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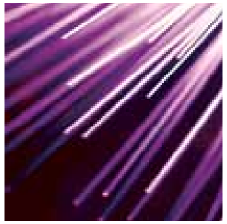
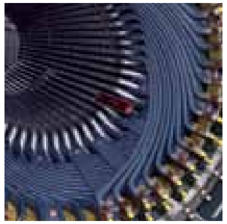
European research report
October 2009

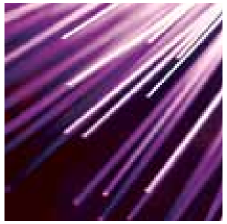


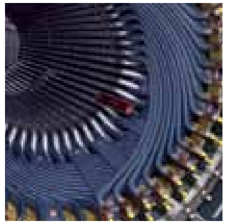
The emerging future of European risk management



Ipsos






Introduction

The main research for this survey was carried out not during the initial panic reaction to the recent financial crisis, but as the dust was beginning to settle – during March and April 2009. It reflects not the immediate reflex reactions of organisations caught up in the whirlwind, but the beginnings of a considered, long-term reaction to the current state of the world economy, now that uncertainty and recession have become the new reality rather than an impending threat.

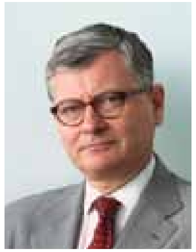
That is what makes this research so valuable. For example, many organisations' immediate reaction during the last quarter of 2008 was to employ safe, short-term expedients, deleveraging and cutting costs wherever they could. However, our survey shows that on reflection, very few organisations (just 2% among financial institutions, for example) are persisting with cuts in risk management, and around a third are actually increasing budgets.

Another example of the difference between the period in which the crisis was breaking news and where we are now is the attitude towards insurers. When we were conducting preparatory interviews to help design the main questionnaire, there was extensive media coverage of the uncertainty surrounding the liquidity and future of some major insurers. By the time we conducted our large-scale survey of 705 senior business people, many organisations had closely reviewed the situation, their exposure and their response. Thus in our survey only 29% of participants (across all industry sectors) are concerned about their insurers, whereas 58% are concerned about customers and 36% about suppliers. The results would probably have been different during the uncertainty of the last quarter of 2008.

At the onset of the financial crisis, in October and November 2008, the world seemed complicated, volatile and vulnerable. At that time – as after the terrorist attacks in 2001 – an obsession with risk management brought many organisations almost to a state of operational paralysis. As risk advisors to senior executives and risk managers, I believe that it is our duty to help organisations avoid that state of paralysis.

Speculation is at the core of every business, and speculation creates both risk and opportunity. The results of our research reflect this. They highlight organisations' concerns, vulnerabilities, and the areas in which their confidence is lacking, but the results also show how businesses are responding to the aftermath of the crisis and creating new opportunities.

Our series of reports sets the basis for best practice, explaining what organisations in seven industries and across twelve countries are doing and what the effects of their actions may be. For all these reasons, I believe this research will be a useful instrument for decision makers in every business.



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Key findings

The downturn in the global economy has been swift and severe. It raises important questions about how organisations conduct their business and particularly about how they assess and manage risk.

To find out how organisations have responded to the downturn, Marsh commissioned Ipsos, an independent research agency, to conduct a survey of risk management in Europe. The survey examined attitudes to risk management in the current economic downturn, including risk priorities, strategy, management and solutions. Ipsos interviewed senior executives responsible for risk management in over 700 organisations, spanning twelve countries and seven industry sectors. This report presents their reactions to the economic downturn and their views on risk management over the next 18 months.

Senior management is now more risk-aware

Around three-quarters of participants (74%) say that, as a result of the downturn, risk management is now more important at senior levels, and 69% of organisations surveyed have reviewed their approach to risk. This increase in attention from the senior executive should send a positive message to the region's risk managers.

Risk management spending is on the rise

This increased focus on risk management is backed up with cash. Risk management will largely escape budget cuts, with only 5% of participants expecting risk management budgets to fall and 34% expecting them to rise.

Customers and credit cause most concern

Throughout Europe the downturn has brought credit risk to the front of organisations' minds. Almost a third of our survey participants say credit risk will be their top priority over the next 18 months. Two-thirds of participants are concerned about the risks associated with customers, and the steps they are taking to manage these risks – including more careful credit checks and stricter payment deadlines – illustrates again that credit risk is an underlying issue.

Figure 1. Results at a glance
(Percent of respondents in respective countries/regions)

	Benelux %	France %	Germany %	Italy %	Nordics %	Spain %	UK %	**Overall %**
Impact of the downturn on industry perceived to be greater than others:								
Communications, Media and Technology	51							
Financial Institutions	64							
Life Sciences	14							
Power and Utilities	21							
Public Entities	35							
Retailers and Consumer Brands	30							
Transportation	54							
Trace Credit cover significantly affects them	11	18	27	3	4	18	8	13
Reviewed approach to risk	68	69	68	60	59	79	76	**69**
RM at senior levels is now more important	68	74	75	73	66	74	81	**74**
Decreased appetite for risk among board	45	39	45	24	39	43	35	**38**
Retaining more risk	13	18	27	18	12	10	24	**18**
Very confident in RM processes	27	26	35	15	22	41	28	**27**
Increasing budget for RM	41	37	25	40	23	41	33	**34**
Centralised approach to RM	65	82	59	71	48	82	41	**N/A**
Group causing most concern	Customers 61	Customers 74	Customers 48	Customers 61	Customers 41	Customers 56	Customers 60	**Customers 58**
Priority risk – free choice	Credit 36	Credit 23	Credit 31	Credit 47	Credit 20	Credit 38	Credit 24	**Credit 31**
Outsourcing will be a significant risk	30	51	16	27	33	33	41	**34**

