RISK RETENTION ANALYSIS

GLOBAL CAPTIVE PRACTICE

WHY PERFORM A RISK RETENTION ANALYSIS?

Corporate governance and compliance changes are being imposed on an unprecedented scale. Some key changes, such as Sarbanes Oxley and Operating and Financial Reviews, currently relate only to quoted companies, but it is highly probable that the practices needed to support these regimes (such as analysis and management of principle risks and uncertainties) will eventually be applied to all companies.

However, compliance issues should not be the sole driver of the organisational approach to risk financing, and a holistic approach that embraces a re-evaluation of business strategy should be key in assessing a company's ability to retain risk.

This is why we believe that today's companies need a fuller understanding of how much insurable risk they should be retaining, enabling them to move away from year to year thinking and adopt a strategic longer-term view.

KEEPING OR TRANSFERRING RISK: FINDING THE OPTIMUM BALANCE

The criteria for determining retention capacity needs to be clearly understood by directors and applied in a consistent manner. Regular assessments will enable directors to better understand their own risk register, enabling management to drive down the cost of risk and aiding insurance brokers to design the most comprehensive and cost effective insurance packages. Such a review will also assist in the selection of appropriate structures and vehicles for the financing of retained risks.

The financial benefit for companies carrying out this risk retention analysis should be the reduced outlay of premium. In addition the satisfaction of knowing your long-term decision making is based on a comprehensive array of factors and not confined to yearly broker insurance market feedback.

WHAT DOES A RISK RETENTION ANALYSIS ENTAIL?

The Willis approach to establishing the optimal level of retained risk addresses a number of specific areas by applying a series of mathematical models to arrive at a set of recommendations reflecting the particular characteristics of the company.

- **Risk Identification**: Review the range of risks faced.
- **Risk Assessment**: Determine level of confidence in risk management processes.
- **Insurance Market Review**: Determine state of market, attitude to risk pricing.
- **Peer Review**: Benchmarking against a range of similar companies.
- **Claims Analysis**: Understand impact of claims on various risk retention amounts.
- **Financial Ratios**: Determine impact on key financial indicators.
- **Retention Funding**: Assess appetite for retaining risk and analyse techniques to house risk.

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WHO WILL BE RESPONSIBLE FOR DELIVERY OF THE RISK RETENTION ANALYSIS?

Our project team leaders will be responsible for managing all aspects of the project, from initial scoping of work, through to timetabling, production of the report and the presentation of the results. This specialist team brings together skill sets drawn from the fields of accountancy, economics, actuarial, loss management, risk management and insurance company management working under the guidance of an experienced project team leader.

This assessment of the affordability of handling retained risk can be further complemented with a risk exposure analysis. The Willis Integrated Solutions team has developed an award winning piece of software, Willis iFM®, which is used to aid retention analysis, programme structure and optimal reinsurance spend. This actuarially based service has its roots in consultancy work with insurance carriers and would therefore serve to compliment our Risk Retention Analysis.

HOW LONG WILL IT TAKE?

Typically the project is carried out at a time well away from your corporate insurance renewal season. The standard time frame, from information gathering stage to delivery of report, would be around four to six weeks.

HOW MUCH WILL IT COST?

The daily charge out rate for a risk retention project team is £1,500 per man day and most projects are in the range of five to ten man days. Please appreciate that the number of individuals involved in project will vary from project to project.

THE NEXT STEP

Contact your Willis Account Director who will arrange a meeting with one of our specialist consultants for a no-cost consultation on the impact a risk retention analysis could have for your company.

Alternatively, please contact Dominic Wheatley, Nigel Goodlad or Brendan Duggan

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