



IRMI[®]

Preconference Workshop 4

SPEAK FINANCE LIKE A NATIVE

Presented by

Daniel S. McGarvey, CPCU, CEBS, ARM
Managing Director
Marsh USA, Inc.

Monday, November 8, 9 a.m.–noon and 1:30–4:30 p.m.

Finance

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Daniel S. McGarvey
Managing Director
Marsh

Mr. McGarvey is presenting Monday's Preconference Workshop 4, "Speak Finance Like a Native." He has been with the Charlotte branch of Marsh USA since March 1997, joining the company as a regional risk management sales professional charged with bringing leading-edge options and ideas to members of the risk management community served by Marsh's 20 south region branches.

Mr. McGarvey graduated with honors from the U.S. Naval Academy in 1981 and served 9 years in the nuclear surface ship community, attaining the designation of Naval Nuclear Chief Engineer. He was hired in 1989 by Johnson & Higgins in New York as a utility risk management consultant, and subsequently deployed to Phoenix as western regional consultant for the J&H Nuclear Group. During 8 years with the Phoenix branch, he broadened his experience to include the service of large public sector and construction accounts. He served as casualty unit manager, account manager, and western regional resource for utility, construction, and public sector opportunities.

He is an accomplished speaker and instructor and has presented numerous seminars on risk management topics. As a CPCU instructor, he has taught the CPCU Finance and Accounting course, Economics course, Introduction to Risk Management, Business Law, and all three courses of the ARM curriculum. He has been called to testify before a State Legislature on risk management (contractual transfer and OCIP) issues, and has authored three published papers on risk management issues. Mr. McGarvey has coordinated 25 national RIMS presentations, including "Tough Customers—Selling Risk Management Programs to the CFO," "Decent Exposure—Raising the Risk Management Profile," "Indemnify This!—Negotiating Contractual Risk Allocation Provisions," "Lawful Pursuits—Legal Essentials for the Risk Manager," "Fifteen Minutes of Fame—Making Hard Hitting Presentations to Senior Management," "Finance for Smarties," and "Speak Finance Like a Native—The Three Hour MBA."

Mr. McGarvey also received Naval Nuclear Power Training in 1982 and Naval Nuclear Chief Engineer Certification in 1986 and earned an M.B.A. with honors in Finance from the University of Rhode Island.

His professional designations include Certified Property and Casualty Underwriter (CPCU), Associate in Risk Management (ARM), Associate in Underwriting (AU), Associate in Reinsurance (ARE), Accredited Advisor in Insurance (AAI), Associate in Fidelity and Surety Bonding (AFSB), Associate in Claims (AIC), Associate in Loss Control Management (ALCM), and Certified Employee Benefit Specialist (CEBS)—Fellow Status.

Notes

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SPEAK FINANCE LIKE A NATIVE

***Daniel S. McGarvey, CPCU, CEBS, ARM
Marsh USA, Inc.***

I. Introduction

1. Preconceptions of risk management by senior financial officers
2. The importance of financial fluency
 - a. Exposure
 - b. Opportunity
 - c. Resource allocation
 - d. Program advocacy
 - e. Goal alignment
3. Sources of financial education

II. Counting the Beans—Unveiling the Mysteries of Accounting

1. What is accounting?
2. Importance of consistent standards
3. Sources of accounting standards
 - a. FASB
 - b. SEC
 - c. Other sources
4. Fundamental Precepts
 - a. Materiality
 - b. Accrual basis accounting
 - c. The accounting equation
5. The balance sheet
 - a. Asset classes
 - b. Asset valuation
 - c. Depreciation and amortization
 - d. Liability classes
 - e. Owner's equity
 - f. Why does the balance sheet balance?
6. The income statement
 - a. Revenues
 - b. Expenses
 - c. EBIT/EBITDA
 - d. Taxes and depreciation
 - e. Net income
 - f. Per share calculations
7. The Accounting Cycle
 - a. Journal entries
 - b. Debits, credits and the ledger of accounts
 - c. Adjusting entries
 - d. Closing entries
 - e. Contra-accounts
 - f. Constructing the income statement
 - g. Constructing the balance sheet
 - h. Exercise—"Joe's Pretzel Stand"
8. The Cashflow Statement and the Importance of Cash
 - a. Sources and uses of cash
 - b. Cash budgeting

