

MARSH

Risk Management an effective approach

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Marsh & McLennan Companies

Effective Risk Management

- Why Risk Management?
 - A consistent Mindset
 - Relationship with Insurance
- How - Risk Management?
 - An effective process
 - the benefit
- Key Considerations



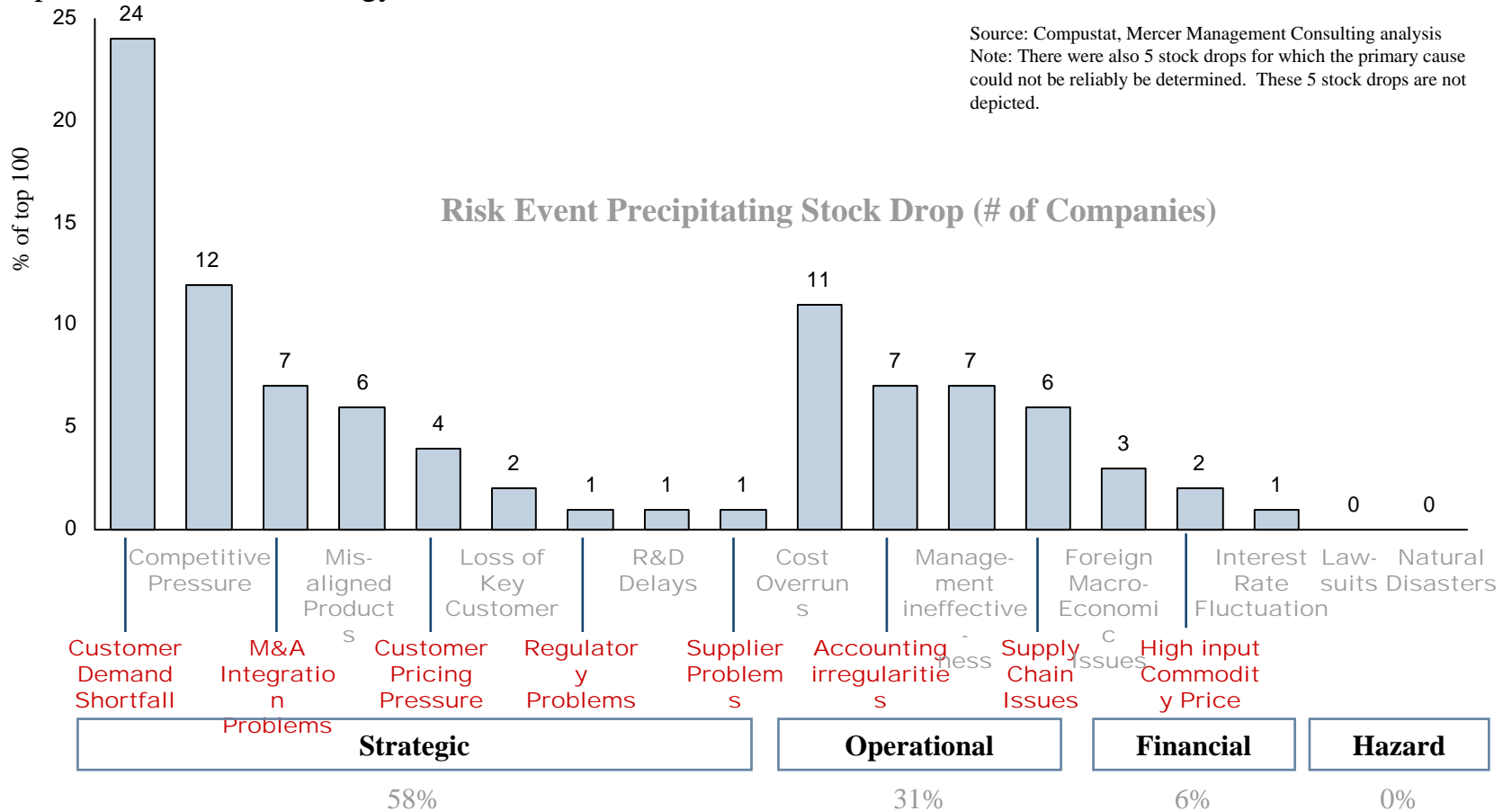
Why Risk Management ?

