

Managing risk in a changing landscape



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As the risk landscape continues to evolve, it's important to explore all options available to your business to mitigate risk and protect your balance sheet.

The past year has been incredibly challenging for businesses as they seek to manage and mitigate risk. A proactive approach to risk management is key – but that can be easier said than done when there are so many factors to consider and the landscape is still evolving.

Having adequate insurance cover in place is only one part of a risk finance and risk management strategy. Wherever possible, risks to the business should be mitigated or ideally removed. Thankfully, the majority of risks can usually be transferred to insurers as part of a risk management exercise, whereas others can be managed through the balance sheet based on the business' financial tolerance to do so.

Understanding the changes to risk and cover

What may have been a suitable insurance programme for your organisation 12 months ago may no longer be fit for purpose now given rapid operational changes within businesses. For many businesses this has meant radical alteration to their customer base, supply chain and indeed their international dimension. Failure to ensure your insurance programme is appropriate for 2021 could be a serious barrier to financial recovery.

The changes in risks that may affect insurance provisions extend beyond losses arising purely from business disruption. These can include enhanced liability exposures, claims against management, enhanced cyber risks and increased property exposures. It can be difficult to know if you have adequate cover in place to protect your business and your people.

There may be changes to the scope of your insurance cover, and it is important to check the policy wording as part of any review or renewal of your insurance programme. For example, insurers may elect to charge for cover extensions which previously had simply been included in standard cover. Understanding what this means for your business is a critical part of discussions with both your insurance broker and the insurance partner to give you the information you need to assess whether to adjust or remove elements of insurance.

Reviewing your programme structure

Reviewing your level of cover and programme structure as early as possible before renewal helps ensure you have adequate cover in place and can also lead to cost savings in some areas of cover. Here are some key points to consider as you review your existing arrangements:

- **Altered cover requirements:** Scrutinise the levels of cover required by your business now as they may differ to when they were originally set (see above). Establish how your insurance programme should be structured in order to obtain the necessary limits at a suitable price.
- **Revising full values where possible:** While care needs to be taken that loss limits are set appropriately, it may not always be necessary to insure to full values or existing levels of cover. For example, you could register unused vehicles as off road via SORN (Statutory Off Road Notification) declarations, and review the impact of furloughing staff in relation to your employers' liability coverage, as they may need to be reflected differently in the way your cover is arranged.
- **Temporary removal:** Adjust or temporarily remove unnecessary covers where appropriate, e.g. travel insurance.
- **Reviewing loss limits:** Consider the potential impact on the business following a major loss, including potential mitigation factors and contracts with suppliers and customers. Loss limits adjusted to fit risk tolerance, and financial scenario planning, can both have a positive impact on overall insurance costs.
- **New/innovative products:** Explore insurance products that you may not have considered before e.g. trade credit insurance, which enables a business to feel secure in extending credit to their existing buyers or to pursue new buyers that would have otherwise seemed too risky. You may also wish to consider contingent liability products to help protect your business from potential risk from claims made against your company in the future.

An insurance broker will work to explore all the options available to your business, and where cover needs to be reviewed they will present a range of pricing and funding options and ensure that you are appropriately protected against insurable risks.

Challenges for renewal

Due to the challenges of a hardening insurance market and COVID-19 many organisations will see very difficult renewals in 2021 with upward pressure on premiums, and challenges when it comes to negotiating coverage. There will be greater scrutiny on clients' risks and a higher value attributed to clients which can effectively demonstrate their proactive risk management provisions.

This increased pressure on insurance buyers requires brokers to step up and help clients to assess what they can do to mitigate these challenges and to demonstrate to their management teams that their insurance programme is suitable and meets their needs in this new era. In a hard market and with strong financial headwinds, your boardroom needs to ask the broker **"how can we maximise our protection and keep within budget?"**.

Would you like to talk?

Speak to your local Gallagher representative.

CONDITIONS AND LIMITATIONS

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