9. Financial Disclosure
 - a. 10Q Reports
 - b. 10K Reports
 - c. Annual Reports
 - d. Special Notifications
10. Notes to financial statements
 - a. Basis of accounting
 - b. Liabilities
 - c. The accounting opinion
11. Special accounting issues related to insurance transactions
 - a. Insurance premiums
 - b. Insurance recoveries
 - c. Loss reserves
12. The wonderful world of tax
 - a. Corporate tax rates
 - b. Impact on decisions
 - c. Tax minimization strategies

4. Types of equity
 - a. Common stock
 - b. Preferred stock
5. Equity Topics
 - a. Stock dividends
 - b. Stock splits
 - c. Stock buybacks and treasury stock
6. Stock valuation
7. Measures of Stock Performance
 - a. Price/Earnings ratio
 - b. Return on equity
 - c. Return on capital
 - d. Beta
8. The Reinvestment Decision
 - a. Free cash flow
 - b. Dividends vs. reinvestment
 - c. Factors influencing this decision
 - i. Expectations
 - ii. Legal requirements
 - iii. Dividend history
 - iv. Corporate policy
 - v. Tax position of shareholders
 - vi. Other factors
 - d. Cost of Retained Earnings

III. Raising Capital for Your Business

1. Why raise capital?
2. Debt vs. equity
 - a. Advantages/drawbacks of each
 - i. Dilution
 - ii. Control
 - iii. Leverage
 - iv. Rate
 - b. The debt/equity ratio
3. Types of debt
 - a. Traditional loans
 - b. Lines of credit
 - c. Bonds
 - d. Commercial paper
 - e. Short vs. long term financing

IV. Strategic Planning

1. The Business Lifecycle
2. Growth vs Income stocks
3. Business Unit Categorization
4. Capital Budgeting
 - a. The Time Value of Money
 - i. Opportunity cost
 - ii. Discounting

- iii. Using financial tables
- iv. Sample calculations
- b. Weighing Competing Investments (Capital Budgeting)
 - i. Payback period
 - ii. Internal rate of return
 - iii. Net present value
- c. Cash Management
 - i. Credit guidelines
 - ii. Credit terms
 - iii. Factoring
 - iv. Trade discounts
 - v. The "float"
- d. The Economic Value Added Model

V. Financial Analysis

- 1. Financial Ratios
 - a. Liquidity ratios
 - b. Performance ratios
 - c. Ratio standards
- 2. Analyst Reports
 - a. Where to obtain them
 - b. Their value to you
- 3. Earnings Management

VI. Putting This Information to Work

- 1. Knowing Your Company
- 2. Risk Appetite and Retentions
- 3. Presenting in Financial Terms
- 4. Comparing Investment Decisions
- 5. Financial Insurance Products
 - a. Premium financing
 - b. Credit insurance
 - c. Structured settlements
 - d. Finite risk
 - e. Portfolio transfer
 - f. Captive insurers
- 6. Risk Adjusted Decision Making
- 7. Knowing and Understanding Your Boss' Goals

VII. Concluding Remarks and Questions

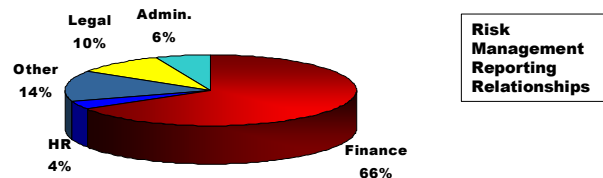
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SPEAK FINANCE LIKE A NATIVE

Why Is This Topic So Critical?

- We are competing for scarce resources with people who are adept at outcome quantification.
- New insurance products tend to address financial/accounting issues.
- Speaking the language of business can help us “stay in the loop.”
- It is essential if we are to communicate effectively with our bosses.
- It helps us take advantage of emerging opportunities.



How to Change Those Perceptions

We can improve perceptions of risk management by raising our collective business acumen in the following ways:

1. Become more fluent in the language of business.
2. Make a strong effort to truly understand the goals of our firms.
3. Continually reinforce our image as key members of the management team.

Agenda

- Accounting
- Starting a business
- Treasury management
- Capital budgeting

Break

- Building a business case
- Financial research
- Financial analysis
- The art of hedging

Don't Be Intimidated

Many financial professionals find the language of insurance intimidating.

Some may try to speak finance to “keep you in your place.”

But the concepts are more important than the math.