Why Risk Management?

- Significant Risks/Threats
- Accountability
- Marketable Difference
- Market (Insurance) Differentiator
- Compliance
- Combat Market Conditions
- Save Money/Make Money
- Performance - Related Returns/ROI

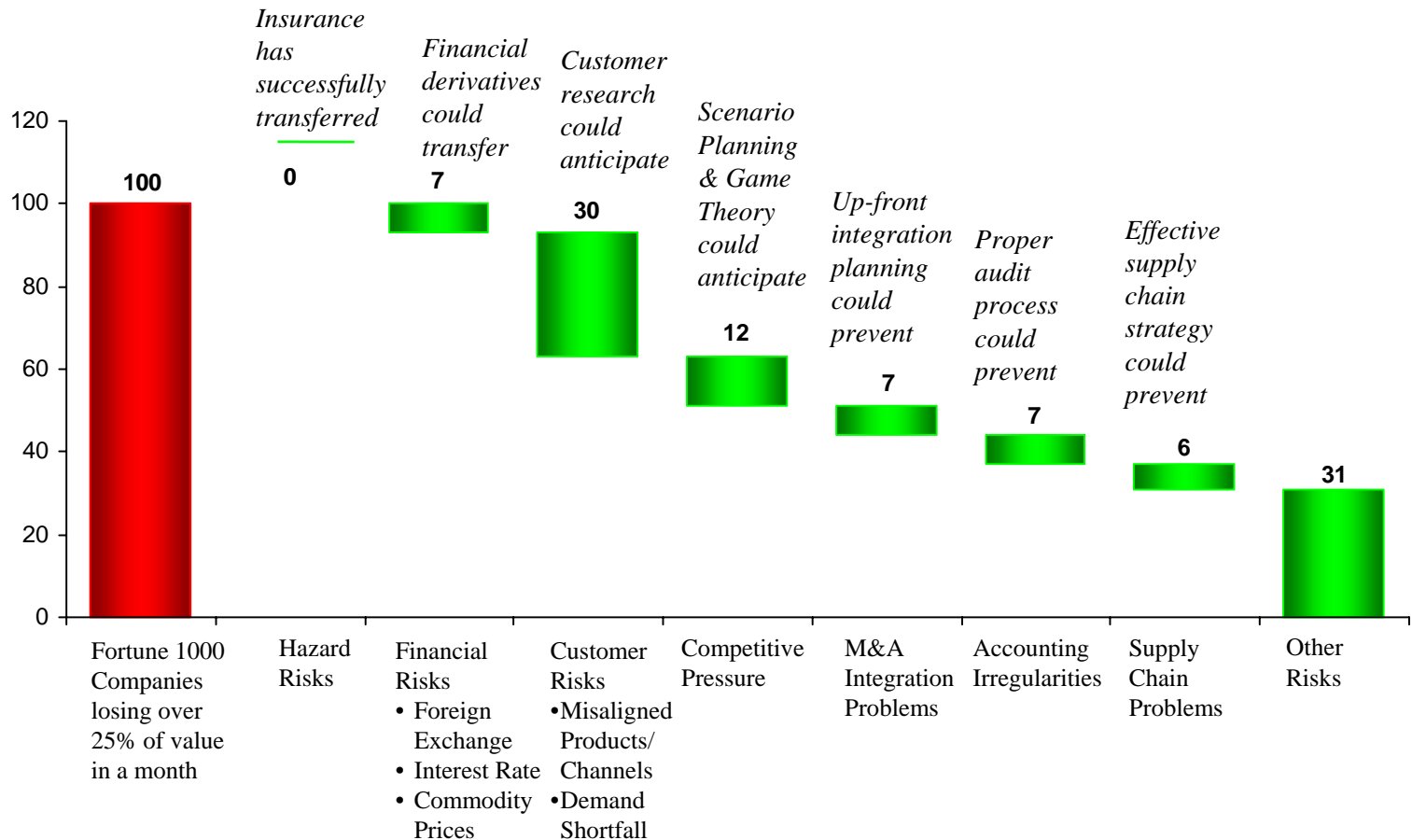
Why Risk Management? Research shows that it is not the traditional types of risks that cause the greatest impact

In the period 1993-1998, 100 (10%) of the Fortune 1000 companies suffered a loss of over 25% of shareholder value within one month, primarily due to strategic and operating risks. These types of risk are often uninsurable and require management that involves improving, changing and/ or adapting people's roles and responsibilities, processes, and technology.



