

RELATIONSHIP BETWEEN THE INSURANCE MARKET AND RISK MANAGEMENT

For insurance buyers the key issues for this year are:

- § How to use the broader insurance market to leverage better cover and pricing, and
- § What role 'risk management' has in helping to achieve the desired outcome

First, looking at the insurance market

No matter which insurance company is selected by the insurance buyer, they all are directly linked into the global insurance market

The role of the broker is to prepare the risk profile for each category of insurance for their client, and to present these to the insurance market. Despite common belief that insurance companies are falling over themselves to secure new business, this is not true! Each insurer has preferred market sectors, and within these has preferred classes of insurance it underwrites – be it property based, including buildings, plant, stock, machinery, marine transit, motor vehicle fleet, etc, or liability risk including public, directors and officers, statutory, professional, people risk including life, disability, health, superannuation, and so-on.

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.

Looking at the whole market available in New Zealand, the good news is that all insurers are keen to compete. Their respective pricing models are quite different each to the other for Central Government business. For example, insurers have varying cost structures, depending on the preferred market sector for each insurance company. Even more importantly, it is the vital *re-insurance* programmes that each insurer buys that create significant price variations. *Re-insurance* protects the fronting, or retail insurer, from becoming overly exposed to massive loss from any one loss event, be it fire, flood, storm or earthquake, and the various liability risks, and so-on.

For insurance buyers, it is their broker's role to know which insurers are best able to compete for the particular risks of the many Central Government organisations. Willis does know this, and looks forward to demonstrating the results.

The insurance buyer's role: 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.



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 'SOLUTION' QUANTATE

Willis would like to introduce Central Government organisations to a web-based application that makes in-house communication and ownership of risk management easy.

Its called Quantate™. This is a tool that will enable users to gain a complete real time view of risk in the organisation, and assists in reducing unwanted risk outcomes, which brings insurance premiums down.



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

Talk to Willis on how to arrange an on-site demonstration of Quantate™ for your organisation.

CONTACT

Willis New Zealand Limited

www.willis.com

Auckland

Level 18, 1 Queen Street
PO Box 369, Auckland 1140
Tel: 09 358 3319

Wellington

Level 24, 92-94 Boulcott Street
PO Box 10446, Wellington 6143
Tel: 04 472 2677

Christchurch

Level 5, 254 Montreal Street
PO Box 2220, Christchurch 8140
Tel: 03 366 5715



CHALLENGE THE STATUS QUO

Willis is the world's most established insurance broking firm, founded in London UK in 1828.

Today Willis has more than 400 offices in 120 countries, with a global team of approximately 20,000 associates (employees) serving clients in 190 countries and a market capitalisation of some US\$6 billion.

In New Zealand, Willis commenced business in 1965, and today has clients located throughout the country, to be found across the business, governmental - central and local - and not for profit organisation sectors.

Feel free to contact a member of the Central Government Practice Group below.

OUR NEW ZEALAND CENTRAL GOVERNMENT PRACTICE GROUP

For further information please contact your Willis Client Advocate® or one of our Central Government specialists:

Alan Stuart

Tel: +64 4 471 4801
e: stuarta@willis.com

Colin Wiggins

Tel: +64 4 471 4800
e: wigginsc@willis.com

Ben Thomas

Tel: +644 910 1405
e: thomasbz@willis.com

Scott Carberry

Tel: +64 4 910 1406
e: carberrys@willis.com

Richard Jackson

Tel: +64 9 920 2929
e: jacksonra@willis.com

Matthew Bone

Tel: +64 4 495 9731
e: bonemd@willis.com