Fun With Insurance Lingo or Making Our Jobs Seem “Sexier”

Insurance	}	Non-Recourse Contingent Capital
Insurance Company		Hazard Risk Counter-Party
Claims Recovery		Balance Sheet Restoration Contribution
Insurance Broker		Risk Arbitrageur
Broker Commission		E&O Coverage Access Fee

Foundations of Accounting

- Consistency—FASB / GAAP
- Principle of conservatism
- Focus on materiality

Question

How do I know what sum is “material” for accounting purposes in my firm?

Foundations of Accounting

- Consistency—FASB / GAAP
- Principle of conservatism
- Focus on materiality
- Accrual accounting
- The “dual entry” system
- An “unqualified” audit is the goal

Ultimately, we all play by the same rules.

The Balance Sheet

- Contains layout that matches the accounting equation:
 $Assets = Liabilities + Owner Equity$
- Presented in order of liquidity
- Exists as a snapshot in time
- Lets investors know what you had to work with
- Keeps investors informed of emerging material obligations

Why Does the Balance Sheet Balance?

Whatever is owned by the corporation—and not offset by a debt owed to a third party—belongs to the corporation's owners.

$Assets = Liabilities + Owner Equity$

Balance Sheet Issues

- Depreciation / amortization
- Intangible assets / goodwill
- Book value is of little use for insurance decisions

$B.V. = original\ cost - depreciation$

Conservative asset valuation means "lesser of cost or market"

Consequences

*Failure to exercise appropriate conservatism can result in **the heartbreak of the “write-down.”***

The Income Statement

- Reflects the activity of a finite period
- Tells investors how you did
- Yields the “bottom line?”
- Net income often expressed in “per-share” format

What have you done with the money we entrusted to you?

The Income Statement

Revenue	
- Cost of goods sold	
- Labor and overhead	
=	Gross income (EBITDA)
- Depreciation / amortization	
=	EBIT
- Interest	
- Taxes	
=	Net income (EPS)

Question

Why do so many firms use EBITDA as a management measure when it does not really reflect the bottom line?

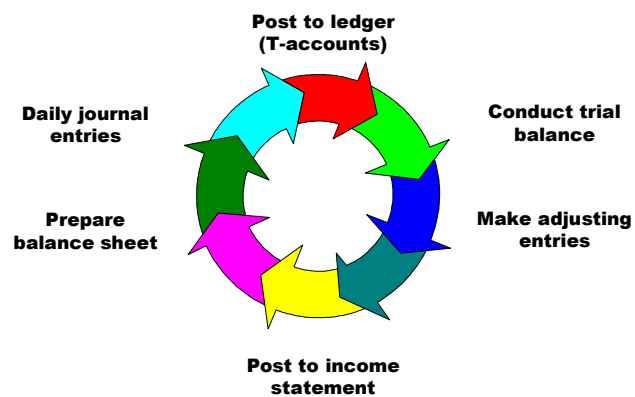
Interesting Tax-Driven Quirks

Why accelerate depreciation?

*Tax minimization can be a principal driver in financial decisions.
Never underestimate the impact of tax.*

The Accounting Cycle

Ironically, making too much money can be almost as problematic as making too little.



Forget Everything You Know About Debits and Credits

Debits

Credits

Assets Expenses



Liabilities
Revenues
Owner Equity



Liabilities
Revenues
Owner Equity



Assets Expenses



Starting a Business or Accounting Made Easy

	<u>CASH</u>	<u>SUPPLIES</u>	<u>EQUIPMENT</u>	<u>PRE-PAID LICENSE</u>	Adjusting Entries (Accruals)
<u>ASSET ACCOUNTS</u>	2000 240 1600	500 <u>400</u>	200 <u>10</u>	120 <u>10</u>	
<u>LIABILITY ACCOUNTS</u>		<u>UNEARNED ADV. REVENUE</u>			
		20 <u>240</u>			
<u>OWNER'S EQUITY</u>		<u>OWNER'S EQUITY</u>			
		<u>2000</u>			
<u>REVENUE ACCOUNTS</u>	<u>SALES REVENUE</u>	<u>ADVERTISING REVENUE</u>			
	<u>1600</u>	<u>20</u>			
<u>EXPENSE ACCOUNTS</u>	<u>SUPPLIES EXPENSE</u>	<u>DEPRECIATION EXPENSE</u>	<u>SALARY EXPENSE</u>	<u>LICENSE EXPENSE</u>	
	400	10	400	10	

Dan's Pretzels Inc.

