

MARSH



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Managing risk in Europe 2007

A Marsh research report



Contents

Introduction and executive summary	01
The most significant risks to European organisations today	02
The confidence of European organisations in dealing with their most significant risks	10
Risk management vs. insurance with European companies	14
The risk management budgets of European companies	16
Summary	18
Appendix 1 – Country reports	20
Appendix 2 – Methodology	31



Introduction and executive summary

I am delighted to be introducing one of the most comprehensive risk management research studies to have ever been undertaken among large companies in Europe. Managing risk in Europe 2007: A Marsh research report highlights the key risk issues of most concern to companies in the region, the levels of confidence shown in managing these issues, and the direction that risk management appears to be taking. Clients are increasingly interested in benchmarking their risk management efforts against their peer group, whether by performance, investment or best practice. In many companies it is no longer enough to have simply ticked the risk management box. Stakeholders in the company demand a programme of on-going performance improvement, recognising that when managed effectively, risk can deliver significant business upside.

One set of conclusions that this study tells us are that many of today's principal business risks transcend geographies and have the ability to affect businesses in all countries in Europe. All companies depend on people and assets to function, all face macro-economic and regulatory challenges, and all need strong leadership and direction to succeed.

The top six risks affecting European companies today as shown by the study are:

1. People-related risks
2. Competition
3. Business Interruption
4. Environmental considerations
5. Financial risks
6. Damage to physical assets

This list demonstrates that traditional risk issues, such as people, business interruption and property remain significant despite having been managed and insured in businesses for years. Next to these risks are a range of macro-economic factors such as exchange and interest rate volatility, which companies recognise can markedly affect financial performance and can increasingly be managed and hedged. Finally, there are emerging risk issues; notably competition, which may be external and strategic in nature, but can be damaging if left unmonitored and unmanaged.

While many risks can be said to be pan-European, this study also illustrates the country-specific emphasis placed on certain issues. Whether it is regulation in the UK, foreign exchange rates in Turkey or people issues in Spain, the business environment and its challenges play a significant part in shaping a country's risk profile.

The feeling from respondents in our study is that, while these risk issues are growing in number and importance, confidence in managing them is also quite high. Perhaps this is owing to the shift of focus from companies across the region from insurance to risk management – in 74% of cases we are told that the trend is moving towards spending money on managing risk rather than buying insurance. This finding is certainly confirmed by the number of clients we deal with that are taking an increasingly sophisticated approach to structuring their risk financing and transfer arrangements, based on a more scientific evaluation of expected losses, financial strength to retain risk and, of course, quality of risk management.

At Marsh we recognise that our clients have a rapidly growing register of risks that they want advice on managing. We also understand the value that local representation brings, both within the countries and industry sectors of our clients. Whether insurable or not, we are providing our clients with the advice, tools and solutions to make them feel more confident about their future. I hope you enjoy reading this report.

[Bruce Trigg](#)
Managing Director
Continental EMEA Risk Management Leader

The most significant risks to European organisations today

Each of our 738 respondents was asked what they considered to be the number one risk issue facing their company. The top six risk issues on a pan-European basis were:

1. Employers' Liability / people-related risks
2. Competition
3. Business Interruption
4. Environmental considerations
5. Financial risks, incorporating exchange rates, cash flow, interest rates
6. Physical assets

Significant risk # 1: People-related risks

Our view

Although people-related issues could hardly be called a new and emerging risk, it is the number one risk issue affecting the European businesses in our survey. The importance of this risk appears unrelated to the state of Worker's Compensation (WC) or Employers' Liability (EL) markets in Europe and the UK respectively, where rates are decreasing, albeit in a volatile market.

In our study, the countries in which people-related risk was the most prevalent were Spain and Italy. The Spanish labour market is highly regulated, with large sections of the workforce employed on a temporary basis. The number of recorded accidents in Spain also rose by 12.6%¹ during 2006, and with Unions still accounting for 10%² of the workforce this may have influenced the views of our Spanish survey recipients. Sweden, the Netherlands and Germany were least concerned with the risk issue.

The overall significance of people-related risks reinforces Marsh's view that managing them provides opportunities to reduce unnecessary costs and improve the working environment. While EL / WC insurance may be more readily available and less expensive in the current market conditions, companies across all industry sectors continue to recognise that they could be doing more to manage this range of exposures in a more integrated fashion. Indeed, the cost of people-related risk to an organisation is often wrongly construed as the price of an EL policy, when in fact this cost only scratches the surface of the total cost of risk. Replacement labour, overtime, staff absenteeism, claims settlements, and even damage to reputation from compromised service can each generate significant costs.

People related risks

Order of significance by country	
1.	Spain
2.	Italy
3.	Belgium
4.	Denmark
5.	France
6.	Turkey
7.	UK
8.	Germany
9.	Netherlands
10.	Sweden

¹ Source: Spanish Ministry of Labour and Source Affairs

² Source: Global Insight

Significant risk # 2: Competition

Our view

Competition features prominently as a risk issue across most of the European countries featured in this report. Germany stands out as a territory that is particularly concerned with competition. With the German economy dominated by industrial production, financial and business services and some of the tightest regulation in the OECD, it is clear why competition is such an issue. It also figures highly on the risk registers of companies in France and the Netherlands.

There are two potential reasons why we believe the threats posed by unmanaged competition risks rank so highly in this study. The first is that in the current business climate, competition is generally fiercer than it has ever been. New market entrants, often from emerging geographies, offer a high level of service and goods, making consumer loyalty virtually a thing of the past. Globalisation and a proliferation in technology have meant that it is possible to buy what you want, when you want it, from any corner of the globe, and this has a marked effect on the concept of “competition”.

The other reason that competition might rank so highly in the results of this study could be that companies simply feel that it is an issue out of their direct control. The extent with which competition can affect businesses can easily be altered by changes in business or market dynamics. Failing to manage this can leave businesses exposed to loss of market share, customers and income.

Competition

Order of significance by country	
1.	Germany
2.	France
3.	Netherlands
4.	Sweden
5.	Denmark
6.	Turkey
7.	UK
8.	Belgium
9.	Italy
10.	Spain

Significant risk # 3: Business Interruption

Our view

Like people-related risk, the threat posed by business interruption has been relatively well understood for some time. Nevertheless it features highly in this benchmarking study.

