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# **Exploring the role of insurance in managing risk**

Sam Ketley

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# Agenda

Setting the scene, a look to the future but a focus on the now

1. Potential future impacts on insurance
2. What happens when 'sudden and unforeseen' becomes 'known and anticipated'?
3. How data and analytics are going to define the future
4. What can you do to improve insurance outcomes?

Summary

# 1

How will insurance change to account for future risks?

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## What are the future trends?

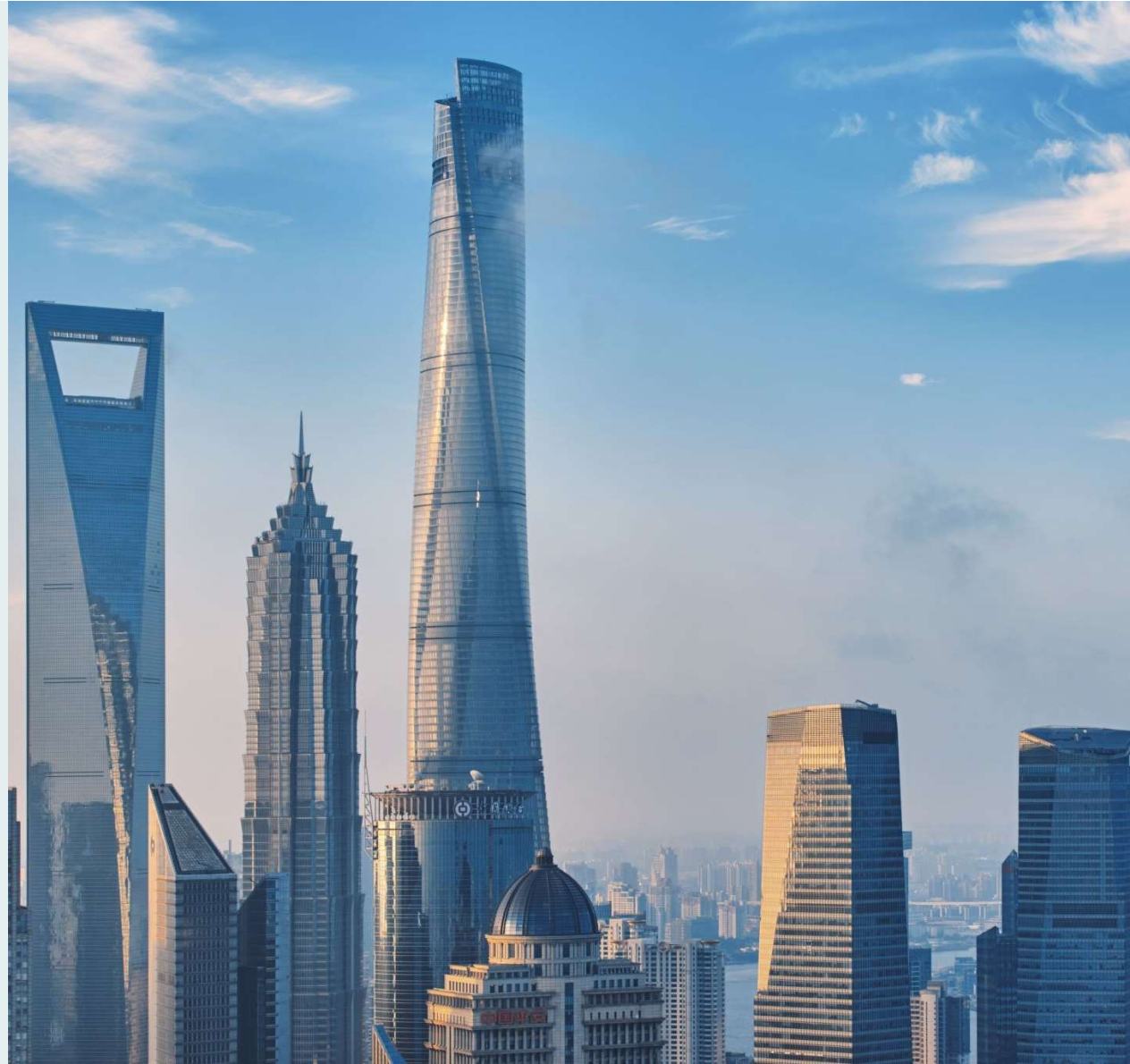
- Provision for emerging and less tangible risks
  - If we can quantify risk, we can potentially transfer
- Some covers are becoming more restricted
  - This trend is going to accelerate
- More alternative risk transfer options
  - Captives are resurgent, parametric and insurance linked securities are evolving
- Data driven, even more so
  - More sources, more detail - turning this into useful information is the key
- Real-time underwriting and the use of the Internet of Things (IoT)
- Impact of disruptive technologies



# 2

What will happen when  
'sudden and unforeseen'  
becomes 'known and  
anticipated'?

