

COVERHILL

INSURANCE &
REINSURANCE
BROKERS

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

What is Risk?

- 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

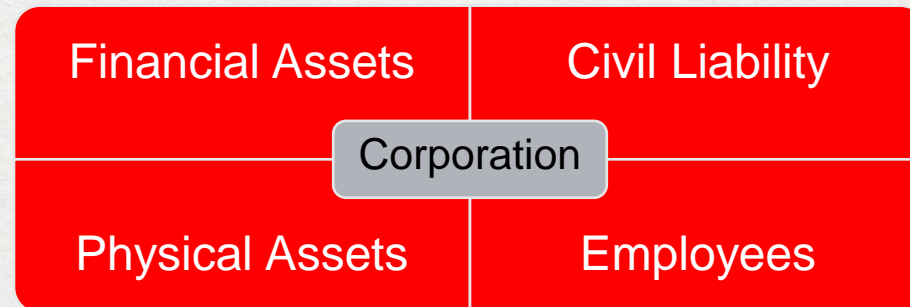
Speculative Risk

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

Burden of Pure Risk

- 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

Example Company Balance Sheet December 31, 2015			
<u>ASSETS</u>		<u>LIABILITIES</u>	
Current assets		Current liabilities	
Cash	\$ 2,100	Notes payable	\$ 5,000
Petty cash	100	Accounts payable	35,900
Temporary investments	10,000	Wages payable	8,500
Accounts receivable - net	40,500	Interest payable	2,900
Inventory	31,000	Taxes payable	6,100
Supplies	3,800	Warranty liability	1,100
Prepaid insurance	1,500	Unearned revenues	1,500
Total current assets	<u>89,000</u>	Total current liabilities	<u>61,000</u>
Investments	<u>36,000</u>	Long-term liabilities	
Property, plant & equipment		Notes payable	20,000
Land	5,500	Bonds payable	400,000
Land improvements	6,500	Total long-term liabilities	<u>420,000</u>
Buildings	180,000		
Equipment	201,000	Total liabilities	<u>481,000</u>
Less: accum depreciation	(56,000)		
Prop, plant & equip - net	<u>337,000</u>		
Intangible assets		<u>STOCKHOLDERS' EQUITY</u>	
Goodwill	105,000	Common stock	110,000
Trade names	200,000	Retained earnings	220,000
Total intangible assets	<u>305,000</u>	Accum other comprehensive income	9,000
Other assets	<u>3,000</u>	Less: Treasury stock	(50,000)
Total assets	<u>\$ 770,000</u>	Total stockholders' equity	<u>289,000</u>
		Total liabilities & stockholders' equity	<u>\$ 770,000</u>

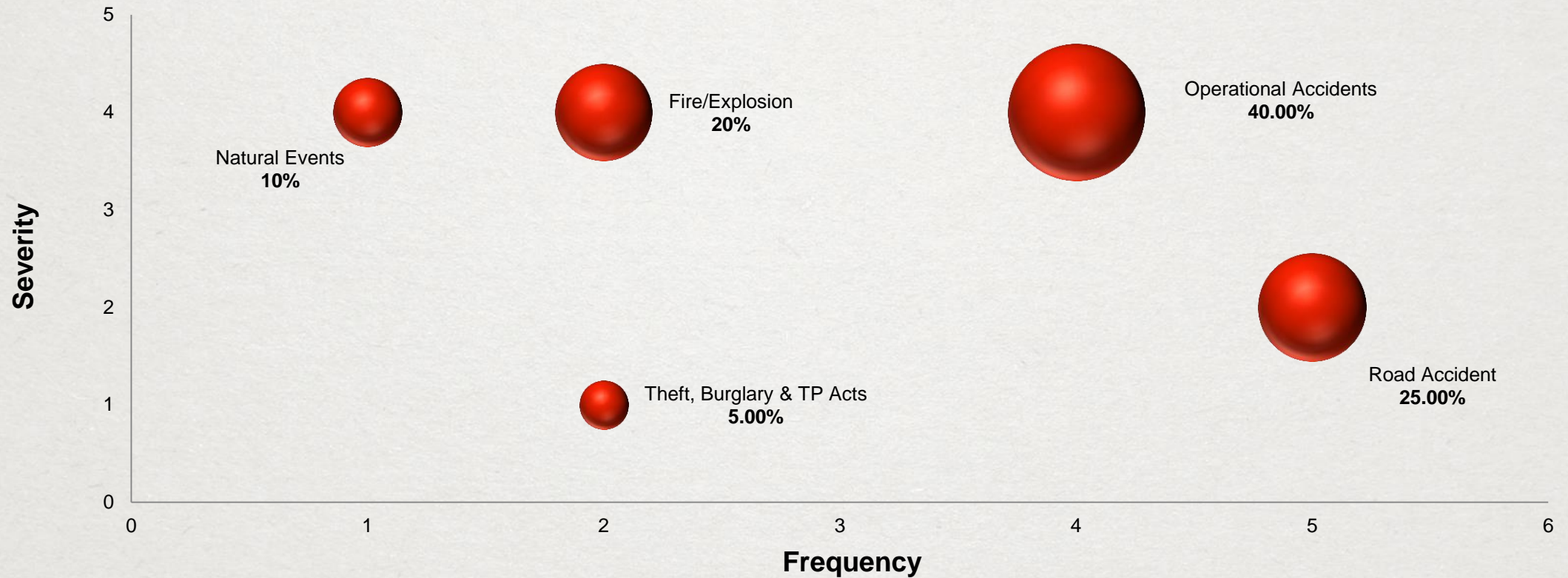
The notes to the sample balance sheet have been omitted.

