Self Insurance The Alternative

2006-10-18 12:40:00

Self insurance involves making a calculated payment every month to a captive insurance company or simply retaining the payment yourself. (A captive insurance company is a specialist insurance company established with the specific purpose of covering risk from their parent company or group; they provide numerous insurance advantages and features which aren’t available in the traditional market). In cooperation with a traditional insurance this is an option many individuals and small businesses are now turning to with extremely positive results.

Barring catastrophe insurance your self insurance “policy” can insure you for every risk a traditional insurance company would. Catastrophe insurance isn’t self insurable as its too unpredictable and usually results in a pay out too large for one individual to ever afford. To achieve the widest possible cover most self insurers balance a mix of self insurance and traditional policies. The most common practice is to self insure up to a certain amount and then purchase a commercial policy to cover any risk above that amount, this is called a stop-gap or stop-loss policy.

Self insurance premiums are calculated in much the same way as they are in a traditional insurance company using risk profiles, probabilities and the law of large numbers. The practice is saving many small businesses all over the world significant sums of money. It is however not a decision to be taken lightly so be sure to discuss all your options with your insurance broker or company before making the move.