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INSIDE

Major Companies Failing to Manage Risk

A recent global business survey has found that organisations are failing to identify and manage emerging risks effectively.

In a paper titled "Taking Risk On Board - How Global Business Leaders View Risk", Lloyd's and The Economist Intelligence Unit analysed the extent to which risk is now a board level responsibility, what boards see as their risk related priorities, and what they do an don't do to implement effective risk management strategies throughout their organisations.

More than 100 board members participated (two thirds of which were CEO's or CFO's), across a broad spectrum of industries in North America, Western Europe, Asia Pacific and Latin America.

Further in depth interviews were conducted with companies such as Rolls Royce, Norske Skog, MTR Corporation and Moodys.

One in five organisations had suffered significant damage in the past 12 months as a result of failure to manage risk, and more than half the companies participating in the survey had recorded at least one "near miss".

Other key findings from the analysis include:

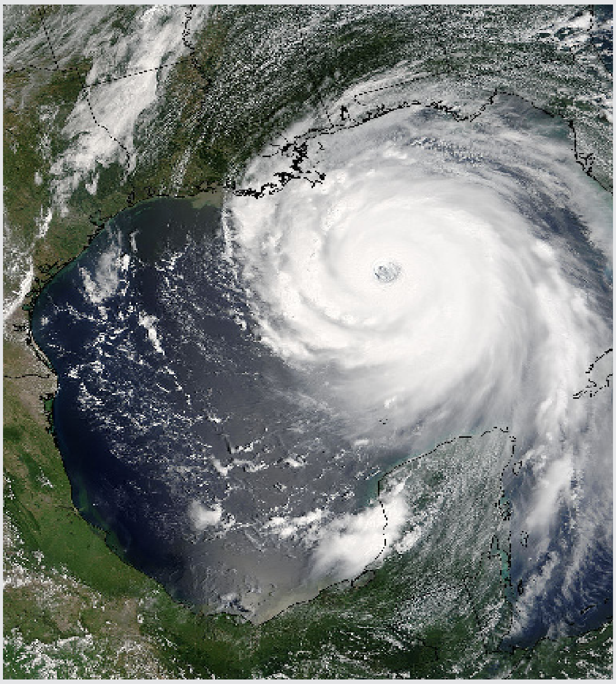
- Boards are taking risk management more seriously and are spending more time looking at the risks in their organisation;
- Only 54% of respondents to the survey are very confident that their boards understand, and would respond appropriately to, the risks facing their domestic business. This falls to just 14% when considering the risk of their overseas operations;
- Fewer than one third provide any form of risk management training.

On of the key obstacles to making risk management an integral part of business strategy was competition with other priorities within the organisation. Others included a fear of creating a risk-adverse and bureaucratic culture, as well as a lack of cost effective risk management tools.

The conclusion was that today's global business leaders are still not serious enough about risk, and whilst this is the case, that risk management is likely to continue to be seen by senior management as a constraint on their business rather than as a source of competitiveness.

Many boards attach a higher importance to such things as business continuity and compliance, than to delivering an integrated picture of risk across an enterprise. With this approach, they fail to make the connection between co-ordinated risk management and higher profits and improvements in shareholder value.

Eye of the Storm



Now the 2005 North American Storm season has completed it devastation across the eastern coastline, insurance market commentators have turned their attention to the impact that Hurricane Katrina, Rita and now Wilma may have on global insurance premiums in 2006.

There is certainly a great deal of debate and conflicting commentary on the likely fallout and its effect on client premiums. Although the full extent of its damage is still unknown, it is clear that Hurricane Katrina has proven to be the most devastating natural catastrophe ever to have hit the USA (in terms of economic and insured loss).

Many industry analysts have labelled Katrina a potentially industry changing event, in the same vein as the 9/11 terrorism attacks on the World Trade Centre in 2001.

Published industry estimates for the total insured loss have varied dramatically :

AIR Worldwide	USD 17 bn - 25 bn
EQECAT	USD 15 bn - 24 bn
Munich Re	USD 30 bn
Risk Mgmnt Solutions	USD 40 bn - 60 bn
Swiss Re	USD 40 bn

Individual insurers have provided initial estimates of the losses they are likely to suffer, but these have been often restated and upgraded as the full extent has become clearer.

Part of the problem in accurately estimating the precise cost of damage is the uncertainty of coverage. In the perfect world, all insurance policies would be clear and free from uncertainty. The reality however is that there is likely to be significant debate and contractual dispute over the interpretation of some coverage due to the circumstances of Hurricane Katrina. There is also momentum growing in the US legislature and other lobbying forums, for pressure to be applied to pay losses outside the insurance contracts.

The determination of “flood” or “storm surge” damage versus damage caused by “wind” will be one of the most significant and difficult factors. Insurance policies in most cases specifically define and separate perils that are insured and those that are excluded under the contract. In many cases damage caused by wind is insured, but damage attributable to flood, waves, tidal wave are typically excluded.

Standard householders policies and small business packages will generally cover wind damage, but flood damage needs to be separately purchased through the government backed National Flood Insurance Program (NFIP).

Graphic news footage showed vast expanses of levelled homes in the coastal regions around Mississippi - how will insurers determine if they were demolished by the 145mph winds that ripped across the area, or if they were destroyed by a tidal wave like surge that followed? The allocation of loss between private insurers and the NFIP insurance pools will be a massive task.

