

Valuable information

The success of your captive insurer stands or falls with the quality of your management information (MI), and more particularly, your claims management information. As Mike Reeves, senior vice-president of Crawford & Company, says: "In my experience, more global claims programmes fail to deliver results because of a lack of consistent, timely and accurate MI."

When setting up a captive, the need for claims handling is recognised as one of the core aspects. Depending on the size of the captive, the lines written by it, and the number of countries in which business is written, making sure claims are handled to the highest standards is a difficult task.

Using a fronting insurer to handle your captive claims is a common way of covering these aspects. Especially if the fronter also acts as an insurer for traditionally insured layers of your programme, extending this service to the captive layers of the programme is an obvious choice. Also if you are writing business directly out of the captive, under Freedom of Services in Europe, using a fronter seems the most straightforward way of getting claims handled and taking care of administrative and legal obligations.

From a claims perspective, there are however two main drawbacks to this set-up. First, having your claims handled by a fronter, effectively another insurer, will give you less control over your claims. Besides that, the decentralised way in which most international insurance companies still handle their local claims, will not give you the assurance that a claim in, say, Portugal, is handled in the same manner, following the same procedures and your reserving practice, as in, say, Sweden.

The second main drawback has to do with claims MI. There are several problems associated with collecting MI from your local claims operations. As you will recognise, different stakeholders will require different information. MI is not only necessary for effectively managing your captive, but also directly feeds into regulatory reporting and your captive's accounts. But that's not all. Allocating the costs of your captive insurance programme to your various subsidiaries around the globe is an important factor when it comes to having organisational support, from your superiors and your 'internal' clients.

Embedding the collection of management information into your claims handling processes is also essential. The quality of management information boils down to the individual pieces of data entered into each system by claims handlers in every country. Lack of consistency in procedures, information not being up-to-date, incompatible coding of information – all these factors contribute to less accurate management information, which in the end seriously affects your control over the captive. "Garbage in, garbage out" you could say.

International angle

An issue that can easily be underestimated is that of foreign exchange. Especially when valuing reserves and payments, the way to handle the foreign exchange aspect when dealing with claims in different countries with different currencies, can cause problems in the accounting practice of your captive. The exchange rate you use to value your reserves in different currencies is subject to regulatory requirements and accounting rules, but can pose reporting challenges once both the number of claims and countries (and therefore currencies) grows.

International claims handlers are well equipped to meet these challenges. With a closely integrated, worldwide network of offices, using the same IT-systems, procedures and serving multinational clients, companies like Crawford & Company can service international captive programmes. Using tools like internet-based claims systems (e-Claims) and managing insurance programmes on a global level as opposed to a local level, means all your MI is consistent and collected at the source – where the actual claim is handled.

Creating an effective global claims management platform for an international captive set-up is increasingly important for the success of any sizeable captive. With more programmes written directly out of the captive under Freedom Of Services, and further consolidation of insurance management for multinational firms, the ability to directly oversee claims and get accurate and consistent claims MI from anywhere around the world, greatly increases your control. This increases the profitability and credibility of your captive, and is a great risk management tool.

Niels de Kock
and **Sjoerd van der Meulen**
of Crawford & Company discuss the importance of effective claims management information

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