Risk Management can Protect Shareholder Value

Over two-thirds of these risks could have been anticipated and mitigated / transferred using existing tools and techniques



Risks causing major Fortune 1000 stock drops (1993 - 1998)

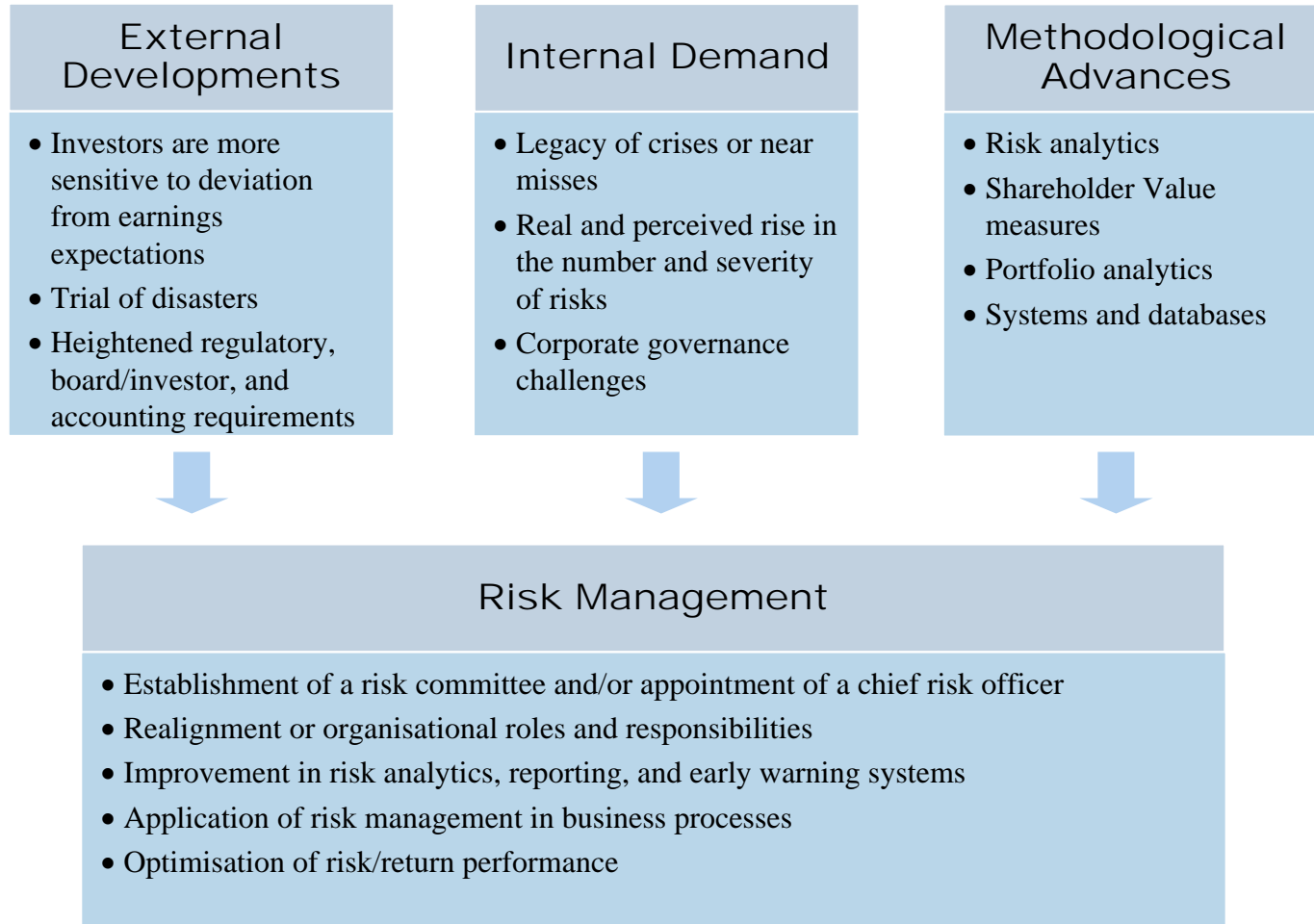
Why Risk Management?

