AIRMIC Webinar

Risk Financing Under a New Financial Reality

WTW, Risk & Analytics

June 3rd, 2020

Financing Risks has never been more important

We live in a VUCA world

Macro Environment Factors

- Near term economic uncertainty
- Monetary easing and low interest rates
- Social inflation and higher loss costs
- Rapidly changing and complex risk landscape
- Volatile climate and geopolitical environment

Insurance Sector Factors

Risk Financing costs in a Hardening Market

Hardening markets challenge renewals and budgets

Optimal Balance Sheet Management

Liability Provisions and Actuarial Reserving need to reflect current business and economic reality

Claims - Non Damage Business Interruption

Main economic consequences of the COVID 19 pandemic

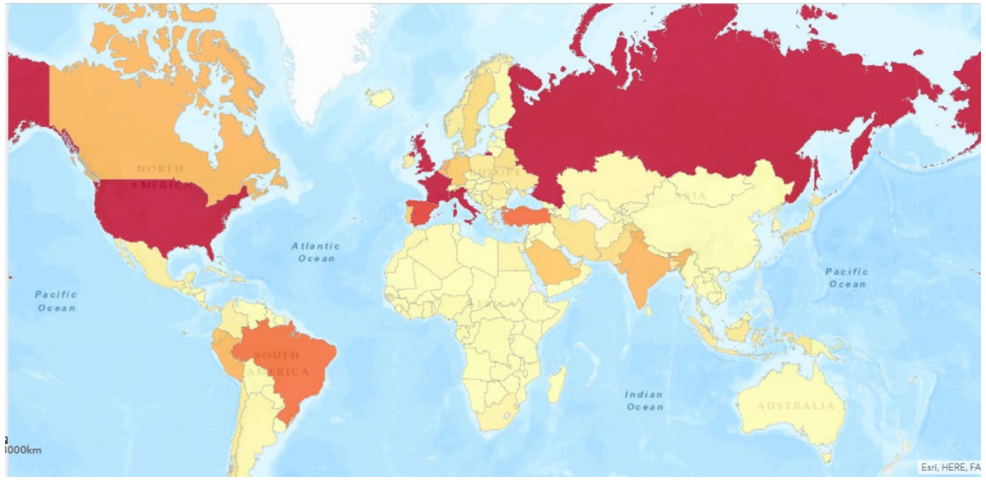
Introduction

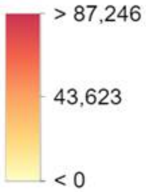
How to Combat Hard Market TODAY

Re-tuning your risk strategy to outsmart the Hard Market

COVID-19 Environment JUNE 16th

Leverage Analytics to address current and future issues related to Covid 19





169 **Countries/Regions**

+ 3,646,871 **confirmed cases**

+ 252,442 **deaths**

As is May 5th

**Source: John Hopkins Coronavirus Resource Center*

Hardening Markets

Take control of renewals and break through the hard market - By exploiting superior information

Client Issues

- Rates are increasing
- Scarcity of insurance: some carriers exiting…
- Underwriting scrutiny
- Retentions are increasing (both voluntarily and involuntarily)

Renewal Learnings

- Be prepared to make decisions quickly.
- Rethink historical assumptions about retentions/limits
- Anticipate and prepare
- Expertly distinguish your risk from ‘peers’

What analytics can do for you

- Go into renewals with a strong view of your risk and of how much risk you can retain
- Calculate the value from insurance
- Gain underwriters attention by communicating your risk in a language they understand
- Identify arbitrage opportunities

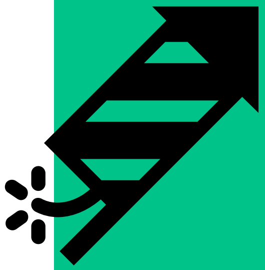
What's Changed

How do we deliver resilience **in this unprecedented environment?**

- Radically Changing Risks
- Hard Insurance Market
- Corporate Liquidity Crisis

First, we must see that:

- Risks are a not individual, they manifest as a Portfolio
- Markets for risk are inefficient we can unlock Arbitrage
- Our Tolerance, Appetite and Capacity for retaining risk is materially different than it was just a few months ago



We urgently need to completely re-invent our **Risk Financing Strategy** and tune it to current financial realties.

Renewal Strategy vs Risk Strategy

What's the difference?