Debit
Credit

Starting a Business or Accounting Made Easy

		CASH	SUPPLIES	EQUIPMENT	PRE-PAID LICENSE	
<u>ASSET ACCOUNTS</u>	}	2000	500	200	120	
		240	400	10	10	
		1600	100	190	110	
		<u>200</u>				
		<u>120</u>				
		<u>500</u>				
		<u>400</u>				
		2620				
<u>LIABILITY ACCOUNTS</u>	}		UNEARNED ADV. REVENUE			
			20	<u>240</u>		
				<u>220</u>		
<u>OWNER'S EQUITY</u>	}		OWNER'S EQUITY			
				<u>2000</u>		
<u>REVENUE ACCOUNTS</u>	}	SALES REVENUE	ADVERTISING REVENUE			
		<u>1600</u>	<u>20</u>			
<u>EXPENSE ACCOUNTS</u>	}	SUPPLIES EXPENSE	DEPRECIATION EXPENSE	SALARY EXPENSE	LICENSE EXPENSE	
		400	10	400	10	

Dan's Pretzels Inc.

Debit
Credit

Starting a Business or Accounting Made Easy

**Dan's
Pretzels
Inc.**

April Income Statement

Revenues	
Sales	1600
Advrt	<u>20</u>
Total	1620
Expenses	
Pretzels	400
Salaries	400
License	10
Deprec.	<u>10</u>
Total	820
Net Income	800

Balance Sheet as of 5/1/04

Assets	
Cash	2620
Supplies	100
Equip.	190
License	110
Total Assets	3020
Liabilities	
Unearn. Adv.	220
Total Liabilities	220
Owner's Equity	2800

Follow-On Audience Questions

- Who grows wealth? Why?
- Can Dan ever get rich?
- Can Dad sell the business?
- Can Dad fire Dan?
- What is the business worth today?
- What kind of dividends for Dad?

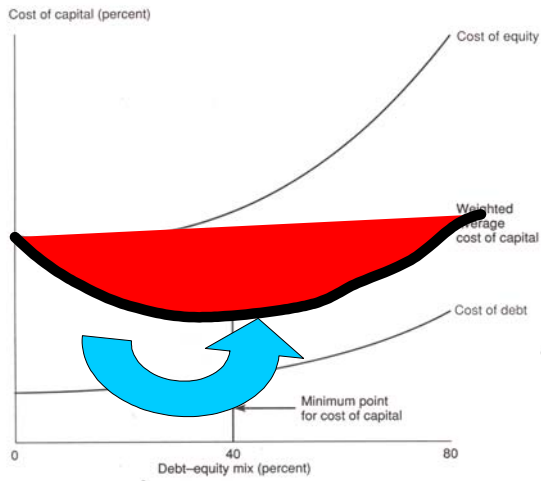
The link between risk and reward is a strong one in our economic system.

The Challenge of Raising Capital

- **Debt and Equity:**
Each has its own advantages and drawbacks
- **The goal:**
Minimize the overall cost of capital.
- Which is more expensive to start?

Cost: Debt versus Equity

Weighted Average Cost of Capital Curve



Key Terms in the Debt versus Equity Decision

Leverage

Dilution

Question

Whose role is it to minimize my firm's cost of capital by balancing debt and equity?

Types of Debt

- **Bonds**

- Guaranteed returns at the coupon rate
- Value varies inversely with interest rates

Debenture?

Callable?

Reinvestment Risk?

Types of Debt

- **Bonds**

- Guaranteed returns at the coupon rate
- Value varies inversely with interest rates

- **Traditional Loans**

- Rate determined by prime rate +/- ?
- May be in the form of a line of credit

- **Commercial Paper**

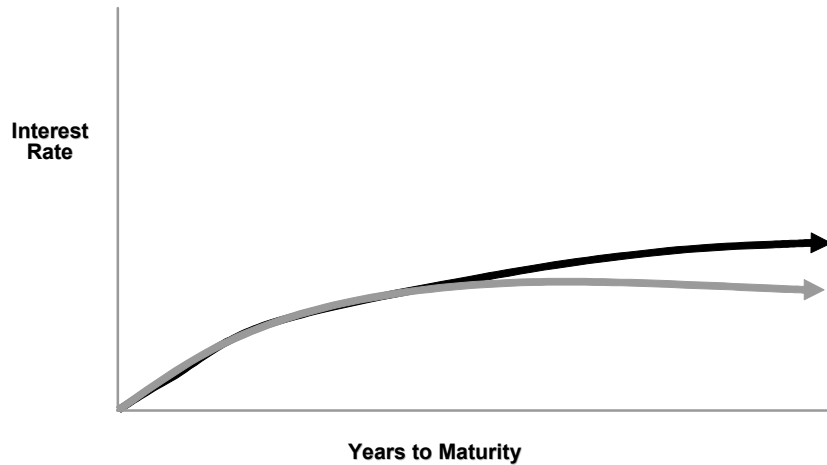
- I'll gladly pay you Tuesday for money today

Prime rate?