Countries most concerned with business interruption include Sweden and Belgium. Those least concerned are Italy, Spain and Turkey. This variation in level of concern may be due to a number of factors. One suggestion is that, in countries presented with greater physical risk through natural events, it takes a greater period of awareness building to develop knowledge around the wider issues.

Emerging threats such as pandemics, climate change and a resurgence in terrorist activity combined with the increasing vulnerability of sophisticated supply chains mean that the threat of business interruption is actually growing and gaining greater visibility in the marketplace. Whether it is a problem for their incoming supply chain, a failure in their own processes or a distribution or market impact, businesses are recognising the dangers they face. But these market activities also mean that there is a growing realisation of the multitude of events and circumstances which could result in a major business interruption. At stake are more than people and physical assets. Companies realise that market share and reputation are almost impossible to recapture. It is therefore important that the link between business interruption and business continuity management is made to ensure these issues are addressed.

Business interruption

Order of significance by country	
1.	Sweden
2.	Belgium
3.	Denmark
4.	France
5.	Netherlands
6.	Germany
7.	UK
8.	Italy
9.	Spain
10.	Turkey

Significant risk # 4: Environmental considerations

Our view

The profile of environmental risk has increased across the globe. The management of environmental risk has become an important consideration for both corporations and public entities as the public, investors and other stakeholders have become more aware of the impacts on business, social equity, human health and the management of the earth scarce resources. It is therefore not surprising that environmental risk is featured as one of the top risks affecting European companies.

The results from the survey indicate that the awareness and perception of environmental risk as an emerging issue is greater in Belgium and Italian, with Swedish and Danish companies least concerned.

Turkey is the next country most concerned about environmental risk. Although Turkey is currently not part of the EU it is currently implementing EU equivalent legislation which is increasing the need for corporations to actively manage their environmental exposures.

Marsh has noticed a number of trends which have contributed to the increase in awareness of environmental risks amongst EMEA companies. Firstly, Europe has embraced the principle of the 'Polluter Pays' and this is demonstrated by the plethora of Environmental legislation that impacts all corporations, both directly and indirectly. The 'Environmental Liability Directive' came into force in April 2007. This legislation when enacted will increase liability for companies, as it introduces not only the need for remedies for physical damage but complimentary and compensatory damages.

Environmental considerations

Order of significance by country	
1.	Belgium
2.	Italy
3.	Turkey
4.	France
5.	Germany
6.	Netherlands
7.	Spain
8.	UK
9.	Denmark
10.	Sweden

Secondly, a number of emerging trends have increased the awareness of environmental risk. These include:

- The impact of climate change
- Constrained natural resources
- The quality of national resources
- Ecological quality
- The stewardship of the environment by government corporations

The awareness of the need to manage environmental risk also becomes more evident during merger and acquisitions, and specifically where there may be a historic liability. We are also seeing environmental risk being taken into account in supply chain management, particularly through the awarding of significant tenders.

Significant risk # 5: Financial risk exposures

Our view

A number of financial risk exposures were mentioned by respondents throughout the study, so for simplicities sake we have grouped the top three – exchange rates, cash flow and interest rates. When aggregated, these risk issues ranked as the fifth most significant issue.

Respondents from Turkey believe that they are especially susceptible to financial risk exposures. While the Turkish economy has shown strong growth in the past few years, exchange rates are typically volatile, due to political uncertainties. Other commentators have observed that potentially overvalued currency may have stifled domestic production and suppressed manufacturing capacity vis-à-vis international competitors.

Companies from Spain, the Netherlands and Germany all rate various financial exposures as a key risk in their businesses.

Cash flow

Order of significance by country	
1.	Turkey
2.	Netherlands
3.	Spain
4.	Denmark
5.	Germany
6.	Sweden
7.	UK
8.	Belgium
9.	France
10.	Italy

Exchange rates

Order of significance by country	
1.	Turkey
2.	Spain
3.	Germany
4.	Italy
5.	Netherlands
6.	UK
7.	Belgium
8.	France
9.	Sweden
10.	Denmark

Interest rates

Order of significance by country	
1.	Turkey
2.	Germany
3.	Spain
4.	Italy
5.	Netherlands
6.	Denmark
7.	Belgium
8.	France
9.	Sweden
10.	UK

Significant risk # 6: Physical assets

Our view

Damage to physical assets and facilities is one of the more traditional areas of insurable risk exposure, so it is perhaps surprising that European businesses should continue to see it as a significant issue.

Of particular note is the focus on physical assets by Italian companies, and the strong emphasis placed on it by firms in Spain and Turkey. The Italian economy is still dominated by manufacturers, with these companies responsible for 25% of Italian GDP. This almost certainly translates into a high dependency on machinery, operational facilities and other physical assets. Italy is more susceptible to risks such as earthquakes when compared to its European peer group, and this probably influences their focus on physical assets.

Countries where risk management may be seen to be more mature, and where services businesses dominate more, such as the UK and France, are less focused on it as a priority risk issue. However, European businesses should ask themselves 'Is damage to physical assets less of a concern for these mature countries, or is the risk just less obvious?'

Despite the efforts of insurers and businesses alike, property-related risk continues to incur some of the biggest costs to business today. As organisations look to create value from rationalising assets and streamlining supply chains, so these potential exposure increase. The effects of a badly managed property risk are often business interruption, increased claims, damage to reputation, expensive insurance and very commonly business failure.

Physical assets

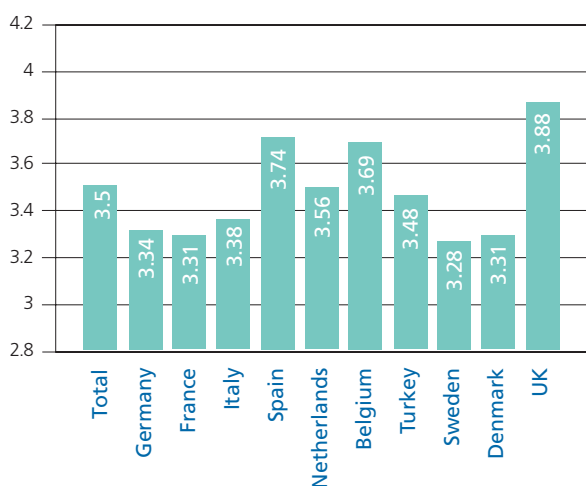
Order of significance by country	
1.	Italy
2.	Spain
3.	Turkey
4.	Netherlands
5.	Belgium
6.	Germany
7.	France
8.	UK
9.	Denmark
10.	Sweden

The confidence of European organisations in dealing with their most significant risks

As well as determining which were the principal risks facing European organisations, our study also looked at how confident each country was at managing their principal risk exposures.

