

INTERNATIONAL

# RISK MANAGEMENT

SURVEY

## Key Ten-Point Summary

In 1997, Moffatt Associates, a leading UK-based market research and management consultancy, conducted one of the largest ever surveys of risk management amongst leading multinationals and opinion formers in the USA, the UK and Europe.

This year-long project involved in depth interviews with over 40 multinationals in the USA, and the UK, focus groups and a detailed telephone survey.

What follows, is a brief summary of some of the main results of the quantitative telephone survey, which covered 100 corporations in the UK (50), USA (30) and Europe (20) across a wide range of industry sectors.

### 1 What is risk management?

There is no agreed and concise definition of risk management. The vast majority of corporate practitioners see the assessment, control and transfer of pure insured risks (e.g. protection of physical assets) as their main priority.

However, there is evidence to suggest that this definition of risk management is expanding to include commercial and financial risks.

### 2 What is the status of risk management?

There are significant variations in the role and prominence of risk management. This is partly reflected in the job titles of those with the responsibility for 'risk management'.

#### JOB CATEGORY BY REGION

		USA	UK	Europe
	100	30	50	20
Risk	49	23	16	10
Insurance	27	2	20	5
Risk and insurance	14	2	8	4
Administration	4	1	3	-
Finance	6	2	3	1

### 3 What are the main risk concerns?

The traditional role and status of risk managers is reflected in what respondents regard as their key risk concerns. The four most important concerns are (a) employee health and safety, (b) business continuity, (c) protection of physical assets and (d) the environment. Generally, risk managers do not see commercial and financial exposures as their main concern.

### 4 How are risks assessed?

The primary aim of undertaking risk assessments is to comply with regulations and legislation. Controlling internal costs and reducing insurance premiums are complementary benefits, but of lesser importance.

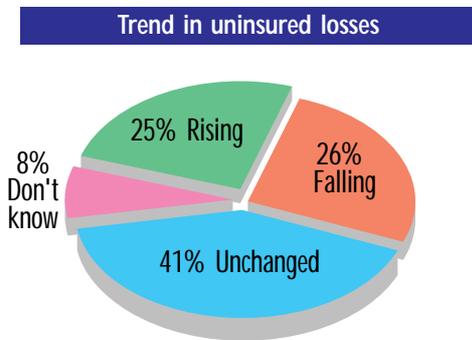
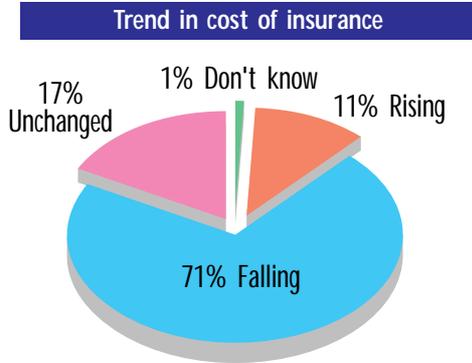
Some 75% of companies have in place systems for collecting and analysing data on losses and insurance claims but only 54% have in place formal methodologies for assessing the likelihood and magnitude of losses and 59% have procedures for ensuring suppliers comply with standards.

### 5 What are the trends in risk financing?

Fuelled by buoyant balance sheets and strong cash flows the corporate appetite for risk is increasing with nearly 70% of companies reporting increasing levels of retention.

The current soft market in insurance/reinsurance is confirmed with 70% of companies reporting that premiums have fallen in recent years.

Trends in the cost of uninsured losses vary reflecting different claims experience, accounting procedures and levels of deductibles.



Nearly 75% of companies operate a captive, mainly because it helps risk managers impose some form of internal risk management discipline throughout the business.

**6 What is the role of the insurance broker?**

Use of insurance and reinsurance brokers is common, with 96% using a broker at some stage in the risk transfer process and just over half using brokers exclusively to handle their risk transfer needs. At the moment, 49% of companies deal direct with insurers/reinsurers but only 4% deal exclusively direct.

**DIRECT DEALING WITH THE INSURANCE MARKET**

		USA	UK	Europe
	100	30	50	20
Direct only	4	-	2	2
Broker only	51	15	31	5
Mixture of both	45	15	17	13

About 50% of companies look to brokers to advise them on the strategic and tactical aspects of risk assessment and control. But the use of management and other specialist consultants is on the increase.

**7 How to win internal support for risk management?**

The vast majority of companies see effective upward and downward communications as the key to successful risk management.

The most effective method is formal face-to-face briefings in groups of different sizes throughout the business. Written communication is less effective because its initial impact is low and it is more easily forgotten. Nearly 60% of companies have in place formal systems for briefing operational managers.

Financial incentives have a key role to play in motivating people to 'buy-in' to risk management e.g. building risk management performance measures into individual and group bonus schemes, allocating down insurance costs and imposing high deductibles on operating subsidiaries.

**8 What are the benefits of risk management?**

According to risk managers, the biggest payback potential in terms of lower premiums and internal losses comes from investing in programmes to protect employees, ensure business continuity and protect physical assets. Several companies report that good risk management practice can lead to higher turnover i.e. improvements in customer satisfaction and corporate image.

RISK AREAS	Payback Potential
	5 = Significant potential 1 = No potential
Personnel (inc. Health & Safety)	4.32
Business continuity	4.24
Protection of physical assets	4.06
Environmental protection	3.71
Financial	3.64
Product liability	3.52
Protection of non-physical assets	3.51
Commercial	3.47
Management	3.26
Political	2.56

**9 What factors inhibit effective risk management?**

The main inhibitors are (a) a lack of knowledge and understanding of risk management issues at various levels in the business and (b) the time and cost involved in investing in risk management programmes.

Lack of board level support was not seen as a major problem but in many cases the role and recognition given to risk managers by senior management is seen as being too limiting.

**10 What does the future hold?**

For the majority of risk managers, improved communications, education and training came out at the top of the 'wish lists' followed by the need for an integrated approach (which combines pure and financial risks), better systems for collecting and analysing information and increased senior management involvement in risk management.

This summary is only a small part of what was a comprehensive study involving in-depth interviews with an additional 40 multinationals in the USA and the UK and focus groups with leading opinion formers in the USA and the UK. If you would like to purchase a copy of the complete survey please contact Clive Moffatt or Lindsay Clements at Moffatt Associates, 241-243 Baker Street, London NW1 6XE. Tel no: +44 (0) 20 7317 2770. Fax no: +44 (0) 20 7317 2779. E-mail: info@moffatt-associates.com