1. Turning to risk management in response to the downturn

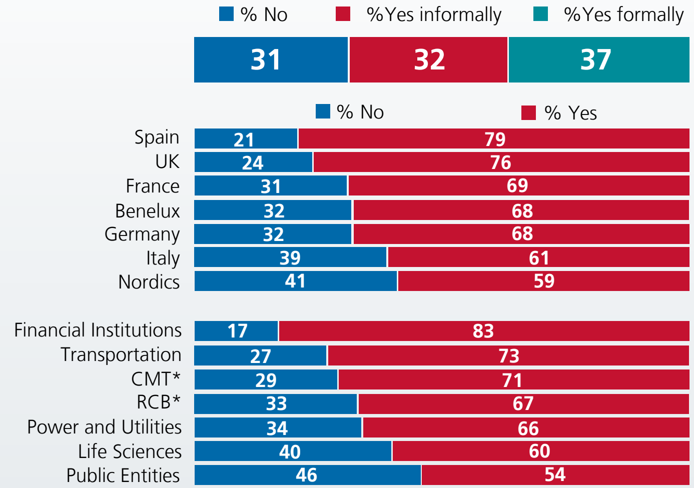
"I think risk management will be more vigilant as margins will be under pressure, and we will base our approach more on the products' profitability. It didn't exist before but we are starting to do it now."

The impact of the downturn has been widely felt. The Euro zone as a whole entered recession in the third quarter of 2008, and the UK followed in the fourth quarter. Between January 2008 and 2009, the UK's unemployment rate rose from 5.3% to 7.1% – an increase of more than half a million people[i] . In the first quarter of 2009, Germany's industrial output fell by 12%[ii] , whilst Spain's industrial output experienced an annual decline of 20.5% in May 2009 .

In response to the downturn, over two-thirds (69%) of organisations surveyed have reviewed their approach to risk. Figure 2 shows the differences in response by country and by industry. The downturn has also prompted senior management in organisations surveyed to take a closer interest in risk. Almost three-quarters (73%) of participants agree that risk management is now more important at the most senior levels.

Unsurprisingly, financial institutions have been impelled to action and are making changes in almost every area of risk management in response. At the other end of the spectrum, public entities and the life sciences industry have been relatively less impacted, though not immune, and are therefore making fewer changes.

Figure 2: Has the economic downturn prompted you to review your approach to risk?

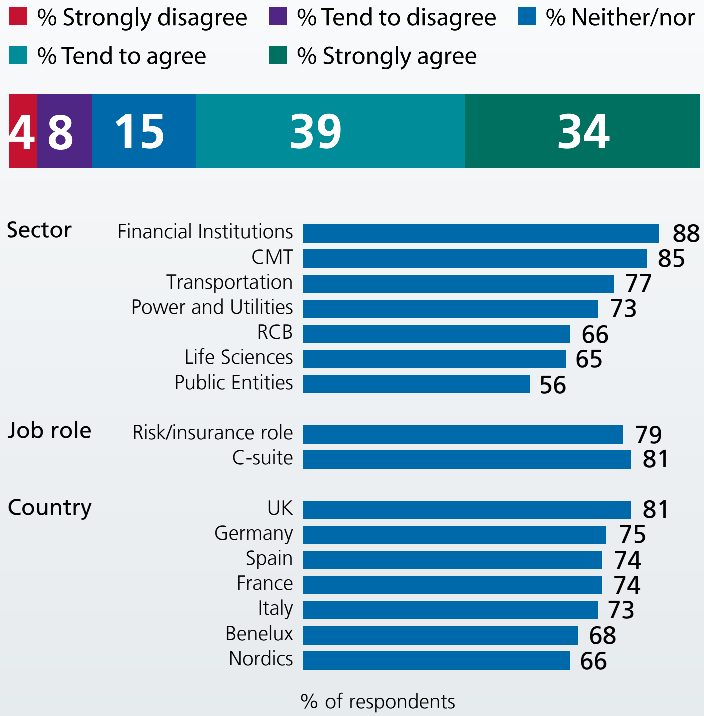


* CMT: Communications, Media and Technology
RCB: Retailers and Consumer Brands

[i] Office for National Statistics (http://www.statistics.gov.uk/cci/nugget.asp?ID=12)
[ii] Federal Ministry of Economics and Technology, "The Economic Situation in the Federal Republic of Germany in May 2009", 18/5/2009 (http://www.bmwi.de/English/Navigation/Press/press-releases,did=302022.html)

"Since Lehman hit the Boardroom in a significant way there is now a limit set to our organisation's appetite for risk...We are being selective about the sustainability of the contracts we take on board and the sectors we want to be in. In terms of suppliers, we blindly relied on external benchmarking before, and now we will scrutinise them to a far greater degree."