Day to day challenges listed below can all negatively impact KPI's

- Changes in the business model
- Major acquisitions or new business ventures
- Constantly missing strategic or earnings targets
- Earning surprises/earnings restatements
- Regulatory or legal problems
- Frequent leadership changes
- Major operational breakdowns
- Bankruptcy of key suppliers or major product recalls
- Reading about any of the above on the front page of the local paper

Why Risk Management?

As an organisation grows and develops the changing risk profile challenges traditional risk management frameworks



Risk Management - A Consistent Mindset

Speculative



Pure

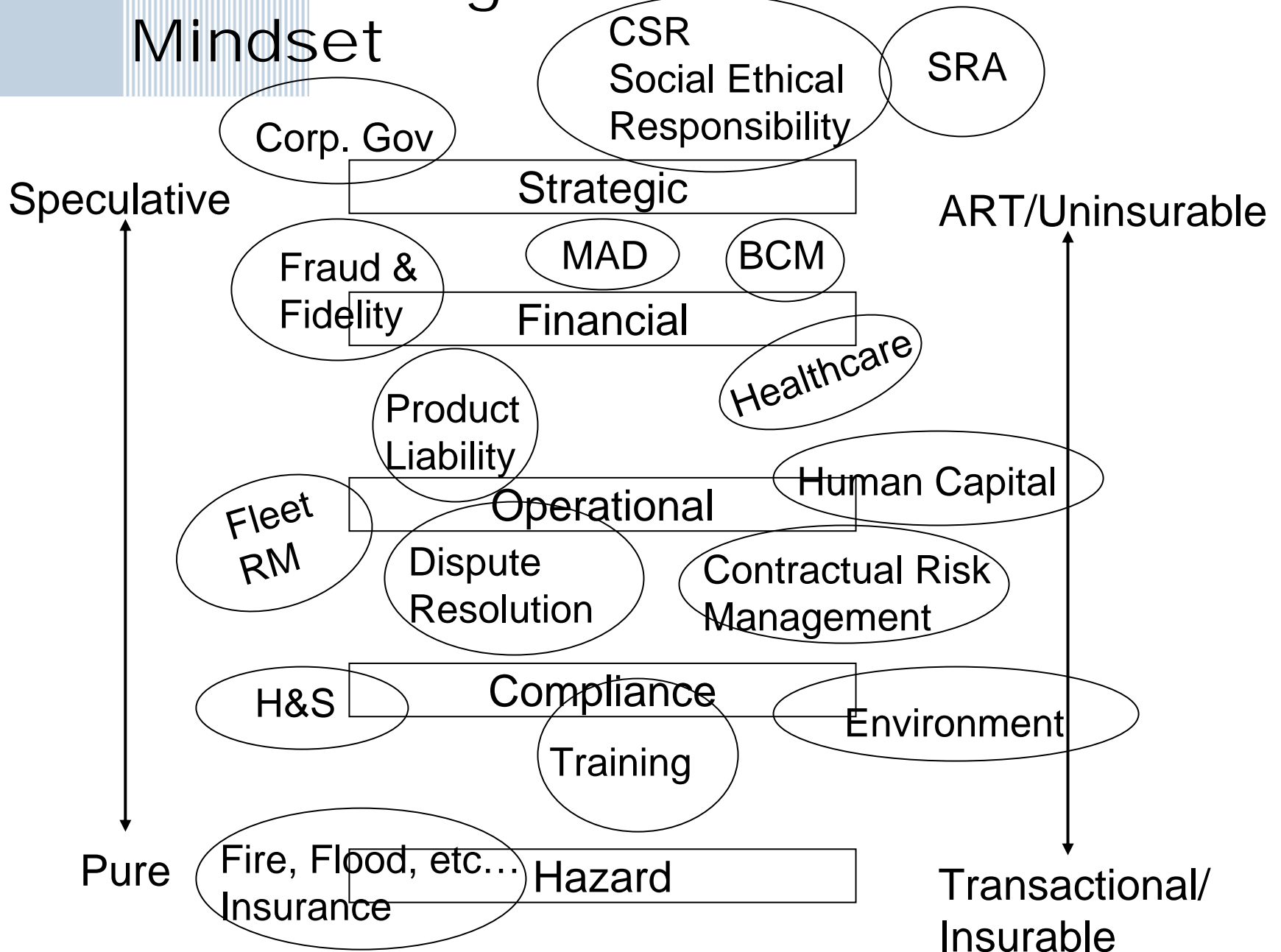


ART/Uninsurable



Transactional/
Insurable

Risk Management - A Consistent Mindset



“Insurable” Risk Management Leverage Model

Pre-Inception

Property

- Loss control Surveys
- Multi-themed diagnostics

Human Capital

- EL Assessment
- Liability Surveys
- Stress Risk Assessments
- Fleet Diagnostics
- Assessment of Key Risks
- Total Cost of Human Capital Risk

Business Continuity Mgt

- Business Interruption Assessment

Business Risk Consulting

- D&O / PI Diagnostics
- Business Risk Assessment

Modelling and Design

- Risk Retention Analysis
- Simulation/Programme Design
- Risk Financing suitability
- Captive Feasibility & Health check
- Key Risk /Claims Analysis



Inception

Risk Profile A vs. Risk Profile B

Market Recognition

- Price With / Without
- Reduction in Premium
- Risk Management Funding
- Conditional Risk Management work on Placement
- Pro Rata Recognition
- Nil claims / claims rates incentives
- Incentivisation through Limits & Retention Levels



