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ORIGINAL→ESSENTIAL→UNBIASED→**INFORMATION**

Building an Effective Risk Management/Insurance Program

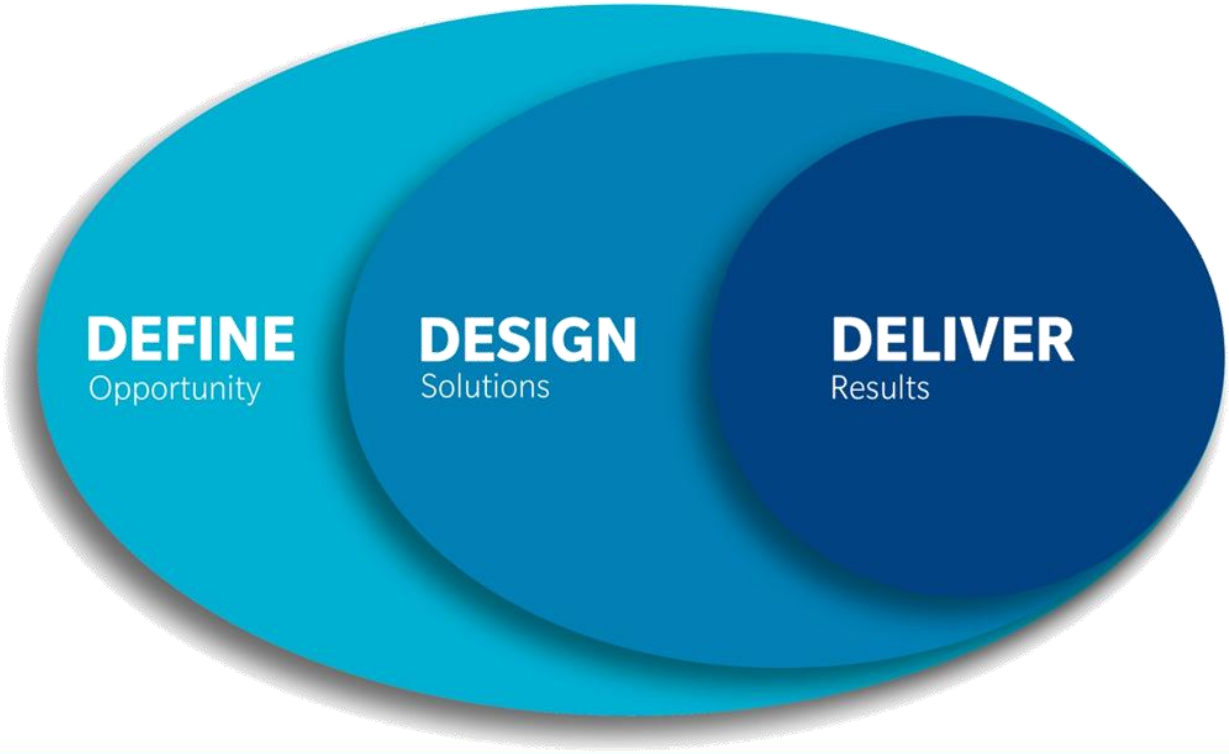
- **James M. Niwinski – Managing Director - Client Executive, Marsh USA Inc.**
- **James Duggan - Vice President, Risk Management & Chief Security Officer, Coty Inc.**

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

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 opportunities – *by understanding your business.*

Design solutions – *after applying powerful analytics.*

Deliver outstanding results *–aligned to your goals.*

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.

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.

Design a performance dashboard to

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.

Strategic Risk Plan → Implementation Plan → Performance Plan

Marsh 3D Framework

Define opportunities – *by understanding your business*.

Design solutions – *after applying powerful analytics.*

Deliver outstanding results *–aligned to your goals.*

Build Understanding

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

Test Findings

- Prioritize Value Drivers
- Total Cost of Risk
- Risk Tolerance
- Insurance Program Optimization
- Coverage Review