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# Fundamentals of insurance

Insurance only covers sudden, unexpected and accidental events.

## Material Damage

Unexpected events may include floods, earthquakes, a car accident, a house fire or theft. Insurance only covers things that happen suddenly, not gradually.

## Liability

Legal liability is the state of being legally responsible for something. In insurance, this usually means the responsibility to another person for negligence or failure to take proper care over something.

Typical insurance market response to adverse trends

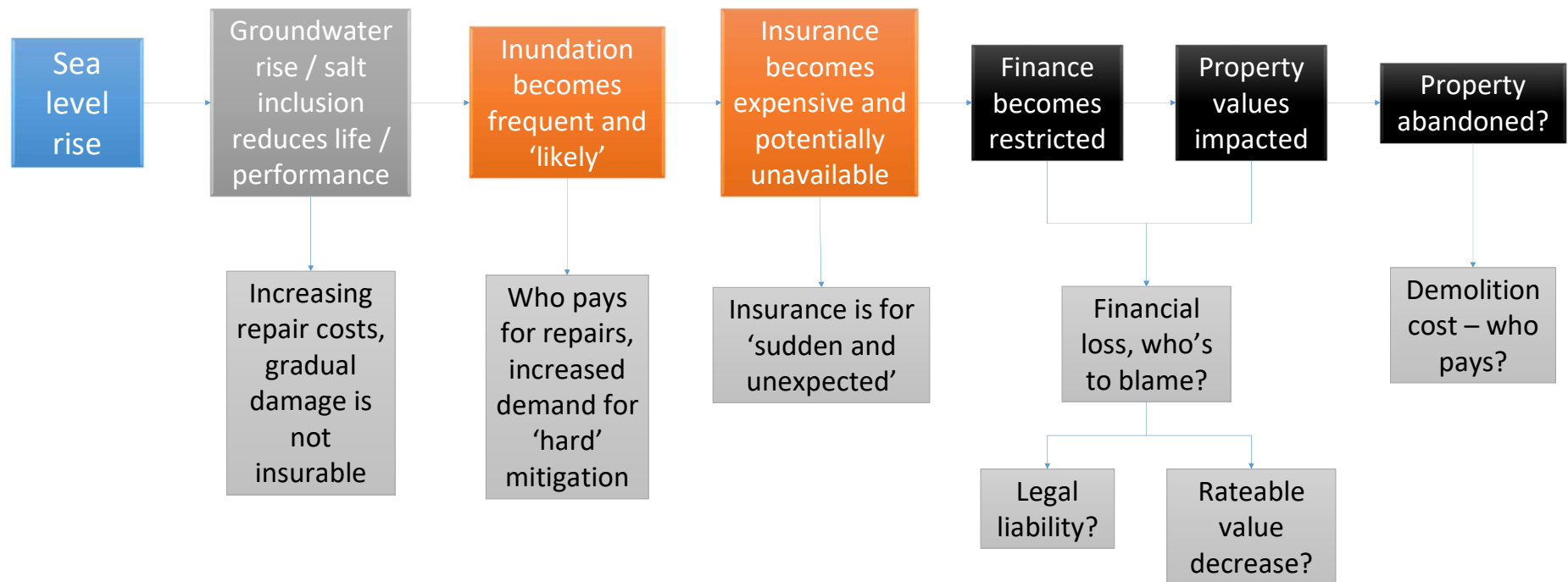
- Request for more data
- Higher deductibles
- Restricted capacity
- Higher premiums
- Exclusions and conditions

## Client options:

*Use other risk management pathways – terminate, treat or find other ways to tolerate the risk?*

*Transition to alternative sources of capital / risk financing?*

# Climate change, an example of a 'gradual' issue



# 3

How better data and analytics are going to define risk transfer in the future

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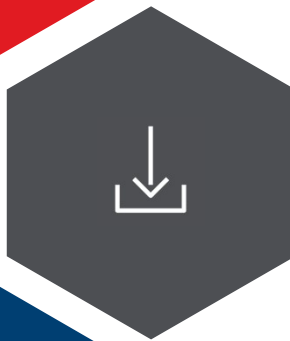
# Data driven decision making

*There is ever more data - can we convert this to usable information?*



## What data are we talking about?

- Asset data, valuations, claims data, loss trends
- Digital twins (of buildings and people), real time sensors
- More hazard information, more science and engineering analysis



## Turning data into information

- Are we capturing assumptions, are we testing these?
- Loss modelling
- Trends analysis
- Actuarial analysis and engineering assessment combined



## Evolution of solution development

- Risk understanding, risk quantification, informing decision making
- Multi-discipline approach is essential
- Public – private collaboration

# 4

What can you do to improve insurance outcomes?