Renewal Strategy

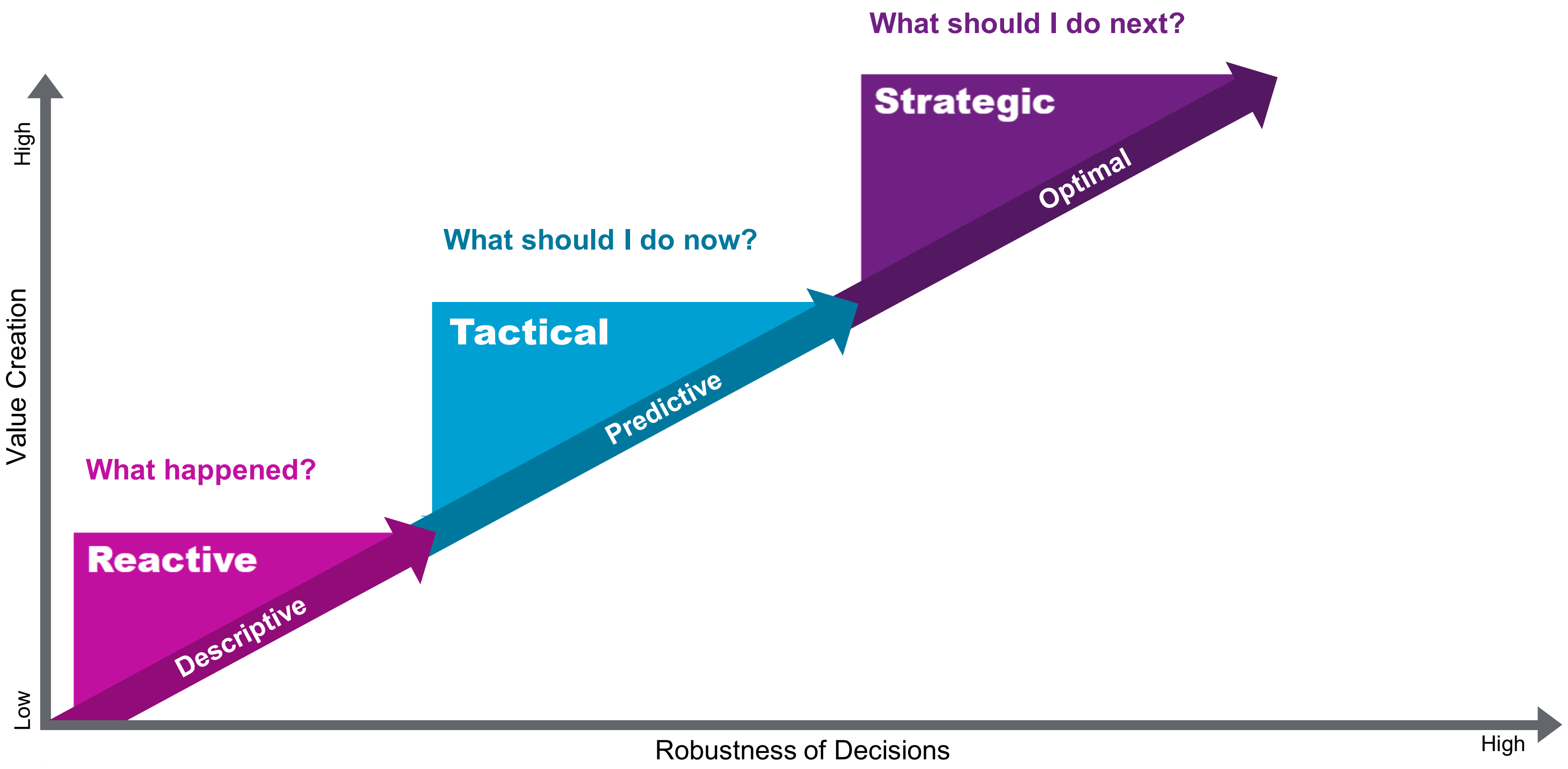
- Line of Business
- Markets (pre-marketing indications)
- Data
- Analytics to Empower Superior Outcomes
- Submission Timing
- Structure Options
- Pricing (Indications & Quotes)
- Leverage & Negotiation
- Transaction Execution

Risk Financing Strategy

- Risk Quantification
- Portfolio View of Risk
- Conventional Risk Financing Options
- Alternative Risk Financing Options
- Transaction Modelling
- Risk Metrics
- Risk Tolerance, Appetite & Capacity
- Finding the Efficient Frontier (Optimization)
- Strategy Execution

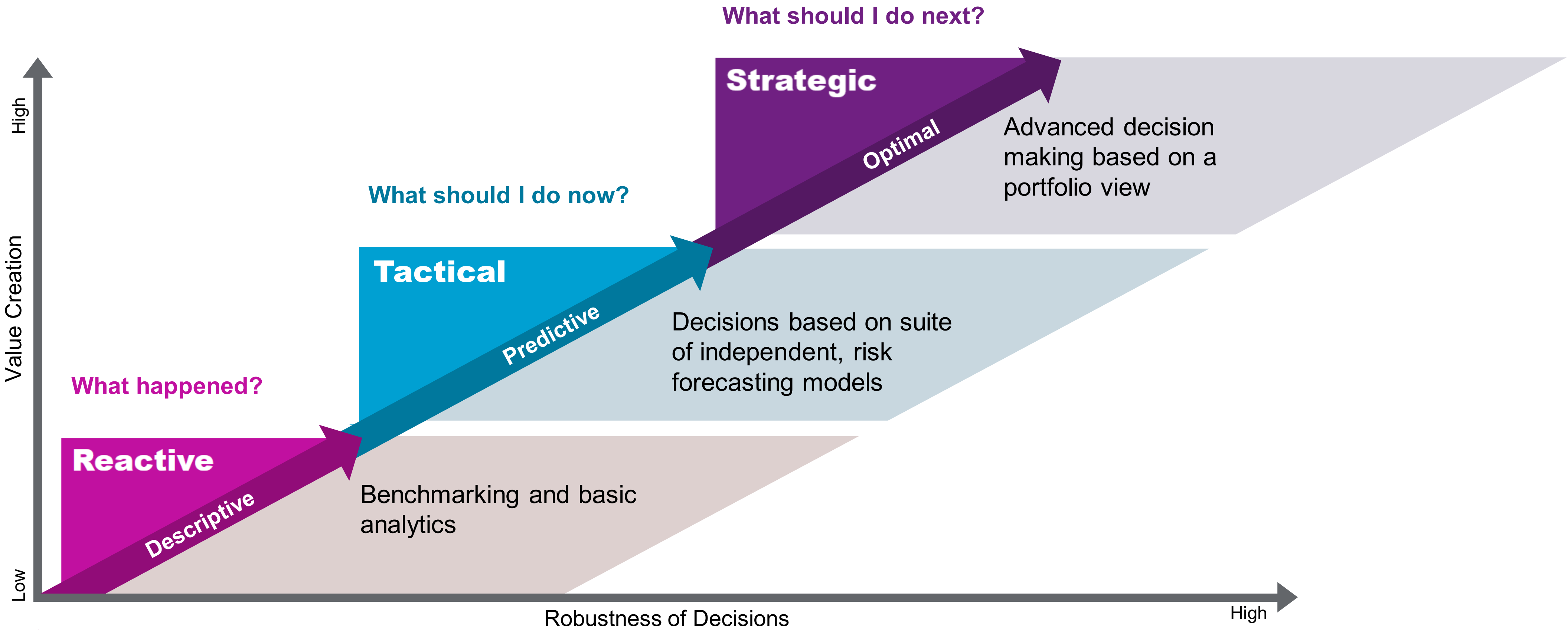
Key Questions to ask on the Analytical Journey

