

Marsh's Economic Downturn Task Force Strategic Solutions to Manage the Business Risks of the Economic Downturn

The wide range of challenges facing business in the current environment has radically changed corporate and managerial priorities. The harsh reality is that many—if not all—companies face serious ramifications from the financial crisis. With credit markets struggling, cash constraints are a major issue. Consumer and business spending have fallen dramatically, forcing many firms to downsize, leading to layoffs and increased unemployment. Many companies are selling off assets as they restructure during the worst U.S. recession in decades. For some this is happening in the midst of bankruptcy proceedings; for others, in an effort to stave off financial crisis. Flexibility and transformation have become top priorities.

With these challenges in mind, Marsh established the Economic Downturn Task Force to help organizations find the right resources and solutions to navigate these difficult times. The mandate of the Task Force is to present clients with a wide array of strategies to help reduce costs and mitigate risks. The Task Force is a clearinghouse for all of the relevant solutions and services available from Marsh and its MMC sister companies. The Task Force's emphasis is on actions that have the potential for immediate financial impact.

The Task Force is led by some of Marsh's most experienced professionals, who are working with client service teams to:

- Analyze client challenges
- Evaluate viable options
- Identify solutions that work

The Task Force supplements existing Marsh client service teams by providing additional resources and skills to meet the new and amplified challenges stemming from the economic downturn. Any client can request involvement of the Task Force by notifying its client service team. When called to action, the Task Force will focus on services and strategies aimed at:

- Reducing costs, including collateral.
- Managing costs associated with staff reductions and asset sales, such as those stemming from plant closures.
- Addressing bankruptcy issues.
- Establishing pre-divestiture due diligence.

- Prioritizing saleable assets based on environmental risk exposure.
- Addressing crisis issues and protecting brand value.
- Updating directors and officers (D&O) and professional liability limits, terms and conditions.
- Re-evaluating employee benefit cost factors.
- Mitigating supply chain logistical risks.
- Re-prioritizing risk management programs based on recessionary pressures.
- Performing captive insurer cost-benefit analysis
- Prioritizing enterprise risk management (ERM) to address economic volatility and to more accurately measure and manage risks.

Marsh's Economic Downturn Task Force can help companies find the right mix of strategies and solutions to navigate through the financial crisis and be positioned to take advantage when recovery happens. Below are some strategies organizations may want to consider:

Risk Management Cost Reduction

- Zero-based budgeting. Re-evaluate all lines of insurance with an eye on critical needs.
- Evaluate the capacity to assume risk both on a per occurrence and aggregate basis.
- Re-evaluate vs. re-engineer.

- Unconventional tactics: a) cancel/rewrite coverages mid-term; b) bring competitive pressures to incumbents mid-term; c) leverage more premium dollars with fewer providers.
- Secure a separate credit line and optimize cash flow with competitive premium finance.

Collateral Reduction

- Reduce outstanding reserves with a claims closeout initiative.
- Quantify existing and prospective loss-cost estimates that challenge historical collateral calculations. Is there a change in the business mix, state-by-state payroll distribution, exposure, or in loss development that suggest a downward collateral adjustment?
- Use a self-insured retention in place of a deductible to eliminate collateral demands.
- Develop strategies to mitigate surcharges.
- Consider short-term policies (3 or 6 months) to reduce collateral requirements.
- Evaluate collateral options to letters of credit.

Directors and Officers and Professional Liability Evaluation

- Understand trends and magnitude of losses within industry.
- Understand evolving D&O legal precedents.
- Review adequacy/inadequacy of existing terms, limits and retentions.
- Review risk mitigation measures, including level of disclosure, board understanding, documentation, and more.

Specialty Solutions

- Monetize receivables with trade credit insurance.
- Cap/buy out outstanding liabilities to potentially avoid destabilizing future earnings.

- Manage severance costs with alternative strategies.
- Use environmental risk evaluation to prioritize asset sales.
- Clear risk obstacles with pre-divestiture due diligence.
- Manage risks arising from plant closures and equipment decommissioning, including containment of potential workers' compensation claims.

Human Capital Cost and Risk

- Evaluate organizational design to increase alignment, efficiency, and speed, including delayering, and increasing shared services.
- Re-evaluate performance metrics and linkage to compensation in the context of critical business goals, including key employee retention.
- Analyze pension and health care obligations to manage costs and improve cash flows; redesign programs.
- Optimize employee productivity and deployment; design reductions in force to maximize results.
- Improve efficiency of HR operations through process redesign, leveraging technology, and administrative simplification.

Crisis Management

- Real-time consulting can help manage an adverse event that could threaten an organization's reputation and brand.
- Develop a new or updated crisis management program and training.
- Manage the human capital risks of downsizing, such as plant closures.
- Improve loss control through documenting work environments.
- Review and upgrade property physical security procedures.
- Minimize costs with claims consulting.

For more information on these and other solutions from Marsh, visit www.marsh.com or contact your local Marsh representative.

The information contained in this publication provides only a general overview of subjects covered, is not intended to be taken as advice regarding any individual situation, and should not be relied upon as such. Insureds should consult their insurance and legal advisors regarding specific coverage issues. All insurance coverage is subject to the terms, conditions, and exclusions of the applicable individual policies. Marsh cannot provide any assurance that insurance can be obtained for any particular client or any particular risk.

Statements concerning legal matters should be understood to be general observations based solely on our experience as insurance brokers and risk consultants and should not be relied upon as legal advice, which we are not authorized to provide. All such matters should be reviewed with the client's own qualified legal advisors in these areas.

This document or any portion of the information it contains may not be copied or reproduced in any form without the permission of Marsh Inc., except that clients of any of MMC companies need not obtain such permission when using this report for their internal purposes so long as this page is included with all such copies or reproductions.

Marsh is part of the family of MMC companies, including Kroll, Guy Carpenter, Mercer, and the Oliver Wyman Group (including Lippincott and NERA Economic Consulting).

Copyright © 2008 Marsh Inc. All rights reserved. Compliance No. MA9-10174