

# Making Risk Management Pay Off

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## Workshop Objective

*Investigate links between the challenges and opportunities of a company's business strategies and those of its property insurer.*

## Agenda

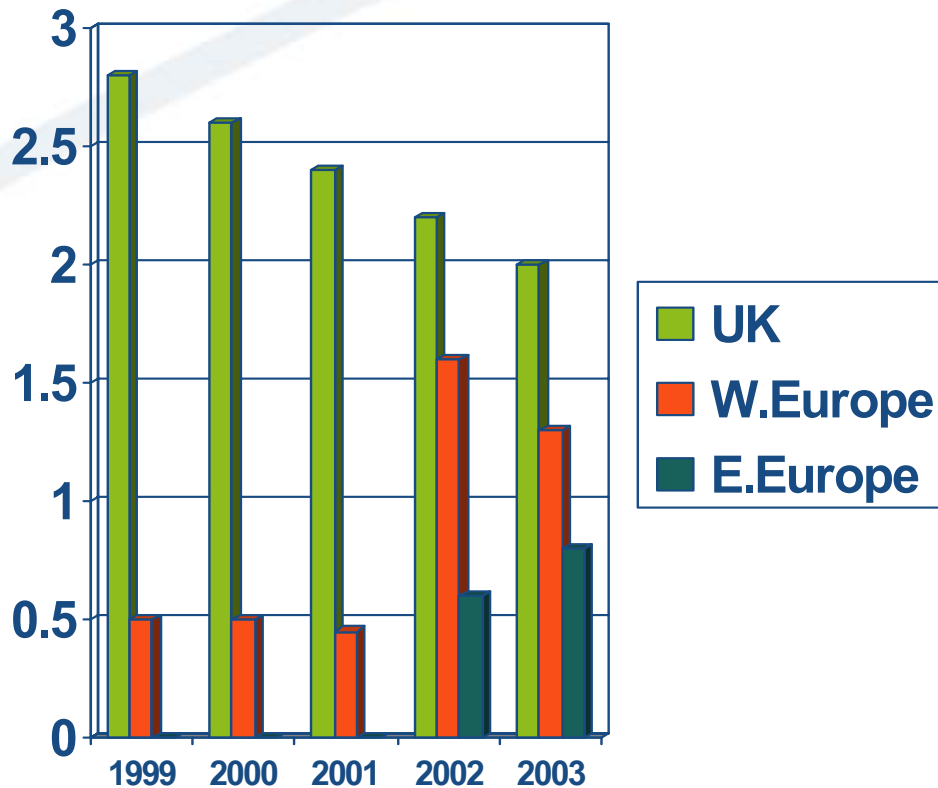
- *Case Study – background*
- *Group Exercise*
- *Discussion*
- *Case Study – outcome*
- *Discussion*
- *Take-aways*

## Case Study - background

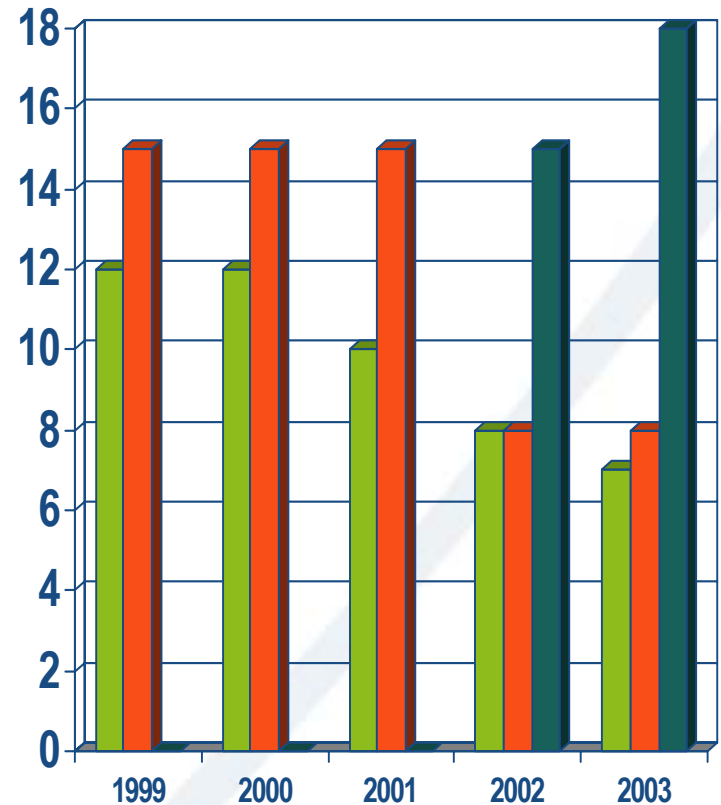
### *XYZ plc*

- *UK-based “FMCG” company – £4.4bn sales*
- *Manufactures in UK and Germany/E.Europe (2002 acquisition)*
- *Sells to most European countries*
- *Market share #1 in UK, #5 in W.Europe*
- *Five top brands generates 80% of sales*
- *Strong cash flow but highly leveraged*
- *Widely held “blue chip” stock – 95% institutional investors*
- *Rights Issue 2001*