Figure 3: The economic downturn has raised the importance of risk management at the most senior levels



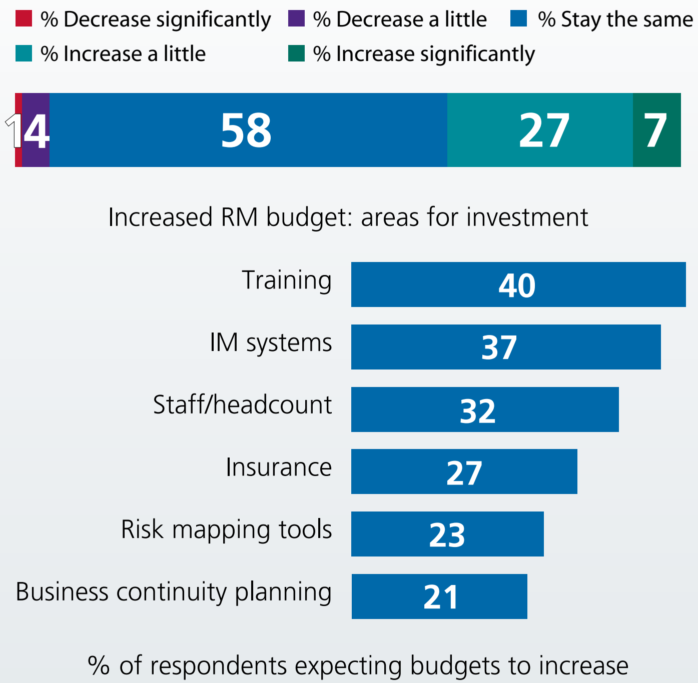
2. Budget increases demonstrate a new seriousness

The attention to risk management can be seen most dramatically in budgets for risk management (Figure 4). As a result of the downturn, costs are being cut across the board, and yet risk management seems largely immune - over a third (34%) of participants expect their risk management budget to rise over the next 18 months and only 5% expect cuts.

Among industries, almost one-half of financial institutions (47%) expect risk management budgets to increase. Despite the expectation of hardening insurance markets across all industries, only a quarter (27%) of participants expect to spend more on insurance, whereas 40% intend to spend more on training and 37% on information management systems. This suggests that organisations intend to invest heavily in risk management infrastructure and general strengthening of risk management departments.

Businesses now recognise that it is vital for the people who are generating the risks to understand them and equally vital that those people have the tools to recognise and manage risks. Information management systems are an essential part of this – risk quantification relies on collecting consistent and reliable information. These efforts will help organisations improve overall risk management by creating a culture of embedding best practice risk management techniques in their businesses.

Figure 4: What will happen to your risk management budget in the next 18 months?



3. Credit and customer risks are a priority

"We are much more vigilant. We start the legal procedures much earlier and we don't hesitate to use our credit insurance anymore."

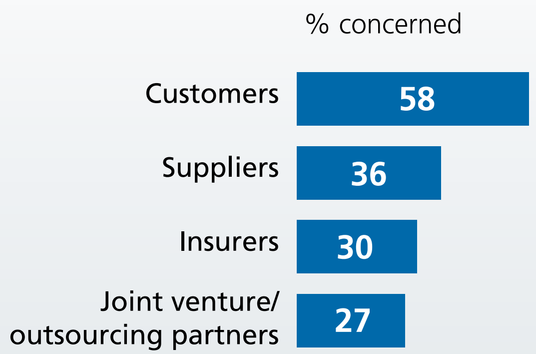
Overall, 62% of participants mention financial and macroeconomic risks as a top concern, with credit risk (mentioned by 31%) being the number one priority among financial risks (Figure 5). Over 25% of German organisations have expressed concern around reduced availability of trade credit cover. The prominence of credit risk is to be expected because of the downturn. Organisations may find clients are experiencing difficulties with payment or continuing as a going concern as demand declines and credit becomes harder to obtain. Cash is harder to come by making liquidity, unsurprisingly, the second most prominent financial risk (11%).

Given the priority attached to credit risk and the recession driven reduction in demand, it is hardly surprising that customers are the group which most worries organisations and across all industries. Asked how concerned they are about the level of risk associated with four groups – customers, suppliers, insurers and outsourcing partners – a majority in every country, and 58% overall, selected customers (Figure 6). In France 74% of participants identify customers as a source of concern.

Figure 5: Which two or three types of risks will be priorities for your organisation over the next 18 months?

"We have become stricter. We pay a lot of attention to small signs of worsening and are monitoring arrears more closely."

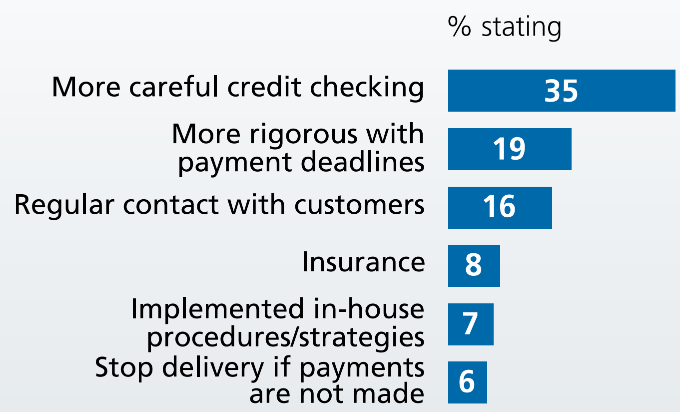
Figure 6: How concerned are you currently about the level of risk associated with each of the following:



It is obvious from the steps organisations are taking that concerns around customers relate back to the issue of credit risk. There are two aspects to this - concerns over late payments and fears that customers will go bankrupt and thus be unable to pay. The credit and liquidity crunch can restrict working capital; for many organisations the ideal scenario is to pay their suppliers later and receive payments from their customers earlier.

There is evidence across all industries that payment terms are being more rigourously enforced (Figure 7). A fifth (19%) of participants highlighted this, however the measure mentioned by most participants is credit checking, which 35% say they are doing more carefully in order to avoid bad debts. Only 8% mention using insurance for this purpose and 16% are taking care to keep in closer contact with their customers.

