Building an Effective Risk Management/Insurance Program
• James M. Niwinski – Managing Director - Client Executive, Marsh USA Inc.
• James Duggan - Vice President, Risk Management & Chief Security Officer, Coty Inc.
Objective/Agenda

• What is involved in an effective risk management/insurance program.
• Tools/Analytics to improve the effectiveness of your risk management/insurance program.
• Current risk issues/trends
• Brand & Reputation Protection/Enforcement
• Questions & Answers
Marsh 3D is our proprietary consultative approach to client engagement. It tailors risk management solutions based on a thorough understanding of each client’s risk profile and objectives.
Marsh 3D represents a holistic advice driven approach to risk management that demonstrates value and delivers results.

**Define**

Define opportunities – *by understanding your business.*

- **Build Understanding**
  - Define your business strategies, risk management objectives, and key performance indicators (KPI).
  - Define your risk profile – key and emerging exposures, total cost of risk, risk tolerance and more.
  - Assess and prioritize opportunities and set an agenda for action.

**Design**

Design solutions – *after applying powerful analytics.*

- **Test Findings**
  - Perform analytics to identify risk drivers, test coverage, and optimize programs.
- **Design Options**
  - Design comprehensive solution options on a 12-, 24-, and 36-month road map.
  - Conduct cost/benefit analyses to view impact on the total cost and volatility of risk and prioritize activity.

**Deliver**

Deliver outstanding results – *aligned to your goals.*

- **Execute Plans**
  - Risk Mitigation, Transfer, Financing.
- **Review and Manage**
  - Regularly measure progress against goals, evaluate results, and target areas for improvement.
  - Provide a clear view of the total cost of risk and input to the Strategic Risk Planning process.

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**Strategy**

- **Strategic Risk Plan**
- **Implementation Plan**
- **Performance Plan**
Define opportunities – by understanding your business.

Define 1, 2 and 3 year Business Strategies
Identify emerging risks – Industry Risk Maps
Define Risk Governance Strategy
Define Key Performance Indicators (KPI)

Design solutions – after applying powerful analytics.

Prioritize Value Drivers
Total Cost of Risk
Risk Tolerance
Insurance Program Optimization
Coverage Review
Program Design
Cost / Benefit Analysis
Performance Dashboard

Execute Plans
Risk Mitigation
Risk Financing
Risk Transfer
Special Projects

Review & Manage
Team Alignment to Client Focus
Communication and Documentation
Claims Management
Transactional Outcomes

Deliver outstanding results – aligned to your goals.

Strategic Risk Plan
Implementation Plan
Performance Plan

AFP® Annual Conference
05 November 2013
Risk Trends

• Cyber Liability
• Wage and Hour/Employment Practices
• Risk Concentration
• Regulatory – Domestic and International (admitted/non-admitted)
• Supply Chain
• Contingent Business Interruption – Flood/EQ
Risk Mapping – Exposure/Impact

Industry & Company Trends

Exposure | Relative Frequency | Severity | Size
--- | --- | --- | ---
Workers Comp/EL | 5 | 1 | 5
Property Damage/Business Int. | 1 | 2 | 2
Event Liability & Cancellation | 6 | 6 | 3
Contingency | 5 | 5 | 1
Employment Practices | 5 | 3 | 2
Professional Liability | 3 | 5 | 5
Data & Privacy | 3 | 3 | 3
D&O Liability | 1 | 3.5 | 7
Media Liability | 7 | 5 | 1
Talent & Asset Acquisition | 2 | 4 | 4
Licensing | 4 | 2.5 | 2
Talent Retention | 4 | 4 | 1
Trade Credit/Receiveables | 1.5 | 1 | 3
International | 3 | 1 | 6
Financial Asset Management | 1 | 5 | 8
Risk Map – Insurance Response

Exposure
- Workers Comp/EL
- Property Damage/Business Int.
- Event Liability & Cancellation
- Contingency
- Employment Practices
- Professional Liability
- Data & Privacy
- D&O Liability
- Media Liability
- Talent & Asset Acquisition
- Licensing
- Talent Retention
- Trade Credit/Receiveables
- International
- Financial Asset Management

Insurance
- Statutory: $70,000,000
- $76,000,000
- Per Project: $25,000,000
- $20,000,000
- TBD: $50,000,000
- $20,000,000
- TBD: $70,000,000
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# Total Cost of Risk - Example

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Analytics for Large Complicated Risks Require Risk Quantification

Uncertainty is the Measurement of Risk

CORE GOALS – Bring Value and Science to the Risk Management Equation

• Quantify Risk
  - Quantitative Modeling and Statistical Analysis

• Understand Possible Outcomes
  - Simulation
  - Scenario Testing

• Evaluate Options on a Corporate Basis
  - Incorporate Risk Transfer/ Mitigation Strategies
  - Integrate Financial with Actuarial Analysis

• Substantiate Decision Making

• Problem Solving
Financial Analysis (Risk Bearing Capacity)
Make Risk Management Decisions Actionable