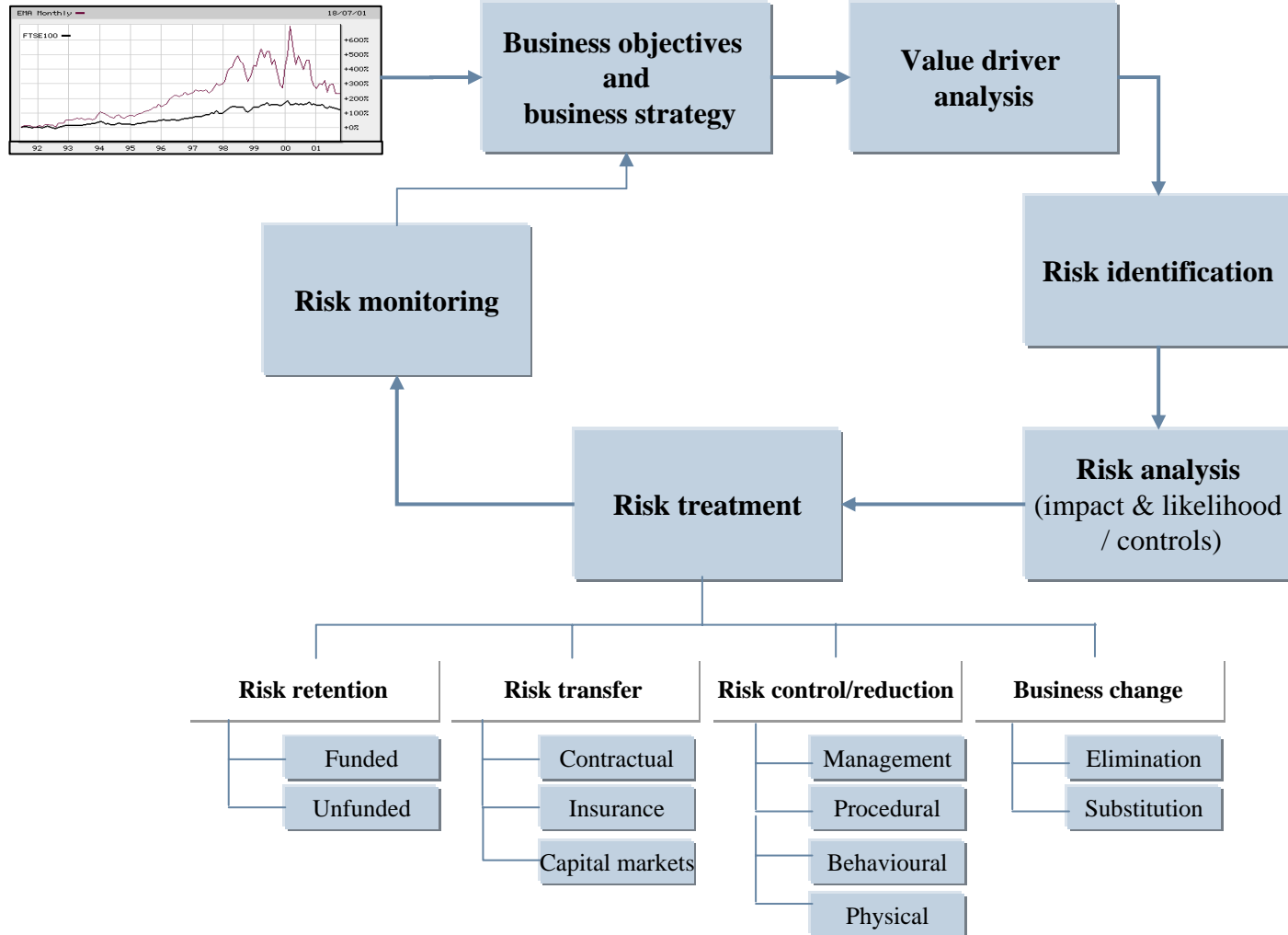
Post-Inception

- Loss Control Programmes
- Human Capital Risk Management Programme
- Business Continuity Planning
- Follow up of Risk Assessment Findings
- Design and Implementation of Programme and Periodic Review
- Benchmarking – Cost of Risk & Programme Design



How Can Risk Management
Help?

Effective Risk Management Process



Risk Management is not just insurance:

This process considers **all** risk solutions in our RM approach to achieve KPI's