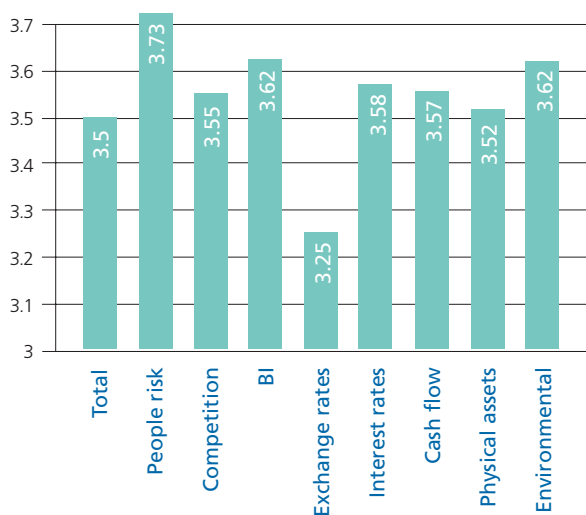
The results tell us that there is some degree of consistency in the adequacy of existing risk management across the EMEA region, with every country scoring in the range of 3.28 – 3.88. This score, out of a possible 5, equates to a “quite confident” to “confident” rating. The countries least confident about the state of their existing risk management are Sweden, Denmark and France. The UK is the most confident, followed by Spain and Belgium.

Aggregate confidence in managing key risks



Our study also examined the aggregate confidence levels across the overall EMEA region for managing each of the most significant risks in EMEA.

Aggregated scores for managing most significant risks



EMEA companies are generally least confident about their ability to manage exchange rate volatility. Physical assets feature lower in the list than might have been expected, with an overall confidence level of 3.52. Companies are most confident about managing people-related risk issues.

Our view

People related risk issues – confidence score 3.73

In the experience of Marsh, businesses that calculate their total cost of risk, analyse the financial impact of accidents, claims and sickness absence, and focus corrective action on the areas driving the proportion of cost see real return on investment. And demonstrating a commitment to managing risk and reducing claims can encourage more sustainable ratings from EL insurers in what is widely viewed as a volatile market.

Competition – confidence score 3.55

While it is clear that competition is a more complex, intangible risk exposure for which insurance is certainly not an option, there are actions that companies can take to more effectively monitor the risk. If the need to achieve competitive advantage features prominently on a company’s risk register then that company should decide at what stage the risk becomes material – this may well be represented by a series of scenarios rather than a financial value – and appoint key members of its risk committee to monitor competitive activity around these thresholds. Companies can also take strategic action to manage competitive exposures from the extreme – acquiring the competitor – to the cautious – regularly running competition analysis. Whatever the strategy, risk management can play an important role in providing the framework and processes to manage it more effectively.

Business interruption – confidence score 3.62

As tolerance to business interruption is at an all-time low it is no longer enough to simply have insurance backed by a basic business continuity plan. This does not do enough to protect an organisation most valuable asset – its reputation. At Marsh, we are increasingly being asked by clients to turn their plans into effective programmes, to train their Boards to effectively deal with crises, and factor their critical supply chains into their plans. All of this raises the bar of their BCM, and illustrates why – despite most European businesses having some form of plan – this issue continues to figure highly on companies’ priorities.

Environmental considerations – confidence score 3.62

Given the degree of awareness across Europe, companies in this survey are confident in managing environmental risks. Companies should however ensure that they are adequately assessing, managing and financing their environmental liability.

This requires a combination of physical management, legal compliance and financial risk management. An integrated approach to the management of environmental risk is a pre requisite of having a sustainable business. At Marsh, we work with our clients and client advisors to put in place solutions which protect both private and public entities from pollution impacts, in respect of merger and acquisitions and also in relations to their day to day operations.

Physical assets – confidence score 3.52

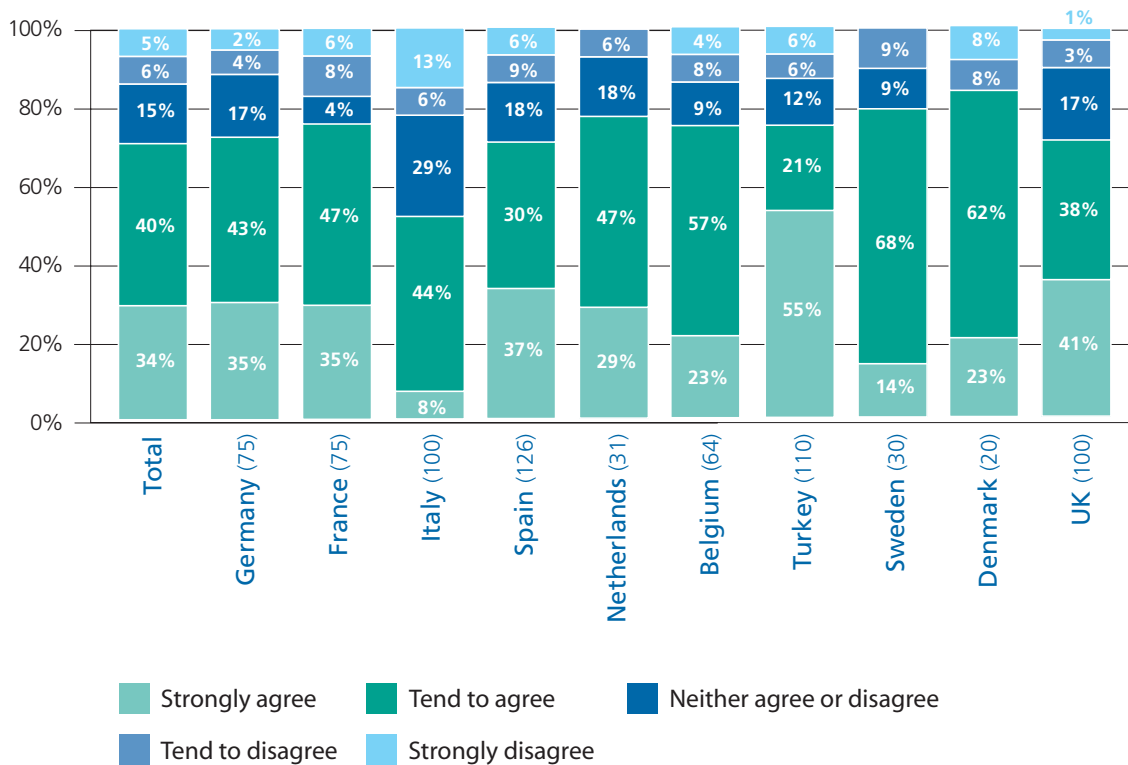
In the experience of Marsh, it is those companies that see their property and physical assets as a critical element of the delivery of their business strategy – and not just bricks and mortar since they deploy resources and focus that are entirely fit for purpose for their need.