Design Options

- Program Design
- Cost / Benefit Analysis
- Performance Dashboard

Execute Plans

- Risk Mitigation
- Risk Financing
- Risk Transfer
- Special Projects

Review &

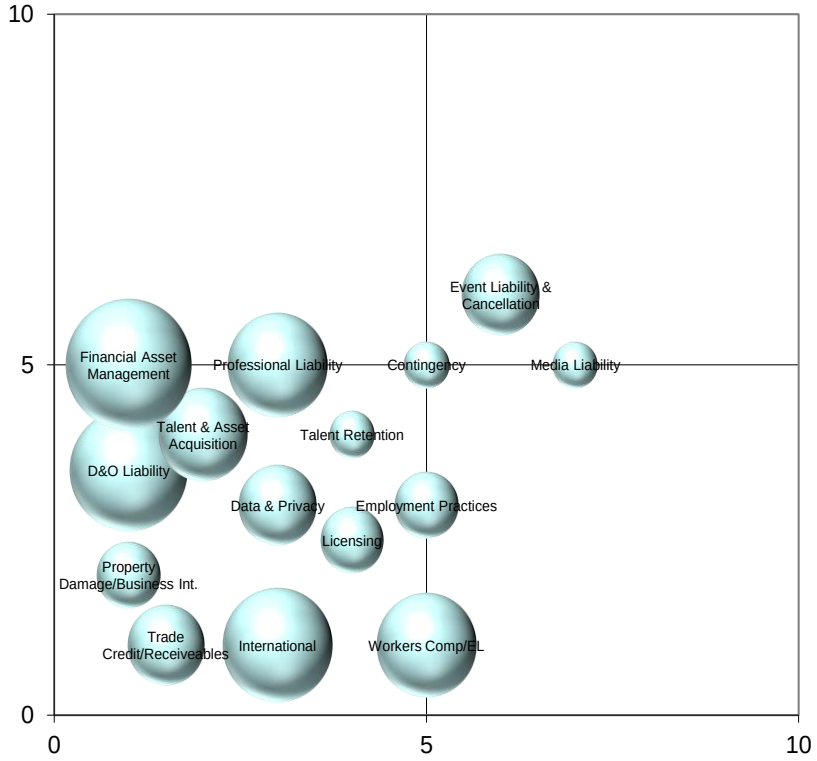
- Team Alignment to Client Focus
- Communication and Documentation
- Claims Management
- Transactional Outcomes

Strategic Risk Plan → Implementation Plan → Performance Plan

Risk Trends

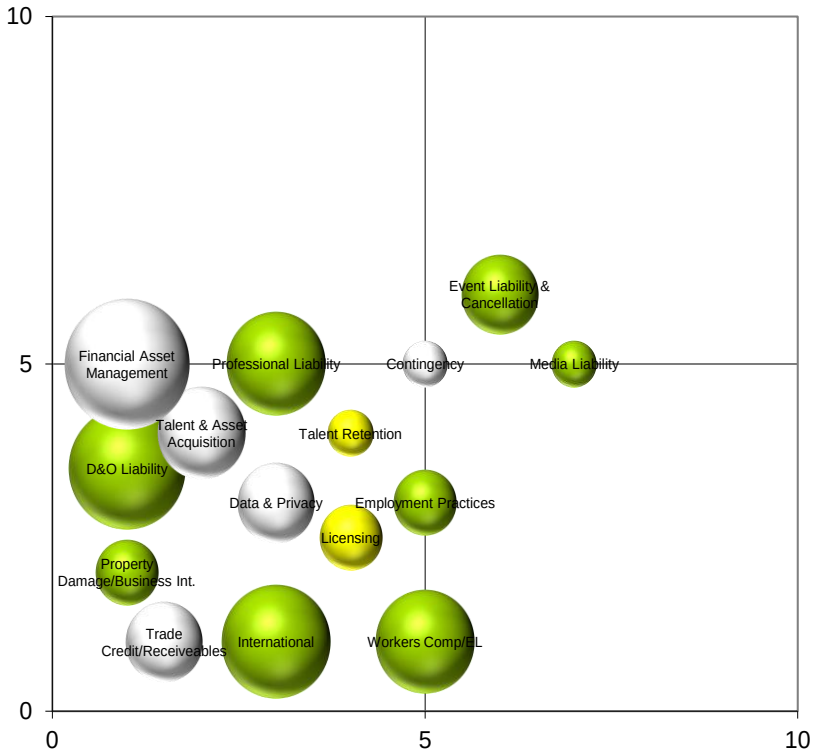
- **Cyber Liability**
- **Wage and Hour/Employment Practices**
- **Risk Concentration**
- **Regulatory – Domestic and International (admitted/non-admitted)**
- **Supply Chain**
- **Contingent Business Interruption – Flood/EQ**