Basis points?

The Yield Curve

A leading economic indicator



Types of Stock

- **Common Stock**
 - Shareholders bear the risk of the firm
 - Their vote is their only protection
 - You may also vote with your feet
- **Preferred Stock**
 - A dividend rate is essentially guaranteed
 - Acts more like debt than equity
- **Treasury Stock**
 - Why would a company buy its own shares?

Price / Earnings (PE) Ratio

- A rough measure of “general outlook”
- Compares stock valuation to performance
- Be careful: PE is a trailing measure

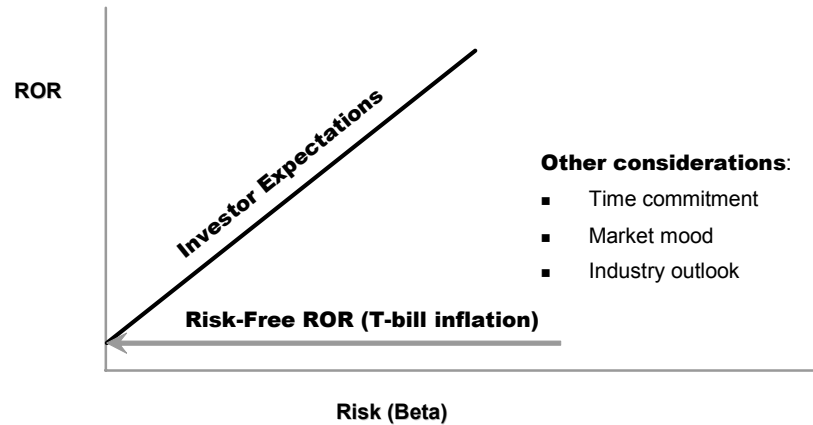
$$\text{PE} = \frac{\text{Stock price today}}{\text{Most recent EPS}}$$

What is your firm's PE ratio?

The Beta Factor

- **Beta**
 - Defined as a measure of volatility versus that of the entire stock market
 - Often used in gauging investment management performance
- A Beta of >1 means your stock is above average in volatility
- A negative Beta means your stock moves inversely with market trends

Volatility and Required ROR



Cash Is King

- Cash budgeting is a critical function
- Credit “revolver” helps tide you over
- The “float” is a powerful ally
- Cash “sources and uses statement”
- Insurance as “contingent capital”?

Credit Terms and Income

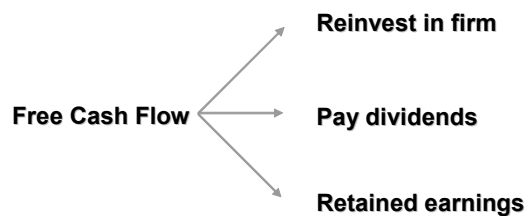
- Credit terms are established at the highest level.
- This involves a well-developed science, the goal of which is revenue maximization.
- The RM can play a key role.

A Finance Parable

What lessons can we learn from this tale?

- The time value of money is not a new concept.
- Even two thousand years ago, shareholders had high expectations.
- Inadequate returns have always been grounds for severe action.

Where the Money Goes



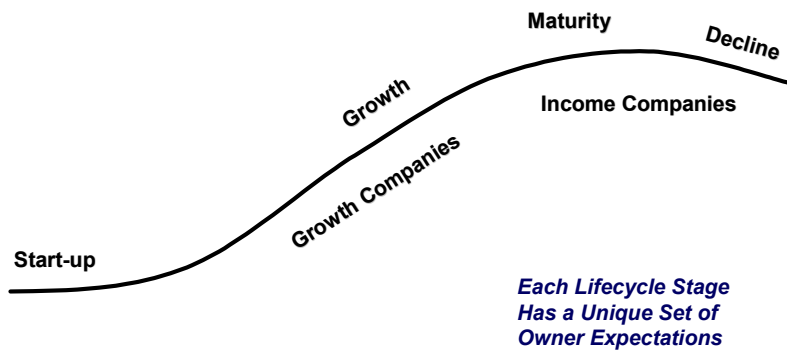
The Reinvestment Decision

Dividend Strategy

- Results
- Expectations
- Track Record
- Alternatives

*The "Golden Rule" of dividend strategy:
Unless you have better uses for the cash than your
shareholders, give it to them.*