Financial risk exposures – confidence scores 3.25 (exchange rates), 3.58 (interest rates), 3.57 (cash flow)

While each of these issues is different, one theme unites them all – volatility. To be successful, companies must understand what degree of volatility their business is prepared to take, and then take measures to ensure adequate financial protection in the event of that threshold being crossed. Examples of such protection often include hedging strategies. Companies often use sophisticated computer modelling techniques to their ability absorb volatility in the profit and loss (P&L) or balance sheet. This enables them to optimise the balance between the risk they choose to take and the risk they choose to offset. Of course, if companies do feel that they can cope with a certain degree of fluctuation in exchange rates, interest rates or their own cash flow, they must also ensure that their management processes are adequate enough to keep the impact of such volatility to an appropriate level, given their risk tolerance capability. In this context, companies can maximise the opportunities that risk can present, rather than just managing the downside.

Risk management vs. insurance with European companies

Respondents were asked to comment on whether they agreed with the statement that *'the trend was moving towards spending money on managing risk rather than paying premiums to a third party'*. Overall 74% of respondents agreed with the statement, with strong consistency across all territories. Only in Italy and to some extent Spain could this not be considered the unequivocal opinion.



Our view

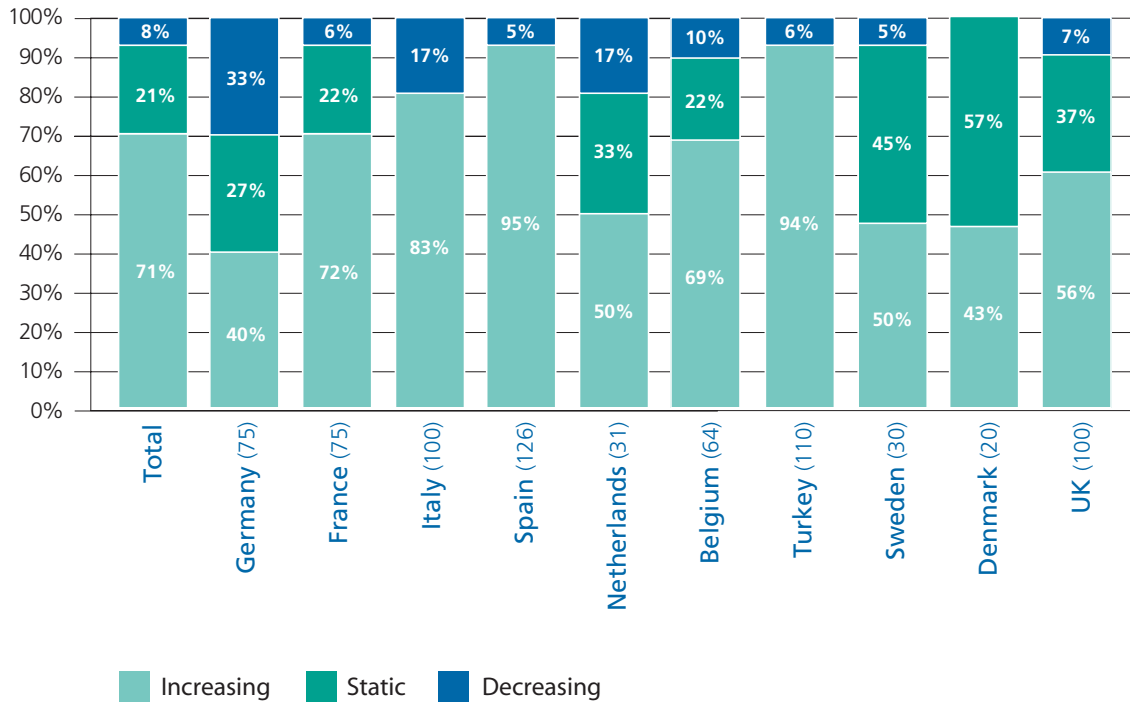
In the experience of Marsh these figures reflect the direction that many companies are now taking around risk. Companies are becoming more savvy in risk management, and are acknowledging that value can be created from more effectively managing risk, in;

- Reducing loss expectancies and with it the need to purchase levels of insurance at the same level. In doing so, companies have been able to cut cost and reinvest capital in activities that further the strategic goals of their businesses.
- Reducing exposure to volatility in the insurance market cycle. By insuring less risk and managing more, companies are less at the mercy of volatile insurance cycle peaks and troughs, and can create greater assurances around cash flow within their businesses.
- Reducing non-insurance risk related costs. By managing some of their principal risk exposures, companies stand to reduce other costs that may have little or no linkage to insurance, normally incurred through inefficiencies, reduction in productivity, reputation damage and litigation.
- Building stronger relationships with insurers, brokers and the Board. Companies that take a longer-term, strategic view of their risk issues stand to benefit from similar relationships with their key stakeholders.

Insurance is the most traditional form of risk transfer and will always have a critical role to play in protecting companies. But when balanced with optimum levels of risk management and self-retained risk, it can move from a protection strategy to a business enabler. It would seem that European companies, in the main, agree, and are re-engineering their strategies accordingly.

The risk management budgets of European companies

Respondents were asked whether budgets for risk management were increasing, decreasing or staying the same.



Generally, the risk management budgets of European companies are on the increase, with Spain, Turkey and Italy – regions which five years ago may not have been synonymous with risk management – particularly confident about the upward trend. Countries such as the UK, where risk management is reasonably well embedded into the day-to-day activities of many businesses, may have to work a little harder to secure any further uplifts. German budgets are the most at-risk, with 33% appearing to be cut going forward rather than increased.

