

Creative self-insurance must involve other stakeholders

INSURANCE solutions such as cell captives, where companies self-insure their risks in facilities they own, have underlined the benefits of making risk management a business imperative.

Herman Schoeman, MD of Guardrisk, who introduced the cell captive concept in the early 1990s, says that risk financing is one of

the most important components of a company's overall risk management strategy.

"It is vital that all the parties — the traditional insurer, broker, client, cell-captive insurer and reinsurer — work together to design solutions that suit a client's appetite for risk, ability to manage risk and unique risk profile."

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In times like the present the traditional one-size-fits-all approach to insurance and risk simply does not work, says Schoeman.

He predicts that even traditional insurers may be looking to write more finite insurance business. Typically, these are multi-year insurance contracts where the insurer carries limited underwriting, credit, investment and timing risk, and the insurer and the insured share the loss experience and investment income.

The cost of risk — some of which is fixed and some variable — is a fairly large component of a company's overall operational costs. "There is a very real danger that, in the today's tough economic times, some companies may consider saving on risk-management costs, which would be the very worst thing to do.

"In good times they would be more likely to be able to survive a loss because they would have the necessary funds in hand, while in difficult times even a relatively small loss could prove catastrophic.

"Self-insurance, in partnership with traditional insurers, is a sure-fire way to reduce the cost of risk and, combined with effective risk management provides a remedy for one of the biggest challenges that businesses face today: managing an every growing and changing risk landscape."

Meanwhile, there is a growing realisation that business and financial risks related to next year's Soccer World Cup in SA could be an insurance nightmare for the unwary. The event is riddled with significant insurance exposures, says Danny Buitendag, GM broking services corporate for Glenrand.

"The need is to identify risks and manage them for the likes of professional indemnity, business interruption, product and public liability, among others."

"Most World Cup-related risk would theoretically be insurable within the range of conventional commercial cover, but they would almost certainly require fresh assessment, while others would be more World Cup-specific. Indemnity limits on existing policies particularly would need to be revisited."

Buitendag says that World Cup risk should include a fresh examination of insurance risk management. The objective is to protect an organisation's people, assets and earnings by avoiding or minimising the potential for losses, as well as providing funds to recover from losses that do occur.