StrategicRISK

Risk and corporate governance intelligence

EUROPE EDITION

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[December 2013]
Issue 91 €25

NEWS & ANALYSIS » Typhoon Haiyan » Renewable energy » Thailand focus

VIEWPOINTS
[PROFILE] Malwine Braunwarth, head of risk engineering and insurance at aircraft and train manufacturer Bombardier, explains why little things often matter most

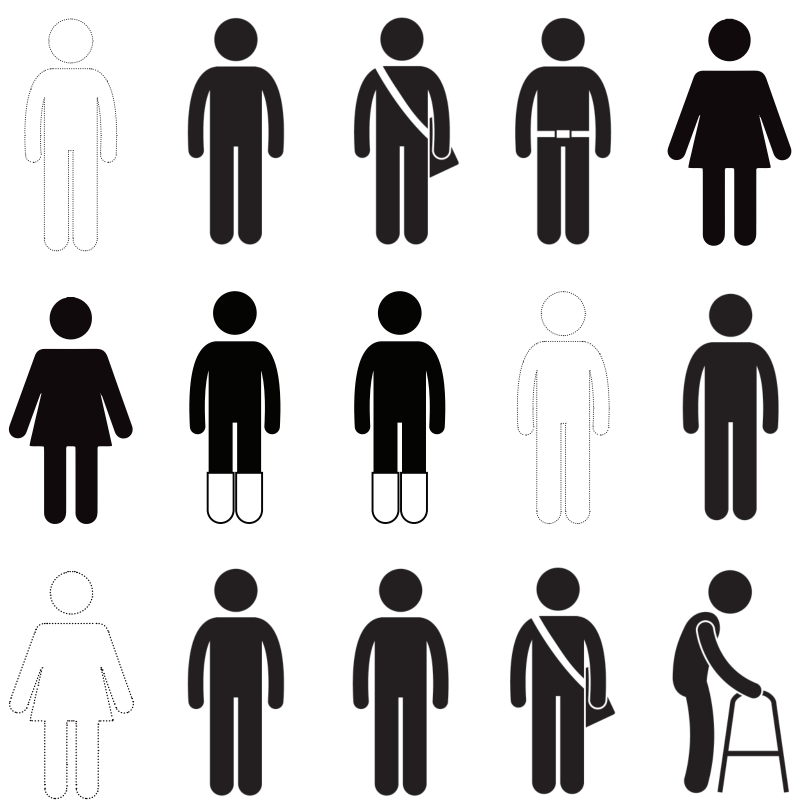
SECTOR VIEW
[TRANSPORT] Latest trends in insurance and mitigation analysed as the industry and business develop strategies to deal with changes in transportation and logistics needs

GOVERNANCE
[LITIGATION] More companies find themselves facing court action and prosecutions over a wide range of issues

THEORY & PRACTICE
[CORPORATE INTELLIGENCE] Can some individuals be just too clever to work for big businesses?

HUMAN CAPITAL

Global changes make it more important than ever to understand employment strategies



Risk Innovation
Professionals in Italy discuss the key threats to business growth

Risk Atlas
Corruption index reveals world's most problematic trading partners

Risk Indicator
Can it ever be safe to consider operating in conflict zones?

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Continuity is needed when catastrophe hits hard

GREAT STRIDES HAVE BEEN MADE IN CATASTROPHE PREPAREDNESS in recent years, but we remain enormously vulnerable to forces of nature. This was illustrated starkly last month when Typhoon Haiyan left a trail of devastation as it swept through the Philippines.

One of the largest storms ever recorded to make landfall, Haiyan left thousands dead and many more homeless as it battered the islands in just a few brief hours.

Of course, typhoons are not uncommon in the region and Filipinos are a resilient people in the face of regular adversity, but the scale of this particular storm means the country will take some considerable time to recover.

With disasters of this kind there is a human cost and a business one. The theme of this issue of *StrategicRISK* is continuity. On pages 19-23 we look at how companies can build greater resilience into their operations to keep disruption to a minimum no matter what they encounter. We also consider the benefits of the holistic approach engendered by enterprise risk management – and the pitfalls of over reliance.

