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RELATIONSHIP BETWEEN THE INSURANCE MARKET AND RISK MANAGEMENT

For local government 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.

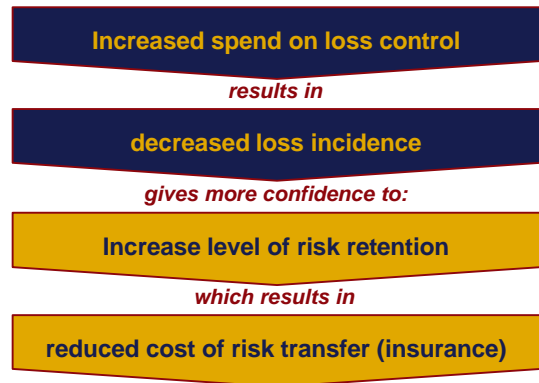
The role of the broker is to prepare the risk profile for each category of insurance for their client, and to present these to the insurance market. Despite common belief that insurance companies are falling over themselves to secure new business, this is not true! Each insurer has preferred market sectors, 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 to Councils in New Zealand, the good news is that some insurers who have never had an opportunity to secure new business by way of Councils, are keen to compete. Their respective pricing models are quite different each to the other. For example, there are necessarily 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 protect 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 Council insurance buyers, it is their broker's role to know which insurers are best able to compete for the particular risks of the Council. Willis does know this, and looks forward to demonstrating the results to Councils.

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.



Of course, insurance underwriters also pay close attention to the risk management processes and protocols of the insurance buyer.

The good news – how to gain insurance benefits from 'managing risk'

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 bad, and what should be done (treatment) to stop things going wrong. Jumping through the risk management stages to the well recognised risk financing treatment of risk – insurance, it is the availability and cost that an organisation must evaluate to decide if it is the best means of financing their risk.

The availability and cost of insurance is driven 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 focused 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 like that, and will offer their underwriting capacity at acceptable pricing, while declining or high pricing lesser risks.

A RISK MANAGEMENT 'SOLUTION' QUANTATE

Willis would like to introduce Councils 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.



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 Local Government Practice Group below.

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