Unbundling Risk Control

A New Approach for Managing Property Risks

BY JOANNE SAMMER

When a diversified European company renewed its global property insurance program, its goal was to improve coverage and reduce costs by presenting the best possible risk portfolio to potential insurers. By unbundling risk control from its insurers, the company was able to obtain better insurance coverage and terms while saving $4 million on premiums. The resulting solution was tailored to the company's own risk tolerance and financial requirements rather than the underwriting guidelines of its insurers.

"Information is king," says James J. Marsh, CEO of Global Risk Consultants (GRC), a risk control firm based in Clark, N.J. "If companies don't have a full overview of their risks and, more important, a plan of attack to manage those risks, they are going somewhat unprepared into the market." Insurers also welcome this type of proactive risk management because it helps them underwrite the coverage based on hard information about actual conditions at each location, rather than having to rely on assumptions and worst-case scenarios.

To help companies adopt this approach, GRC works with their risk professionals to visit key locations, quantify risks and develop clear plans for managing those risks. Rather than choosing locations based on size alone, he suggests focusing on the level of risk and loss experience at each facility. For instance, it would be wrong to assume that losses are concentrated at facilities over a certain size. After all, a $50 million facility can experience fewer losses than a much smaller $25 million facility.

Next, the company can allocate capital to address the identified risks. For example, with clearly articulated risks and effective plans to manage and mitigate those risks, a company could retain more risk using a captive insurance company with a traditional insurance program to cover losses above a certain amount. Once in place, this independent risk management approach needs to be constantly updated as the company changes occupancies, buys and sells locations, and generally changes through growth or transactions like mergers, acquisitions or divestitures.

"This unbundled approach leads to better financial management by bringing down the cost of insurance, while also improving the level of risk management within the company," says CEO Marsh. ■