Certain intellectual trends and behavioural habits can have a detrimental impact on companies

The subject of our Viewpoints feature this month (pages 14-16) is a professional who is well versed in many aspects of business resilience – Malwine Braunwarth, head of risk engineering and insurance at aircraft and train manufacturer Bombardier. Here she discusses the importance of being prepared for any eventuality – and her love of fast machines.

StrategicRISK visited Italy for our latest *Risk Innovation* supplement. This is a country where family firms dominate over large multinationals and its risk landscape is unique in several other ways. We spoke to several key figures to get their outlook on the future of a country that has seen more than its fair share of political and economic turmoil recently.

Sector View (pages 29-32) looks at the latest developments in transportation and logistics, examining trends both in the insurance market and also emerging risks that are set to influence this sphere.

As always, smart thinkers feature throughout this issue of *StrategicRISK* – but is it possible to be too clever for your own good? That is the intriguing suggestion by Cass Business School Professor Andre Spicer, who believes that certain intellectual trends and behavioural habits can have a detrimental impact on companies. Can this really be possible? Turn to pages 45-47 to find out.

For some strange reason my employers at *StrategicRISK* found this particular article immensely reassuring. Still scratching my head trying to work out why … SR

Mike Jones, EDITOR, STRATEGICRISK

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DECEMBER 2013

Businesses are increasingly looking at new sources of power

Little things matter a lot, according to Malwine Braunwarth

RISK INNOVATION

This issue's special supplement focuses on Italy, centre pages

SPECIAL REPORT

Business travel: How can businesses protect their employees when they are travelling abroad? page 33

NEWS & ANALYSIS

VIEWPOINTS

RISKS

SR ASIA

GOVERNANCE

THEORY & PRACTICE

NEWS

TOP 10 ONLINE BUSINESS STORIES

01 ENERGY

Energy firms forced into risky 'new frontiers'

Oil companies are being forced to look for new oil fields in riskier environments, said JLT Speciality's new energy divisional managing director Rupert Mackenzie.

Mackenzie's role sees him move from the firm's onshore energy business to head its energy division. He will also join the broker's executive committee subject to Financial Conduct Authority approval.

He warned: "Oil companies are being forced to … undertake exploratory drilling activity in areas of ocean with deep water, or areas like the Arctic. Exploration and production costs in these 'new frontier regions' are high and this has a knock-on effect on insurance values and puts pressure on market capacities."