Our view

For professional risk managers, the ability to continue securing increases in budget will probably be directly proportional to the success that they have in demonstrating the value that they and their function can bring to their companies. This study has shown that in the top six European issues alone risk can play a prominent role in strategic, financial, and operational issues. If the balance of focus is shifting from buying insurance to managing risk, then it is up to risk managers to show that investment dollars are generating return.

Summary

Our study shows that as the operating environment for organisations becomes increasingly volatile, attitudes to risk are changing. Emerging risks, such as environmental risk and increasing competition, are now as great a concern to European businesses as traditional issues such as people-related risks and business interruption.

This study concludes that the six greatest risks perceived by European companies are:

- People-related risks
- Competition
- Business Interruption
- Environmental considerations
- Financial risks
- Damage to physical assets

In each case, there are opportunities for more progressive organisations to embrace these risks and exploit the lack of action by others. Relying on insurance alone is not effective risk management, as uninsured risks are just as likely to stop organisations from achieving their business objectives. The study concludes that more companies are moving towards spending money on managing risk rather than buying insurance, and that the confidence levels of managing these risks are quite high.

Growth in any business means taking risks – and the better the understanding and management of risk, the greater can be the return.

About Marsh

Marsh is the world's leading risk and insurance services firm. We provide advice and transactional capabilities to clients in every industry sector. This includes global risk management, risk consulting, insurance broking, financial solutions, and insurance programme management services for businesses, public entities, associations, professional services organisations and private clients in over 100 countries.

Appendix 1

Country reports

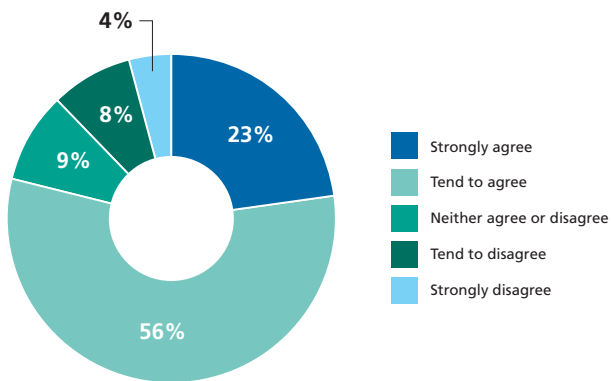
64 companies from Belgium took part in our benchmarking study. For these companies, the most significant overall risk is business interruption, tied with catastrophes. Staying with the more traditional, insurable risks, the third most significant risk is people-related exposures.

Top 3 risk issues	Confidence level in managing / 5
Business Interruption	3.48
Catastrophes	3.73
Employers' Liability	3.89

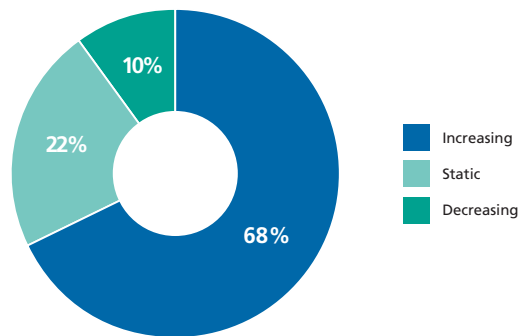
Confidence levels for managing people related risks and catastrophes are relatively high, though slightly less high for managing conventional business interruption exposures.

79% of Belgium businesses believe that the tendency is moving towards managing risk rather than buying insurance within their firms, putting it well within the top half of the sample.

Risk management > insurance



Budgets



Budgets for risk management in two-thirds of Belgium companies are increasing, a figure similar to the overall figure for Europe and typical of western European countries. In only 10% of Belgium businesses are budgets for risk management known to be reducing, a similar figure to the companies that disagree that risk management is on the rise.



Denmark

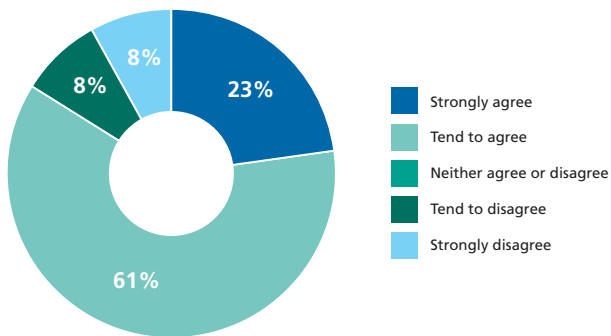
20 companies from Denmark took part in our benchmarking study. For these companies, the most significant risks are business interruption, people-related risks and competitors' actions.

Top 3 risk issues	Confidence level in managing / 5
Business Interruption	3.53
Competition risk	3.14
Employers' Liability	3.25

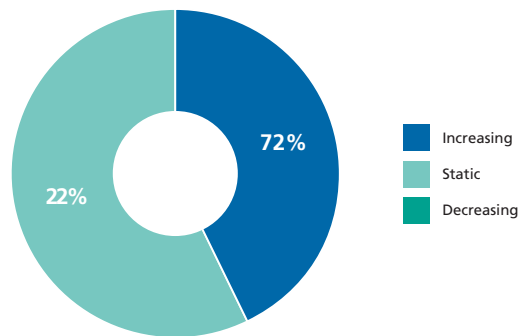
Not surprisingly, the confidence levels for managing competition risk is less high than the more traditional and insurable risk exposures of BI and EL.

84% of Danish businesses believe that their focus is moving towards managing risk rather than buying insurance, the most significant evidence of this trend within all European countries in the study.

Risk management > insurance



Budgets



However, in only 43% of Danish companies are budgets for risk management increasing, indicating that there is still a job to do in convincing senior managers that an increase in activity should be matched with a similar increase in investment!



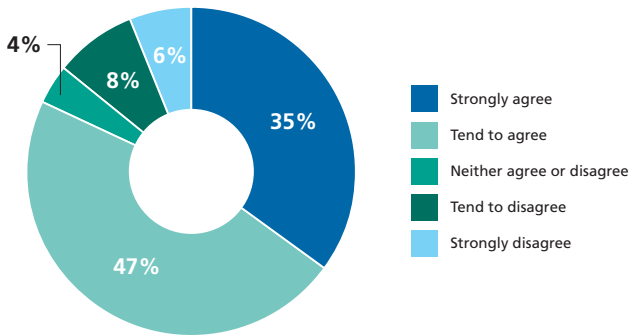
75 companies from France took part in our benchmarking study. These companies rate competition risk as being their most significant risk issue, followed by Employers' Liability and Business Interruption.

