LEVERAGE EVERYTHING INSURANCE HAS TO OFFER

Each day brings news of heightened geopolitical tensions, record-level inflation, currency depreciation and extreme climate events that make it more challenging than ever for businesses to envision, let alone plan, for the future.

The simultaneous convergence of multiple economic stressors is testing the resiliency of businesses of every size: We have never had inflation, exchange rate issues, pandemic, or supply chain issues all at the same time.

Insurance can play a leading role in softening the blow as companies brace themselves for rising inflation, a weakened cedi, and the effects of global geopolitical tensions amid other uncertainties. Whether that means using insurance to free up capital for other uses, minimizing liabilities, or simply providing the essential support to ensure the stability companies need to operate amidst uncertainty.

It is difficult to forecast how much companies will have to alter their operations to weather the storms ahead, but as the risk environment continues to shift, meeting those challenges will require close collaboration and careful planning.

It has never been more important for brokers, insureds, and insurers to work together to develop smart solutions that strategically manage and mitigate risk. Insurance can offer solutions.

With the Ghana cedi losing 50 percent value to the United States dollar in 10 months of 2022 and inflation hovering around 34 percent, the risk profile of many organizations, including insurance companies, has been dramatically altered.

Initially, insurance carriers may see less demand for insurance as the economy slows down, which will likely lead to a reduction in premiums, as companies are forced to lower rates to maintain their portfolios of customers and make up for the shortfalls.

Commercial insurance lines face a potentially more significant impact, as exposure bases like payroll or sales can decline quickly, reducing premiums and increasing the risk. And while investment income for insurers may increase, their risk tolerance within their portfolios may decrease. For example, insurers may have to reduce capacity in certain lines and industries, based on their vulnerabilities and exposures to market cycles.

Rising Risk Profiles of Insureds

It’s important to understand that the current global and national economic climates have caused many companies to change their operations or business strategy as a whole, and these changes impact their risks. These companies will have increased risk exposures with potentially less capital flowing toward risk mitigation, loss controls, workforce safety, good governance, and compliance in this stressed environment. Insurers can work with customers and brokers to help understand and navigate the exposures these changes might create.

Economic factors can also complicate other aspects of insurance, namely property valuations. Inflation, currency depreciation, and supply chain issues have meant that property replacement costs are out of sync with current insured values. It would probably cost more to replace the property than its insured value. That's an unpleasant surprise for any company after experiencing a loss.

It's essential to maintain communication with your broker or consultant on maintaining appropriate insured values that correspond to current market and economic conditions. When adverse economic conditions hit and you have even less money to spend, and you know the risk environment has intensified, you need a strong relationship between your risk manager, broker, and insurance company to make sure insurance gives you real value.

Some customers see insurance as transactional and miss out on the additional benefit available to them. There's a lot that your insurer can offer to help lower a company's total cost of risk by thinking holistically beyond the coverages. These tactics take on even greater importance during times of uncertainty and economic hardships.

Leverage Everything Insurance Has to Offer

Tapping into risk advisory services can be especially beneficial to companies facing uncertain market conditions. Insurance isn't just a once-a-year engagement at renewal, paid premium, [and] collect claims at some point

Insurers must also form a genuine partnership with customers to improve the risk environment and deliver real value to the customer when they most need it; the service, coverage, cost, terms, and conditions must be tailored to the new normal.

Risk control can be a powerful tool to empower managers, especially when their budgets come under pressure. Prevention is worth twice the cure, and partnering with a sophisticated team to identify the biggest loss drivers to inform mitigation tactics can pay dividends.

We're all adapting to new risk realities together, and when you have trust and open communication, those tough conversations go a lot smoother when the chips are down.

Creating a Gameplan for Uncertainty

Exchange rate fluctuations, supply chain strains, climate disruptions, and inflation aren't going away anytime soon.

Savvy managers will look to the power of their partnerships with Risk Management consultants, brokers, and insurers to help them adapt to adverse circumstances. As risk management teams collaborate with their partners toward crafting bespoke solutions that address fluctuations in the environment, four key priorities must remain at the forefront:

- 1. Given rapidly rising inflation, ensure coverages have been scaled and valuations remain current.

- 2. Consider general risk management tactics, including risk control, risk transfer, and engineering.
- 3. Use risk advisory and consultancy services to understand and implement best practices; this can help improve safety and lower costs.
- 4. Maintain close communication with brokers and insurers throughout the year to avoid surprises at renewal or when the risk crystallizes.

I think this is a time when the power of insurance will manifest for individual companies and the national economy.

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