web. *goo.gl/DjH17q*

02 SUPPLY CHAIN

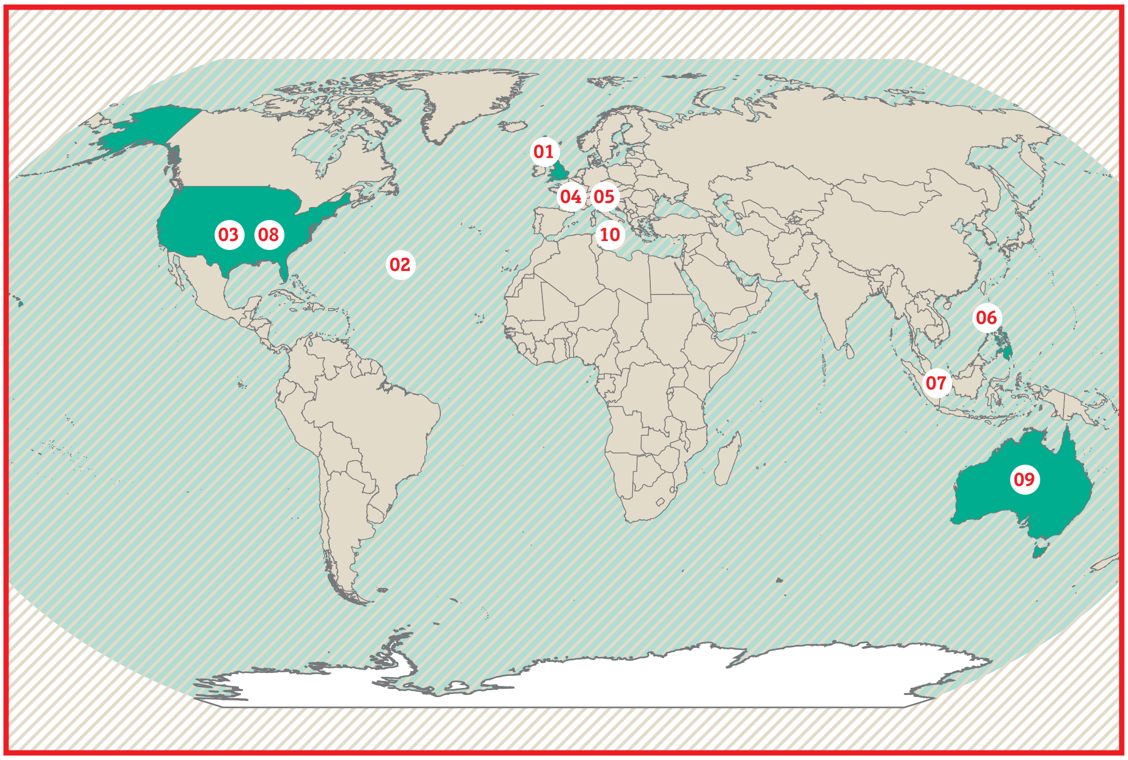
Supply chain risk comes to the fore

Risk reduction in the supply chain is the primary business driver for increased investment in managing relationships across the supply chain.

The finding was detailed in London-based procurement and supply chain consultancy firm State of Flux's annual report examining supplier relationship management (SRM) across the globe. It surveyed 500 professionals at 425 businesses and found that risk and cost-saving were the main reasons why businesses were increasing their focus on SRM.

State of Flux's chairman and founder Alan Day said: "Supply chain risk has come to the fore so much especially over the past 12 months," adding that businesses believe that SRM could improve risk management of the supply chain.

web. *goo.gl/oGHAvB*



03 INSURANCE

Aviation premiums are pushed down

Airline insurance buyers renewing in the final quarter of 2013 could expect the downward pressure on premiums to continue, said Willis Aerospace chief commercial officer Steve Doyle.

Speaking to *StrategicRISK*, Doyle said: "If the trend on losses continues and the capacity stays in the market, then there would be little to halt the downward direction of the market so it's a question of how steep that downward trend remains."

Willis's latest issue of *Airline Insight* revealed total hull losses in the airline industry to October amounted to about €457m. Liability losses in the same period were about €168m. Willis estimates that overall insurance losses in the airline sector in 2013 will be €891bn, including a pro-rata estimate of "attritional losses".

The report said abundant capacity, strong competition, limited loss activity and an aggressive broking community will benefit airline insurance buyers renewing in the final quarter of 2013.

web. *goo.gl/ulhx2d*

04 REPUTATIONAL

Risk managers still not on social media

Risk managers must communicate more with their in-house social media leads to gain tighter controls over emerging reputational threats.

Speaking after the Business Continuity Management World Conference in London last month, XMatters head of business continuity solutions (EMEA) Laura Meadows said: "There is a culture among risk managers, who generally say, 'I don't like social media so I'm not going to use it'. Millions of people use social media and can search your brand worldwide with a simple hashtag. So choosing not to be part of [social media] is just ignoring the problem."

web. *goo.gl/WHUu4q*

05 INSURANCE

Ace bosses head new global division

Ace's new global accounts division brings together some of the insurer's top executives into one organisation to drive its multinational offering.

Joseph Clabby, currently regional president of ACE's Continental Europe operations, will be the global accounts division president. He said: "We have built our infrastructure to serve large multinational customers, and this new division brings together all of these resources into one focused organisation."

web. *goo.gl/sENfvd*

06 NAT CAT

Haiyan losses were mostly uninsured

The total bill for damage to homes and commercial and agricultural properties caused by Typhoon Haiyan will be between €4.8bn and €10.8bn, according to catastrophe-modelling firm AIR Worldwide.

Haiyan came ashore in the Philippines as the strongest tropical cyclone in history, but AIR estimates that insured losses will only be in the vicinity of €224m to €522m. This is mainly because of low rates of insurance penetration in the region.

AIR Worldwide's senior principal scientist Peter Sousounis said ascertaining a storm's strength at landfall was crucial in estimating accurate insured loss. "This is a challenging task ... for Haiyan, given that no known anemometers survived the storm," he said.

AIR used track information from the Japan Meteorological Agency to model several different scenarios.

web. goo.gl/UQiO6q

07 INSURANCE

Markel's mariner is set fair in Asia

When Matthew Cannock joined Markel last year, it was as a marine underwriter tasked with developing the specialist insurer's marine hull, cargo and liability business in Asia.