Where is the initial need?



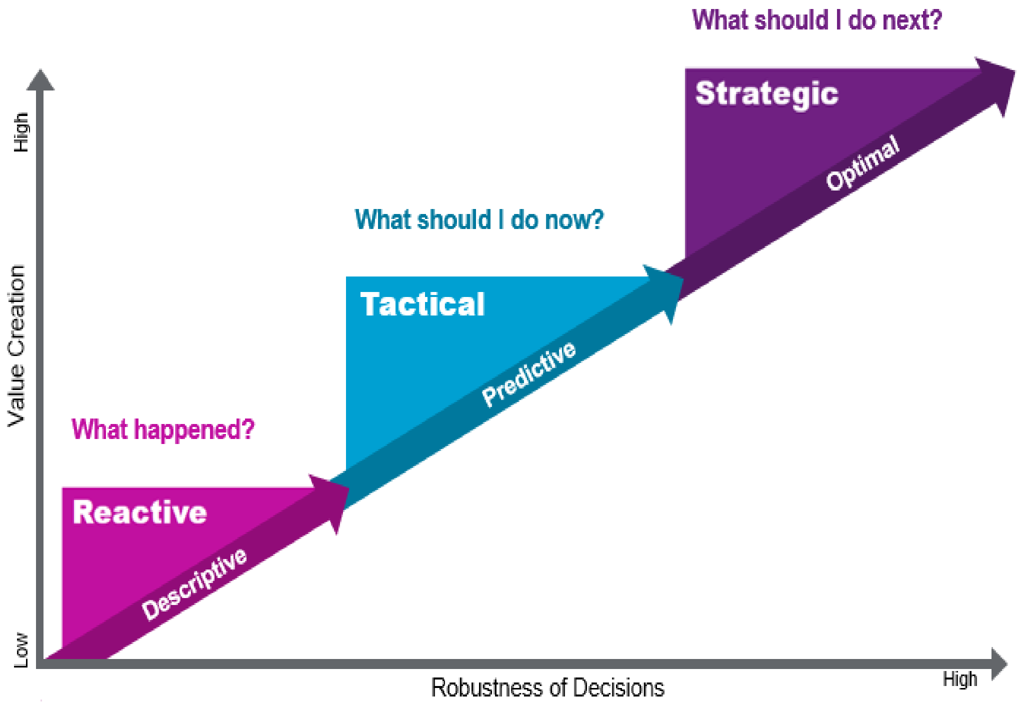
Key Questions to ask on the Analytical Journey

There are services to help you along each step of the journey



Key Questions to ask on the Analytical Journey

What are the key questions we are asked?



What questions are you asking?