- Analysis based on investment community's view of perceived risk in go forward earnings stream (Risk Adjusted Discount Rate – RADR)
  - Low Discount Rate
    - Small Margin for Error
    - Volatility of Results Will Damage Confidence and Result in Significant Harm to Equity Holders
    - Low Risk Tolerance
  - High Discount Rate
    - Volatility of Earnings is Anticipated
    - Manage Magnitude
    - High Risk Tolerance
    - Focus on “Tail” and Systemic Risks
- Risk Bearing Capacity uses RADR and financial metrics to calculate nominal point where possible adverse results will impact shareholders
- ERM Risk Tolerance Threshold Measure

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<th>ANALYSIS</th>
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<td>Levered Free Cash Flow</td>
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<td>Grade</td>
<td>Average</td>
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<td>6/30/2011</td>
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<td>FYE Date</td>
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<td>Total Assets</td>
<td>2,064</td>
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<td>Total Liabilities</td>
<td>1,256</td>
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<td>Book Value</td>
<td>808</td>
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<td>1,162</td>
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<td>FYE Total Revenue</td>
<td>4,473</td>
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<td>FYE Operating Profit</td>
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<td>180</td>
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<td>Peer Group</td>
<td>RUS 3000 Retailing</td>
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<td>RADR</td>
<td>12.89%</td>
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<td>RBC/MC</td>
<td>0.78%</td>
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<td>RBC/Total Revenue</td>
<td>0.28%</td>
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<td>2 Year Beta</td>
<td>1.00</td>
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<td>2 Year Price Volatility</td>
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Coty Brand Protection Efforts and Enforcement Actions

2013
The Facts About Counterfeiting

- Counterfeiting is a $600 billion a year problem that has grown 10,000% in the past two decades.

- Counterfeiting costs US businesses $200 billion to $250 billion annually.

- Since 1982, the global trade in illegitimate goods has increased from $5.5 billion to $200 billion annually.

- Approximately 5%-7% of the world trade is in counterfeit goods.

- Counterfeiting poses a threat to global health and safety.

- In 2011 counterfeit perfumes accounted for 5% of the total seizures of counterfeit product in the US. The MSRP of the perfumes was estimated at $51.0 million. In 2012 the perfume seizures are down but the US seizures hit and all time high of $1.26 billion in MSRP for the counterfeit seized. US Customs indicates that over 82% of the counterfeit originates in China.
The Challenges of Counterfeiting.

• Consumer demand for knock-offs—likely would not be a sales opportunity

• Actual confusion—consumer believes they are getting a deal due to excess inventory; stolen goods, minor imperfections.
  – This results in lost sales opportunities.

Let’s look at some examples can you tell which is real and which is fake?
Can you tell the real from the fake?
How Does Counterfeiting Impact Coty? (cont’d)

• It is common to find counterfeit perfumes containing banned substances being sold online, in flea markets and in a store front on 5th Avenue, NY, NY. The potential negative media attention associated with these types of matters could cause damage to a company’s reputation.

• Violation of License Agreements: If Coty does not attempt to prevent the sale of counterfeit products, we can be found to be in violation of our License Agreements and such agreements may be terminated.
Current Brand Protection Efforts

- **Training:** The Coty program trains Federal law enforcement officers and selected local law enforcement officers to understand the scope of the counterfeit problem in the fragrance industry; to act as a deterrent. Training is in concert with the International Anti Counterfeiting Coalition (IACC) in addition to the FBI and US Customs (CBP) in the US.

- **Seizures:** Identification of Coty counterfeits during raids, traffic stops, and Customs import inspections. Required are affidavits attesting to the confirmations that the goods are in-fact not Coty produced.

- **Prosecutions:** We assist law enforcement organization with investigations that will result in the prosecution of the importer, distributor, or retail vendor of counterfeits.
Examples of Success

• **Canal Street Raid: Summer and Fall 2008.** The Mayor’s Office of Special Enforcement embarked on enforcement against the landlords and building owners in the Canal Street (Chinatown) area.
  - Coty spearheaded the 3 pre dawn raids on behalf of the fragrance manufacturers (including LVMH, L’Oreal, Lauder, etc.).
  - There were 6 store fronts selling counterfeit perfumes and many bottles of counterfeits of Coty’s brands were seized. These shops have not yet reopened and will not until the court case against the building owner is resolved.

• **Street Vendors – NYC: Fall of 2007.** Coty pushed for a sweep of the street vendors selling perfumes.
  - Coty organized the effort with Estee Lauder, L’Oreal, Chanel and Puig.
  - The initial effort resulted in 17 arrests and the seizure of many of the above company’s products.
Examples of Success (cont’d)

• *e-Bay*: We continue to work with our European team in Mainz to affect arrests of sellers on the internet. These are difficult cases as law enforcement has little experience in prosecution.
  
  – One case in NJ of an e-Bay seller that sold over $1,000,000 of counterfeit perfumes. He entered into plea bargaining process and received a suspended sentence and a couple years probation without restitution.
  
  – Federal investigation penalties are greater which is why we push for them. ICE/HIS is very proactive in taking down infringing web sites that offer for sale counterfeit products. Coty has through OPI provided a number of these sites. However this has turned into a bit of a whack an mole game as they pop up again months later.
Examples of Success (cont’d.)

Canal Street
NYC
Dec 2008
Police pre
Dawn raid
Basement
storage of fakes

5th Ave. Raid
Customers
Being led out
Of the store
Senior Officer
Directing ops
Tables of
Fakes
Questions and Answers