And the new managing director of Markel International Singapore used nautical language to describe the company's course. "It's all set fair, it's just a question of where we apply ourselves," the qualified marine engineer told *StrategicRISK*.

Markel writes a range of insurance lines in the region, including energy, professional risks and trade credit.

web. goo.gl/LwxObl

08 NAT CAT

Lessons learned from Sandy

Superstorm Sandy highlighted the value of good risk practice – and FM Global operations vice-president Tom Roche says preparation is the key message for businesses.

The powerful hurricane made landfall on 29 October 2012, causing damage estimated at €8.7bn in New York alone. But Roche says there were few surprises, as flood maps available before the event clearly indicated the area to be to hit. He said: "People who had plans had downtime of about 10 days; with others, we are talking about months of downtime."

web. goo.gl/rBxfTF

09 ENVIRONMENTAL

Australia RMs dig deep into risk

The cream of Australia's risk management community met with the *StrategicRISK* team, local brokers and insurance industry representatives last month.

Held in Melbourne and Sydney, the Risk & Insurance Management Roundtable events provided a forum for wide-ranging discussions about Australia's risk landscape.

As bushfires raged on the outskirts of Sydney, there was general agreement that climate change was at least partly responsible for the increasing regularity and ferocity of fires, floods, storms and other extreme weather events.

web. goo.gl/laU4aD

10 FINANCIAL

No recovery for Italy's economy

Italy has been hit by another round of bad news – the country's economy has failed to improve despite two years of austerity measures.

The news came from the country's National Institute for Statistics (Istat) and its prognosis was gloomy; GDP was expected to contract by 1.8% in 2013 compared with a previous forecast of 1.7%.

web. goo.gl/bPwx2z

ONLINE CONTENTS

Most read stories

Regulation: a risk manager's friend

web. goo.gl/puyJrh

Ferma Forum 2013: interactive conference review

web. goo.gl/aLtm9y

Environmental risks in transport sector are underrated says AXA chief

web. goo.gl/LICq2N

Supporting the new frontiers of risk managers

web. goo.gl/XqGi3T

Fighting the reputation fire

web. goo.gl/GJ3ldI

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COMMUNITY UPDATE

Institute of Risk Management chairman Richard Anderson said the IRM would launch a vocational professional qualification scheme next summer.

Addressing delegates at the institute's Risk Leaders Conference in London, he said: "We are launching a new professional certification scheme that will be aimed at not just existing IRM members but anyone who is working in risk with the appropriate qualifications and the experience to demonstrate their professional standing.

"It will be positioned alongside similar schemes for engineers, lawyers, accountants and other professionals."

The qualification is intended to fit into the European qualifications network to help to build links with business schools and universities across the continent.

Airmic's new guide to warranties in insurance aims to boost buyers' confidence that big claims will be paid.

Chief executive John Hurrell said that if recommendations outlined in its guides were implemented, then confidence between policyholders and the insurance market could improve.

Reuters

People bathe in water from a broken pipe in Tacloban City, after Haiyan hit the Philippines on 8 November

Backing outsiders

When will some of the world's more troubled regions be able to welcome back investors?

1. Syria

Unrest in Syria continues to plague global political risk agendas throughout the year, with the crisis worsening significantly in the second half of 2013.

According to Maplecroft's 2013 Conflict Intensity Index, death tolls continue to rise as ongoing violent clashes escalate between pro-democracy protestors and forces loyal to President Bashar al-Assad. Western governments are attempting to negotiate Geneva peace talks. However, the Syrian coalition's failure to come up with a clear stance, as well as differences between Washington and Moscow, make delays likely to continue through to 2014.

2. Iraq

The civilian aid crisis in Iraq looks set to continue beyond 2014 exacerbated by the influx of thousands of refugees fleeing the crisis in neighbouring Syria.

Kurdish parliamentary elections held in September have altered the political landscape. "Although President Massoud Barzani's Kurdistan Democratic Party (KDP) achieved the largest share of the vote, the collapse in support for the party's former partner in government – the Patriotic Union of Kurdistan (PUK) – raises serious doubts over the sustainability of a governing coalition along these lines," say Maplecroft analysts.

Suicide bombings continue to be the main threat to civilians, armed forces and businesses, with at least two attacks per week according to UN officials.