Figure 7: What steps are you taking to manage the risks associated with your customers?

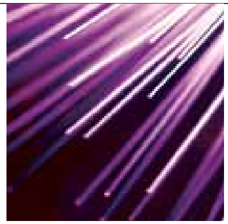


Industry highlights

In the sections that follow we provide brief extracts of our industry specific reports which give a flavour of how the economic downturn has impacted individual industries, the changing risk profiles of each industry and how each industry is responding to new and existing risk management challenges.

To delve deeper into these issues we have produced seven industry-specific reports (available separately) for the following industries:

- Communications, media and technology
- Financial institutions
- Life sciences
- Power and utilities
- Public entities
- Retailers and consumer brands
- Transportation



Communications, media and technology

The current global economic downturn will challenge communications, media and technology (CMT) organisations to reduce their overall cost of doing business, including minimising their total cost of risk and the financial impact of surprises through effective insurance and risk management solutions. While the turmoil engulfing the world's financial markets has a number of far-reaching implications across all sectors of the economy, one immediate consequence of the crisis is that it has shaken confidence in the risk management practices within organisations. Organisations are faced with a big challenge – how to improve the risk control environment and comply with the expected tightening of compliance and regulatory requirements in the face of shrinking budgets, financial prudence and closer monitoring of ROI on expenditures. In light of the changing risk landscape facing CMT organisations, we know that many risk managers are concerned about lacking the tools or authority to do their jobs. However, this survey also indicates that the economic downturn has increased CMT organisations' focus on risk management and made them value it more highly.

The value chain is the greatest source of risk

When participants are asked which group's risks concern them most, almost 70% name customers – the highest proportion of any industry in our survey. Suppliers are second, concerning 35%. We believe that the concern over these two groups reflects the importance and complexity of the value chain in this sector.

For the CMT industry, and especially for technology organisations, value chains are becoming longer and more complex. The number of steps needed to process raw materials and components, turn them into products and put them in the hands of customers is increasing, and with them the interdependence of customers, suppliers and technology.

Risk management is becoming more important – and budgets are growing

Three-quarters of participants say their organisation has reviewed its approach to risk because of the downturn, and 85% say it has made risk management more important at the most senior levels. Over half (58%) say there has been a change in the board's appetite for risk, and – whether appetite has increased or decreased – most indicate that, as a result, they now pay more attention to risk. Over a third of participants expect spending on risk management to increase over the next 18 months.

Interestingly, only 25% of participants say they are very confident in the ability of their organisations' processes to address risk and this percentage shrinks amongst organisations that have a de-centralised approach to risk management. Risk management professionals are also much less confident than C-suite executives over their ability to address risk.

Macroeconomic risks may be distracting organisations

Clearly the prevalent risks raised as having most concern in the survey are general business risks which are strongly linked to the downturn and have a macroeconomic focus. We are surprised at the absence of sector-specific risks, although they are multiplying by the day and the downturn is magnifying them.

Marsh sees continual changes in business models, technologies, products and services, with organisations constantly forced to acquire or develop new lines of business in order to maintain profits, exploit intellectual property and continue to grow. Each new line of business brings with it new and unmapped risks. Risks which are "off-strategy" - Directors and Officers, Intellectual Property and Errors and Omissions exposures –that have historically shown a tendency to rise in frequency during economic downturns, also do not appear to be on the radar of CMT organisations as perhaps they should be.

Financial institutions

Over the course of the last 24 months or so, there has been extensive analysis of how the risks associated with financial institutions have changed. As each new revelation has entered the public domain, industry experts and media observers have commented in strong terms – telling us why things have gone wrong, who is to blame and how bleak the future looks. In turn, the general public has become much more financially literate, understands much better the cause-and-effect linkages of the global financial and economic crisis and has also become increasingly vocal in its criticism.

Government intervention and the international regulatory response will determine the future look and feel of this industry – everything from the business model to executive remuneration, from increased capital requirements to the payment of dividends. However, what is the industry's own response – how can it repair a battered reputation and restore stakeholder confidence? In the face of such fundamental change, it appears that Board level re-evaluation of risk and a renewed commitment to strengthen risk management practices are among the chosen ways forward.

Yet we know that many risk managers complain that they lack the tools or authority to do their jobs. The danger is that less investment (instead of more) will be made available in an economic downturn and there will be continued pressure to reduce costs whilst maintaining and improving the risk control environment.

The industry is responding dramatically and immediately

The financial crisis and the economic downturn have hit financial institutions hard and have highlighted failings of corporate governance and risk culture. Our survey provides dramatic evidence that the industry has recognised its problems and is making solving them a top priority.

For example, the industry believes it has been impacted most by the downturn. It has, by some way, the highest proportion having reviewed their approach to risk. It also has the highest proportion of respondents saying risk management is now seen as being more important at senior levels. It is the industry with the least confidence in its risk management practices, and this has understandably resulted in its decreased appetite for risk. And finally, it has the highest proportion of respondents expecting risk management budgets to rise.

The most significant operational risks will be business continuity, liability and fraud

Survey participants say that over the next 18 months business continuity will be the most significant risk – 58% believe it will be very or fairly significant. "Business continuity" is interpreted in its broadest sense here, referring to the longer-term viability of the industry and/or individual organisations, as opposed to "business continuity management" or "disaster recovery planning".