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	Insurance
Workers Comp/EL	Statutory
Property Damage/Business Int.	$70,000,000
Event Liability & Cancellation	$76,000,000
Contingency	Per Project
Employment Practices	$25,000,000
Professional Liability	$20,000,000
Data & Privacy	TBD
D&O Liability	$50,000,000
Media Liability	$20,000,000
Talent & Asset Acquisition	$70,000,000
Licensing	TBD
Talent Retention	TBD
Trade Credit/Receiveables	TBD
International	TBD
Financial Asset Management	TBD

Total Cost of Risk - Example

ABC Company	Effective 2009	Effective 2010	Effective 2011	Effective 2012	Effective 2013
KEY COMPANY INFORMATION					
Domestic Sales					
International Sales					
Total Sales	-	-	-	-	-
Total Insurable Value					
Insured Payroll					
Self-Insured Payroll					
Total Payroll	-	-	-	-	-
CASUALTY COSTS					
Automobile Liability					
Policy Limit					
Retention/Deductible					
Auto Count					
Premium					
Surcharges					
Terrorism Risk Insurance Act (TRIA)					
Taxes					
Loss Control Cost					
Claims Admin Cost					
Retained Losses					
General Liability					
Policy Limit (Per Occurrence)					
Policy Limit (Aggregate)					
Retention/Deductible					
Premium					
Surcharges					
Terrorism Risk Insurance Act (TRIA)					
Taxes					
Loss Control Cost					
Claims Admin Cost					
Retained Losses					

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

COMPANY INFORMATION	
Date	8/1/2011
Company	ABC Company
Ticker	ABC
Exchange	NYSE
Industry	Retailing
Sector	Consumer Discretionary
ENTERPRISE VALUE	
Stock Price Eval Date	8/1/2011
Stock Price	15.08
200 MDA Price	16.08
Market Cap	1,505
200 MDA Market Cap	1,605
Net Debt	110
FINANCIALS	
FQE Date	6/30/2011
FYE Date	12/31/2010
Total Assets	2,064
Total Liabilities	1,256
Book Value	808
Working Capital	1,162
FYE Total Revenue	4,473
FYE Operating Profit	379
FYE Net Income	206
Metric 1	180
Metric 2	1,954

ANALYSIS	
Tangible Book Value	254
Next Year Earnings	173
5 Year Earnings	1,254
10 Year Earnings	2,967
Growth Rate	15.70%
Earnings Payback	6.02
Risk Adj Discount Rate	12.89%
RISK BEARING CAPACITY	
Exp Quarterly Earnings	43
Adj Capital Benchmark	62
Metric 1	Levered Free Cash Flow
Grade	Average
Metric 2	Total Rev - COGS
Grade	Average
Risk Tolerance Factor	19.19%
Risk Bearing Capacity	11.90

PEER REVIEW		
Peer Group	RUS 3000 Retailing	
	COMPANY	*PEER*
RADR	12.89%	10.28%
RBC	11.90	16.13
RBC/MC	0.78%	0.68%
RBC/Total Revenue	0.28%	0.48%
2 Year Beta	1.00	1.33
2 Year Price Volatility	34.22	42.02

- 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

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.

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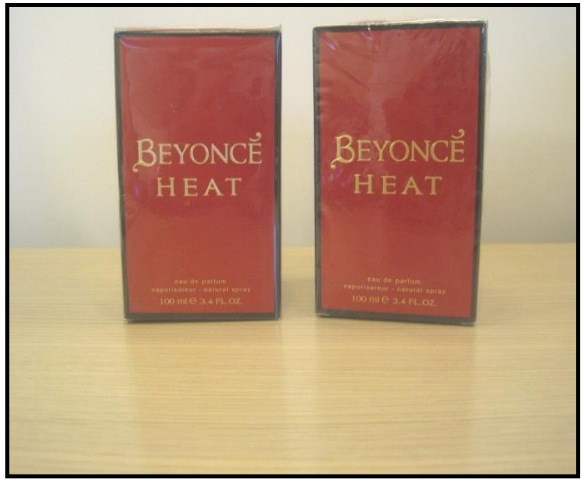
Let's look at some examples can you tell which is real and which is fake?

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 tey 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