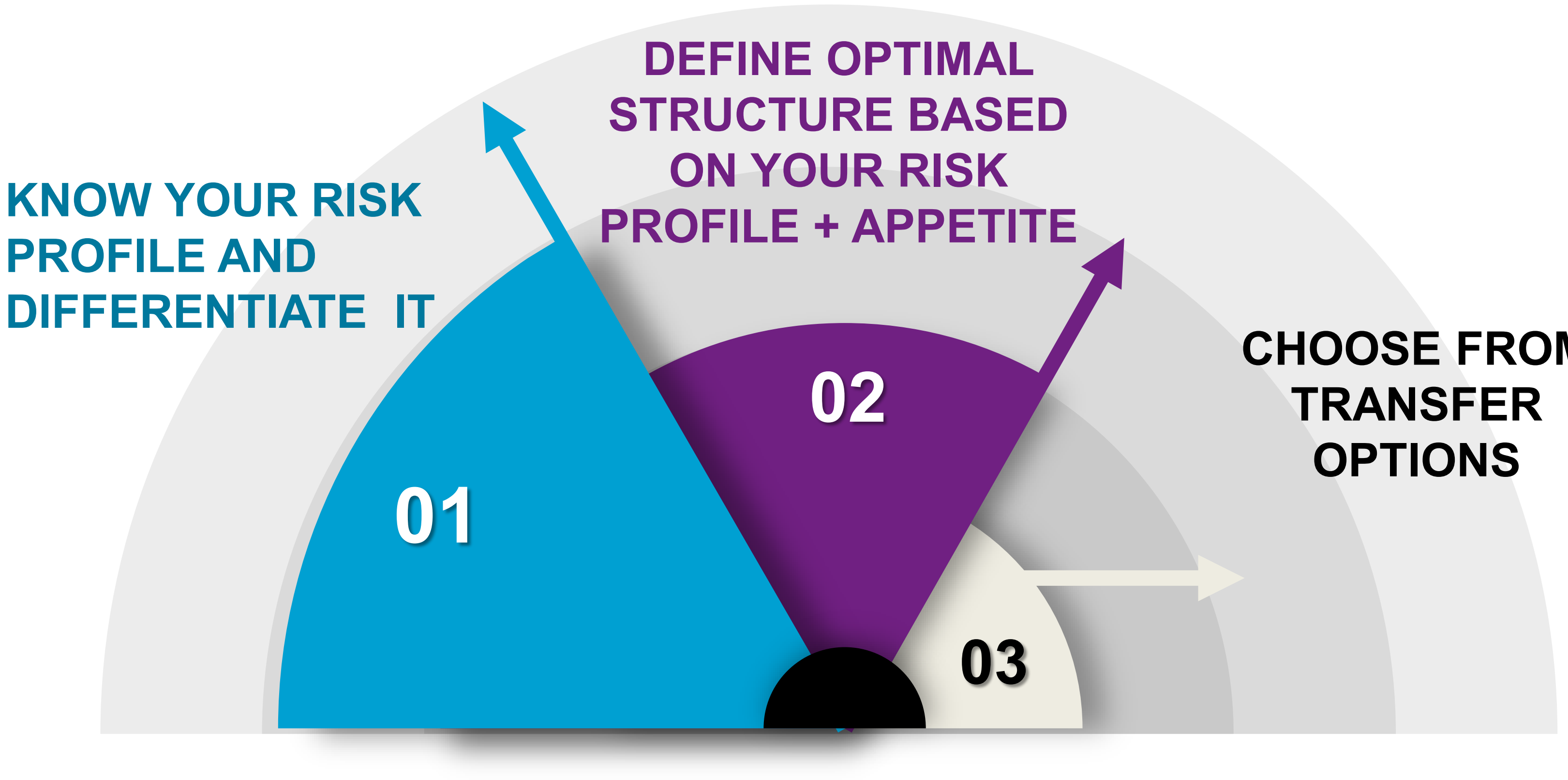
- What is the optimal insurance risk strategy for my company?
- Can I buy less insurance and remain adequately protected?
- Can I reduce cost without increasing my risk?

- If I lower my limit on ‘risk X’ how likely am I to exceed it?
- Should I raise my retention on ‘risk X’?
- Am I paying too much/too little for this policy?

- How much have I paid in the past and also claimed back?
- How much does an insurance program like our peers’ cost?
- What insurances are companies like mine buying?

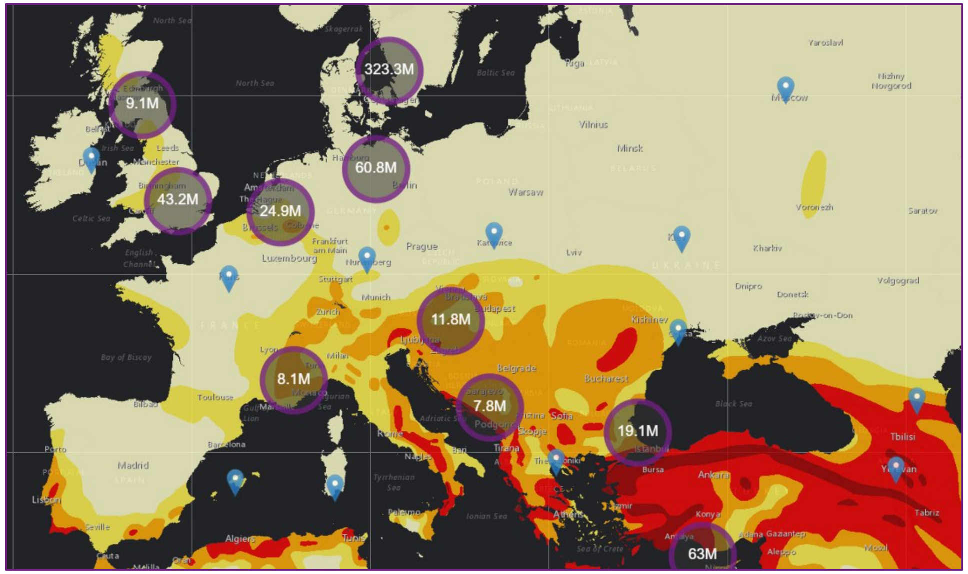
Leveraging Analytics will help get you better results