The next most significant risks are liability/legal risk (52%) and fraud (44%). Unlike the threat of terrorism or the physical perils that featured prominently in historical risk agendas, these risks arise from reduced liquidity and credit and counterparty risks and manifest themselves differently across specific industry segments.

For banks and mortgage lenders, these risks stem from interbank lending, business failures and defaults on mortgages, loans and credit cards. Investment managers are facing the consequences of poor investment performance, increasing redemptions and the shrinking value of assets under management. Insurers are worried about their investment portfolios, particularly the complex asset classes and the resultant impact on their solvency ratios. The liquidity crunch and the conservative investment environment have also led to a stagnating private equity sector.

Overall, every segment of the industry is concerned about its financial performance, reputational damage and ability to continue business operations. Increased merger, acquisition and divestiture activities, combined with the spate of part- or full-nationalisations, have impacted industry, market and organisation stability. Amplifying these challenges, financial institutions are facing a dramatic increase in litigation and criminal activity, particularly as investors seek to recoup their losses and investigations into poor lending practices reveal increased internal and external fraud.

Budgets are increasing as risk management is overhauled

Budgets for risk management are growing in close to half (47%) of the financial institutions in our survey, with the most commonly mentioned area of increase being recruitment (47%). This is followed by information management systems (42%), training (37%) and risk mapping tools (33%).

The consensus view is that the global financial crisis has revealed a breakdown of certain risk management controls in financial institutions. Recognising this, and in an effort to pre-empt government intervention and mitigate the impact of new regulations, these organisations are set to invest more in improving their overall risk management frameworks in order to avoid similar problems in the future and restore stakeholder confidence.

Life sciences

The wider economy has experienced significant turmoil and upheaval during the past 18 months which in turn has introduced more risk and uncertainty into the management of volatility. Life sciences organisations, though not immune to recessionary conditions, can be anticipated to weather the difficult economic climate better than others.

The industry is taking action as a result of the downturn

Although the downturn will have relatively little direct effect on the life sciences industry, organisations are looking again at their risk management and are taking prudent steps to improve it. Only 14% of participants say the industry will be more affected than others. But 60% have reviewed their approach to risk, 65% say risk management is now more important at senior levels, and 38% – the second highest proportion in the survey – expect risk management budgets to increase. This proportion is even higher among C-level participants, at 50%. The top areas for extra spending are training and information management systems.

Cash flow is under pressure

Despite being less directly affected by the downturn than some other industries, life sciences organisations aren't immune to its effects. Many organisations are finding that their suppliers are being stricter while their customers are asking for longer credit. Cash flow is seen as a significant risk by 78% of participants, the highest percentage across all seven industries who participated in the research. As a result, supply chains are tightening up as payment terms are shortened and made less generous. Just under half (43%) of participants are concerned about their customers and 34% are concerned about suppliers. In addition, participants are being more careful in credit-checking their customers (32%) and analysing suppliers' financial health (28%).

Supply chain and business continuity are significant risks

The downturn has also increased two of the industry's long-standing risks: supply chain management and business continuity. Regulation of the supply chain is increasing, and the influence of the downturn – to which this industry is not immune – can make these complex supply chains more fragile. This will increase the risk of suppliers failing either as a result of economic pressure or due to external forces influencing the supply chain.

New regulations add to the fragility of complex supply chains, increasing the risk that suppliers will be shut down or compliance will falter. Both suppliers and customers are more likely to go bankrupt, and healthcare providers are trying even harder to reduce costs. Any problems in a supply chain automatically creates business continuity risks. Thus it is no surprise that supply chain risk is judged to be significant by 67% of participants, while business continuity is seen as significant by 53%. Of those who expect budgets to rise, 32% plan to increase spending on business continuity planning.

The consensus view is that the global financial crisis has exacerbated existing risk issues for life sciences organisations, such as in the area of the supply chain and business continuity planning, and introduced additional pressure on liquidity and cash flow. In recognition of these developments organisations are looking to improve their risk management and devote additional financial resources to enhance existing procedures and practices.

Public entities

Every single public entity, especially local authorities, has been affected by the downturn. While 53% of public entity participants believe they will be less affected by the downturn than other industries, the demands made on them will increase as the downturn continues – residents unable to keep up with their mortgage payments may need public housing, for example. Meanwhile revenue streams are likely to decrease as business rates bring in less, tourism revenue falls away and as more people default on local taxes.

Senior people now see that risk is important

Over half the participants (56%) say that, because of the downturn, risk management is now seen as more important at senior levels in their organisation. A similar proportion say that the downturn has prompted their organisation to review its approach to risk management. Furthermore, 22% say their Board's appetite for risk has grown. The proportion saying appetite has diminished (25%) is the smallest of any of the seven sectors in our survey. In order to increase and control retention, organisations need to incorporate risk management into their operations.

Public entities are realising they have to evaluate their risk management

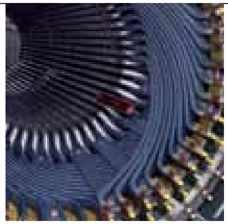
Almost three-quarters (71%) of participants say that a sector-wide standard for risk management either would, or already does, benefit their organisation. Of those already covered by a sector-wide standard, 89% say they benefit from it. Currently however, only 40% of participants say they have initiatives for evaluating their risk management practices against those of their peers. This tells us that there is a need for a European public risk management standard. Such a standard would enable an organisation to undertake health checks and to benchmark their risk management organisation against their peers.

