Role of Insurance Brokers in Managing Corporate Risks

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Who is the Presenter

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Over 7 years corporate experience
Most recently I had looked after corporate & reinsurance practices at Mandal Insurance
What is Coverhill

• Mongolia based Insurance & Reinsurance Brokers with excellent international network & reputation
• Established in 2015
• Authorised and Licensed by FRC to do what we do
• We manage risks and provide insurance related services for corporates & businesses with interests and exposures in Mongolia
What Will We Discuss About?

• What is risk and particularly what is pure risk
• Burden of pure risk on corporates & businesses and how to manage it
• What is Insurance and how this can help you manage your pure risks
• What is insurance brokers and what role do they play
• Working with Coverhill
We face uncertainty in life on regular basis because future is uncertain. Uncertainty means there can be either gain or loss. (or breakeven) Risk will refer to uncertainty concerning the occurrence of a loss. We could then say opposite of Risk is Opportunity which can be defined as uncertainty concerning the occurrence of a gain.
What is Risk?

• In life we speculate (often based on educated thought process) because future is uncertain.
• We call it speculative risk and this is integral part of human decision making and economic life
• But there are some uncertain events which, if occurs, can only produce loss
• They are, in nature, beyond our control and are accidental.
• We call it pure risk

Pure Risk
No gains but only produces loss

Speculative Risk
Produces gain or loss or breakeven
Examples of Pure Risk from Corporate Perspective

- Credit Default by your buyers or borrowers
- Internal or external crime (fraud, robbery)
- Earthquake
- Fire
- Other natural events
- Political Violence
- Faulty product
- Damage to other’s property or life
- Accidental death
- Loss of Health

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<tr>
<th>Financial Assets</th>
<th>Civil Liability</th>
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<td>Employees</td>
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Corporation
Aim of every business is to maximise balance sheet and make it grow

But your balance sheet carries the burden of pure risk

Pure risk will threaten your balance sheet also will have negative impact on your ability to borrow
How to Manage Pure Risk?

• First step in managing pure risk is identifying that there is one i.e. your loss exposure to such risks which causes loss
  • *Loss Exposure is any situation or circumstance in which a loss is possible*

• Second step is to analyse the loss exposures. This involves the frequency and severity of loss.
  • *Frequency refers to the probable number of losses that may occur during some given time period*
  • *Severity refers to the probable size of the losses that may occur*
How to Manage Pure Risk?

Mining fleet loss frequency & severity matrix

- Natural Events: 10% Severity, 0.1 Frequency
- Fire/Explosion: 20% Severity, 2.0 Frequency
- Operational Accidents: 40.00% Severity, 5.0 Frequency
- Theft, Burglary & TP Acts: 5.00% Severity, 0.5 Frequency
- Road Accident: 25.00% Severity, 2.5 Frequency
How to Manage Pure Risk?

- Third step is to select appropriate techniques for treating the loss exposures which include risk control and risk financing
  - *Risk control refers to techniques that reduce the frequency and severity of losses*
  - *Risk financing refers to techniques that provide for the funding of losses.*
- Major risk financing techniques include the following
  - Retention
  - Non-insurance transfers
  - Commercial Insurance transfers
What is Insurance?

- Insurance is a mechanism that transfers a burden of pure risk from one balance sheet to another.

- We identified pure risks cause loss

- Loss is bad and it costs you financially

- In other words insurance is to solve random (sometimes catastrophic) costs in future which cannot be known in advance by way of paying a fixed (known) expenses (premium) in present time.
It can be said that insurance plays a critical role in society and economy in the following ways:

1. It helps maintain social stability by way of reducing the burden of pure risk on society.
2. It helps maintain economic stability by way of providing significant supply of capital in financial markets.
Furthermore insurance enables businesses to achieve following advantages

• It allows businesses to take on credits that otherwise would be unavailable from banks and other financiers fearful of losing their capital without such protections

• It provides protections against the business risks of expanding into unfamiliar territory or new products and services which is critical for encouraging risk taking
What is Insurance Brokers

- Insurance brokers are a type of professional services.
- Like other professional services they act on behalf of and for their clients.
- Insurance brokers therefore provide professional services to their clients in respect of insurance related matters.
- As such insurance brokers are regulated entity and are required to follow strict
  - Professionalism
  - Code of business conducts
Role of Insurance Brokers

- We innovate markets and build relationships
- Dissemination of information to insurance buyers
- Dissemination of information to the marketplace
- Boost competition
- Spread insurers’ risk
- Reduce costs

Reduce Cost
Reduce knowledge imbalance

Create markets
Design Solutions
Boost Competition
Spread risks
Working with Coverhill

Our specialties

Corporate Insurance
- Customised products for conglomerates & group businesses
- Property Damage & Business Interruption
- General Liability
- Aviation
- Credit Insurance, Payment Interruption
- Workers Compensation & Employers Liability
- Group health insurance
- Commercial Crime / Bankers Blanket Bond (BBB)
- Professional Indemnity / D&O
- Motor / Trucking Fleet Insurance

Reinsurance
- Treaty Business
- Facultative business
- Servicing business for global programmes with Mongolia exposure
Working with Coverhill

Our Strength

• Coverhill boasts excellent technical expertise & professionalism. This is reason why international brokers such Tysers & Co chose us.

• Coverhill works in strategic partnership with London based international insurance & reinsurance brokers Tysers & Co

• Tysers has been going for very nearly 200 years and has immaculate reputation. One of the long standing brokers at Lloyd’s of London

• Coverhill & Tysers & Co share following values
  • Strict professionalism in and love for what we do
  • Undivided attention to our clients (no outside shareholder pressure)
  • Long term view and desire to develop the insurance market in Mongolia
Thank you for your time.

Questions?