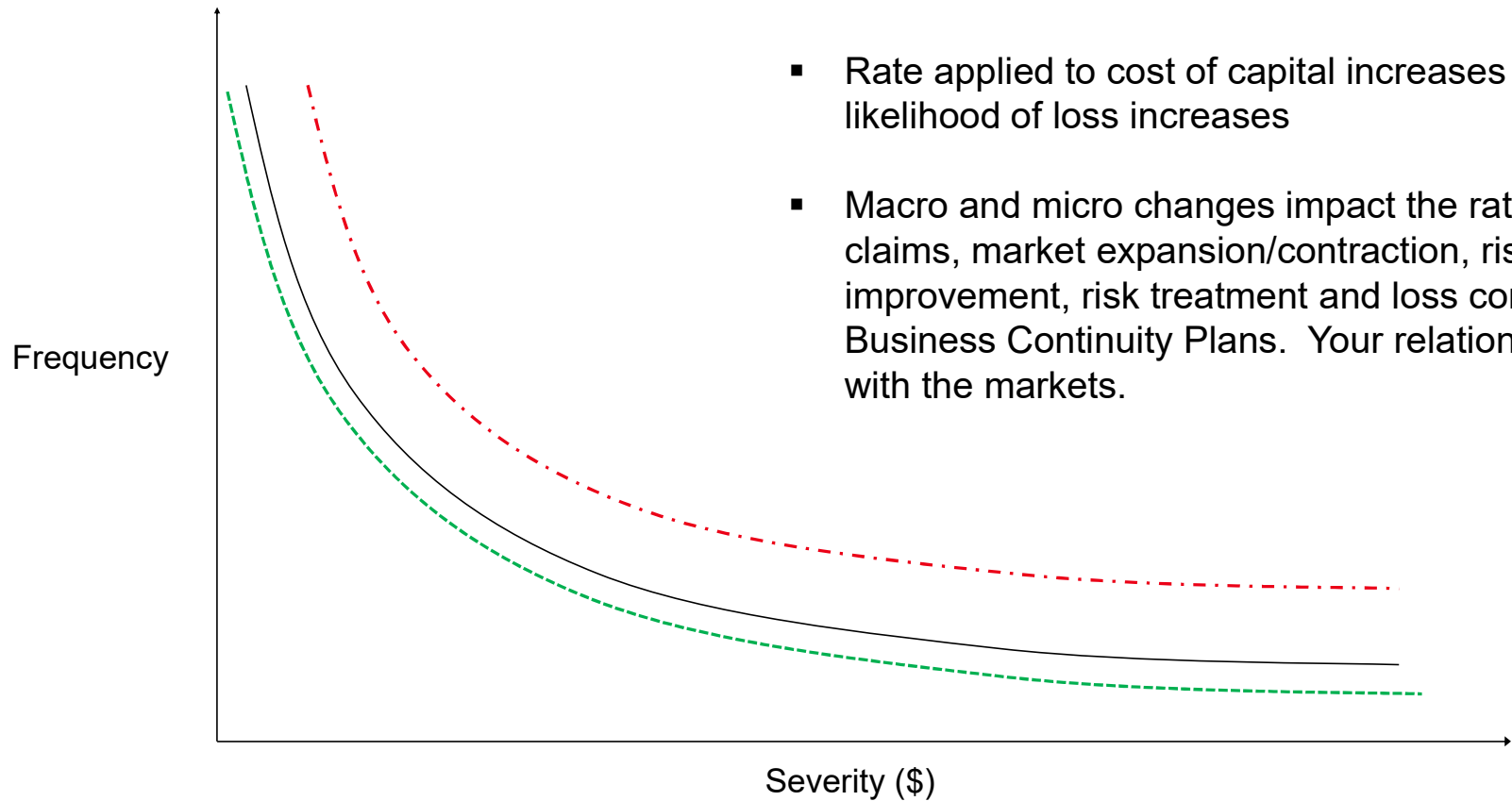
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# Insurance levers, optimising the cost