Long-term liabilities, including environmental and pandemic risks, are key

When asked to rate a number of risks, participants said the four most significant over the next 18 months would be environmental risk (73%), public liability (65%), business continuity (63%) and partnership risks (59%). In addition, almost as many participants are concerned about PPP and PFI associates or contractors (51%) as are concerned about citizens (54%).

This illustrate how the downturn – combined with court rulings and regulations such as the EU Environmental Liability Directive – are adding to public entities' long-term liabilities and making it increasingly difficult for them to genuinely share risks with the private sector.

Public entities need to be aware of their risks at all times in order to mitigate the liabilities. Risks and issues need to be identified and analysed on a constant basis. An overall risk management framework is therefore needed to ensure the continuity of this risk identification process.



Power and utilities

The current downturn in the global economy poses two fundamental and interconnected threats for the power and utilities industry. The first is a short-term decline in demand driven by reduced industrial activity across Europe. While the power and utilities industry customer base is spread across all industries, smoothing and diluting some immediate recessionary risks, it is heavily regulated, a public service industry in effect, with statutory obligations preventing many organisations from withdrawing their service or supply in the event of non-payment.

The second fundamental threat of the downturn is the lack of available investment capital, a symptom of this bank-led recession, and a reluctance on the part of many project developers and operators to incur more debt at this time. Not only can this delay power projects in the near-term, it can also have significant bearing on the long-term outlook for industry, namely its ability to meet long-term demand expectations while reducing CO2 emissions, increasing energy efficiency levels, and investing in renewable energy and clean technologies as set by the European Union's 2020 targets.

Impact of the economic downturn is limited; industry responding cautiously

A picture has emerged of a confident industry, but mindful of the longer-term impact that the downturn may bring. Its confidence, second only to that of the life sciences industry, seems well-founded: future demand is assured, and there is a pervading sense across the industry that the downturn is a momentary blip in its growth curve.

Many are confident that their existing risk management processes will address near-term organisational risks. Yet despite this apparent confidence, the industry also demonstrates a high degree of conservatism. There is a heightened risk consciousness across the industry with three quarters of participants believing that risk is now seen as more important across the senior levels of their organisations and 66% reporting that they have reviewed, or are in the process of reviewing, their approach to risk management. Indeed, 45% of those surveyed say the downturn has led to a reduction in risk appetite – only the financial institutions industry demonstrates a greater increase in risk aversion (52%). But even for those less risk averse, management and boards are demanding tighter controls, improved communication and reporting flows, and deeper and closer analysis into investment projects and opportunities.

Changing near-term priorities – focussing on the value chain but operational risk still prevalent

With the contraction in the availability of finance and the highly leveraged balance sheets of many organisations, it is not surprising that immediate concerns focus on working capital, cashflow and the wider value-chain. Customer risks are of significant concern, with 48% expressing concern for this group. Furthermore, organisations are looking at margin volatilities and exposures across all areas of the business, including primary operations and support services, and are looking closely at better understanding and managing their customers, clients and suppliers.

While near-term focus will continue to be on financial and macroeconomic concerns – credit risk for example was highlighted by 43% of respondents as an ongoing concern over the next 18 months – organisations are facing these concerns alongside strategic and operational risks. We asked participants to rate the significance of eight industry risks, stripping way the immediate economic focus, and the results confirm that operational risks have by no means dissipated.

Building-out risk management infrastructures and increasing budgets

Over a third of participants that we surveyed expect risk management budgets to increase over the next 18 months, at a time when many organisations are reducing costs and budgets. This is partly driven by the expectation that insurance rates will harden; however, equally important is investment in risk management information systems, training and even headcount. This building-out of risk management infrastructures reaffirms changing attitudes and commitment to robust risk management at the very top level. Although confident overall, the power and utilities industry continues to review the wider economic environment cautiously and without complacency.

Retailers and consumer brands

Retailers and the consumer brands industry is facing a highly challenging period – low consumer confidence, rising unemployment and a tightening personal credit market places significant pressure on this demand-driven sector. Moreover, higher borrowing costs, less favourable terms from financial institutions and a constriction in available investment capital leaves many organisations with little room to manoeuvre.

Impact of the economic downturn variable; it's not all bad...

Our findings indicate that the actual impact of the downturn on the industry varies greatly. Only 30% of our survey participants expect the sector to be harder hit than others. This apparent confidence may at first be surprising yet it reflects the diversity of the sector. This is not a consumer recession in simple terms whereby cost of product is the primary driver – we are seeing great variances by geography, product type, product and brand positioning, and also by business, distribution and marketing models.

Discount retailers have done well in recent months and are now seeing renewed competition from the supermarket giants. Performance across premium brands on the other hand is more varied. Often thought to be 'recession-proof', the sector is having to work hard to counter the downturn at a time when many consumers are revising their definition of 'luxury' – down-trading is no longer just a simple economic choice. Many companies are experiencing a fall in sales and are delaying expansion plans, or reducing costs and overheads.

Heightened risk awareness at board level

Risk awareness appears to have increased across the sector and 66% of our respondents believe that risk is now more important at board level. Changes are being driven from the top-down; two-thirds of companies confirmed that they have reviewed, or are reviewing, their approach to risk. Financial and macroeconomic concerns are a key priority for 66% of respondents over the next 18 months; credit risk, cash flow and trade credit are primary areas in which processes and procedures are being reviewed and tightened.

This increased risk awareness does not necessarily translate into a diminishing appetite for risk. Our survey finds that while a third of respondents (36%) have indeed become more risk averse, risk appetite in 41% of companies remains unchanged while 17% say they are actively seeking opportunities arising out of the recession. Importantly, senior management is now demanding improved risk reporting and closer analysis of operational risk and investment opportunities, regardless of risk appetite.