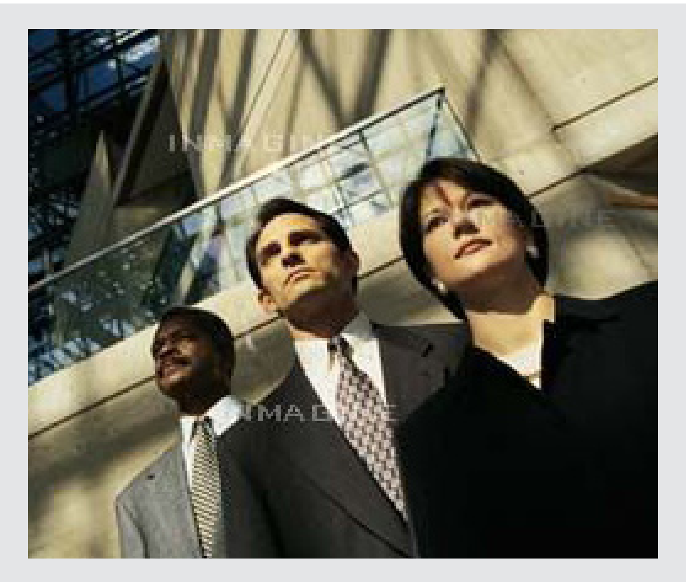
Although Hurricanes Rita and Wilma were smaller than Katrina, the cumulative costs will have a significant impact on US insurers, and through their reinsurance arrangements, inevitably the global insurance market. Apart from property losses, there are substantial claims for business interruption, offshore oil and gas platforms, and liability areas such as negligence and environmental impairment.

Whilst it is too early to accurately predict the full impact on global markets, there are certainly signs that this seasons storms could be the catalyst for a tightening of insurance markets and the potential for increased premiums.

The insurance rating agencies such as Standard & Poors and AM Best have initially responded by placing some insurers on credit watch or review, citing concerns over the accuracy of catastrophe modelling to realistically forecast the effect of the storms. It is anticipated that many insurers / reinsurers may need to seek additional capital injections to ensure compliance with solvency margins in both the US and in Europe. Inevitably, it is the availability and cost of this new capital that will drive change in the pricing and flexibility of future insurance premiums.

At this stage it is not clear what specific flow on effect these events will have on Australian insurers, but we will continue to monitor events closely on behalf of our clients.

Dressing For Success - How To Position Your Business for The Best Results



With ongoing changes in both global and local insurance markets, we are continuing to see increased appetite and competition for well presented insurance risks.

The challenge for clients is how best to present the profile of their organisation and its business activities, to generate the maximum interest and enthusiasm from insurers in their account.

Our most successful clients are those who take a deliberately planned approach to their insurance renewal to maximise their impact on insurers, and ultimately ensure the most effective result for renewal.

Whilst every business and its risks are different, there are a number of simple steps that can assist in a more effective result:

Step 1 - Know Your Own Risks

The management of an organisation must develop a solid understanding of the risks that their business faces in both its day to day operations, and its more strategic endeavours.

From an insurance programme perspective, these then need to be analysed for those which will impact upon insurers and be the subject of the various insurance contracts.

Who else can "sell" your own business better than someone who works there everyday and knows it intimately?

These are the risks that need to have greater focus at the time of the insurance renewal, to ensure that insurer concerns can be addressed, and the business can be shown in its optimum light.

Step 2 - Help Sell Your Insurable Risks

Too many businesses rely on their broker to describe their business to insurers, and do not place sufficient emphasis or priority on the information provided to enable the renewal process to occur.

More effective results can be achieved by being more active in the negotiation process with insurers, explaining the different facets of your operations, and the overall philosophy to risk and insurance.

Who else can "sell" your own business better than someone who works there every day and knows it intimately? Providing the most up to date and accurate information possible is an imperative to assist in the professional presentation of your risks.

Emphasise risk management measures - insurers are looking for clients who will work in conjunction with them to reduce their risk exposures, thereby reducing the chances of a major claim.

Changes in procedures or business operations can enhance your risk profile constantly - don't let these go unnoticed. Be prepared each year with details of where the risks have been improved and your future plans for risk management.

Where losses have occurred in the past, provide expansive detail on how the claim circumstances occurred, and show loss control procedures that have been put in place to try and prevent the claim from re-occurring.

Step 3 - Retain More of your Own "Predictable" Risks

The management of an organisation must develop a solid understanding of the risks that their business faces in both its day to day operations, and its more strategic endeavours. From an insurance programme perspective, these then need to be analysed for those which will impact upon insurers and be the subject of the various insurance contracts.

These are the risks that need to have greater focus at the time of the insurance renewal, to ensure that insurer concerns can be addressed, and the business can be shown in its optimum light.

If you have improved your risk management procedures, there should be a reduced risk of smaller losses occurring.

Product Contamination

News coverage late last year of another major product contamination incident in Australia has highlighted the need for clients to review their potential exposures, and consider whether insurance coverage is an appropriate approach to transfer this risk.

Food, drink, cosmetics, pharmaceuticals and tobacco products are some of the products which are susceptible to contamination, both accidental and by deliberate interference for political or financial gain.

These incidents are increasingly common around the globe, and when they occur, can attract media interest which impacts on the public's confidence in the product and/or the organisation.

Considerable costs can be incurred in both recalling and replacing the damaged product as well as in rebuilding the public confidence.

A number of insurers both locally and internationally offer Contaminated Products and Products Tamper / Recall Insurance to provide cover for:

- Recall costs (including restoration / replacement of the affected product);
- Rehabilitation costs;
- Loss in gross profits;
- Access to specialist crisis management planning and loss prevention consultants.

A variety of factors are usually considered by insurers when evaluating insurability and the cost of coverage, such as annual revenues, the type of products, quality control procedures, packaging standards, crisis management / recall plans etc.

The information contained in the newsletter is not intended to provide professional advice and should not be relied upon in that regard. Users accessing the information are advised to obtain appropriate professional advice where necessary.

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