Three simple steps to follow

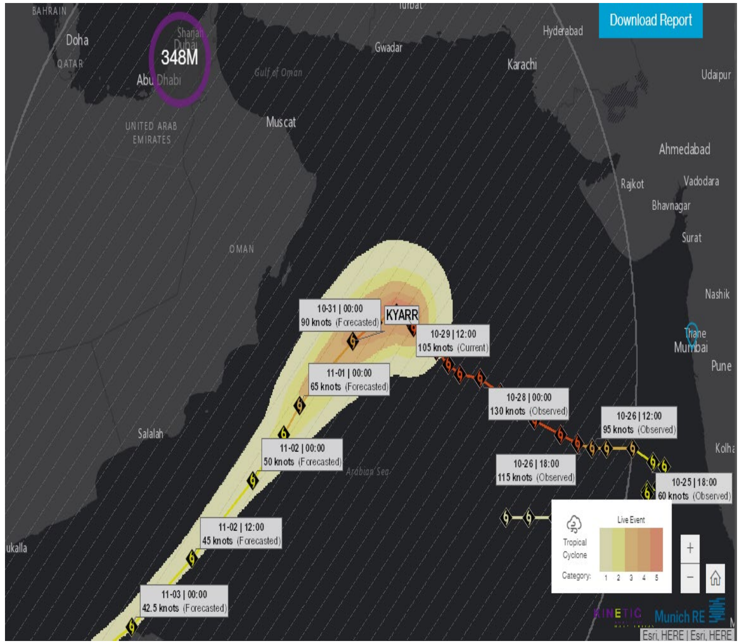


Hardening Market

Know Your Risk Profile



- Visualisation of risk improves understanding and improving address data is the single most significant way you can change insurers perception of your property cat risk.
- Enables due diligence on potential new properties coming into the portfolio



Hardening Markets

Negotiating Leverage to build your Risk Profile

Are you a better risk than insurance carriers think?

Underwriters are exercising caution, but they are paying attention to analytics.

Challenge their view of your risk.

How does your claim frequency compare to S&P MidCap 400 Index constituents?

44	34
Baseline	Predictive
Using just Market Cap, US and Commercials, in the next year there is a 14.77% chance of a claim.	Incorporating all predictive metrics and the customized geography and industry mixes, in the next year there is a 12.51% chance of a claim.

Hardening Markets

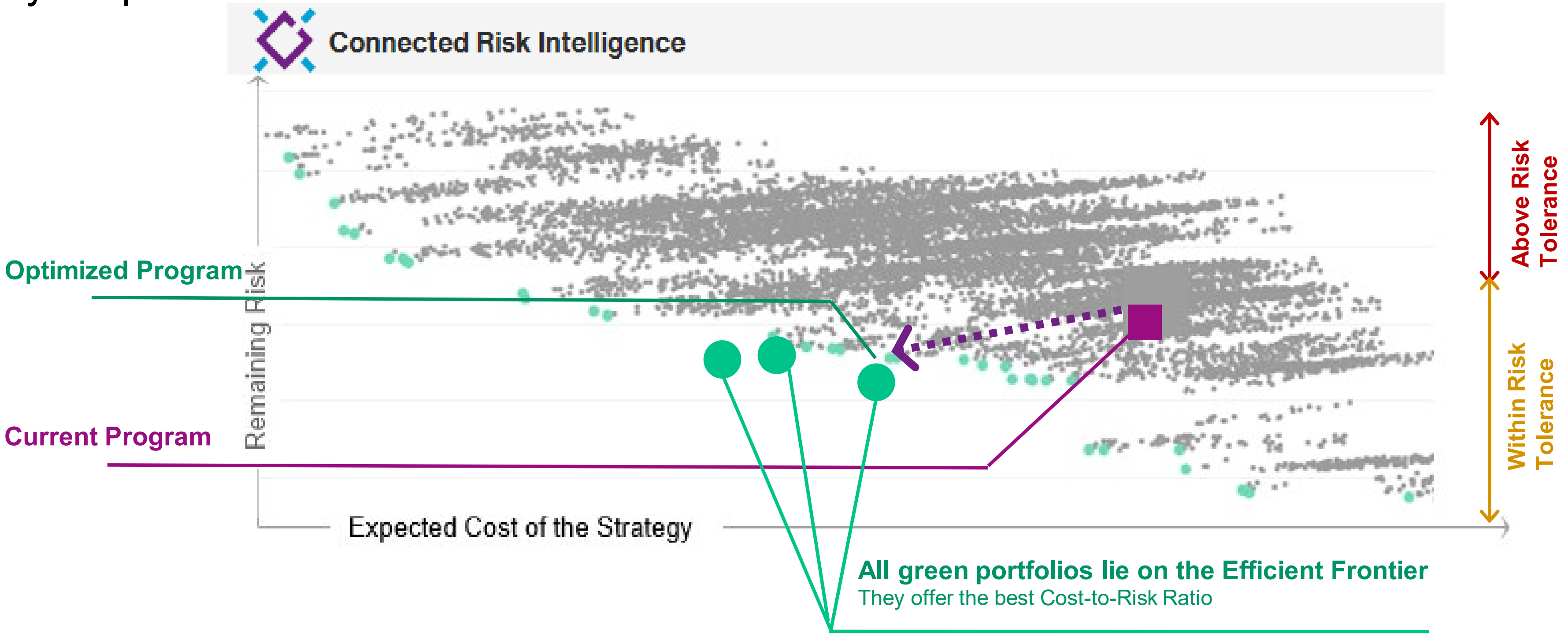
Alternative structures may deliver savings

Alternative Structure – Increased Captive Retentions

- ✓ Reduces Comprehensive Cost of Risk by $0.5m annually
- ✓ Delivers downside protection within the client's risk tolerance

Hardening Markets

Advanced analytics put the client in the driver’s seat and on the efficient frontier