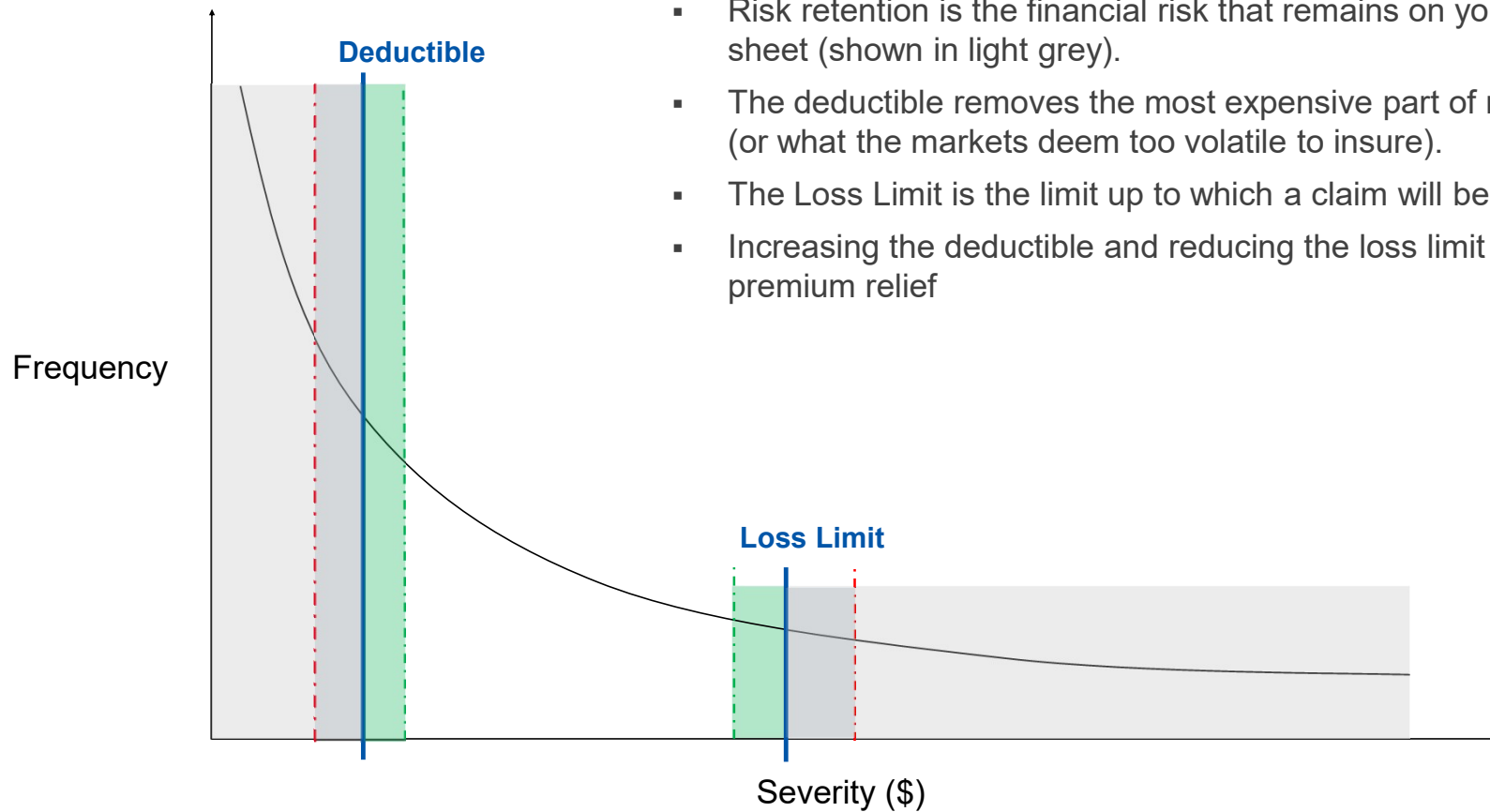


# Underwriting curves



- Rate applied to cost of capital increases as likelihood of loss increases
- Macro and micro changes impact the rate: claims, market expansion/contraction, risk improvement, risk treatment and loss control, Business Continuity Plans. Your relationship with the markets.