The Business Lifecycle



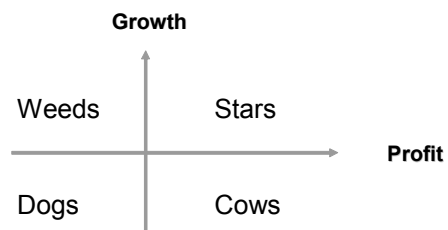
Internal Allocation (Capital Budgeting)

Evaluation Criteria

- Payback period
- Internal rate of return
- Net present value
- Strategic fit

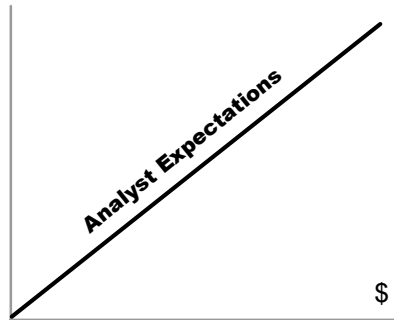
The "hurdle rate"—anything less would be irresponsible.

Know Your Situation



Where is your division?

Know Your Situation



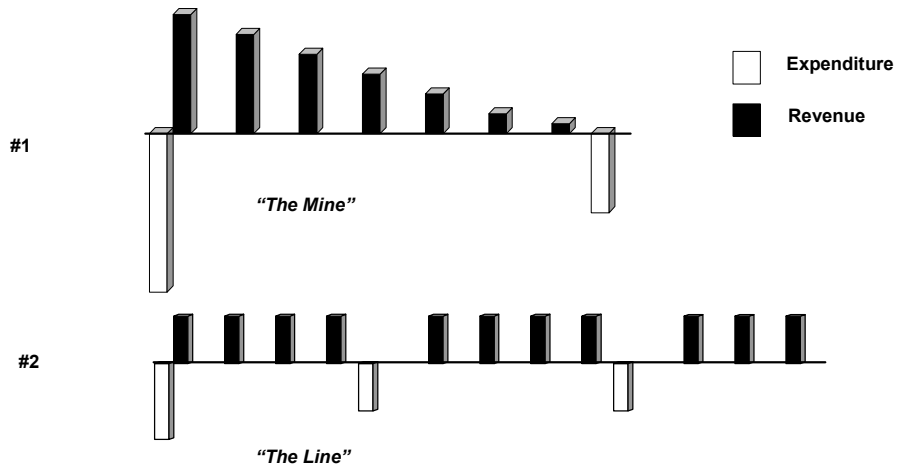
How is your year going?

Time-Value Examples

- Premium payment options
- Structured settlements
- Cost-benefit analysis
- Capital budgeting

Know your firm's "discount factor"

Net Present Value Representation



To Sprinkler or Not to Sprinkler

Installation cost	<u>\$ (300,000)</u>
Annual maintenance	\$ (2,000)
Annual insurance savings	<u>\$ 10,000</u>
Net annual impact	\$ 8,000
Brigade equipment	<u>\$ (20,000)</u>
Replace in five years	\$ (20,000)
Annual training / drills	\$ (30,000)

Net Present Cost of Sprinkler Protection

Sprinkler Option

\$300,000 today	\$ 300,000
\$8,000 savings (10 years)	\$ (53,680)
Total	\$ 10,000

(Note: 8 percent discount rate applied)

Net Present Cost of the Fire Brigade

Fire Brigade Option

\$20,000 today	\$ 20,000
+ \$20,000 five years from now	\$ 13,600
+ \$30,000 NPV for ten years	\$ 201,300
Total	\$ 234,900

(Versus \$246,320 for sprinklers)

Other Considerations

- Cost of sleep
- Damage to reputation
- Service interruption
- Potential injury cost

Is it worth \$11,320?