# 5-year Sales/Margin Profile



Sales - £bn



Margins - %

## Operations 2000 - 2003

- *Consolidated manufacturing to 1 UK factory and 1 central distribution warehouse (from 6 & 3 in 2000)*
- *UK brands reduced from 50+ to approx. 20*
- *2002 Germany acquisition – 5 factories and 8 regional distribution centres in W & E Europe.*
- *>100 European brands*
- *Similar products across all operations – raw materials; suppliers; customers*

## Business Challenges/Opportunities

- *Consensual management style (no Corporate Dictates)*
- *Huge pressure on margins/costs following acquisition*
- *Investors “disappointed” with progress*
- *UK market mature/declining; W. Europe maturing; E.Europe growing*
- *Increased competition in growth markets*
- *Technology allowing higher volume/lower cost manufacturing*
- *Rationalised distribution potential in W.Europe but limited in E.Europe by import restrictions.*
- *“Pan-european” brands*

## Property Risk and Insurance 2000 - 2003

- *No specific risk management strategy*
- *Factories/warehouses surveyed and protected for insurance purposes only*
- *25 year+ relationship with UK insurance market*
- *Germany acquisition – individual placements in each European country. 50 year + relationship with German insurance market*
- *Excellent loss experience*
- *UK & Germany competitively priced*

## Group Exercise (15 Minutes)

### *Two Groups:*

- 1. Issues of importance to XYZ plc*
- 2. Issues of importance to their property insurers*

*Discuss and bullet-point 5 challenges/opportunities presented by the Case Study related to your Group.*

*Nominate a spokesperson!*

## Case Study - Outcome

### *UK Business Risk Issues*

- *Consolidation of manufacturing to one site resulted in multiple of previous MFL/EML (>£1,000m)*
- *Central distribution warehouse contained 3 months stock (> £500m)*
- *Reduction in brands increased potential impact of loss of market share*
- *Analyst report 2000 “whilst recognising the cost reduction benefits of rationalisation, the increased risks involved are significant.....”*

*2000 – 2003*

- *Complete risk engineering review of factory and DC*
- *Quality benchmarked against peers and competitors*
- *Protection upgraded to “HPR” – driven by facilities management*
- *Business Impact Analysis to review exposure and potential for make- up*
  - Spare machines for top brands
  - Additional “buffer” in supply chain
  - Model for future rationalisation decisions
- *Detailed Business Continuity Plans developed*

- *Property insurance restructured in 2000 at T&C's that reflected the mutually developed plan for improved risk quality and exposure information*
- *Company had confidence to increase SIR to £1,000,000*
- *As risk improved, reliance on reinsurance reduced, resulting in more control and stability of capacity and price*
- *Projected premium/loss savings > 50% over five year plan*
- *Insurer's "net net" income increased through less reinsurance costs and lower projected claims*

### *Proof Source*

*2002 & 2003 renewals progressed with no significant capacity restrictions and premium increases much less than market trends.*

## *2002 Germany Acquisition - Risk Issues*

- *Fragmented approach to risk and insurance*
- *Most factories well run but unprotected with old combustible construction*
- *Rationalisation of manufacturing and distribution could introduce new exposures*
- *Complex cross-border supply chain issues*
- *Local relationships and vetoes*

2003>>

- *Rationalisation plans include Business Impact model developed in UK.*
- *Closure costs to include risk improvements at on-going facilities*
- *E. European manufacturing plants receiving disproportionate investment (growth / margins)*
- *Local management making decisions from a positive standpoint*
- *UK and German risk management merged and profile raised*

- *UK and Germany insurers placed in “winner takes all” competition – run by German management.*
- *Insurer chosen based upon support for business risk issues and risk improvement strategy*
- *Full interdependency cover to support cross-border distribution and Business Continuity plans*
- *Simplification of fragmented programme to reduce insurer’s administration and friction costs*

### *Proof Source*

*UK insurer chosen to deliver consolidated pan-european solution involving “partners” in non-EU countries*

*Projected five-year savings > 30%*