seriously?

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