Changing priorities; working capital pressures at the forefront

An overwhelming percentage, 75%, expressed significant concern for cash flow over the next 18 months when asked to rate seven key industry risks. Moreover, credit risk was continually highlighted as an issue with many indicating that this is their number one near-term macroeconomic or financial worry. Together this suggests a wider concern about working capital; positive working capital flows afford companies greater flexibility to react to unforeseen events and such level of concern is undoubtedly in response to actual downward pressure on working capital and also to perceived working capital risks.

Concern about the current level of risk associated with their customers is high for 55% of participants. However, slowing or falling demand, coupled with the economic downturn, exacerbates another significant concern – the supply chain. Supply chains have become increasingly complex and often have limited in-built slack or tolerances. The downturn serves as a timely reminder of just how fragile these supply chains can be. Participants' concerns for the level of risk associated with suppliers is also high at 45%. Looking ahead, supply chain management and the related issue of business continuity will remain key areas of concern.

First line of defence – a review of risk management procedures

For many companies current risk practices remain unchanged and there is a pervading sense that the economic downturn may not have changed immediate risks, but has increased or accelerated pre-existing concerns. Although two thirds of survey participants expressed some degree of concern around current risk management practices, confidence in existing risk management processes is relatively high when compared to other sectors at 34%. With a similar proportion reviewing their risk management approach, the downturn has promoted risk and risk management to the top of the agenda.

Consequently, three in ten companies are also anticipating an increase in risk management budgets over the next 18 months. At a time when many are reducing other costs and budgets investment in risk management information systems and training will be important - evidence again of a clear senior management commitment to robust risk management.

While it is suggested that the first green shoots of recovery have been identified, the recession and its impact on the sector looks set to continue, at least for a while; new risks will emerge and existing risks will be further exacerbated.

Transportation

The economic downturn is by definition creating new threats but also opportunities for operators in the transportation sector. The world has become more risk averse as a result of the financial crisis, and many businesses in every sector including transportation have realised that the consequences of overlooking risks can be catastrophic. Of course, risk must be managed, not only to protect against the unplanned, but also to give management the confidence to take the risks that will fuel growth and strengthen competitive advantage in the future.

Transportation is one of the most affected industries

It is no surprise that the transportation sector has the second highest proportion of participants saying that the downturn will affect their industry more than others - the industry's primary function is to transport goods and people and in a downturn goods are bought and sold in smaller quantities and people generally undertake less travel.

Renewed focus on risk management; organisations becoming more risk averse

As with many industries there is a heightened awareness of risk. The downturn has prompted organisations to refocus on risk management with almost four-fifths (77%) of participants indicating that risk management has become more important at senior levels of their organisation. Furthermore, nearly three-quarters (73%) have reviewed their approach to risk, again second only to financial institutions, with customer/client risk and debt management key areas of focus.

Nevertheless, 68% still express some degree of uncertainty in their current risk management processes. However, heightened risk awareness at board level is driving top-down action – almost three-quarters (72%) of participants say that their board is taking some action to improve awareness and understanding of risk – with 30% expecting an increase in risk management budgets over the next 18 months.

Changing risk perceptions; customer retention and near term concerns

Understandably, immediate focus continues to be financial and macroeconomic concerns - 55% of participants highlighted these as an ongoing concern over the next 18 months, however traditional strategic and operational risks have not abated.

In a previous survey carried out in January 2007 participants ranked a series of risks based on their financial impact, identifying regulatory risk as the most significant (56%). In our current survey this has been leapfrogged by customer retention and reputation, up from 46% to 75% and from 50% to 73% respectively. Regulatory risk however remains relatively stable at 63%.

In an increasingly challenging market organisations are realising that they cannot rely solely on finance and margins; they need to also look at customer and supplier relationships in order to remain competitive.

This goes beyond traditional supply chain management and customers' financial health monitoring. There is emerging evidence from our interviews that organisations are returning to "old-fashioned" business virtues. Enforcing tighter payment terms for example, arises not just from a need to better manage customer relationships but is also necessitated by less favourable terms from financial institutions.

Marsh industry specialisation

Although our research focused on seven industries, the results of the survey and lessons learnt are equally applicable to many other industries. Credit, customer, business continuity and supply chain issues – to name just a few – can be areas of concern for senior management and their risk management teams in any industry. Such issues also transcends region; many of the organisations who participated in our survey operate across multiple geographies.

At Marsh we recognise that our clients have a rapidly changing register of business risks serving a wide range of industries. We also understand the value that industry expertise brings, both locally and globally.

Our industry practice approach allows us to build a unique knowledge of the particular needs of specific industries and to tailor our services and solutions accordingly. Services are delivered through an established international network of industry specialists, many of whom have formerly worked in these industries. These dedicated resources span all relevant disciplines including client servicing, insurance broking, risk engineering and risk management for insurable and non-insurable risk, and offers clients dynamic risk assessment, deep market relationships and bespoke consulting services.

Through our market relationships, industry knowledge and programme design capabilities, Marsh and MMC have a unique and unrivalled ability to assist companies in any sector, ensuring the optimum combination of risk retention, risk control and risk transfer.

For more information on Marsh industry practices, please contact Mark Pollard, Head of Industry Practices, Europe, Middle East and Africa. For copies of the individual industry reports please contact the relevant practice leader (page 23).

