

COMPETING WITH SELF-INSURANCE

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INTRODUCTION

With the liberalisation of the insurance sector, the national insurance companies in India have started facing the heat from private players. Now, the insurance sector itself is on the verge of facing competition from huge corporate houses in the form of self-insurance. Even though times have changed, attitude towards insurance hasn't changed much. There are still people and corporates who view insurance as colossal drain on precious cash reserves. Some corporates consider insurance as a weapon to shield themselves from the prospect of paying taxes. Seldom is there a thought that insurance has a social connotation and that by paying insurance premium, we are guarding against a probable risk from death, accident, injury, liability. But, yes, the insurers need to look at this carefully and analyse the root cause for the existence of such a biased view. Many corporates have now started relying on self-insurance. This trend seems to be apparently increasing and this does not augur well for the insurers.

ROOT CAUSE ANALYSIS

For long, insurance has been showcased in the media (be it print or visual media) in a negative fashion. An advertisement showing a woman getting widowed on the happy occasion of Diwali creates aversion for insurance. It is human nature not to ponder about unpleasant aspects of life - death, accidents, liabilities being such aspects. It is extremely vital to offer insurance service to the general insuring public and corporates as a sugar coated pill. Thus, the projection of insurance should be a blend of positive and negative aspect of advertising rather than focussing merely on the negative vicissitudes of human life. The communication via the print media or via the audio-visual media must be appealing and invigorating.

The social objectives of insurers should be appropriately highlighted at the right forums. Insurance should become as popular as banking. Insurers should participate in more public welfare schemes to spread awareness about insurance. The common refrain of insuring public or insuring corporates is the difficulty in processing claims from insurers. Some of the procedures

adopted by insurance companies are arcane and need to be challenged and questioned to keep up with the tempo of changing times. Proposal forms and claim forms need to be more crisp and prepared with the objective of eliciting the maximum information from the insured in the shortest possible time. In short, services have to be revitalised to generate a positive buzz about insurance. Another important aspect is the transparency and integrity of insurance companies when it comes to matters of investments. Just like insurers expect the insured not to treat insurance as a profit-making proposition (principle of indemnity), insurers should also inspire confidence and trust among the insuring public to motivate them to participate in insurance.

SELF INSURANCE

Big corporate houses prefer to create a reserve for managing their risks. This is denoted in insurance parlance as 'self-insurance'. This reserve is created from their own funds to meet the costs of an accident / liability claim. The reserve is then replenished with the amount so depleted. There are pitfalls in this process. Some of these are :

1. Exact costs of covering the risk are not known.
2. In the absence of effective supervision and control, there can be a tendency to become complacent as the funds are your own.
3. The opportunity cost of parking such a cash reserve in a scheme with better ROI is ignored.
4. Risk management may not be an integral part of every process adopted by the corporate. Even if there is a dedicated system of managing and mitigating risks, a lot depends on supervision of the processes by management and compliance of the systems and processes by staff.

On the brighter side, self insurance offers the following advantages:

1. Cost of insurance premium is zero.
2. The prospect of battling out for staking your claim from insurer in case of an insured event taking place is ruled out.

3. In case no events occur during a year, the cash reserve remains intact. Had insurance cover been obtained from the insurer, the premium would have been paid in advance.
4. The cash reserve can be used for contingent liabilities as the control of the fund is being exercised internally.
5. Time, efforts and money saved in compiling insurance documentation and engaging a liaison officer for co-ordinating premium payments and claim receipts.
6. Business interruption losses are minimized.

With better supervision and control, the management of such huge corporate houses elicit maximum compliance from staff on managing, mitigating or preventing the risks. Observations on critical safety issues by staff are suitably rewarded. Potential hazard factors can be addressed with remarkable alacrity to predicate the commitment of the organisation to manage risks through self-insurance.

Corporates indulging in self-insurance pull out all the stops to ensure staff participation in the process of managing risks. All accidents are preventable and safe working can be insisted upon as an essential condition of employment. As a positive fall-out of these efforts, process efficiencies can increase significantly due to reduction in down time. Staff also are enthused to participate in the process by making creative contributions to improve the processes.

EFFECT ON INSURANCE

The success of self insurance, while promoting the interests and well being of the corporate, can prove detrimental to the interests of insurers. If more and more corporates engage in self insurance, then insurers will have to manage their fixed costs with reduced sales revenues. With erosion in premium income, it will become increasingly difficult for the insurers to offer value-based service to other corporate customers. Erosion in the quality of service will directly lead to erosion in business performance.

CONCLUSION

Unless insurers take steps on war-footing, the competition is bound to throw nasty surprises. An incisive analysis on what corporates need by way of insurance is a must. Insurers need to motivate the corporates to invest in insurance as a value-for-money proposition. Both the corporates (insured) and insurer have to be engaged in win-win situations to boost their respective business

performances. Corporates need to discover value in insurance investments and who better can facilitate this but the insurance companies themselves?

Insurers need to think beyond archaic concepts and schemes like “no-claim” discounts. The premium rating needs to be clearly linked with the initiatives by corporate to improve risk management. Enhancements in process efficiencies supported by proper documentation should result in the corporate winning a few more brownie points. The existence of safety gadgets should lead to substantial discounts in premiums. Corporates which have made stringent efforts to acquire quality certification to meet quality standards like ISO 9001, QS 9000 etc should be offered major premium discounts. A corporate that has gone a step further and acquired ISO 14000 should be offered substantial discounts in premiums. ISO 14000 standard elicits a commitment from the corporate to support the environment in a constructive fashion. Such an initiative has social impact and therefore insurers who themselves have social obligations need to support such corporate endeavours. Example - a consequential loss of profits policy can incorporate a clause whereby if corporates conduct periodic safety audits, discounts can be offered on the premiums.

Insurers thus have to find new ways and means of retaining the corporate customers. The latter should be motivated to invest in insurance not merely by offering discounts but by projecting insurance in a positive light. Insurance should be sold as a service that will add value to the business. The discount schemes have to be attractive and should reward sincere and diligent efforts by corporates. Claims should be settled within a reasonable period of time and the inspection report must be crisp, pithy and lucid. Unless the difference in the claim amounts is substantial and has to be referred to arbitration, a conciliatory approach towards settling claims will reap rich dividends in the long run. This is not to say that claims should be settled with impunity. Rather, the claims should be settled backed by a stolid and rugged procedure. But the entire process of settling claims has to become more robust rather than pedestrian. Last but not the least, insurers need to be aware of change and be ready to accept and embrace change rather than shun it under the grab of business diplomacy.