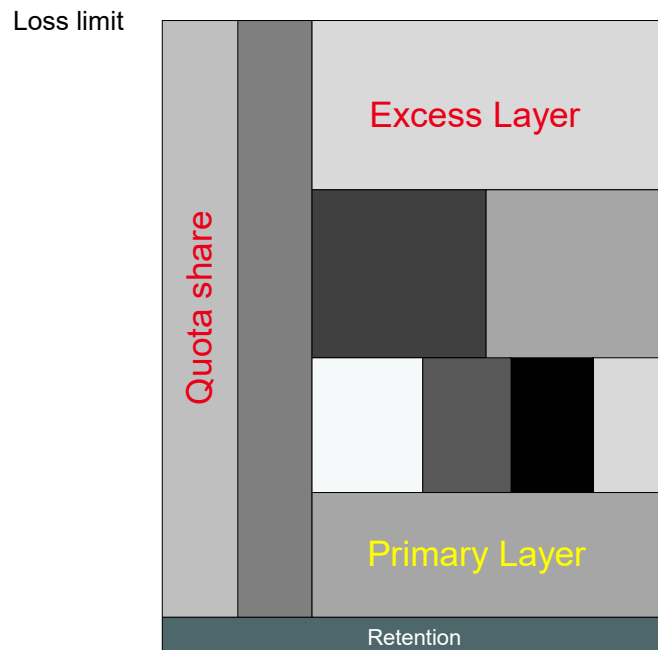
# Risk retention



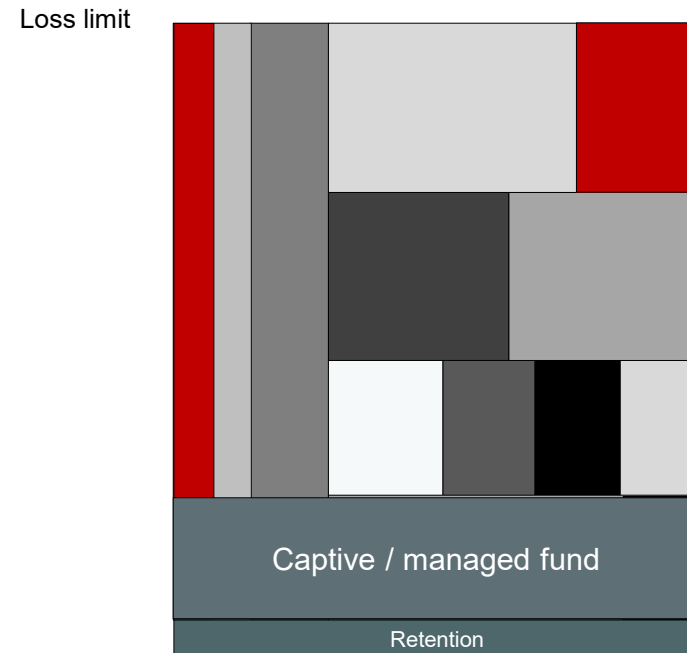
- Risk retention is the financial risk that remains on your balance sheet (shown in light grey).
- The deductible removes the most expensive part of risk transfer (or what the markets deem too volatile to insure).
- The Loss Limit is the limit up to which a claim will be paid.
- Increasing the deductible and reducing the loss limit may provide premium relief