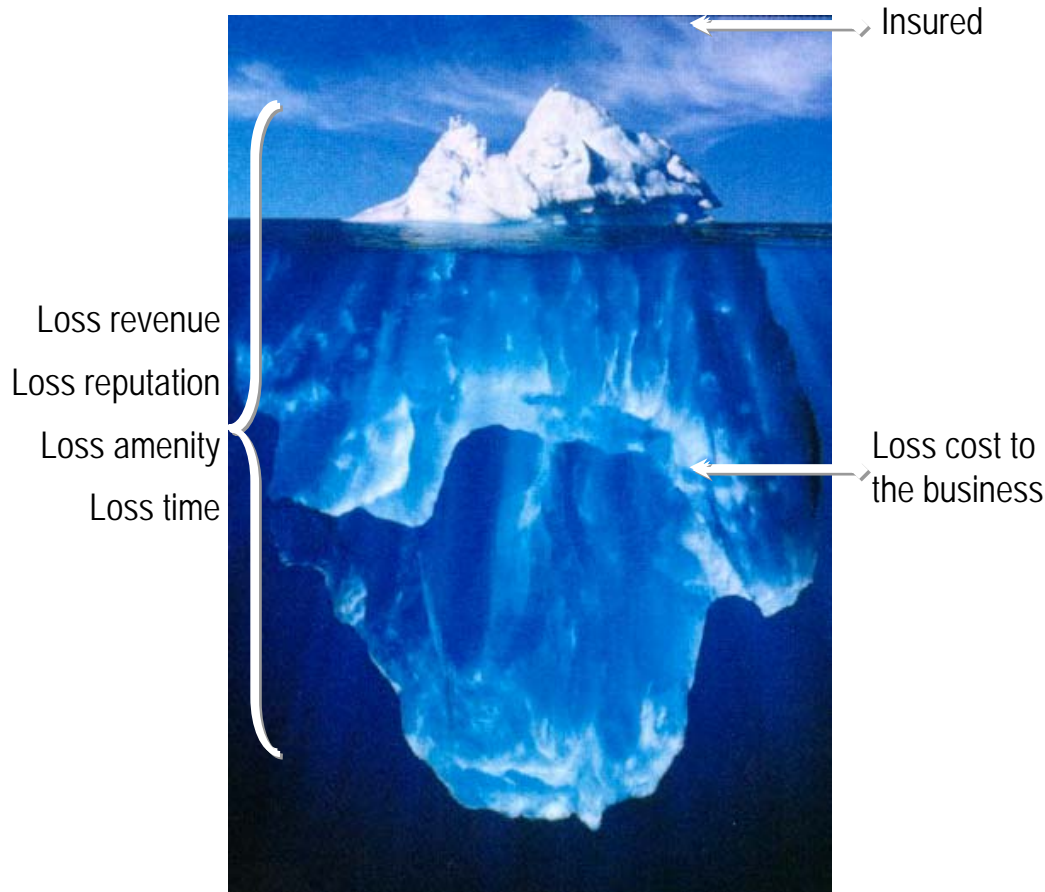
- Insured/direct cost

- Injury
- Ill-health
- Damage

- Uninsured/indirect costs

- Failure to achieve KPI's through:

- Uninsured damage
- productions delays
- management time
- loss of expertise
- legal costs
- loss of customer confidence



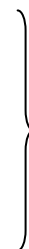
HOW?

Start With “Insurable” Risk Management - Tangible Results

→ Stage 1

Broking Support

- Property Surveys
- Liability Surveys
- BI Surveys
- Loss Estimation



Risk
Management
Solutions

Valuable Service For Insurance Underwriters

Stage 2

Optimise Insurance Placement

- Effective Presentation of the Risk
- Combating Underwriters Pricing

Stage 3

Focus on significant risks – intangible/uninsurable?
- Insurance is one branch of a larger risk solution tree

The benefits of Risk Management

Risk Management promotes a framework for better decision making to protect and enhance the achieving of KPI's

More efficient capital allocation

- Optimise risk financing spend and focus risk management activity on critical risk areas through 21st century solutions

Better risk information

- Provide more detailed risk and control data to risk control markets (capital markets, insurance underwriters, internal) to mitigate effects of the hard market and help control risk spend
- Provide more detailed information to support business decision making rationales

Stronger financial outlook

- Use enhanced risk knowledge as a lever to negotiate cost of capital
- Reduced earnings volatility
- Improved rating outlook

Improved decision making and risk awareness

- Better risk management will allow the business to take more risk
- Improves decision making through consideration of risks in capital budgeting and strategic planning processes
- Increased awareness of risk scenarios and potential impacts

