

PMG510

Risk Management

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جامعة الجميع الذكية

تسعى لتكون الكيان الأول الذي يتبنى مبدأ المجتمع التعليمي
التعاوني ويقدم العلم مقابل العمل لتنمية وبناء المجتمعات.

Insurance and risk transfer Lecture 8



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Lecture 7 conclusion

1. Upside of risk
2. Opportunity assessment
3. Riskiness index
4. Upside in strategy
5. Upside in projects
6. Upside in operations
7. Strategic risk response
8. Types of controls:

Lecture 8 Organization

1. Importance of insurance
2. Types of insurance cover
3. Evaluation of insurance needs
4. Purchase of insurance
5. Captive insurance companies
6. Business continuity management

Importance of insurance

- Insurance contracts can require the insurance company to **pay for losses** suffered **directly by the insured.**
- This is first-party insurance and includes **property damage insurance.**
- Other types of insurance contract the insurance company to **pay compensation** to other parties if they have been injured or suffer loss because of the activities of the insured.
- This is **third-party insurance** and includes **motor third-party and public/general liability.**

Importance of insurance

- Insurance contracts are contracts of **utmost good faith**.
- This means that **the insured party is required to disclose** all information relevant to the insurance contract.
- If this information has not been disclosed, the insurance company or **underwriter has the right to refuse to continue** to provide insurance cover and may refuse to pay any claims that have arisen.

Importance of insurance

- There are **advantages** and **disadvantages** associated with the use of insurance as a **risk transfer mechanism**.
- **The advantages are:**
 - it **provides indemnity against an expected loss**.
 - **Insurance** can reduce **uncertainty regarding hazard events that may occur**.
 - It can provide **economic** benefits to the insured, because **the loss may be greater than the insurance premium**.
 - Finally, insurance can **provide access to specialist services** as part of the **insurance premium**. These services may include **advice on loss control**.

Importance of insurance

▪ The disadvantages:

- Include the delays often experienced in obtaining settlement of an insurance claim and the difficulties that can arise in quantifying the financial costs associated with the loss.
- There may be disputes regarding the extent of the cover that has been purchased and the exact terms and conditions of the insurance contract.
- Finally, the insured may have difficulty in deciding the limit of indemnity that is appropriate for liability exposures. This may result in under-insurance and the subsequent failure to have claims paid in full.

Importance of insurance

- There are alternatives to insurance when an organization **wishes to transfer the financial impact of a hazard event.**
- Alternatives to insurance are sometimes referred to **as alternative risk transfer or alternative risk financing techniques.**

Importance of insurance

- **The risk financing options available** to an organization include:
 - **conventional** insurance;
 - **contractual** transfer of risk;
 - **captive** insurance companies;
 - **pooling** of risks in mutual insurance companies;
 - **derivatives** and other financial instruments;
 - alternative **risk** finance **mechanisms**; and
 - **single** premium insurance bonds.

Importance of insurance

- **Risk retention** may be achieved by accepting a **large excess or deductible** on an insurance policy, deciding not to insure a **certain risk exposure** (self-insurance) or setting up **a captive insurance company**.
- A number of organizations with similar **risk exposures** may decide to **set up a joint captive insurance company**.
- This is often referred to **as risk pooling** or the establishment of a mutual insurance company.

Importance of insurance

- **Insurance** is a risk **transfer** or risk **sharing** response. It represents an **after-the-event cost containment response** to a risk.
- **Insurance** is most important for **low-probability/ high-impact risks**, such as **destruction of assets or the payment of liability costs**.
- As well as **repairing assets**, insurance is available **for the cost of implementing disaster recovery plans** and the **business continuity plans**.
- Insurance can also be purchased to **cover the increased cost of operation**.

Types of insurance cover

- Generally speaking, there are three reasons **why an organization will wish to purchase insurance cover.**
- In summary, **the reasons for buying insurance** are as follows:
 - Mandatory legal and contractual obligations;
 - Balance sheet/profit and loss protection;
 - Employee benefit/protection of employee assets.

Types of insurance cover

- In most cases, the purchase of insurance is not compulsory. However, most countries make the purchase of insurance compulsory in certain circumstances.
- Typically, these are the liability classes, including insurance cover to compensate injured employees and for the parties involved in road accidents.
- Apart from the compulsory classes, organizations can decide whether to purchase insurance. This decision will be based on the assessment of the risk and whether the nature and level of risk is within the hazard tolerance of the organization.