Top 3 risk issues	Confidence level in managing / 5
Competition risk	3.36
Employers' Liability	3.46
Business Interruption	3.12

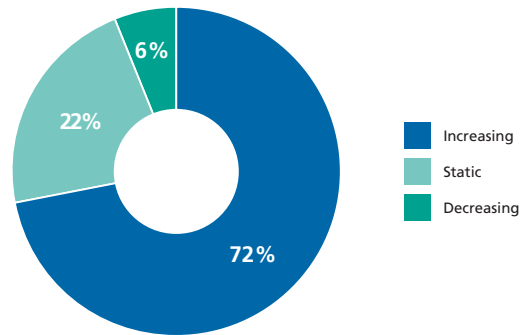
Confidence in managing the risks assumed through competition is lower than it is for the other two conventional risk exposures, with a rating of 3.12, representing only a marginal degree of confidence about the ease at managing this largely external exposure.

82% of French businesses believe that their focus is moving towards managing risk rather than buying insurance, one of the most significant proportions of respondents from Western Europe, where risk management tends to be better established.

Risk management > insurance



Budgets



72% of companies in France match the propensity to manage risk over buying insurance with an increase in budgets. Only Italy, Spain and Turkey have a greater proportion of respondents confident that budgets are on the increase, and these are recognised as countries where risk management is less well established.

Germany

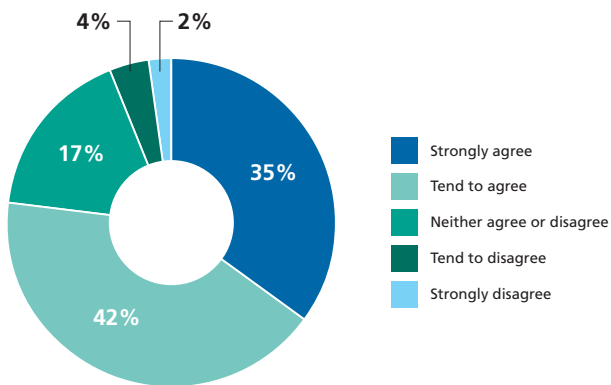
75 companies from Germany took part in our benchmarking study. By far, the most significant risk issue for these companies is the risk presented by competition, which was mentioned by 1 in 5 of all respondents. Two of Germany's leading sectors – automotive and chemicals – remain very competitive, despite consolidation in the former. Regulation and administrative burden is seen to be among the tightest in Europe. Also featuring high on the list were other macro risk issues; recession and EU legislation, perhaps reflecting on a country that is currently experiencing difficult economic times.

Top 3 risk issues	Confidence level in managing / 5
Competition risk	3.47
Recession	3.3
EU legislation	3.25

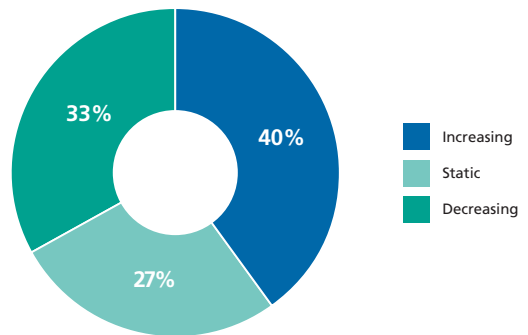
Interestingly in the case of Germany, of these three primary risks it is competition in which respondents felt most confident at managing internally. EU legislation prompted the least confidence from respondents.

77% of German businesses believe that their focus is moving towards managing risk rather than buying insurance, putting them sixth within the sample of countries covered in this benchmarking study. Only 6% do not believe this trend is taking place.

Risk management > insurance



Budgets



Only 40% of companies in Germany believe that risk management budgets will increase in the future however, and a third actually believe that they are falling. This may be a feature of the in-house brokerage function prevalent in many of Germany's leading companies, as many companies may have decided to undertake the work themselves.



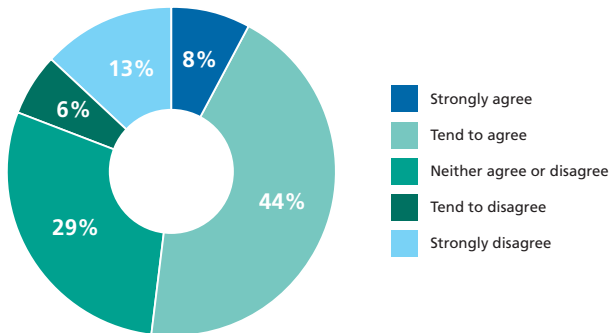
100 companies from Italy took part in our benchmarking study. People-related risk issues presented the most significant risks to these companies. Physical assets came second, reflecting on the high number of manufacturing companies and the relatively high exposure to natural disasters, such as earthquakes. These results also indicate that insurance may still play a significant role within wider risk management within Italian firms. In Professional Indemnity, Italy is concerned by a risk issue that does not feature in Europe's overall list of significant issues, which indicates above-average concerns about providing bad advice or service.

Top 3 risk issues	Confidence level in managing / 5
Employers' Liability	3.5
Physical assets	3.4
Professional Indemnity	3.3

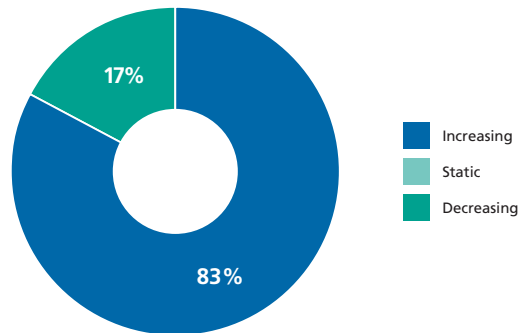
Not surprisingly perhaps, Italian companies feel more confident about managing the more traditional and insurable risk issues than they do Professional Indemnity exposures.

Only 52% of Italian businesses believe that the trend is moving towards managing risk rather than buying insurance, putting Italy comfortably at the bottom of the European sample in terms of this activity. This reflects the focus on insurable risk exposures highlighted in the number of mentions for liability / property-related issues above.