# Risk retention – self insurance within an insurance programme



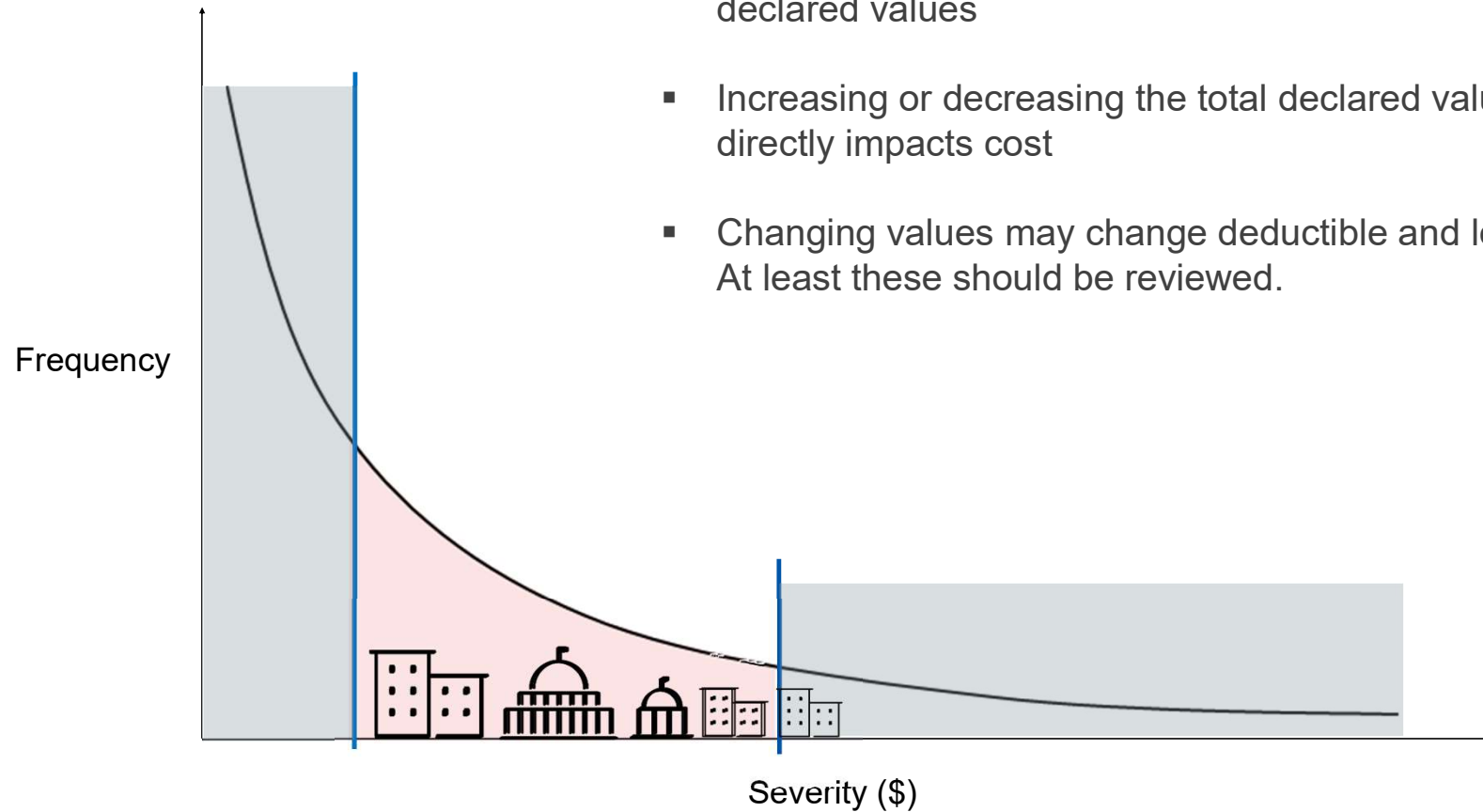
Representative insurance placement



'Ventilated' placement

## Declared values

- Premium is calculated by multiplying the rate by the total declared values
- Increasing or decreasing the total declared values directly impacts cost
- Changing values may change deductible and loss limits. At least these should be reviewed.



# Insurance levers summary

## Rate

- What is controllable?
- Can you demonstrate active risk management?
- Do you have active engagement with markets?
- What differentiates you?
