

Commercial Insurance

Squaring the circles of commercial insurance

Today, the settlement of damages is widely discussed in media. Policy holders complain about insufficient settlement of damages and insurers defend against such reproaches. The actual areas of conflict are neither named by the insurers nor by the policy holders.

At the beginning of an insurance policy's life cycle, the sales department sells the promise that the insurer will perform. The policy holders accept the promise of performance and buy, preferably cheap. This is how most of the risk transfer in a company is usually done. The inhouse broker then reports to his manager that the risk is covered by an insurance presenting the policy. But in case of damage, the settlement does often not meet the policy holder's expectations.

The settlement of damages sometimes makes the conflict situation transparent. At the end of a rational damage settlement proceeding resp. at the end of rationality of proceedings, two arguments regularly appear. At first, the insurer refers to the damage quota assessment for the individual contract. When the policy holder states that an individual assessment is inadmissible in terms of insuring according to law, the entirety of insureds comes into play. The entirety of insureds should – according to the insurer – not be burdened inappropriately and therefore only the insurer's decision can be taken. The icing on the cake of every settlement negotiation is the lawyer responsible for compliance. In the royal league of knock out arguments, the own opinion is compliant and thus irrevocable.

Finally, the circular reasoning of the argumentation with the entirety of insureds (a decision is correct if it does not burden the entirety of insureds) clearly shows the insurer's conflict. He has to deal with a policy holder who purchases an insurance product as cheap as possible. Insurers are only able to offer cheap premiums if they see profitable

damage quotas. Brought to the point: if an entirety of insureds wants to save premiums, it is impossible for the insurers to earn adequate revenues. The laws of the market contribute their remaining. The sales team has to reach its sales targets and thus the flexibility of premium calculation goes along with increasing premium revenues.

This means, the more often an individual insurance purchaser only considers the price (and thus finally also the entirety of insureds), the less the insurer can defend against the price pressure. The purchasing behavior of the policy holder might therefore influence the development of the settlement of damages.

This behavior is understandable from the policy holder's point of view. Usually, decision makers of companies only show understanding for low premiums. The quality of the abstract product insurance can hardly be communicated up to management level. The product insurance is extremely complex and usually hardly understandable for the manager – a lay person in terms of insurance. The manager has no time to deal with the subject of insurance appropriately, especially since it is usually not his core competence. He does not set priorities here (of course except for the D&O insurance). Insurance usually only constitutes an unpleasant cost position. Decision makers do usually not perceive the advantages of high quality insurance products.

The argument that an individual damage cannot be settled because this would strain the entirety of insureds thus finally implies that paying higher premiums might result in better insurance coverage and thus possibly in higher payments in the insured event. Unfortunately, both sides are not prepared for this. The quality of the insurance products is hardly visible and insurers adjust to the customers' purchase behavior.

Thus, insurers continue to sell square circles. Policy holders continue to buy as cheap as possible and will continue to complain. Are these rituals of the insurance business? Or have insurers missed to make their product understandable and can therefore not sell at adequate prices with quality being the argument?

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