Risk management > insurance



Budgets



Italian businesses are very clear on whether budgets for risk management are on the increase or fall within their companies. 83% believe budgets are improving, third only to Turkey and Spain. But 17% believe budgets are falling, a percentage second only to Germany. There are no businesses occupying the middle ground and undecided.



The Netherlands

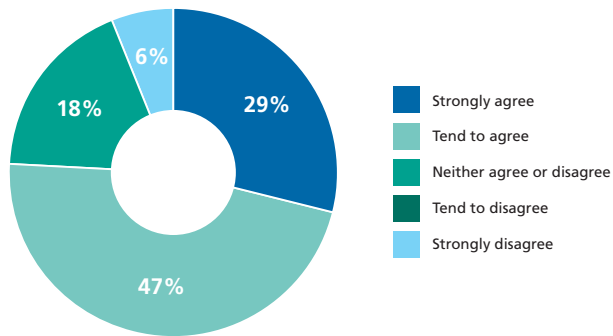
31 companies from Holland took part in our benchmarking study. For Dutch companies, the threat from competitors' actions is their single biggest risk exposure. Only German firms mentioned the risk more. Despite significant consolidation in its financial services sector, competition remains significant. Other major industries, such as the food service sector, are highly fragmented. Also of concern to Dutch companies is Business Interruption and cash flow, both of which indicate a country which is uncomfortable at managing unplanned periods of volatility.

Top 3 risk issues	Confidence level in managing / 5
Competition	3.55
Business Interruption	3.58
Cash flow	3.56

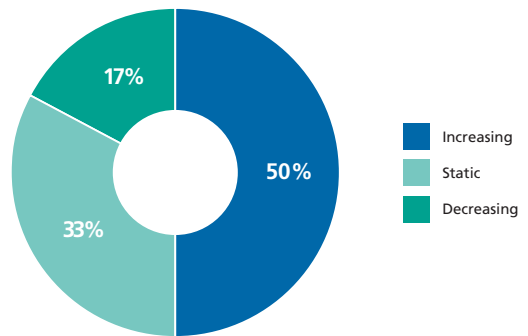
Confidence levels among companies in Holland at dealing with these risks are reasonably high, with little to tell between the three issues. Relative to other European companies, those from Holland appear moderately more confident at managing competition risk.

76% of companies in Holland believe that the trend is moving towards managing risk above buying insurance. While this remains over three-quarters of the sample, it is a lower percentage than every other country other than Spain and Italy, where the size of the typical company is much smaller – and therefore insurance is often seen as a more appropriate solution.

Risk management > insurance



Budgets



Budgets for risk management within Dutch companies follow a similar pattern, with only half of all respondents confident that their budgets will go up, and 17% actually believing they will go down.



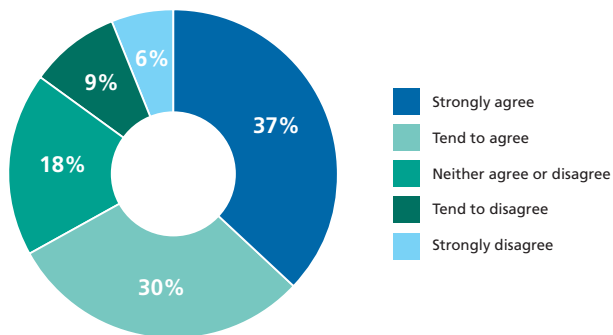
126 companies from Spain took part in our benchmarking study. Almost 1 in 3 of them referenced employee related risk as being significant to their businesses, making it comfortably the most frequently mentioned issue in any of the sample countries. A highly regulated employment market, where Unions still play a prominent role, coupled with a large increase in accidents reported in 2006 probably help to explain the significance of this risk. Also of importance is exchange rate, indicating the importance of exports to a number to Spanish businesses, and the protection of physical assets.

Top 3 risk issues	Confidence level in managing / 5
Employers' Liability	3.9
Exchange rate	3.7
Physical assets	3.5

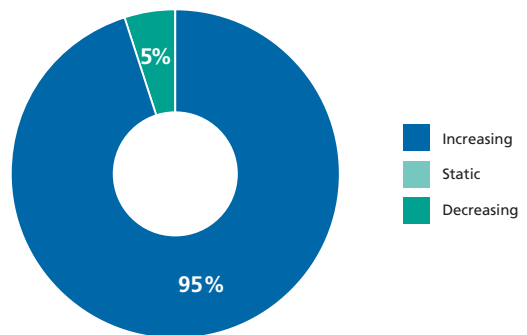
Spanish companies are in the main confident about managing these risk exposures, particularly around people-related exposures, although they are also bullish about their ability to smooth exchange rate fluctuation.

67% of companies in Spain believe that there is a tendency for risk management to be overtaking insurance within their companies' allocation of budgets. Only Italian firms agree less with this statement, indicating that insurance still plays an important and central role in broader risk management considerations within Spanish firms. This is probably reflective of the size of companies in the region.

Risk management > insurance



Budgets



However, despite smaller commitment to risk management over insurance – relative to its European counterparts – it is clear that the issue is gaining more prominence in Spanish firms. There is no better illustration of this point than with the 95% of respondents agreeing that budgets for risk management will go up in their countries.



Sweden

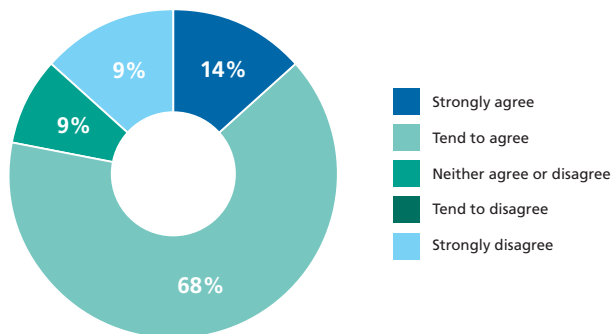
30 companies from Sweden took part in our benchmarking study. The most significant risk for them was business interruption. Competition again featured prominently on the list, with firms concerned with crime-related issues, such as vandalism.