Satisfy corporate governance requirements

- Improve stakeholder confidence that risks are understood and managed

Achievement of strategic objectives

- Fewer downside surprises
- Holistic view of risk across the enterprise

Key Benefits of Risk Management

Achieving KPI's / Maximising Insurance Placements

Improved Risk Knowledge

- Enhanced understanding of risks affecting performance and return
- Quantification of the effects of alternative business strategies
- Ability to anticipate and communicate uncertainties inherent in performance goals
- Ability to link risk management with line management

Enhanced Confidence

- Risks inherent in transactions adequately priced
- Increased depth of risk management resources
- Confidence from systematic risk evaluation process
- Improved transparency of risks to internal and external stakeholders

Coordinated Decision Making

- Alignment of capacity with propensity to bear risk
- Improved capital and resource allocation capability
- Integration of risk management with strategic and business planning

What are the key considerations?

Making RM work for you

Approaches to RM

- Understanding what other companies do
- Use an objective viewpoint and recognised best practices from third party advisors
- Evaluate documented process against corporate governance guidelines and best practice
- Evaluate actual process against documented process
- Determine specific business RM focus and value for your industry and business

Critical Success Factors

- Sponsorship at the highest level
- Commit appropriate resources from the outset
- Align RM with your cultural and business context
- Set performance objectives for RM
- Align risks to KPI's, measured by robust key risk indicators
- Enhanced risk awareness factored into decision making



Any Questions?



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