

INSURANCE MANAGEMENT

INTRODUCTION

Insurance is the most commonly encountered mechanism of Managing Risk. The term 'Risk' is defined by Prof. M. Haller as "The possibility that positive expectations of a Goal Oriented System will not be fulfilled".

Risks are generally classified into two broad categories :

1. Speculative Risks : Risks which may bring in speculative losses or sometimes speculative profits as well.
2. Pure Risks : Risks which are fortuitous in nature and will potentially bring in only losses.

Insurance covers only 'Pure Risks' with an element of 'Uncertainty' about their occurring.

Effective Insurance Management aims at only optimisation of cover at economical cost but also ensuring availability of protection when it is most needed.

RISK MANAGEMENT

An outline of Risk Management is not out of place in any discussion on Insurance Management. In fact, Insurance forms the last and most important chapter of a wide subject called 'Risk Management'.

The process of Risk Management consists of the following stages :

Risk Identification

Risk Evaluation

Control – Avoidance and Reduction

Risk Financing – Retention, Combination and Transfer.

The multi disciplinary nature of Risk Management requires information inputs from all the functional areas of the organisation. Therefore, the task of identifying and evaluating risks is best done by a team from the organisation rather than an individual.

Risk Control including avoidance and reduction clearly falls within the ambit of 'Corporate Safety Policy'. Protection of property and personnel through effective Risk Control measures, assumes great significance, particularly in the light of the 'Opportunity Costs' due to occurrence of a risk (i.e. Accident). Risk Financing has developed into an important technique of effective risk management, whereby the costs and benefits of various alternatives are analysed before arriving at the final decision of 'Risk Transfer' i.e. Insurance.

INSURANCE MANGEMENT

An insurance transaction has always been viewed purely in financial terms. i.e. the company paying a consideration called 'Premium' and in return, receiving a 'promise' to be compensated monetarily, for the losses suffered due to operation of 'Insured Perils'. However, the concept of Insurance Management is much wider in scope than the mere financial implications of costs and benefits of an Insurance Transaction.

Therefore, Effective Insurance Management must fulfill two important agenda :

Functional Agenda
Qualitative Agenda

FUNCTIONAL AGENDA

Insurance Management encompasses the following basic functions :

Selection of Risks for Transfer
Selection of Insurer
Selection of suitable covers
Optimisation of Benefits
Minimisation of cost

1. SELECTION OF RISKS FOR TRANSFER

Selection of risks for transfer to Insurer must be based on a careful evaluation of the following important considerations:

Probability of the risk occurring.
Possible severity of loss.
Size of loss which the company can retain.
Potential degree of variation of actual outcomes to probable estimates.

Possible severity of loss should be the most important factor influencing the decision as to whether the risk must be retained or transferred. Low value losses, even with a high frequency of occurrence are better retained within the company, while high potential losses, even with least probability, are better transferred to Insurer.

2. SELECTION OF INSURER

The choice of the Insurer from whom the Insurance is to be purchased should be made based on the following factors :

Financial stability of the Insurer and his capacity to pay for the losses, should they occur.

Relative size of the Insurer and his market status.

Quality of Service rendered by the Insurer with specific reference to :

Risk Reduction advice after inspection

Risk Financing Advice

Cover optimisation Advice

Prompt Claims settlement

Accident analysis and risk improvement advice to minimum recurrences.

3. SELECTION OF SUITABLE COVERS

While selecting the covers appropriate to the operations of the company, the following points merit attention :

a. Compliance with Statutory obligations, i.e., Insurances compulsory under various Acts.
Compliance with contractual obligations, i.e., Insurances mandatory under Sale / Service Contracts.

Nature of Company's operations and types of risks.

Corporate Insurance Philosophy.

4. OPTIMISATION OF BENEFITS

Insurance Management should aim at optimising the benefits by opting for additional covers at nominal additional premium and by avoiding multiple / overlapping covers in respect of the same property.

5. MINIMISATION OF COST

Serious efforts must be made to obtain the maximum permissible discounts through compliance with Insurer's requirements, wherever the portfolio is governed by Tariff.

If the portfolio is free from tariff, negotiations must be initiated with the insurer to obtain the best possible premium rate based on the company's individual claims record, overall quantum of premium paid and special loss prevention measures taken by the company.

QUALITATIVE AGENDA

In addition to the functions listed above, effective Insurance Management should also focus on the following qualitative areas :

Definition of Corporate Insurance Philosophy.

Preparation of Insurance Manual

First hand knowledge of Company's risks through visits and surveys.

Self Evaluation

Maintenance of Records, Forms and Statistics.

1. DEFINITION OF CORPORATE INSURANCE PHILOSOPHY

Insurance Management should clearly define the Corporate Insurance Philosophy with particular reference to the following areas :

- Objectives of Insurance Management.
- Conditions for retention of risks with clear quantification of limits.
- Extent to which the deductibles are acceptable
- Regulations for establishments and administration of Self-Insurance Fund.
- Clear definition of risks requiring to be transferred to insurers.
- Whether Insurance Management will be centralised.

2. PREPARATION OF INSURANCE MANUAL :

It is always valuable to prepare and circulate an Insurance Manual. Such an internal publication should comprehensively cover the following areas :

- Corporate Insurance Philosophy
- Responsibility for Insurance matters
- Brief Description of covers
- Procedure for notification of accidents including those occurring outside business hours.
- Claims Procedures
- Staff Insurance Schemes.
- Valuation procedures
- Procedure for advising addition, deletion and modification of assets.
- Maintenance of Sprinklers and Fire Fighting appliances.
- Protection of important records
- Control of keys
- Definition of common insurance terms
- Standard forms.

3. FIRST HAND KNOWLEDGE :

The Insurance Manager must acquire first hand knowledge of the premises, the type of construction, the manufacturing process carried on, nature of raw materials and finished products stored and the normal hazards to which the operations are exposed. This database must be built up and regularly updated through personal visits and periodic surveys.

4. SELF EVALUATION

The Insurance Management should draw up an Annual Report for self evaluation covering the following areas :

- Classified list of Insurances arranged.
- Classified list of claims made
- Classified list of outstanding claims
- Classified list of claims settled

Portfolio-wise comparison of Premium & Claims
Significant changes made in the Insurance portfolio
Recommendations for the coming year.

5. MAINTENANCE OF RECORDS, FORMS & STATISTICS

The control mechanism for Insurance Management relies heavily on data and records. It will be worthwhile to maintain separate ledgers for policies and claims apart from a Diary of events.

The statistical data may be maintained covering the following :

Comparison of Claims with Premium
Comparison of Total Premium against Turnover
Analysis of types and causes of accidents
Actuals against Budgets
Analysis of losses which were uninsured.
Cash flow records

CONCLUSION

The art of effective insurance management lies in balancing the costs and benefits of Insurance, through optimising the coverage at economical cost and further through conscious and careful retention of risks within the company wherever feasible.

It must also be remembered that Insurance is a method of transferring the financial impact of a risk and the risk itself. Hence, the basic responsibility for safety continues to rest with the Insured. As physical loss of property is a National Loss, whether or not compensated by the Insurer, all efforts must be continuously made to prevent losses. Loss prevention and Insurance are complements and not substitutes. This, in fact, is the essence of effective Risk and Insurance Management.

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