

# The Case for Insuring With a Large Carrier

*Access to capital, expertise and peace of mind bolster the case for using a brand name player.*

BY THOMAS KAISER

**W**hen it comes to managing risk, insurance companies have a lot to offer. The management and transfer of risk is a complex undertaking in which every organization must balance options along the spectrum from complete retention to full transfer. The selection of products and services to fit a company's needs in managing the risks they face is not a one-size-fits-all undertaking.

Over decades, insurance companies have developed financial tools, technical knowledge and service expertise to assess an organization's exposures, prevent losses and manage claims. They have also developed the financial resources to assume significant risks. Working with an insurance company offers a wealth of advantages, the first of which is access to capital and credit markets.



Even if you belong to a cash-rich organization, you won't be able to recruit a top-notch board of directors, or even hire good talent, without access to directors' and officers' insurance, health, disability, and other personnel-related coverages. In the operational arena, lack of property/casualty insurance will have a serious impact on an organization's presence and may even preclude it from business opportunities.

Insurance companies help to maintain earnings stability, resulting in peace of mind for both management and investors. Just as volatility in the marketplace can strike at any time, so can disruptive and expensive losses. Big companies help to maintain a focus on business challenges by placing an organization's risk in someone else's hands. Excessive volatility affects earnings, and hence stock prices, which can ultimately damage a company that retains too much risk.

Insurance companies can go beyond the routine management of exposures and claims, using reinsurance to spread larger risks to the larger global insurance market. Self-insured organizations do not have such tools available to them.

We're the experts. Insurance companies work with a variety of clients in many sectors. This breadth and depth of experience allows for a rich perspective, providing analysis and foresight beyond the reach of an individual business. In such diverse realms as legal advice, managed care services or loss prevention engineering, insurers have experience and expertise.

The use of insurance as a risk transfer vehicle may yield tax advantages and allow for greater leverage of available capital. Additionally, use of a licensed insurer assures compliance with compulsory insurance laws and can help a company to satisfy external obligations.

Many insurers use sophisticated catastrophe management tools, and are happy to share the results with their clients to help them deal with low-frequency or high-severity exposures. The protection of critical locations, and analysis of single-source supplier exposures are just a few more reasons to look to an insurance company when dealing with risk.

It's simple really. When you have a legal problem, you go to a lawyer. When your company needs an audit, you seek an auditor. And when looking to protect your organization—from assets and financial results to operational capability or reputation—against the uncertainty of losses, an insurance company has the skills, resources and answers you need.

*Thomas Kaiser is president of Arch Insurance Group's Property, Energy, Marine and Technical Risks division.*

# Go Your Own Way And Self-Insure

*It's cheaper and more effective to insure on your own at a time when companies face insolvency.*

BY ROBERT FAULHABER

**C**ompanies have traditionally transferred their risks to an insurance company through the purchase of a policy. As the market has hardened, however, retaining risks through self-insurance has become a growing trend for a number of reasons.

Chief among them is the fact that premiums have increased 10 percent to 25 percent, to as high as 300 percent to 400 percent, depending on the particular line and location of the insured. Many risk managers know their risk profiles have not increased in proportion to these rates, and have turned to self-insurance as an alternative.

There is also much concern over the financial stability of carriers. In 2002, 40 insurers were placed under supervision or into liquidation. Risk managers fear that more insurers may be headed toward insolvency, especially because insurers are plagued by multiple challenges, including the effects of September 11th, escalating catastrophe losses, low reserves, shaky investment markets, and a litigious climate.

Terms and conditions have also tightened, and claims are being denied for all sorts of reasons, proving to risk managers that insurance is not a guarantee that losses will be covered.

Out of this environment, self-insurance has emerged as an effective means to not only avoid high premiums, but to also effectively control claims costs and outcomes. On the whole, self-insurance is an excellent strategy, provided that a company is prepared to take on a little risk, has the right risk management expertise, and has capable IT systems to manage the claims processes and carefully monitor risks as they develop.

Settling and paying claims is a core business process and the single greatest expense in insurance. Processing inefficiency has continued to be a major source of waste, with billions of dollars lost to manual processes that require significant manpower.

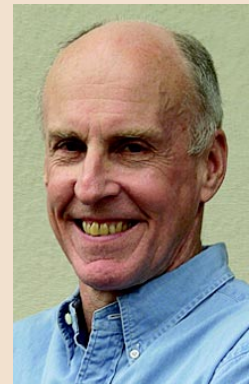
To put a lid on claims costs, self-insured organizations have applied automation to each step of the claims management process. Whereas, most insurance companies have significant investments in systems that are typically 10 to 15 years old, self-insured organizations have implemented the next generation of claims software that is native to the Internet.

Many of these organizations have employees, claims staff and risk managers distributed across the country. As a result, they benefit from the instant connectivity and communication that the Internet can provide. Browser-based technology also makes risk management reports accessible to a greater number of people who can help to control costs and improve results.

Self-insured organizations can then use real-time information to tightly manage risks at every level of their organization. In the past, risk managers were not always aware of problem areas within their companies. Now, with sophisticated technology, they are automatically notified of the latest, most critical losses, along with line managers, who have a direct impact on claims response and loss prevention programs.

With many factors pointing to prolonged hard market conditions, there is more pressure than ever on risk managers to improve performance, cut claims and overhead costs, as well as improve the overall bottom line. Many companies have moved to self-insurance to successfully achieve these objectives. In some industries, self-insurance has delivered savings of 20 percent to 40 percent over traditional insurance.

Of course, there are risks to self-insurance, such as inadequate loss control, insufficient funding and inadequate understanding of exposure. But today, technology exists to help risk managers reduce claims, improve outcomes, and speed up rapid claims management to achieve the best results.



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