3. Afghanistan

Although Western Forces continue to withdraw military forces, there are increasing civilian deaths and violent protests with clashes between Afghan President Hamid Karzai and the Taliban continuing to decrease stability.

Despite calls for entrepreneurs to return to the region from the Afghanistan government and foreign governments, many businesses are still struggling to find a foothold in the region. A chronic lack of safe factory sites, an unstable government, a disaffected workforce and a lack of natural market is a risk many Western business leaders are refusing to engage with.

4. Democratic Republic of Congo

The DR Congo is not plagued by the severity of the civilian wars of its neighbours in North Africa and the Middle East, but ethnic conflict and political violence is marring business potential and is set to continue in 2014.

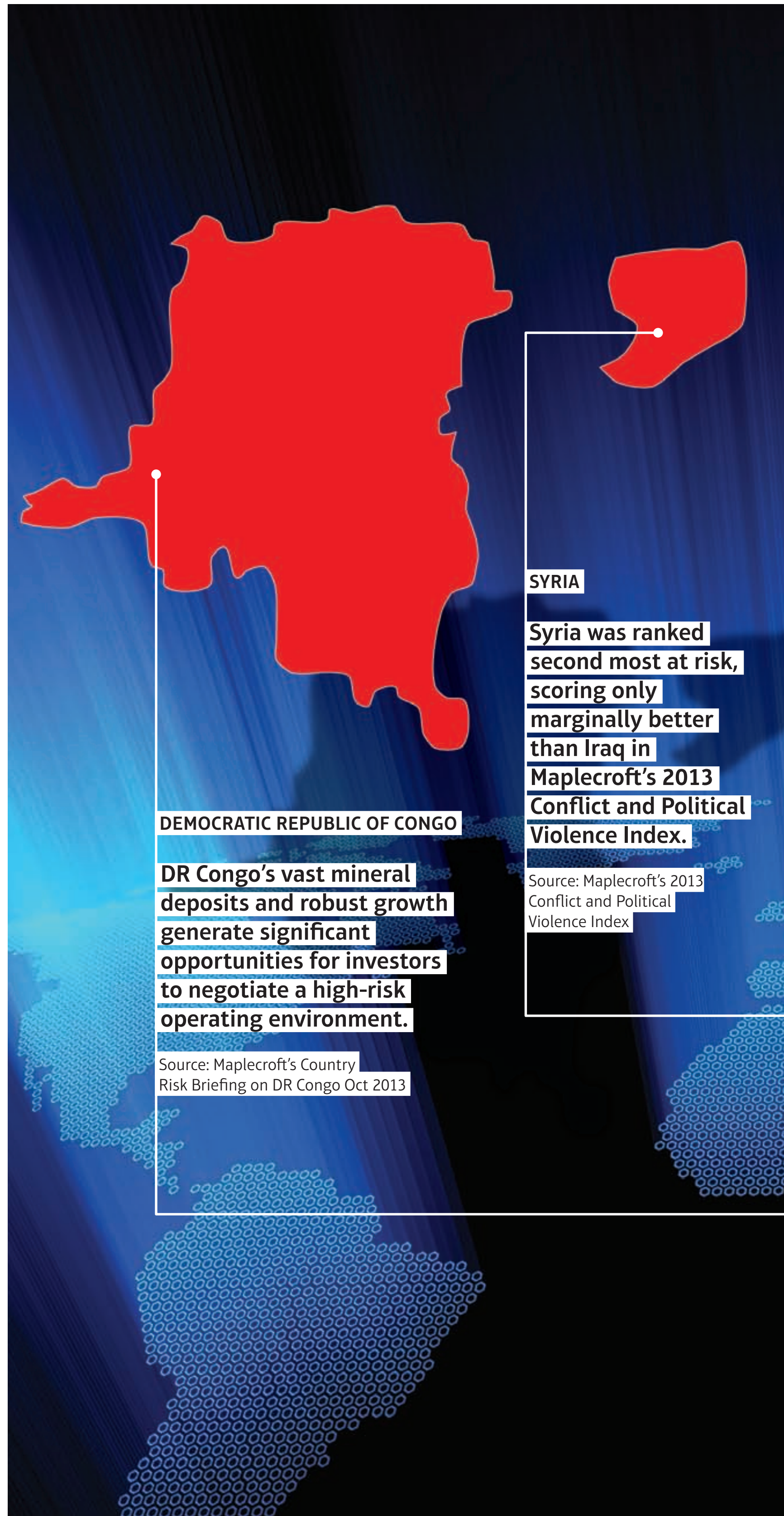
Vast mineral deposits and robust growth generate significant opportunities for investors, say analysts, but it remains a high-risk environment for businesses. According to Maplecroft, "there have been no signs of improvement in the security situation in the province over the past six months. Extreme operational challenges were also illustrated by power blackouts in September 2013 in Katanga, which caused mining companies to lower production levels".