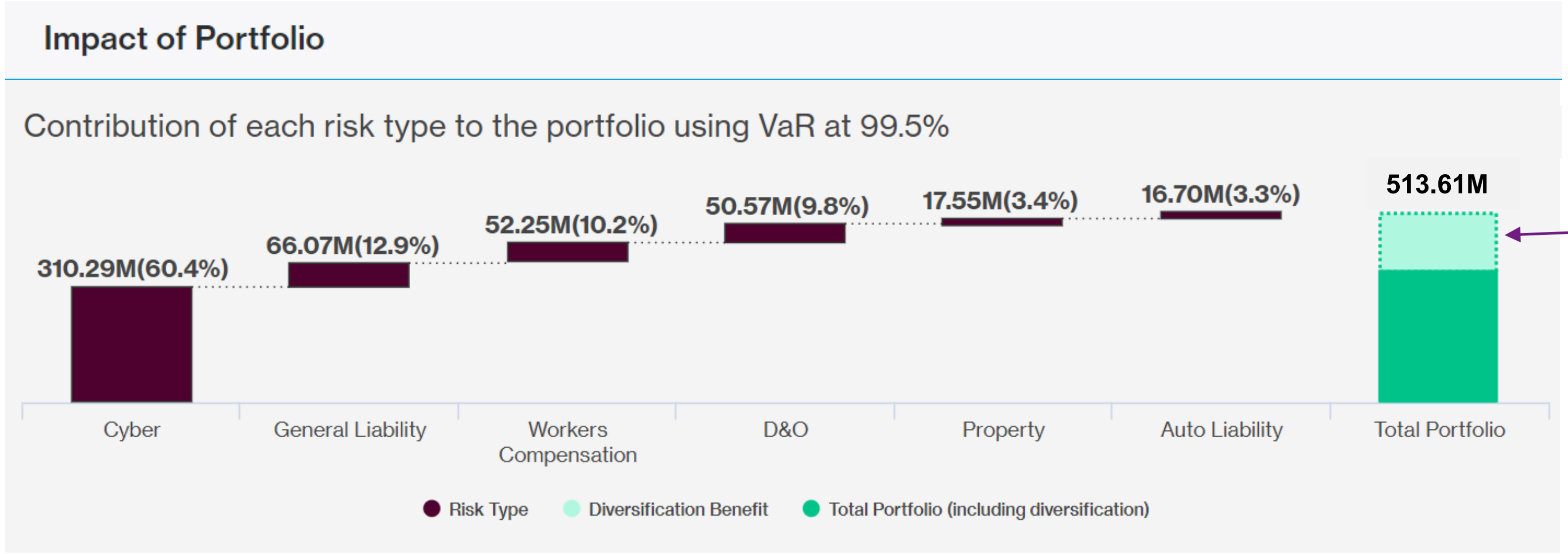
Insurance Portfolio Optimisation Results

	Life sciences	Healthcare	Financial Institution	Financial services
Cost Decrease	9%	4%	3%	15%
Risk Reduction	13%	1%	18%	22%

