

CASE STUDY

SELF-INSURANCE

CHALLENGE

New franchisees for a nation-wide retail chain were required by the franchisor to join a group-deductible insurance program. Under this program, the franchisees were required to report all claims and incidents to their insurance company, which was then in charge of handling and managing the claims. Because a high percentage of the franchisees' very frequent claims were low severity, franchisees were constantly initiating the insurer's involvement. The franchisees' perception was that, in an effort to keep cycle times low, the insurance company was paying out claims to avoid incurring handling costs even when there were valid reasons to resist settlement. As a result, franchisees were required to pay higher premiums to reflect the volume of claims handling and adjusting.

The franchisees were dissatisfied with this program not only from an expense perspective but also because they had little or no input into the claims management process. From the standpoint of the franchisees, claims were being paid out that shouldn't have been. The program was also not ideal for the insurance company, because it was forced to allocate a large amount of its resources to handling, adjusting, and reporting on low-value claims. Ultimately, the franchisees felt that the insurance program left them powerless in terms of how the claims were handled or investigated, and the insurance company felt that the program was a drain on its resources and profitability.

SOLUTION

The franchisees decided to move from the deductible program to a self-insured-retention (SIR) program.

Under the SIR program, the franchisees' retention level would be set at \$50,000, and SCM would act as a third-party administrator to handle, manage, and settle the claims on their behalf. Incidents would be recorded and, in the event they were converted into a claim requiring an adjuster's involvement, the franchisee would be informed so that there would be no confusion or surprise as the matter was dealt with. With this arrangement, the franchisees would have more involvement in the management of their claims. As the third-party administrator working directly for the franchisee, SCM would employ systems and technology to bring efficiencies to the claims handling and reporting processes, resulting in a more affordable insurance program for the franchise as a whole.

For example, SCM's iAdjust online reporting system would permit both the insurance company and the franchisees to access the adjusters' claims reports at any time, thus eliminating the necessity for additional manual reporting that ultimately adds to the cycle time and handling cost of each claim. Adjusters were also given the authority to settle files immediately, circumventing the back-and-forth communication that was part of the traditional program.

This SIR program also took the majority of the burden involved in claims management away from the insurance company, which also benefited from this arrangement because its resources would then be freed up for more productive activities.

RESULTS

SCM under the SIR program for over a year, the franchisees were happier because they had more opportunity to participate in the claims management process and maintain a frequent and meaningful dialogue with SCM about their claims assessments. The SIR program also provided the franchisees with better transparency concerning their outstanding claims, which meant that they were more aware of exposures at any given moment, and thus able to make more informed business decisions. Essentially, highly efficient processes made the SIR program more cost-effective for the group as a whole. The insurance company was supportive of the franchisees' SIR program because it eliminated a large part of the administrative burden.