- What Terms and Conditions, sub-limits, defined perils, covers, can you change?
- Are you meeting your markets?

## Retention

- Can you retain more risk?
- Are your risks understood?
- Are they quantified?
- Have you defined your organisations appetite and tolerance?

## Declared values

- Are the values sufficient for you to rebuild what you need?
- Can you self-insure more assets?
- Do you have an asset selection strategy? (do you know what is uninsured?)

## Risk understanding

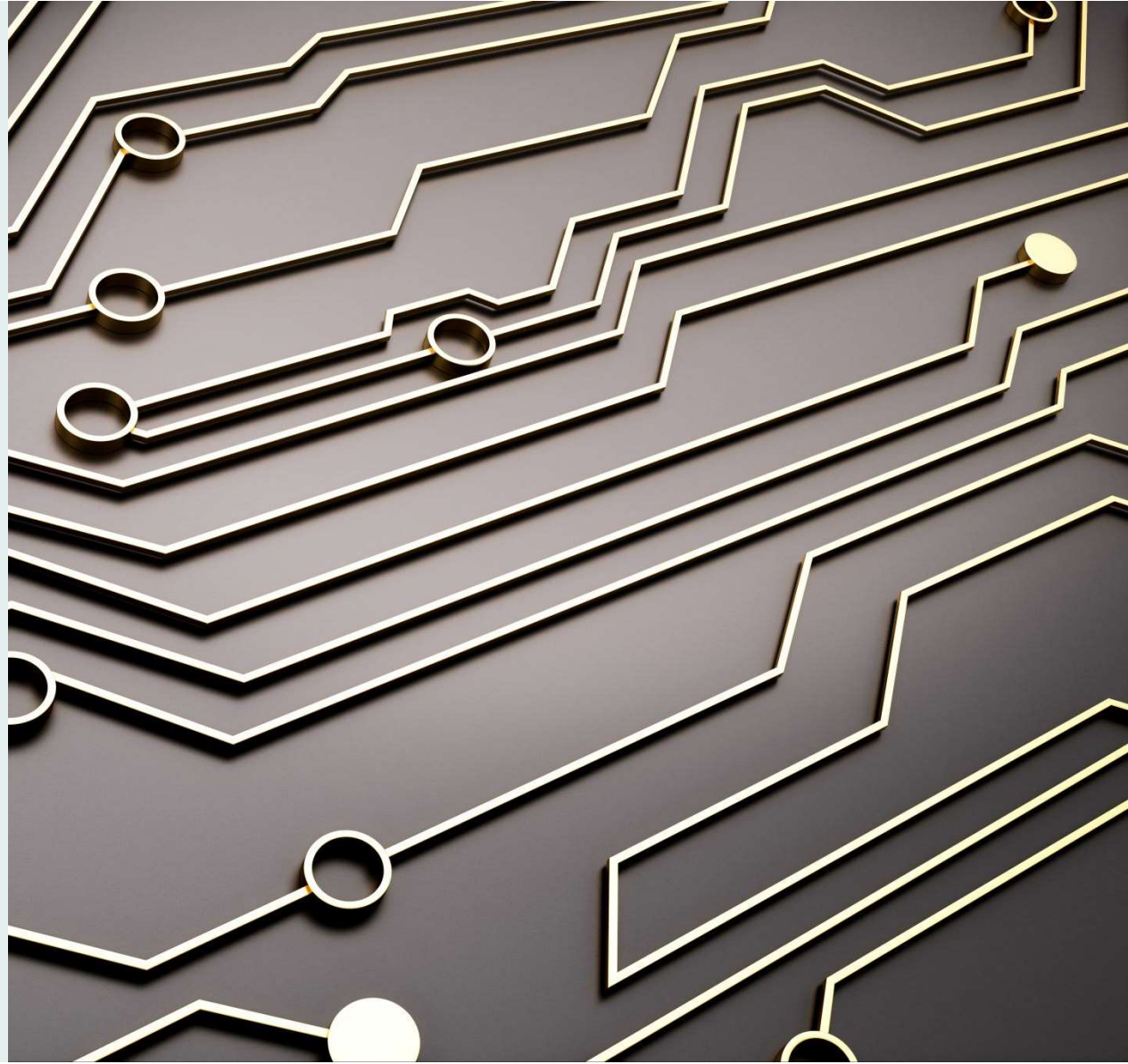
Are you able to quantify your risks? For both severity and frequency?