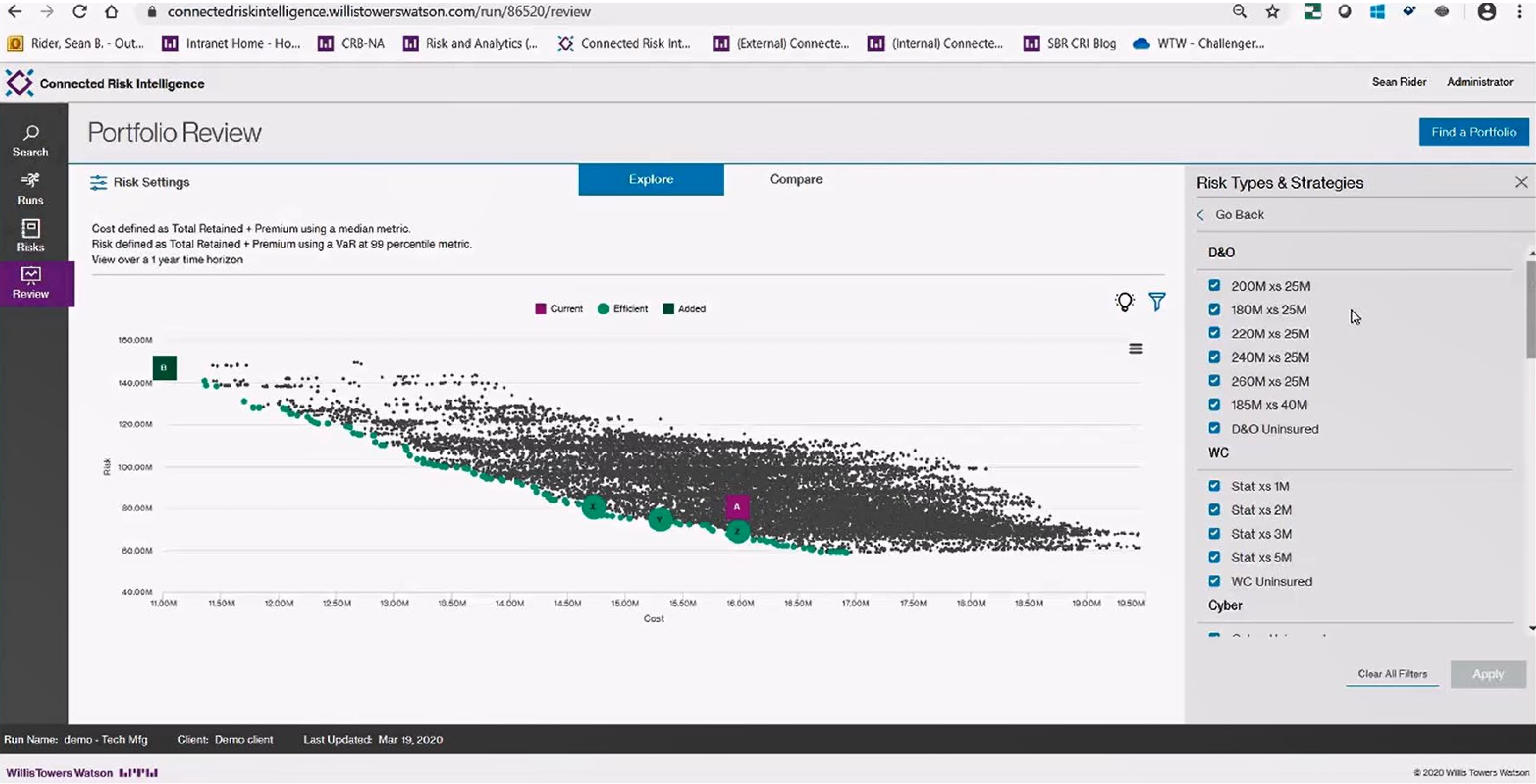
Hardening Markets

What is the diversification benefit?

Often, the whole is **less than** the sum of the parts.



Diversification Benefit:
$159.0M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Connected Risk Intelligence
Sean Rider
Administrator
Search
Runs
Risks
Review
Portfolio Review
Find a Portfolio
Risk Settings
Explore
Compare
Cost defined as Total Retained + Premium using a median metric.
Risk defined as Total Retained + Premium using a VaR at 99 percentile metric.
View over a 1 year time horizon
Current
Efficient
Added
160.00M
140.00M
120.00M
100.00M
80.00M
60.00M
40.00M
Risk
11.00M
11.50M
12.00M
12.50M
13.00M
13.50M
14.00M
14.50M
15.00M
15.50M
16.00M
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17.00M
17.50M
18.00M
18.50M
19.00M
19.50M
Cost
B
A
X
Y
Z
Risk Types & Strategies
Go Back
D&O
200M xs 25M
180M xs 25M
220M xs 25M
240M xs 25M
260M xs 25M
185M xs 40M
D&O Uninsured
WC
Stat xs 1M
Stat xs 2M
Stat xs 3M
Stat xs 5M
WC Uninsured
Cyber
Clear All Filters
Apply
Run Name: demo - Tech Mfg
Client: Demo client
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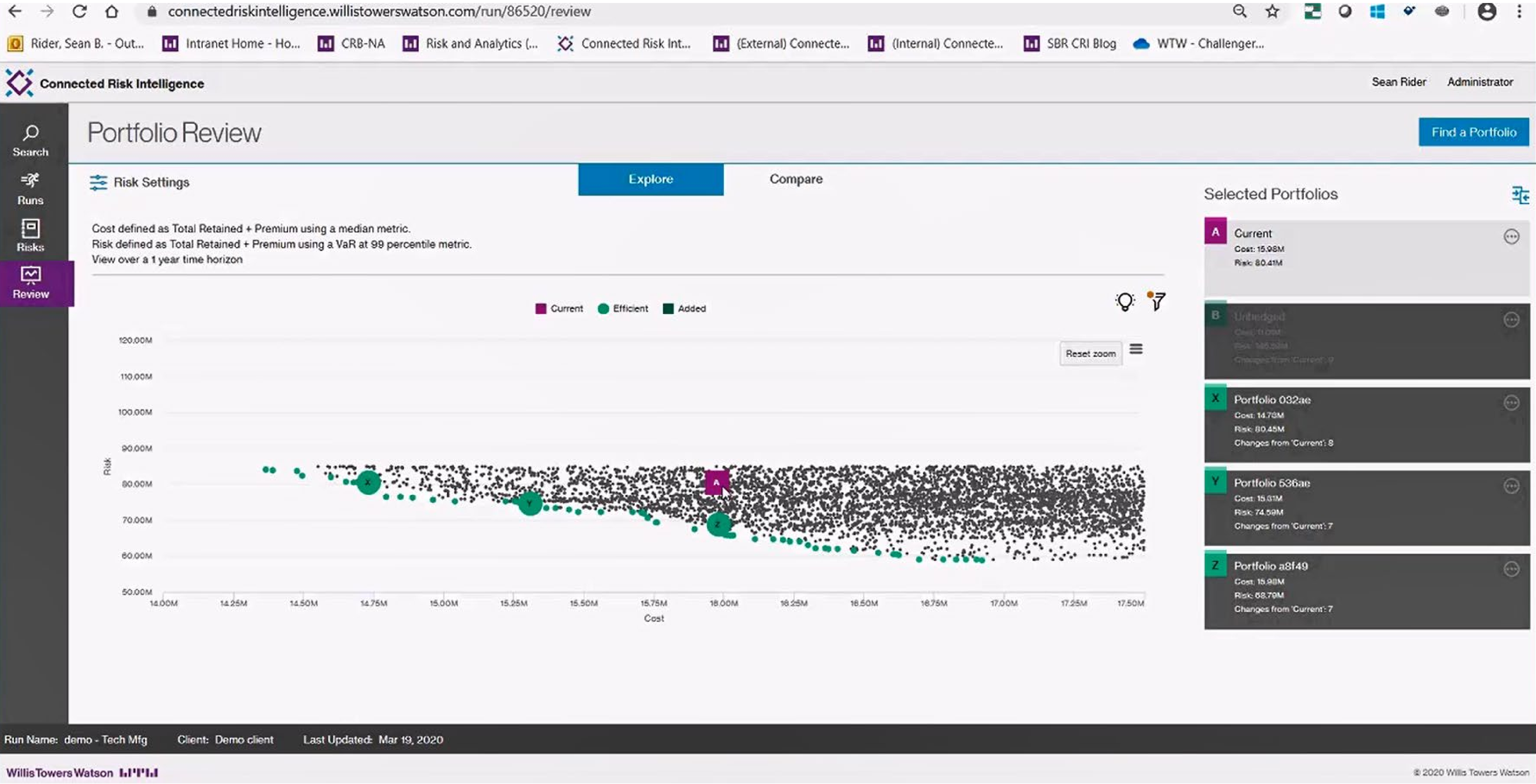
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Cost defined as Total Retained + Premium using a median metric.
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View over a 1 year time horizon
Current
Efficient
Added
Reset zoom
120.00M
110.00M
100.00M
90.00M
80.00M
70.00M
60.00M
50.00M
Risk
14.00M
14.25M
14.50M
14.75M
15.00M
15.25M
15.50M
15.75M
16.00M
16.25M
16.50M
16.75M
17.00M
17.25M
17.50M
Cost
X
Y
Z
A
Selected Portfolios
A
Current
Cost: 15.98M
Risk: 80.41M
B
X
Portfolio 032ae
Cost: 14.78M
Risk: 80.45M
Changes from 'Current': 8
Y
Portfolio 536ae
Cost: 15.31M
Risk: 74.59M
Changes from 'Current': 7
Z
Portfolio a8f49
Cost: 15.98M
Risk: 68.79M
Changes from 'Current': 7
Run Name: demo - Tech Mfg
Client: Demo client
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Hardening Markets

