

## AVOID THE NEGATIVE EFFECTS OF THE CHANGING INSURANCE MARKET ENVIRONMENT: THE ROLE 'RISK MANAGEMENT' HAS IN MITIGATING THE IMPACT OF THE IMPENDING HARD MARKET



### LOOKING AT THE INSURANCE MARKET

Willis reported toward the end of 2008 that an end to the extremely low-priced market cycle was looming caused by higher claims payments (numbers of major loss events and increasing costs of recovery) across the board, both sides of the Tasman, and reduced investment earnings. Now, the January 2009 re-insurance renewal negotiations in the global marketplace have produced higher prices.

A common belief that all insurance companies intuitively and fiercely compete to gain every possible piece of 'new business' is not true! Each insurer has preferred market sectors and, within these, has preferred classes of insurance it underwrites – be it for property-based risks, marine, motor vehicle fleet, liability based risks, niche risks such as trade credit and defamation, travel, aerospace, or construction.

While the 'good times' for insurer profits roll, it is true that insurers tend to broaden their target market in their quest to achieve ever bigger returns for their investors.

One tactic for insurance underwriters to compete more effectively is simply to offer lower pricing: insurance buyers will always look closely at options to lower the cost of insurance. However when the effects of these lower prices collude with 'higher than normal' insurance loss events while at the same time the rare experience of a *sudden major reduction* in investment returns hits hard, the net results of the insurers begin to look decidedly less attractive to investors.

This three pronged assault on insurance companies' performance indicators forces corrective action. One such response from insurance companies is to retain less risk to their own account and buy more re-insurance from the massive global reinsurance companies.

Costs go up, both in paying for the higher reinsurance at a time when demand is high, and from the transactional costs. This all points to pricing increases, generally, for New Zealand insurance buyers over this year.

### The Broker's Role

In this changing marketplace, brokers will have to work very hard indeed to help minimise this unwanted extra cost burden. Willis places great value on our marketing method. There is not one insurer that Willis doesn't have access to and, of equal importance, there are no insurers that deny their market to Willis.

Insurance buyers know that one of the fundamental roles of their broker is to prepare a risk profile for each category of insurance and to present these risks to the insurance market.

Your broker must know every intimate commercial nuance of every insurer to ensure your insurance needs are presented accurately to the 'right' insurers.

### CORRELATION BETWEEN RISK MANAGEMENT AND INSURANCE

One fundamental in the cost of insurance is worth recognising. It is the *interactive* impact of cost of risk retention and control on each other and on the cost of transfer, in particular, insurance.

**Increased spend on loss control**

*results in*

**decreased loss incidence**

*gives more confidence to:*

**increase level of risk retention**

*which results in*

**reduced cost of risk transfer (insurance)**

The good news – how to gain insurance price benefits from ‘managing risk’

Insurance underwriters also pay close attention to the *risk management* processes and protocols of the insurance buyer. They place value on the willingness of insurance buyers to self-assume higher levels of risk in the form of claims deductibles (excesses). Overall, the role that risk management plays in helping secure ‘best prices and cover’ from the insurance market will assume greater importance.

Every organisation ‘manages risk’, some intuitively, others by formal process. Where risk is badly managed, the organisation fails or survives in a different form.

The focus is on identifying what can go wrong, how often, how severe, and what should be done (treatment) to stop incidents happening. Where insurance is relied on to provide funds to recover from loss, it is the availability and cost that a business must evaluate to decide if it is the best means of financing their risk.

The availability and cost of insurance is driven in part by the market cycle, but also by the risk profile of the insurance buyer. At Willis, we take on the role of helping our client present the best face possible of their risks. This ranges from ‘telling it as it is’ through to advising a client that they need to invest in appropriate risk management, often focussed on risk control initiatives, to lift their value proposition to the insurance market.

An organisation with confidence in their risk control is able to retain more risk to their own account, and thus demonstrate vividly to would be insurers that they have a shared commitment to ensuring ‘nothing goes wrong’. The insurers respond well to this, and will offer their underwriting capacity at acceptable pricing, while declining or highly pricing less attractive risks.

## A RISK MANAGEMENT TOOL QUANTATE™

Willis would like to introduce you to a web-based application that makes in-house communication and ownership of risk management easy, Quantate™.

This is a tool that will enable users to gain a complete real time view of risk in the organisation, by assisting in the reduction of unwanted risk outcomes, thereby producing a positive effect on insurance costs.

Quantate™ is a business risk and assurance solution designed to help all kinds of businesses manage their risk management activities.



Quantate® will add value to your business by helping you to:

- § Make improved decisions through greater risk awareness
- § Deliver greater business assurance to your stakeholders
- § Create a process of continuous learning and improvement

Quantate® allows you to:

- § Record your risks, categorise and assign ownership
- § Assess risk in your context and criteria
- § Develop control frameworks and link controls to risks
- § Improve your understanding of individual controls
- § Create risk and control monitoring programmes, linked to office tools
- § Customise reports and export to standard office applications

Preferential prices via Willis

Preferential pricing of the Quantate™ product is available – call Willis to learn more, or ask for an on-site demonstration of Quantate™.

## CONTACT

For further information please contact your Willis Client Advocate® or call any of our offices listed below.

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