How much risk can your organisation tolerate? Is your risk appetite different?

Do you have the information to make informed decisions?

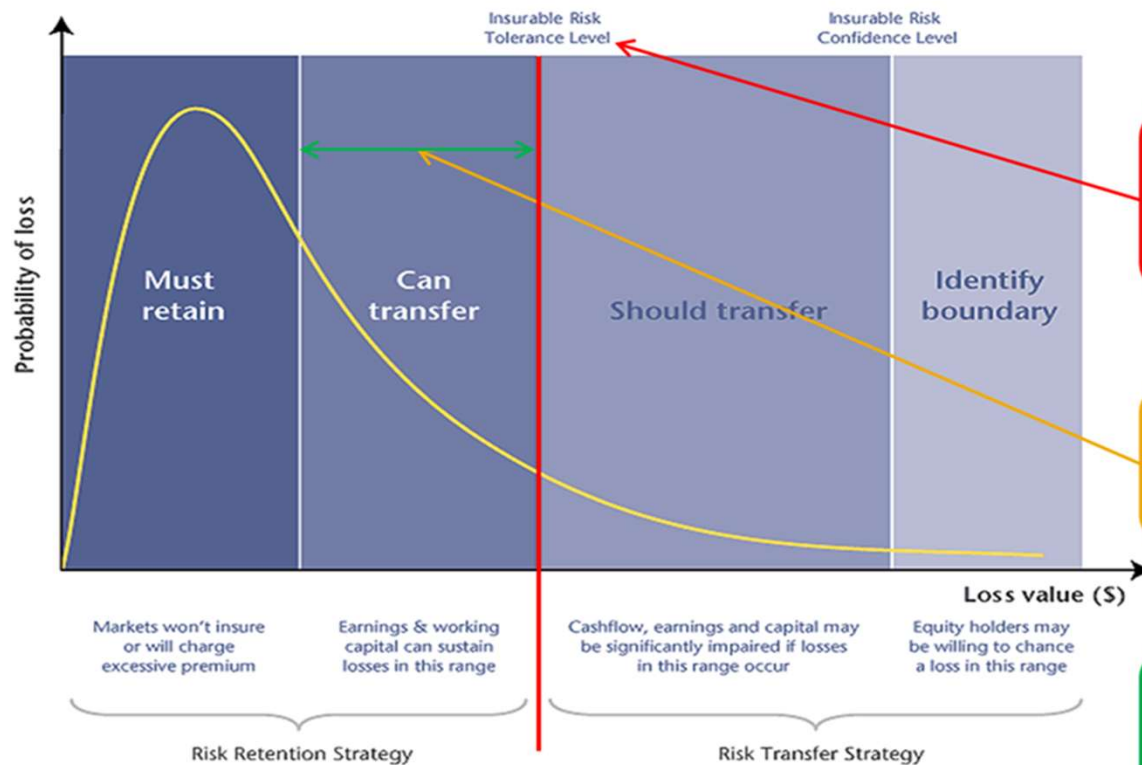
## Summary

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# Risk Financing Strategy

## Total Cost of Insurable Risk



### Decision Making Process

1. Determine risk tolerance and appetite

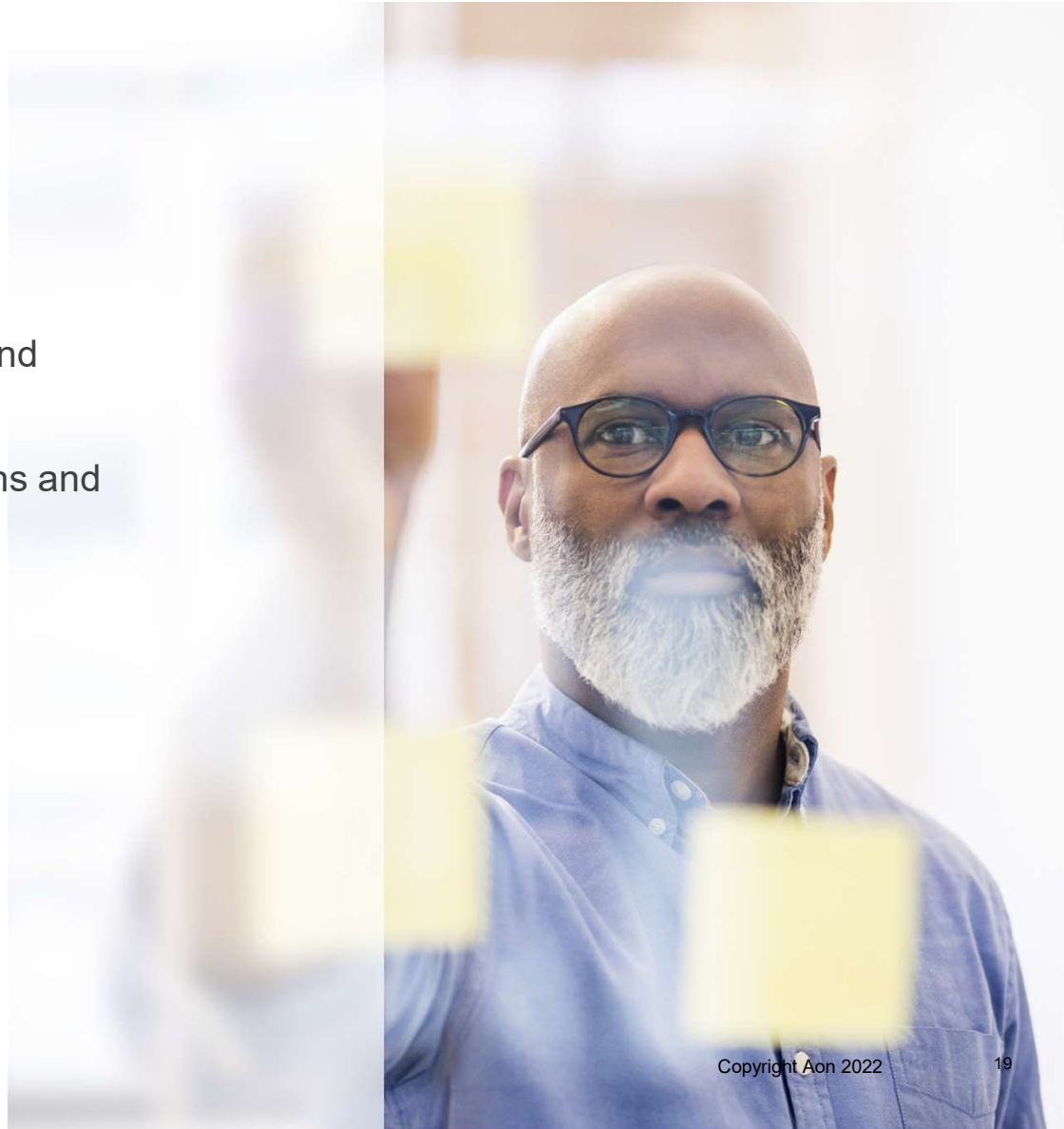
2. Compare Total Cost of Insurable Risk

3. Self insure the risk and continuously optimise



## Key summary points

- Data is becoming more important
- Ensure that you can convert data into useful and understandable information
- This will enable you to make informed decisions and understand the consequences
- Become a strategic purchaser of risk transfer



**Sam Ketley | Head of Enterprise Risk Solutions**

Sam.ketley@aon.com

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