

distribution channels, and pricing and managing costs



ANDREW CHISLETT ... tough times.

informed insurance purchase decisions is hampered to some extent when buying direct.

"Critical information — such as hidden costs in terms of excesses, insured amounts and exclusions is often not shared — and excess charges on a claim, for example, may cost more than an entire year's insurance premiums."

Another important, and often money-saving, benefit associated with obtaining professional help is the support provided in the event of a claim.

He says in the public interest the Financial Services Board

(FSB) has introduced a number of prerequisites aimed at ensuring the soundness of the financial services industry.

These include being suitably qualified, having exemplary records in terms of creditworthiness and ethical conduct, as well as sufficient operational capacity to provide clients with a professional service.

"An affiliation with professional bodies such as the Financial Intermediaries Association (FIA) is also advisable, as these institutions are committed to maintaining professionalism within the financial and intermediary sectors," says Van der Linde.

Reinsurers under the microscope

US-BASED insurer AIG's need for a government bailout focused the attention of insurance brokers and their clients on the need to ensure that their insurers and reinsurers were sustainable.

themselves to a single corporation's risks. Furthermore, there would seldom be sufficient capacity from a single insurer to cover a large corporation."

Guy Scott, CEO of Aon Risk Service, says as a consequence

Self-insurance a rocky road

SA will not be spared the effects, of the global economic meltdown, says Ben Tonkin, of the corporate and commercial technical committee of the Financial Intermediaries Association of Southern Africa (FIA).

"Forecasts for best-case scenarios predict that the country's economic growth will slow down to 1% or less and that some sectors are already in a technical recession."

He says during economic downturns businesses focus far more on curtailing costs, and the cost of insurance comes under scrutiny. However, they should be very careful about the changes they make to their insurance portfolios.

"Business owners should discuss any portfolio changes with a professional financial services intermediary to ensure their companies' risk-management strategies are not affected adversely by short-term cost-cutting measures.

"All businesses need to pay careful attention to the management of their risks."

He says the first step to ensure an adequate risk-management strategy is to identify the risks that apply to that specific business.

Many risks are insurable while others, such as shoplifting or the consequences of a bad investment decision, cannot be insured. Some risks can be retained for the business's own account, for example the loss of cellphones. Once the potential risks in a business have been identified, an evaluation needs to be conducted to gauge how extensive or costly these are likely to be in the event of a worst-case scenario, he says.

In other words, are the events likely to cripple the business or would they be more of a mild irritation?

"The business should then review how these risks can be reduced or eliminated, and a good intermediary is able to provide advisory services and assistance."

However, the reality is that not all risks can be minimised or circumvented, says Tonkin.

Some risks may be carried by the business itself, and the

expected, measurable, smaller risks that cause losses fairly frequently usually fall within this category. Situations in which losses seldom, if ever, occur and do not result in extensive losses also fall into this area, he says.

"There are several ways of implementing a corporate risk-retention programme.

"Self-insurance is not simply being uninsured. Rather, it is a conscious decision coupled with a plan to meet losses if and when they happen."

He says business risks that cannot be reduced, avoided or retained should be transferred to an insurer.

The cost of risk of a commercial concern is often understated and constitutes far more than the insurance premiums that are paid, as premiums are

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only one component of the total cost of risk and insurance is the last resort after all other measures have been taken.

Tonkin says that although most protective measures are considered to be basic business practice, insurers will take them into account when rating the risks.

"Good housekeeping and sound risk-management implementation will result in lower premiums and excesses.

"This presupposes that the insurers are made aware of the exposures as well as measures taken by the business owners to reduce the likelihood of loss, damage or liability and the positive effect of these measures.

"Conveying the risks and cover needs to insurers in the most positive light is an essential part of an intermediary's service offering," Tonkin says.