Sources of Financial Data

- Annual report
- 10K / 10Q reports
- Key ratios
- Web sites
- Financial chat rooms
- Analyst reports

Ratios

Ratios reveal information about the following:

- Liquidity
- Solvency
- Efficiency
- Performance

Financial Ratios

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Financial Ratios and Their Interpretation

BUSINESS CATEGORY: PAPER PRODUCTS

By SIC

RATIOS	UQ	MED	LQ
<u>SOLVENCY</u>			
QUICK RATIO (MULTIPLE)	1.5	1.0	0.7
CURRENT RATIO (MULTIPLE)	2.8	1.8	1.3
CURRENT LIAB TO NW (%)	29.8	65.8	13.6
CURRENT LIAB TO INVENTORY (%)	93.7	151.4	245.7
TOTAL LIAB TO NW (%)	59.6	123.1	246.3
FIXED ASSETS TO NW (%)	39.3	84.4	13.5
<u>EFFICIENCY</u>			
COLLECTION PERIOD (DAYS)	33.2	42.2	52.6
SALES TO INVENTORY (MULTIPLE)	17.4	10.6	7.0
ASSETS TO SALES (%)	37.0	49.2	2.7
SALES TO NET WORK CAP (MULTIPLE)	15.5	8.6	4.7
ACCOUNTS PAYABLE TO SALES (%)	3.8	6.4	9.1
<u>PROFITABILITY</u>			
RETURN ON SALES (%)	6.2	3.2	2.2
RETURN ON ASSETS (%)	9.5	5.7	2.4
RETURN ON EQUITY (%)	22.5	13.6	7.6

Performance Measurement

Financial decision makers cannot possibly track all the performance measures available.

In most firms, a handful of measures—which have proved accurate in predicting outcome—have been adopted for use in tracking progress.

Economic Value-Added (EVA)

An extremely popular measure of value creation, EVA weighs the cost of capital employed against more traditional profitability indices in order to measure **real value-added**.

EVA correlates well with observed changes in share price.

Using This Knowledge to Your Advantage

- Giving more influential presentations
 - Payback period
 - Internal rate of return
 - Net present value
 - Bottom line impact
 - Cost of risk
 - Avoided widgets
 - Strategic fit
- Making sound investment decisions
- Anticipating demands / solutions
- Sorting smoke from mirrors

The Other Face of Risk Management

Some firms have two risk management departments—which actually have much in common. Sooner or later, the departments may merge into one.

Typical Business Cycle

The art and science of “hedging:”

- Suit example

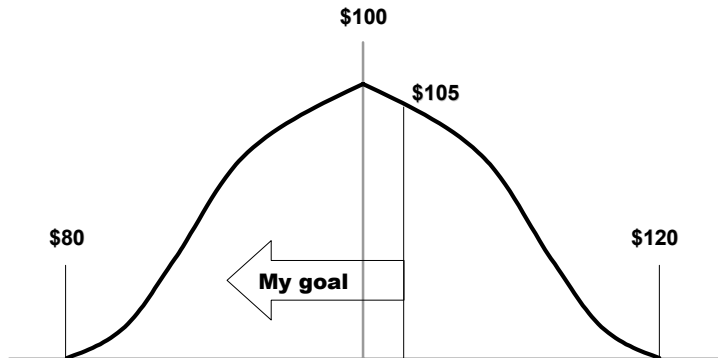
Typical business cycle:

- Feast or famine
- Impact of a typical hedge

Introduction to Commodity Hedging

- Money is significant
- Price is volatile
- Can’t run out!
- Substitution is tough
- Budget options are unacceptable

Weekly Price of 210 Diapers 2003-04



Option 1: Timing of Purchases

- You wait for diapers to go on sale for \$80 for one-month supply.
- Buy a whole bunch!
- Problems:
 - Storage space / obsolescence / spoilage
 - Proper size for growing baby

Best Case: \$80

Worst Case: \$80 + wastage + storage + opportunity cost

The Inventory Decision

- Inventory has an inherent cost:
 - Physical storage
 - Theft / spoilage
 - Opportunity cost

$$\begin{aligned} \text{Economic Ordering Quantity} &= \sqrt{\frac{2 \times S \times O}{C}} \\ \text{Average Inventory} &= \frac{\text{EOC}}{2} + \text{Safety Stock} \end{aligned}$$

Option 2: Vertical Integration

- You purchase a controlling interest in a small independent diaper maker.
- Force it to sell you diapers \$5 below cost.
- Problems:
 - Large investment required.
 - Diapers won't be needed forever.
 - Investment performance may suffer.

Best Case: \$ 75 + investment loss

Worst Case: \$115 + investment loss

Option 3: The Options Market

- You purchase an option to buy a month of diapers for \$99.
- “Option” costs you \$6.
- This protects you from up-side price of risk.
- If diapers go for less than \$99, the option will expire unused.