5. Burma

Political reforms in Burma over the past two years, combined with softening international sanctions on the government, have improved conditions in the country according to some analysts.

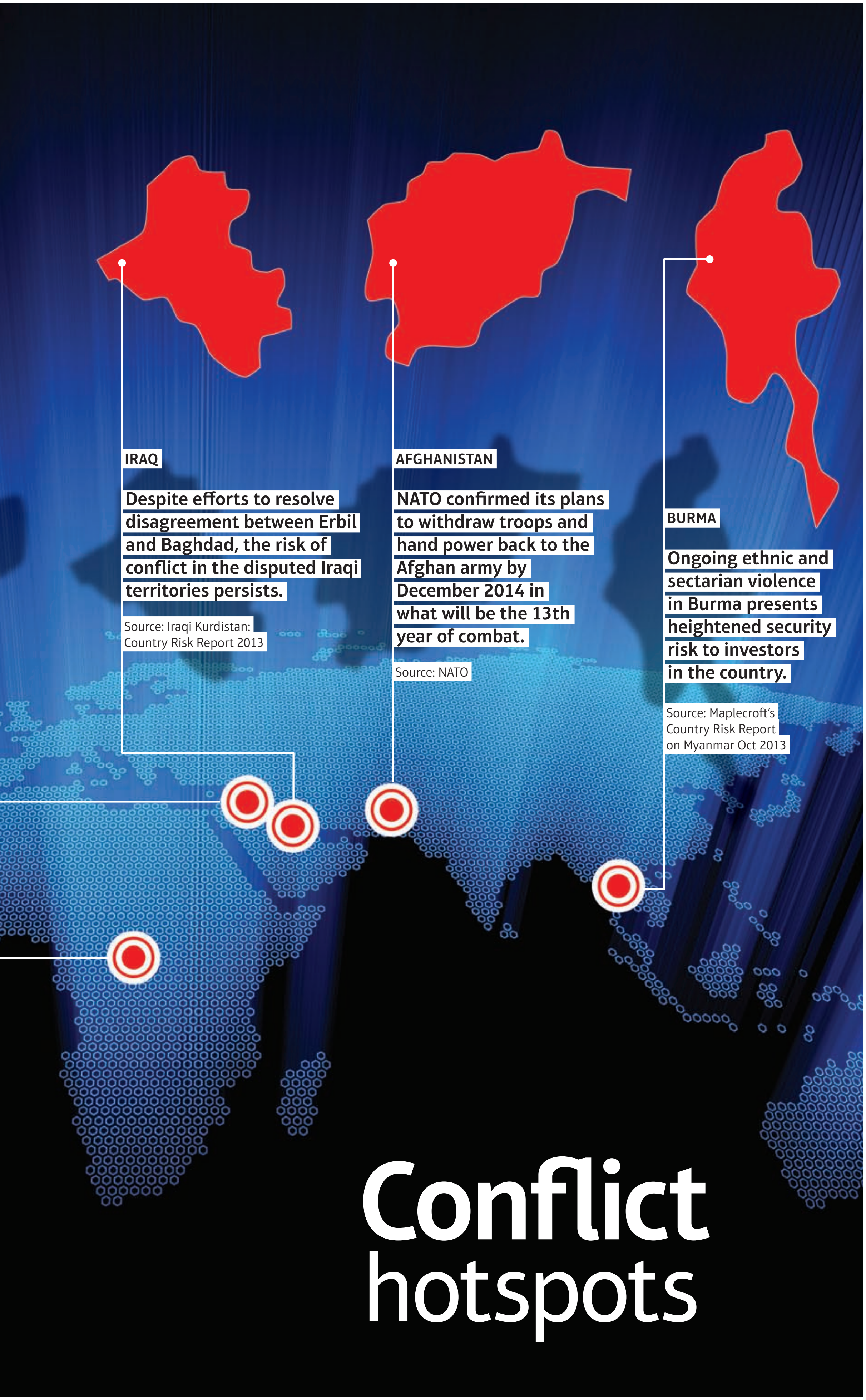
The lifting of international government sanctions and increasing overtures of economic co-operation is making it easier for businesses and investors to operate in the region.