Top 3 risk issues	Confidence level in managing / 5
Business Interruption	3.3
Competition	3.3
Crime	3.2

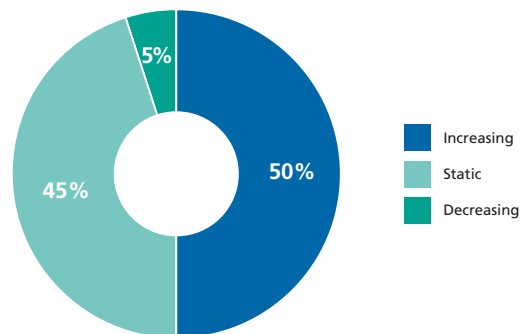
Relative to other European companies, firms in Sweden are less confident about their ability to manage their most significant risks. Each of their top three reveals similar low levels of confidence.

82% of companies in Sweden believe that the trend is moving towards managing risk rather than transferring it wholesale to the insurance markets. This represents a significant shift and is matched or bettered only by France and Denmark across Europe.

Risk management > insurance



Budgets



There remains some degree of doubt from up to half of Swedish companies about whether a re-focus on risk management will be likely to translate into improved budgets. Most of this half remains undecided (45%).



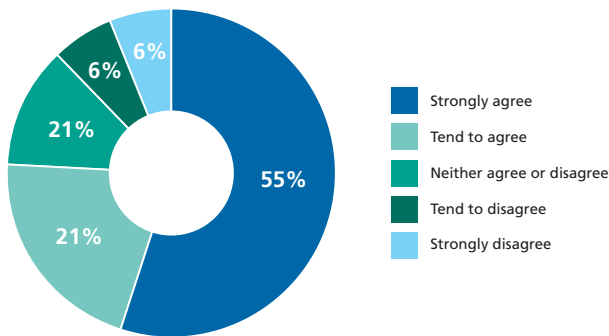
110 companies from Turkey took part in our benchmarking study. For Turkish firms the most significant risks are financial in nature. The most significant is exchange rate volatility, indicating dependency on foreign trade and the importance of a strong Turkish Lira. Relative to its European peer group, Turkey has experienced volatility in its exchange rates, due to political uncertainty. High interest rates remain a concern for companies looking to operate in Turkey. Cash flow also features prominently in the study. Finally, the threat from competition is also a significant risk for Turkish firms.

Top 3 risk issues	Confidence level in managing / 5
Exchange rate	3.5
Cash flow	3.6
Competition	3.4

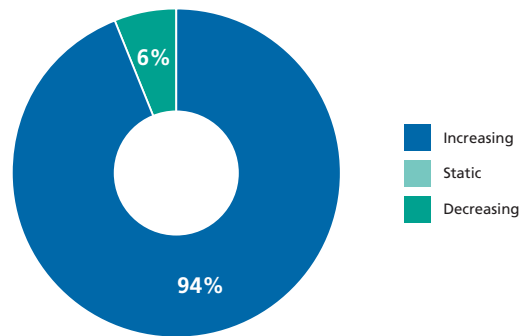
Confidence levels from Turkish businesses are around average for Europe, and differ little from risk to risk. Turkish companies are most confident around managing cash flow, and least in managing competitors' actions.

76% of Turkish companies believe that risk management is playing a more prominent role over insurance in their firms and a further 12% of companies are undecided.

Risk management > insurance



Budgets



Reflecting the emerging growth of risk management in Turkish companies, 94% of companies believe that their budgets are going up with only 6% reporting that budgets will fall. This growth in budgets is second only to Spanish companies.



United Kingdom

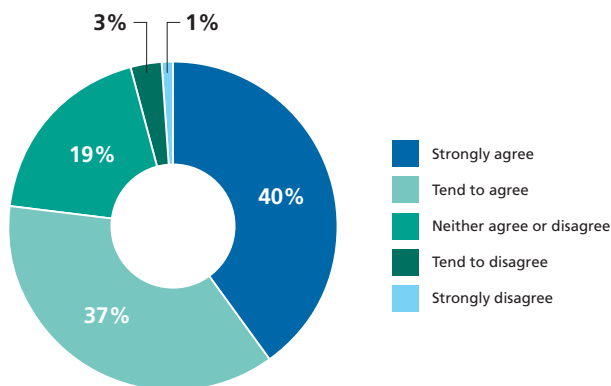
100 companies from the UK took part in our benchmarking study. British firms showed considerably more focus on regulation and legislation than any of the European peer group. In fact, not only did regulation fail to appear in the top three of any other country, it was the single biggest UK response. This is probably explained by the relative maturity of the UK's approach to business risk management, driven by the corporate governance requirements of companies listed on the London Stock Exchange. Just behind regulation was another strategic risk, competition. People-related risk exposures also featured prominently, which is interesting given the relatively soft pricing of EL at the time of the study.

Top 3 risk issues	Confidence level in managing / 5
Regulation and legislation	3.6
Competition	3.3
Employers' Liability	3.2

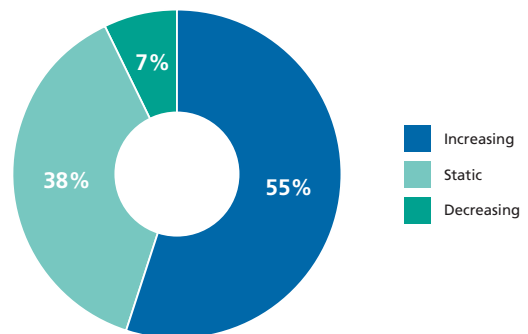
UK companies have clearly invested significant time into managing risk-related regulation, and this reflects in their confidence levels at managing the risk. Confidence around competition is lower at 3.3 / 5. Interestingly, a more conventional risk issue, that of Employers' Liability, is managed least well according to UK companies.

77% of UK companies believe that the trend is to focus on managing risk over buying insurance. Even more tellingly, only 4% of companies disagree with this statement.

Risk management > insurance



Budgets



However, given that UK companies may well have been practicing risk management for longer periods of time when compared to their European peer group, securing increased budgets appears less easy than other countries in Europe, with only 55% confident that it will go up.

Appendix 2

Methodology

Our benchmarking study took place during Q4, 2006. The study was undertaken anonymously by FWD, the marketing services agency for the financial sector.

The study took in 738 companies from 10 countries across Europe. In every case, the person most responsible for risk management was interviewed.

Interviews took place either by telephone with a professional researcher in the local language or via an on-line survey for those companies that preferred.

The market sample in each territory was obtained from DnB. No record of the respondent or his/her company was passed to Marsh or reproduced.

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