Types of insurance cover

- The cost of insurance (premium) and the extent of insurance coverage are also important considerations when deciding whether to buy insurance.
- Typically, insurance is purchased for low-likelihood/high-magnitude risks, such as flooding, hurricane damage and major fires.

Captive insurance companies

- A captive insurance company is an insurance company owned by an organization that is not otherwise involved in insurance.
- The purpose of a captive insurance company is to provide insurance capacity for the organization by using its internal financial resources to fund certain types of anticipated losses or insurance claims.
- The organization that owns a captive insurance company is often referred to as the parent of the captive, or simply the parent organization.

Captive insurance companies

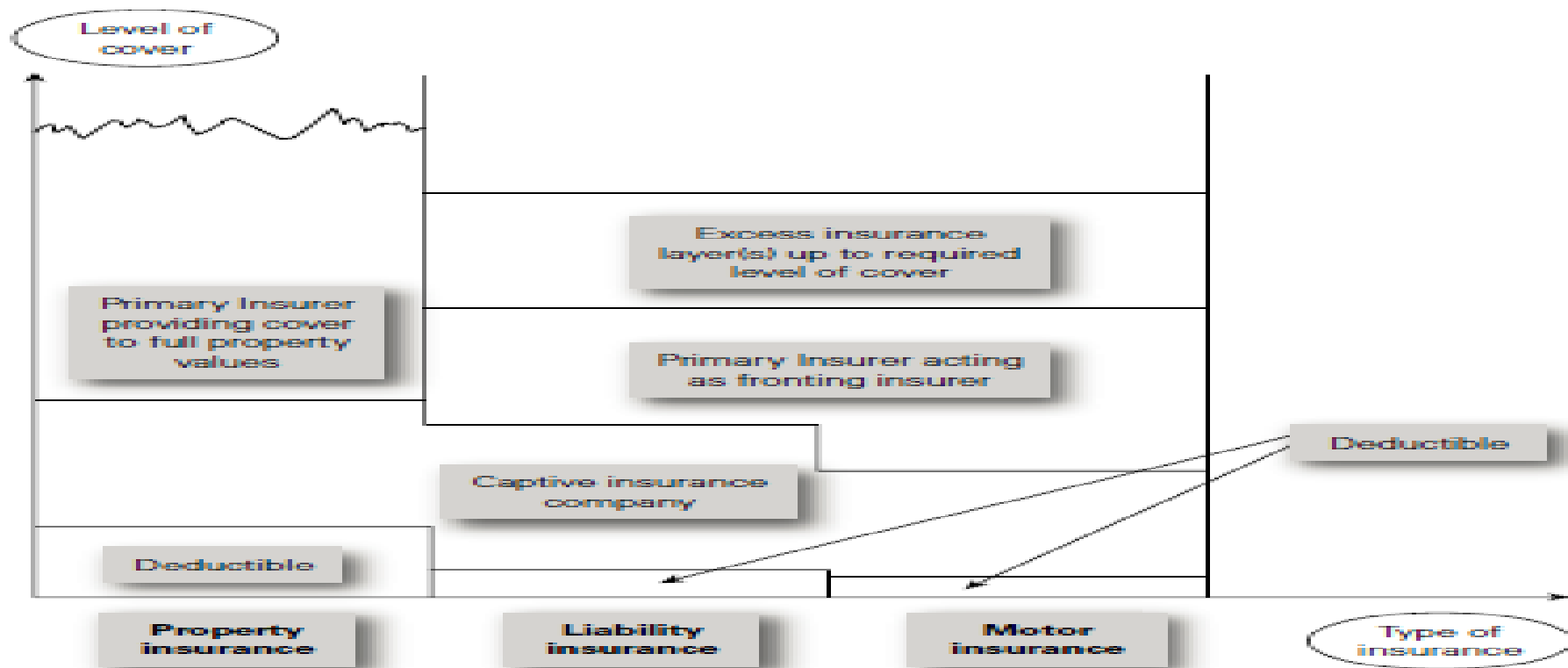
- In general, captive insurance companies are domiciled in a location that has a favorable regulatory and accounting regime that encourages the establishment of captive insurance companies.
- Domiciles for captive insurance companies include Guernsey, the Isle of Man, Gibraltar, Malta, Luxembourg, Bermuda and Ireland.
- In theory, such a company may write insurance business directly into other countries, although compliance issues surrounding non-admitted policies may need to be carefully considered.

Lecture 8

Insurance and risk transfer

Captive insurance companies

Role of captive insurance companies



Thanks



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