

Light and shadow – Corporate finance and insurance

In many companies, commercial insurance leads a life in the shadow. CFOs usually perceive the purchase of insurance only as a cost factor. This is a mistake. Policies open up many opportunities for the top management.

It is for sure that the CFO of a group signs a loan agreement in the amount of 100 m Euros himself. He was of course also involved in negotiations with the bank. The person responsible for international liability insurance with a sum insured of 300 m Euros is several hierarchy levels away. The CFO happens to know him after he once met him in the canteen. When thinking about insurance, the CFO first thinks about the incomprehensibly high costs.

The example shows: Commercial insurance leads a miserable existence in companies. CFOs usually perceive the purchase of insurance as a cost factor. The top management is hardly aware of the existential importance of insurance products, let alone their creative scope.

Only few companies make use of the full range of insurance products which could be available within the framework of a complex risk management system. Considering insurances as mere cost factor significantly narrows the view: instead of regarding the different insurable risks in their practical interaction, the product 'insurance' develops to be a simplified purchase object.

The example of the warranty and indemnity insurance (W&I) shows it particularly clearly. This policy enables the policy holder to cope with guarantees or individual risks which turn out to be obstacles in a transaction, in an economically sensible way. The conclusion of such contracts often fails because the parties negotiating about the transactions have little knowledge about the chances offered by such insurance products. Not until the obstacle turns out to be insurmountable during contract negotiations, the parties

consider new options. It is then often too late for a W&I policy since the insurer still has to examine the risks. Decision makers consequently forfeit potentials to save millions.

A mere consideration of costs does not only diminish the possibilities to make use of insurances, but the quality of the purchased products will continuously decrease. At the same time, the dissatisfaction with the policies increases and top level decision makers do not spend any more time on the subject 'insurance'.

With a holistic view, a more effective and economically more reasonable risk management would be possible with traditional insurance constituting a significant component thereof.

Instead, top level decision makers are seldom aware of the possibilities offered by the insurance industry. But the economically reasonable integration of insurances into the risk management is a task of the top management. If the highest management level takes responsibility for the company's insurance portfolio, part of the cost pressure is omitted as a consequence and the quality of insurance products comes into focus again. As a result, understanding would build up for the (often criticized) innovative strength of the insurance industry while policy holders would reward quality. The chances would increase that companies developed alternative possibilities of risk transfer with the help of the insurance industry.

The existential importance of the control of risks within companies makes insurance a top level matter. It is the task of decision makers to end the neglect of the commercial insurance within the framework of an allegedly holistic risk management. This though requires the willingness of the companies to rethink internal structures and to show courage for innovation.

The sleeping beauty insurance offers many chances. Managers just have to wake it up first.

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