But analysts warn that the newness of the stability also makes it likely tensions could easily flare again and investment opportunities lost. **SR**



'The war in Syria remains the world's biggest threat to international peace and security.'

Ban Ki Moon, UN secretary general, 25 November 2013



TOP FIVE

Worst air pollution

1. Ahwaz, Iran
372 micrograms of airborne particles less than 10 micrometres (Pm10) in diameter within the average cubic metre of air makes Ahwaz the planet's most air polluted city, according to the World Health Organisation (WHO).

2. Ulaanbaater, Mongolia
The second most air polluted city is Ulaanbaater, with an average of 279 Pm10 in every cubic metre of air, says the WHO.

3. Sanandaj, Iran
Around 700km to the north of Ahwaz, Sanandaj has an air pollution score of 254 Pm10.

4. Ludhiana, India
This northern city is the most air polluted in India (and fourth globally), at 251 Pm10.

5. Quetta, Pakistan
Quetta, on the route between Ludhiana and Sanandaj, has an air pollution score of 251 Pm10.

"SOUNDBITES"

'If businesses can reduce their overheads and their power costs that means they've got a better chance of survival'

Marcel Steward, independent risk consultant

>> see **News Feature, page 10**

'If there is one risk that keeps me up at night it is supply chain'

Malwine Braunwarth, head of risk engineering, global risk management and insurance, Bombardier

>> see **Viewpoints, page 14**

'Companies need to start planning their fall-back positions, particularly firms that rely on importing a vast number of supplies'

Tom Teixeira, practice leader of Integrated Risk Management, Willis

>> see **Sector view, page 29**


Reuters

After Haiyan

Natural catastrophes seem to be growing more frequent and intense, and disaster planning is essential

IN THE SAME WAY THAT 2011 WILL BE associated with the earthquake and tsunami in Japan, this year will be defined by a natural catastrophe in the Philippines.

On 8 November Super Typhoon Haiyan blew into the islands with phenomenal destructive force.

Haiyan was the fourth typhoon and the fifth named storm to hit the Philippines in 2013 – and it was by far the most damaging, creating a humanitarian disaster as it swept away small villages, left more than 3,000 people dead and displaced about 650,000 residents.

Even before Haiyan, it had already been a busy typhoon season in the west Pacific, with 28 tropical storms since June. Sixteen of these reached typhoon status (cat 1-5) and seven reached super typhoon status (cat 4-5). The Philippines had sustained three Category 5 landfalls since 2010, which is more than any other country during that timeframe.

Senior scientist and meteorologist at Aon Benfield's Impact Forecasting Steve Bowen says that Haiyan came ashore in the Philippines as the strongest recorded tropical cyclone. The fact that it remained at Category 5 intensity for 48 consecutive hours was a "remarkable feat", he added.

"Tropical systems are usually unable to maintain such extreme intensity given expected fluctuations associated with eyewall replacement cycles or interaction with land," Bowen says. "Interestingly, Haiyan continued to intensify up until landfall in the Philippines' Eastern Samar despite the storm's outer western bands first covering much of the country.

"Super Typhoon Haiyan is a storm that will be studied by meteorologists and scientists for years to come."

From an economic loss perspective, the level of devastation wrought by Haiyan means that it will probably go down as the costliest natural disaster in the Philippines's history, Bowen says. "However, the impact for insurers is expected to be significantly lower than the overall economic tally given that insurance penetration is very low in the hardest hit areas," he adds.

The bill for total damage to residential, commercial and agricultural properties from Haiyan will be somewhere between $6.5bn and $14.5bn, according to catastrophe-modelling firm AIR Worldwide. However, AIR estimates that insured losses will only be in the vicinity of $300m to $700m.