Choice of Transfer Options

Holistic Insurance Programme Design

Alternative Risk Transfer

Captive Retention

The value of Analytics

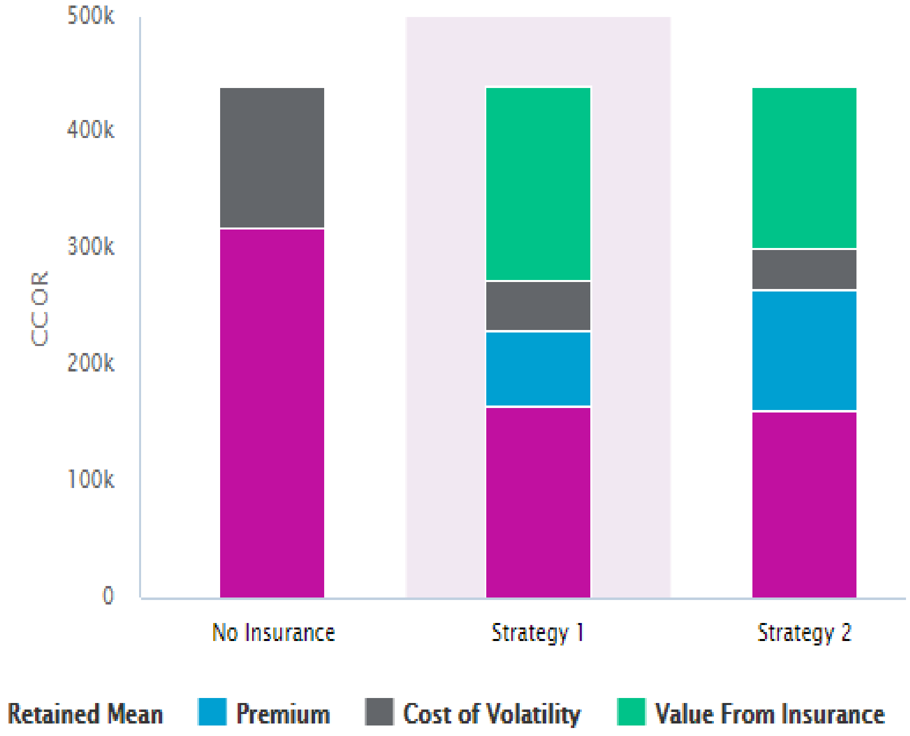
What are the benefits?

Enables better informed decisions that:

- Minimise Total Cost Of Risk
- Improve budget certainty
- Demonstrate the value of risk management

Creates an audit trail for risk financing arrangements, which

- Quantifies retained loss volatility
- Assesses limit adequacy
- Tests pricing
- Evaluates which risk financing strategy provides “best value”



Take away thoughts

What's my company's current cash position?

How do I measure the value/performance of insurance programmes?

What are my options and have I stress tested these?

Create a Risk Financing Strategy; Take Control of Your Renewal

Be prepared to challenge the status quo

Take calculated risks

Communicate decisions with C-suite/Board in confidence

Thank you

Q&A

Contact Us

Irem Yerdelen
Director, Corporate Risk & Broking
Irem.Yerdelen@WillisTowersWatson.com

Andy Smyth
Head of Risk & Analytics, GB
Andy.Smyth@WillisTowersWatson.com

Richard Baudin
Head of Client Development, Europe & International
Richard.Baudin@WillisTowersWatson.com