Survey methodology and respondent profile

Our survey involved 705 participants from seven industry sectors. These participants all contribute to strategic decision making related to their organisation's management of risk. The survey was conducted across five countries (France, Germany, Italy, Spain and the United Kingdom) and two sub-regions (Benelux and the Nordic countries). The organisations surveyed all have a turnover greater than €50 million (greater than €100 million for retailers and consumer brand organisations) and were selected through random sampling using Bureau van Dijk and Factiva Companies and Executives, international business databases. The interviews were conducted by telephone in local languages between 11 March and 19 May 2009.

Figure 14: Survey respondents by turnover band
(Percentage of achieved interviews)

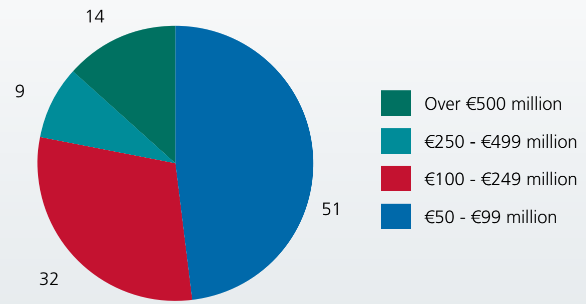


Figure 13: Survey respondents by job title
(Percentage of achieved interviews)

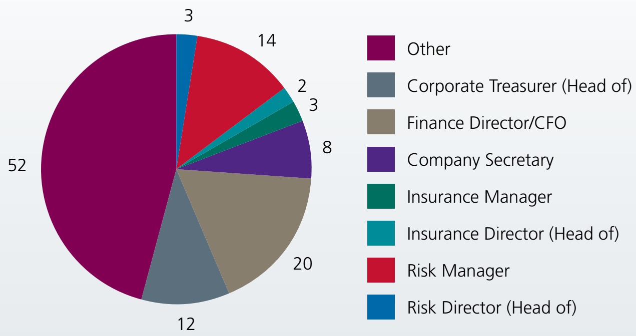
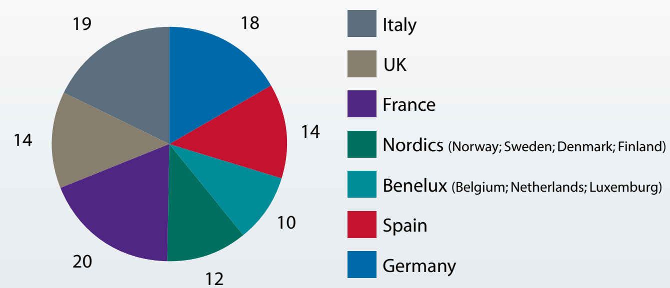


Figure 15: Survey respondents by country
(Percentage of achieved interviews)



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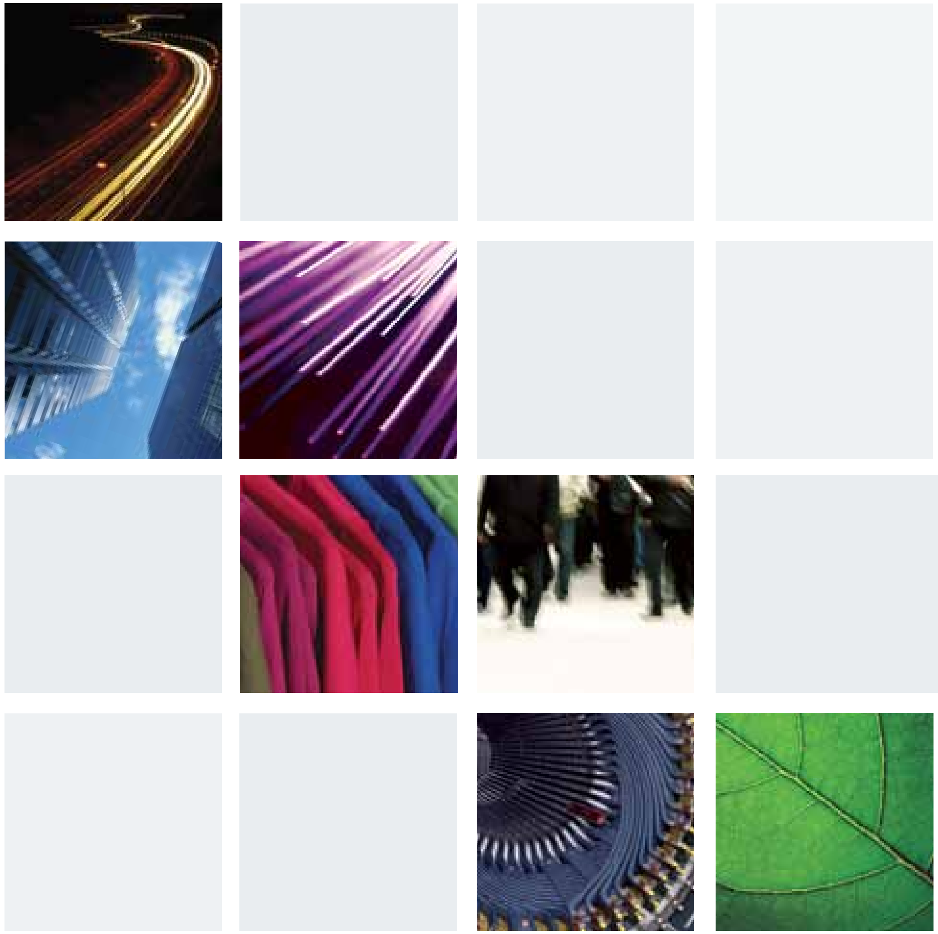

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