Best Case: Market price + \$ 6

Worst Case: \$105

Other Buzzwords

- “In the money”—based on the current index; you’re going to collect (or pay) on your option, i.e., the loss is likely to exceed the deductible.
- “Out of the money”—the index is nowhere near the strike price, i.e., the loss is far below the deductible.

Option 4: The Futures Market

- You purchase a futures contract to buy a month of diapers for \$100.
- The contract costs you \$3.
- There is no option here, as the diapers will be delivered when promised at the agreed price.

Best Case: \$103

Worst Case: \$103

Option 5: A Financial “Swap”

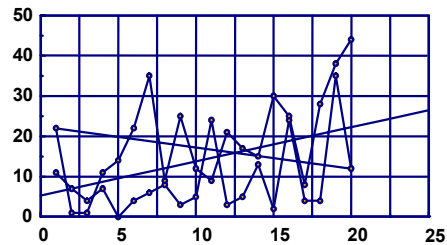
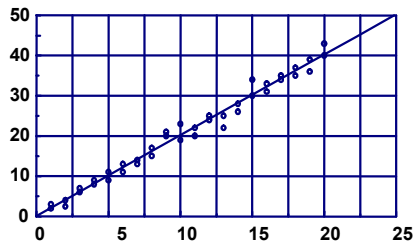
- You determine that there is an inverse price correlation between diapers and laundry detergent.
- Your neighbor has 8 boys—averages \$100/month in detergent purchases.
- You pay a broker \$2 to arrange a swap between you and the neighbor.

Best Case: \$102

Worst Case: \$102

Danger!

- Performance of index may not correlate precisely to the loss you sustained.
- This difference is called **basis risk**.



Danger!

- Success of this method is contingent upon the willingness of your neighbors to hold up their end of the deal.
- This is known as **counter-party risk**.

Option 6: A “Derivative” Instrument

- Your neighbor refuses to participate in your clever “swap” proposal.
- Your banker could care less about the price of diapers or detergent.
- But for a fee of \$3, he will pretend he does.
- You also pay a \$2 broker fee.

Best Case: \$105

Worst Case: \$105

Option 7: An Option “Collar”

- You purchase a call option to buy a month of diapers at \$99 for \$6 no matter how high the price really is.
- You sell a put option to buy a month of diapers at \$105 for \$6 no matter how low the price really is.
- Your frictional costs cancel out!

Best Case: \$ 99

Worst Case: \$105 (most likely)

Option 8: An Insurance Product

- You purchase an insurance policy to indemnify you for a cost of more than \$100.
- The policy costs you \$2.
- Problems:
 - Policy limit is only \$15.
 - You must deal with the broker.
 - You must submit a formal claim.

Best Case: Market price + \$2

Worst Case: \$102 + (> \$115)

Option 9: Decide Not to Decide

- You do nothing and hope for the best.
- This will clearly minimize frictional cost.
- Problems:
 - Your financial results remain at the mercy of this very volatile commodity.
 - In-laws (shareholders?) may second guess.

Best Case: \$ 80

Worst Case: \$120

Diaper Solution Summary

	Best	Worst	Reliability
Option	MP + \$6	\$105	Good
Collar	\$ 99	\$105	Good
Future	\$103	\$103	Excellent
Swap	\$102	\$102	Fair
Derivative	\$105	\$105	Excellent
Insurance	MP + \$2	\$102*	Excellent
Nothing	\$ 80	\$120	N/A

Six options accomplish the goal of keeping monthly price \leq \$105

“Value at Risk”

1. For many corporations, VAR is calculated daily and managed aggressively to prevent unanticipated losses.
2. VAR restrictions represent a corporate standard managed at the highest level—a key part of corporate risk management.

Two Things to Remember

1. Although invented by entirely different sets of people, each of whom choose their own buzzwords, the fundamental concepts are the same.
2. To understand what is really going on in the universe, try to liken it to a transaction in your own risk management universe.

Insurance / Hedge Analogies

Insurance Market

Attachment point

Policy limit

Policy expiration

Integrated risk

Additional LOC

Insolvency risk

Statutory limit

Hedge Market

Strike price

Notional amount

Option expiration

Basket option

Margin call

Counter-party risk

Uncovered call

Insurance / Hedge Analogies

Insurance Market

Lloyd's name
Surplus lines
Underwriter
ISO form
Policy premium
Commission

Hedge Market

Catastrophe bond buyer
Hedge fund
Options writer
ISDA form
Option premium
Commission

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