"Standards Deserve Premiums" –
Proposal for a study into Quantifying Premia Reduction

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Background

UKAS, the UK's Accreditation Service, held a Think Tank on "Benefiting from Smarter Risk Management" at Marsh on the evening of 9 November 2004. One of the propositions was that a number of management standards reduced corporate risk, e.g. ISO 9001, ISO 14001, OHSAS 18001 or BS 7799, as well as other management, regulatory, social, environmental and ethical standards. Insurance industry representatives asserted that these standards did reduce insurance premia because they did reduce risk. A number of people in the audience remained sceptical of the insurance industry assertions as the assertions lacked quantitative backing.

In order to move forward the ideas discussed, at least two further pieces of research are needed:
♦ validation and quantification of lower risk and the likely premia reduction for certified companies;
♦ market research with brokers, underwriters and companies to determine which brokers and underwriters might be interested in such a relationship, exclusive or open, and the propensity of companies to move, particularly those who would need to obtain certification in order to qualify for premia reductions.

Below is an outline for a project quantifying likely premia reduction.

Quantifying Likely Premia Reduction

The objective of the research project would be to:
♦ see if firms with independent certification were 'lower risk';
♦ attempt to quantify the extent of possible premia reduction for their lower risk.

Realistically, this research would need to be undertaken in cooperation with brokers and/or underwriters. The research approach would be to:
♦ specify the likely independent certifications that would be covered, e.g. BSI's existing products;
♦ specify the sample set and sizing of companies;
♦ assemble, after requisite background research and examination of broker/underwriter information systems, data covering:
  ➢ corporate financial and categorical information, e.g. FAME;
  ➢ corporate certifications held by the sample companies;
  ➢ premia data for the sample companies;
  ➢ claims history for the sample companies;

♦ analyse the data for correlations, particularly between certifications held and claims made, for the certification-holding companies and the non-certification-holding companies;

♦ if the correlations are positive, build a 'scorecard', probably using Z/Yen's dynamic anomaly and pattern response system PropheZy, that would allow dynamic premia pricing and serve as an input to the market research;

♦ write up the research results.

There are a number of issues for further discussion including such areas as:

♦ which types of insurance are best included, or excluded from the study? It could be assumed that typical one-year policy sets are best, e.g. employer's liability, fire;

♦ how open do brokers and underwriters want to be about data and results? has similar research already been conducted?

♦ how best to use this quantitative research to construct market research?

Next Steps
This note is designed to initiate conversation. Z/Yen is interested in exploring these issues further with all parties. Please contact Michael Mainelli, Director, Z/Yen Group Limited, Michael_Mainelli@zyen.com