

Using data to drive down costs

Risk management was once regarded as a routine functional task of the risk manager alone, with little or no connection to the company's broader directions or priorities. It is now considerably more demanding, with CEOs and CFOs increasingly under the spotlight.

One reason for the increase in complexity of risk management is that it is now seen as a significant part of a broader financial management strategy and linked to corporate priorities. This inevitably places increased reliance on good data around risks, risk controls, incident reporting and losses. And, as all financial executives know, you can't manage what you can't measure.

Simply put, the key to risk management is understanding a company's risks and using insurance as a financial tool. Inevitably, this leads to the concept of 'total cost of insurable risk' (TCOIR) – the costs incurred by a business to deliver an effective risk management strategy. The main components of TCOIR include:

- risk transfer costs (insurance)
- risk retention costs (retained losses and claims adjustment)
- external risk management costs (brokers, consultants and other vendors)
- internal risk management costs (staff and related costs).

With insurance and claims costs only counting for one aspect of TCOIR,

most other aspects go undetected or unmeasured. Research from Aon found that only 58% of respondents track and manage all components of TCOIR. On average, TCOIR is 1.2% of a company's turnover, so understanding and controlling TCOIR can have a substantial financial impact.

CFOs and risk managers need to work together to identify the lowest sustainable TCOIR. This means understanding how the different components interact and contribute to the total. It also means identifying the best point between retaining risk and insuring it.

Whether risk management responsibilities are centrally managed or dispersed around the company, businesses need to reinforce risk frameworks and systems through a proactive risk culture. A risk management information system (RMIS) will help businesses to obtain the right data and monitor performance.

Spending money to lower TCOIR may seem contradictory, but a good RMIS such as Aon's RiskConsole leads to better-informed risk management decisions. This

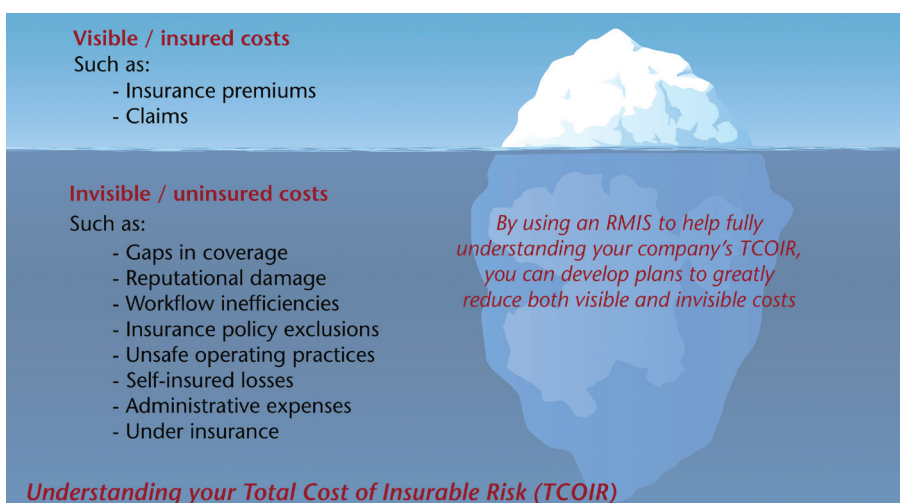
subsequently creates a targeted approach to reducing TCOIR. In these turbulent times with an increasing focus on driving down costs, more and more companies are benefiting from using such a solution.

Based on our experience, by using an RMIS, businesses have a greater awareness of their risk and consequently more control, resulting in 3-10% savings on their TCOIR. This could be through:

- improved insurance premiums, by presenting better quality data to the market
- the development of loss-prevention schemes by finding trends in loss history
- a streamlined renewal process by having all data centralised
- many new workflow and resource efficiencies, such as a faster claims settlement process.

With this better quality data, CFOs and risk managers can present TCOIR overviews to the board, identifying innovative strategies for its reduction. And as the world's businesses tighten their belts and start to make some difficult decisions, the question is: can you afford not to get control over your data and drive down TCOIR?

Aon eSolutions specialises in pioneering online risk management solutions. RiskConsole is their award-winning RMIS that uses claim, policy, exposure and other risk-related data to provide clients with a comprehensive view of their risk. More than 100,000 people in over 40 countries now trust RiskConsole to help drive their risk management efficiencies. ■



Further information

Aon eSolutions

Website: www.aonriskconsole.com/cima