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



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.

Value of Insurance

It can be said that insurance plays a critical role in society and economy in the following ways

- It helps maintain social stability by way of reducing the burden of pure risk on society
- It helps maintain economic stability by way of providing significant supply of capital in financial markets.

Value of Insurance

Furthermore insurance enables businesses to achieve following advantages

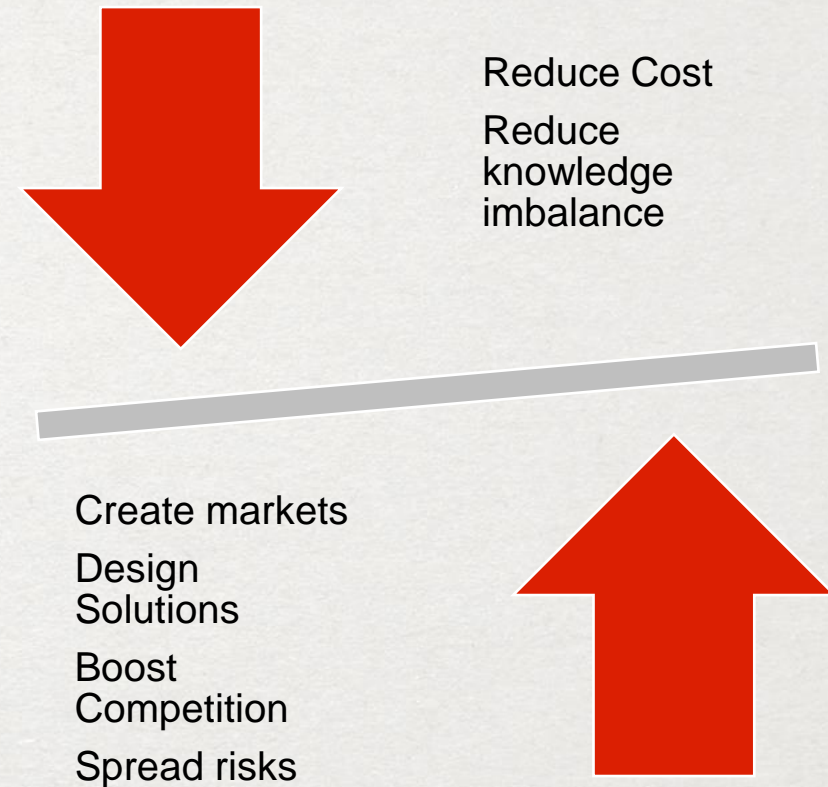
- It allows businesses to take on credits that otherwise would be unavailable from banks and other financiers fearful of losing their capital without such protections
- It provides protections against the business risks of expanding into unfamiliar territory or new products and services which is critical 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



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



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Thank you for you time

Questions?