

Analytical Services

A well managed business understands the risks to which it may be exposed and manages them on a daily basis. Organisations finance these risks by either retaining or transferring them and insurance remains a key risk transfer tool. However, buying too much insurance may result in inefficient use of capital; buy too little insurance and an organisation may place its financial viability in jeopardy.

What is the right balance between risk retention and risk transfer?

Aon's Analytical Services team has the capability to provide detailed analysis to help you make an informed decision around your organisation's optimum risk financing strategy. We can assist your organisation in the following areas:

- Understand your risk tolerance and appetite – Your organisation's financial strength can be used to assess whether higher or lower insurance deductibles should be considered. In addition to risk tolerance your desire to accept risk ('risk appetite') will also be explored.
- Forecasting retained losses and optimising insurance programs – Applying quantitative techniques consistent with actuarial methodology to historical losses allows losses to be forecast for the forthcoming policy year. The average, volatility and higher confidence levels of retained losses can be calculated for the current insurance program and any alternative insurance programs. Once forecast losses are combined with premium quotes an organisation can identify its most cost effective insurance program.
- 'Worst case' scenario analysis – Knowing what limit of liability to purchase can sometimes be a bit of guess work. However, an analysis that understands the different insurable consequences of a 'worst case' scenario and simulates the financial impact using Monte Carlo sampling techniques can show the overall financial impact of a scenario at various confidence levels. This process provides some science to selecting appropriate limits of liability.
- Reserving for unpaid losses – If your organisation retains or self insures a significant portion of risk (including captive and managed fund retentions) you will have a need to understand your existing liabilities, how much of this is yet to be paid and what amount needs to be set aside now to pay for those liabilities as they are settled in the future. An Outstanding Loss Provision analysis quantifies this amount and assists in the preparation of financial reports and meeting audit requirements.
- Premium allocation – The design and implementation of complex models can assist with allocating premiums appropriately across different business units within your organisation.

In conjunction with an insurable risk profiling exercise to identify and evaluate an organisation's insurable risks, our advice has allowed clients to receive the following benefits:

- A formal process that eliminates guesswork from insurance / risk management program design, and in turn demonstrates good corporate governance to stakeholders.
- Understand the organisation's financial ability and desire to retain risk.
- Maintain a full understanding of an organisation's loss history, and the potential benefits / risks associated with adjusting insurance deductibles.
- Enhanced ability for 'insurable' risk to be sold to insurance markets in the best possible light by demonstrating that a sophisticated approach has been taken in its identification and analysis.

Our specialist team can help you

Ross Ivey - Melbourne
p +61 3 9211 3337
m +61 410 077 313
e ross.ivey@aon.com

aon.com.au

Is this process of value to your business?

There are a number of factors that should be considered when deciding on whether Analytical Services can assist your organisation:

	Yes	No	Unsure
Does your organisation need to consider alternative deductible structures to offset unexpected premium increases from an adverse loss year or other market pressures?			
Does your organisation retain a significant portion of its risk (ie. through a risk retention vehicle such as a captive or self managed fund)?			
Is your organisation planning significant change or growth (including M&A activity) that could affect its appetite or tolerance to risk?			
Do you understand your organisation's existing liabilities thereby ensuring adequate provisions are maintained to cover retained losses as and when they need to be paid?			

If you have answered 'Yes' to any of the above and would like further information regarding any of our services then perhaps it is time to talk to us.