

BRIEFING SHEET

WILLIS ENTERPRISE & RISK FINANCE

QUANTIFYING LOW FREQUENCY/ HIGH SEVERITY RISKS

This *Briefing Sheet* describes a process that quantifies risks that in the past may have been difficult or impossible to measure due to lack of historic loss data.

LOSS PIQSM (Prospective Identification & Quantification) IS A PROPRIETARY WILLIS PROCESS THAT WILL:

- Quantify low frequency/high severity risks (e.g., products recall, E & O, cyber, operational, etc.)
- Determine the expected (average) loss over time along with potentially large losses and provide a credible measurement of risk volatility
- Reduce reliance on benchmarking
- Provide an analytic basis for determining optimal risk finance program structure

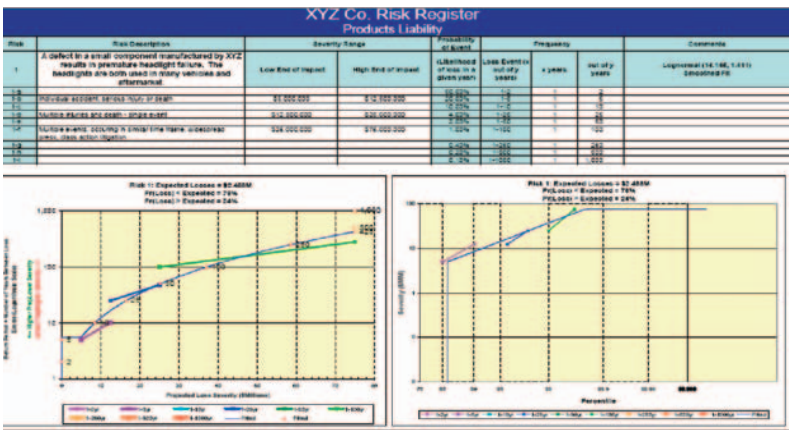
LOSS PIQ FEATURES

- **STRUCTURED WORKSHOP** Loss PIQ is usually implemented in a highly interactive, facilitated workshop, but the tool is adaptable for use when a workshop is not feasible.
- **CROSS FUNCTIONAL TEAM** The process begins by assembling the optimal team of individuals who can best identify and describe the most plausible future loss scenarios as well as the efficacy of existing controls with regard to a specific risk. The makeup of this group depends on each risk but typically includes representatives from operations, legal, marketing, finance, engineering, IT, audit and quality assurance. In some cases internal client knowledge is supplemented with expertise from outside the client organization.
- **PROBABILITY AND RANGE OF IMPACT** The process surfaces and articulates the most plausible future loss scenarios in an organized and structured

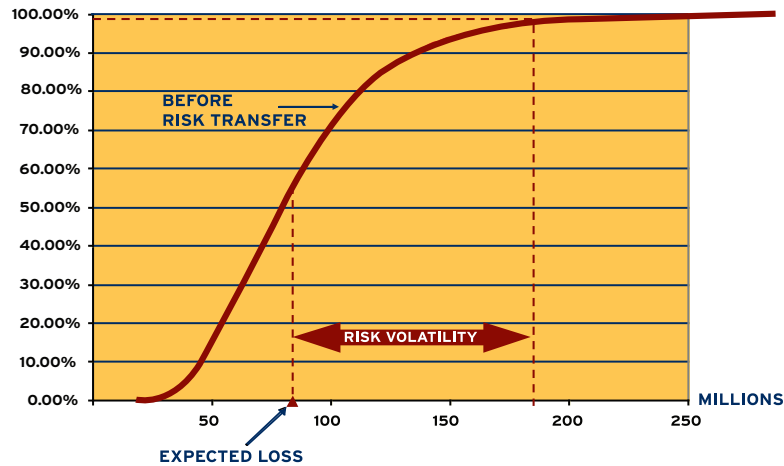
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format and then captures a range of impacts and probability for each scenario.

- **ACCELERATED** Recognizing that participants have little time available outside of their day-to-day responsibilities, we have designed Loss PIQ to minimize time demands. The time commitment is almost entirely confined to the one-day implementation workshop.
- **RISK ANALYTICS** Perhaps the most significant feature built into Loss PIQ is the underlying analytical tool that transitions qualitative loss scenario descriptions into individual loss distributions, as illustrated below:



Loss PIQ aggregates these individual measurements into an overall loss distribution of the risk. This “first cut” loss distribution is then integrated with relevant historic and industry/public domain loss data to ensure the most comprehensive analysis. Our quantitative specialists process the curve through simulations to generate a refined loss distribution of the risk before any risk mitigation or transfer (as illustrated below).



THE BENEFITS OF LOSS PIQ

- Identification of the expected (average) loss over time. This approximates the amount to budget for losses on an annual basis if the risk is to be self-insured.
- Projection of large loss events at different confidence levels (e.g., 1-in-20-year event, 1-in-100-year event etc.).
- The “uninsured” loss distribution developed by Loss PIQ is a basis for objectively measuring the benefit of alternative insurance programs by overlaying premium, limit and retention parameters of different insurance structures (please refer to Willis risk financing program optimization model – **Comprehensive Cost of Risk (CCoRSM)**).
- The insights and qualitative risk scenario descriptions articulated in the process lead to a deeper understanding of the risk, including how non-insurance risk mitigation can best be applied.

In summary, Loss PIQ enables our clients to fundamentally shift their assessment of critical low frequency/high severity risks from subjective or benchmarking information to credible, analytical measurement. This output then forms the basis for an informed risk management decision

CONTACT

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