CONSTRUCTION PRACTICE

Risk Finance Optimisation for Contractors

As the construction industry undergoes a seismic shift, is your insurance programme in line with your strategic goals? Are your retentions and limits optimised?

Risk Finance Optimisation for Contractors

In an environment where contractors are focusing on their core business, improving net cash position and streamlining supply chains, the insurance market continues to be in transition. An insurance programme designed to be adoptive and reflective of your strategic goal is more important than ever.

Contractors can mitigate the effects of a shifting, uncertain and complex operating environment through clarity in their strategy. For your insurance risk, our risk finance optimisation (RFO) process combines data and actuarial analytics with consulting techniques to deliver the optimal programme.

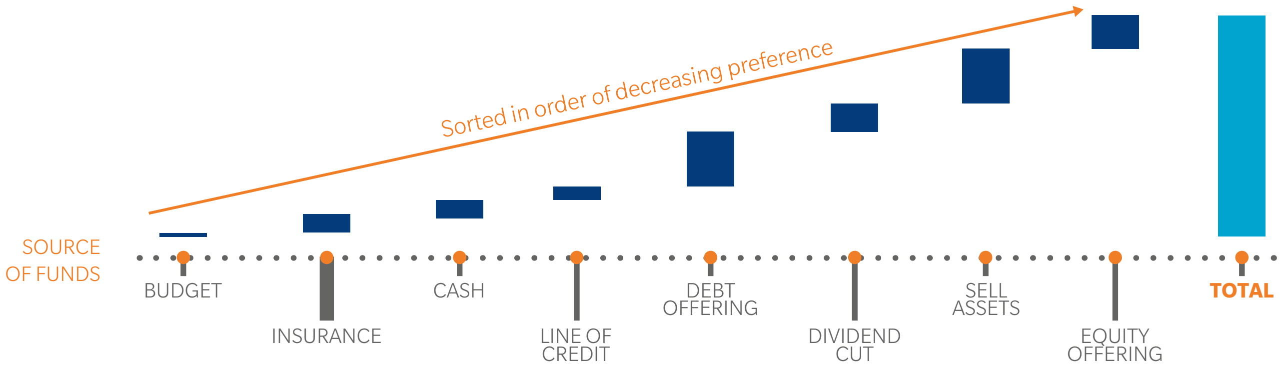
This process and the report produced is widely beneficial to the business, providing deeper understanding of the businesses, own propensity for loss through risk, and ultimately provides the decision makers and stakeholders a platform for informed buying decisions. The target audience includes, risk managers seeking value from their insurance programme to finance directors seeking to utilise funds in the most effective way. Some of the benefits include:

- A scientific auditable rationale behind insurance purchasing decisions to help obtain buy-in from the C-Suite. The client's own data and risk profiles are at the heart of the process to help validate buying decisions.
- A deductible structure reflective of your risk appetite and driven by your business objectives.
- Statistical models, which can be used to evaluate the adequacy of insurance limits.
- With a limited insurance spend, models can be deployed to determine the most efficient lines of business and layer to purchase.
- Establishing premium spend efficiency, by comparing technical pricing against market rates.
- Providing collateral estimates to self-financed compulsory insurance.

The Risk Finance Optimisation Process

Contractors should view insurance as a source of capital that can be used to help manage and mitigate volatility alongside other sources available to you to finance insurance losses, for example, debt and equity.

Like any other any capital decision, RFO combines data and analytics along with a qualitative review of your objectives, to design an insurance programme that is optimal for your business.



At Marsh, we have developed a simple four-step approach to RFO, which requires minimal input from you, whilst delivering meaningful and actionable outputs.

1

CALCULATING YOUR RISK TOLERANCE

INPUT	OUTPUT
Three years' financial statements.	Risk tolerance range, i.e. the estimated financial headroom to retain risk.

This is your financial ability to retain insurance risk. Marsh's proprietary financial model will benchmark your financial key performance indicators (KPIs) against those of your industry to estimate how much financial headroom is available for risk retention.

2

UNDERSTANDING YOUR RISK APPETITE

INPUT	OUTPUT
Brief, informal interview - based discussions with key decision makers.	Risk outlook. Strategic goals. Risk appetite.

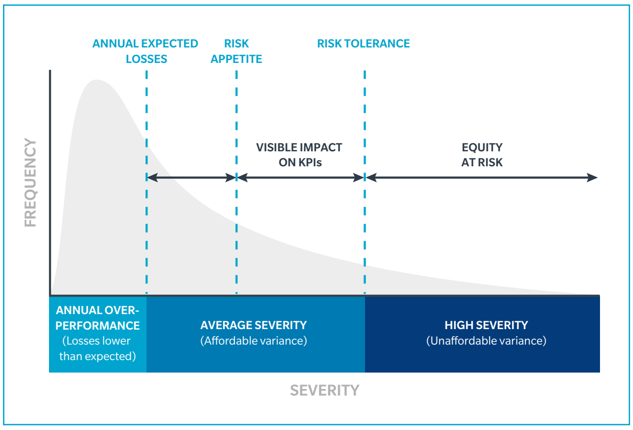
Risk tolerance is an indicative figure used towards establishing an organisation's risk appetite, and the amount of risk your business is willing to retain. Our risk financing directors will meet with your organisation's decision makers to discuss your business landscape and risk culture. We will document the reasons for buying insurance and materiality thresholds for insurable risk appetite.

3

RISK ANALYTICS

INPUT	OUTPUT
Discuss potential options, and provide clarification if required.	Stochastic model of your risk profile showing expected losses and volatility.

We will build actuarial models based on your insurance risk to gain better insight of your risk profile and explore potential exposures within it. Supplementing your own data with Marsh's extensive loss data lake, this creates a more meaningful and robust result. Ultimately, this will provide you with greater confidence in your risk retention and risk transfer decisions.

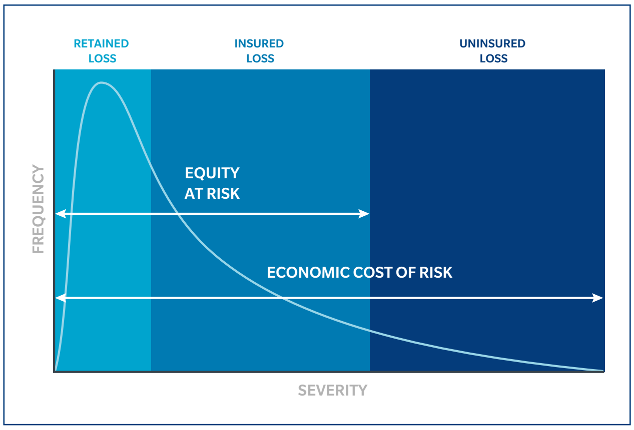


4

OPTIMAL PROGRAMME DESIGN

INPUT	OUTPUT
Joint meeting to discuss options.	Recommendation of optimised deductibles, Marsh broker, and full RFO report.

Utilising loss modelling results, our placement team will identify market realistic programme structures which sit within your risk appetite.



Please speak to your Marsh Client Executive for more details.

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