

# SIR ADVANTAGES & DISADVANTAGES

Use the following advantages and disadvantages to determine if a Self-Insured Retention program is right for your clients.

## Advantages:

- SIR programs allow insureds to limit insurance coverage to exposures and limits of liability that are difficult to predict or budget or are complex to resolve from a legal or public relations perspective.
- Up-front premium costs are reduced. Claims settlement costs and claims payments for retained losses are paid as they become due, instead of being included in insurance premiums.
- The insured has more direct control of deciding when to pay or fight particular claims.
- If claims are less than expected, the insured can save significant amounts that would have been paid as premiums to an insurance company.
- Risk management can find more ways to reduce claims frequency by loss control or safety management techniques because they are more closely involved in the claims process.
- Insureds still have expertise from their excess carriers to help them review and handle large, more complex claims.

## Disadvantages:

- If retained claims are more than expected, the insured can pay significantly more than if they bought traditional insurance for such claims.
- Total cost of risk for any particular year is much less predictable than in fully insured programs, and cashflow timing is also less predictable.
- Liability claims often covered by SIR programs can take a long time to be reported and settled. To manage an SIR program, the insured has to arrange for claims handling, either through use of its own staff or through use of a Third Party Administrator (TPA).
- For public entities, some claims are politically sensitive, which may cause public relations problems for the public entity if an adverse decision is made.
- Insureds may be required to pay the total loss amount for large claims before they are reimbursed by the excess insurers for claims costs larger than the SIR.
- Insureds must hire and utilize actuaries to project their estimated ultimate retained losses and disclose such information as part of their financial statements.