Aon Benfield Analytics Asia Pacific chief operating officer Rade Musulin says that increasing insurance penetration in the region is of prime importance. "Can the Philippines government or other governments in this situation do things to try to encourage additional insurance coverage, either through government means or through private means to help fund the recovery from these disasters?" he asks. "Another question is, can insurance provide a better funding source for part of these losses to help countries recover, instead of simply having them rely on aid and other means to rebuild?"

Musulin says Haiyan should serve as a wake-up call to the international community. "This is a terrible tragedy, but it's something which unfortunately is quite possible in this part of the world," he says. "When we have a tragedy like this, it is time to start thinking about how much you invest in mitigation as you rebuild. In some cases, for not a lot more money you can strengthen the building stock somewhat significantly."

Storms of the magnitude of Haiyan have been seen before in the Pacific Basin, Musulin says, but most have not made landfall in any densely populated areas. "Given the rapid population and exposure growth of many countries in this region, it might happen more often," he says. "So, as we rebuild from this tragedy, there should be a real hard look at community resilience and trying to rebuild for resilience instead of just rebuilding."

The Super Typhoon Haiyan is a storm that will be studied by meteorologists and scientists for years to come

Investments in risk mitigation can pay large dividends, Musulin says. “People building facilities on rivers or in places subject to flood certainly need to keep in mind the range of things that could happen to them, including the failure of flood defences,” he says. “The message is that people may have to be a bit more robust in their thinking about what sort of mitigation measures they need to take.”

Loss of life should be minimised

Robert Muir-Wood is the chief research officer at RMS, one of the world’s largest catastrophe modelling companies. He says that while typhoons are unavoidable, the loss of life that they could cause is not. “This kind of thing shouldn’t really happen; the world now knows how to prevent large-scale loss of life in cyclones,” he says. “You are going to lose property, but it should at least be possible to save the people.”

Muir-Wood says that in the case of Haiyan there was a failure on the part of the authorities. “The Philippines government itself will be embarrassed because in the past few years they’ve actually been doing a very good job at taking action to limit disasters.”

People in low-lying areas were not informed that they were threatened by storm surges, Muir-Wood says. “I don’t think they did alert people in a way that they could have done to highlight that in low-lying communities people need to move further inland,” he says. “You can see that in the city of Tacloban there’s a huge amount of exposure just a few metres above sea level, so if you have storm surge of six or eight metres, there’s an enormous amount that is affected by it.”

A lot of thinking is needed to go into working out how best to protect communities on islands “where you can’t simply get everybody to move 50 miles inland”, Muir-Wood says. “In the US you’d evacuate the people at risk, but this is much more of a challenge when you’re on an island and there are few vehicles,” he says. “A small proportion of buildings like community centres need to be hardened to be able to withstand cat 5 winds, and located high enough to avoid storm surges.”

Muir-Wood says that the Philippines is probably the most “disaster-impacted country in the world” if you add up all the earthquakes, volcanic eruptions, floods and super typhoons it experiences. “The eastern edge of the Philippines is the coastline most affected by cat 5 tropical cyclones anywhere on earth,” he says.

“And if you look objectively at the intersection between exposed populations and the hazards, then Asia itself is at the worldwide centre of disaster impacts. Haiyan is a manifestation of that intersection of people and hazards.” SR


Lawrence Livermore National Laboratory

POWERING UP

With the use of fossil fuels reaching crisis point, renewable sources of energy are on the increase, yet still pose problems in terms of costs and specific risk

THERE IS NO DENYING THAT the world is running out of fossil fuels. If we continue to use crude oil at our current rate of four billion tonnes per year, in combination with our current population trajectory, known crude oil supplies will run dry by 2052, according to the CIA. Even if gas is used to fill the crude oil gap, it is likely to buy only another eight years of energy consumption. In September, the US government's push for energy independence saw its oil production through hydraulic fracking jump to its highest levels since 1989, drastically cutting its consumption of foreign fuels. But in reality, all supplies are finite and the ticking clock on diminishing supplies indicates something needs to change – and fast. Could renewable energy really be the answer?

Experts argue that renewable energy is by no means a simple solution and is one that is costing billions of dollars a year in research and development; however, there is hope on the horizon. Recently, US scientists have succeeded in experiments with nuclear fusion – the process that powers the sun – with the aim of producing a self-sustaining power supply.

In other words, the creation of power plants that create more energy than they consume, and possibly the future of the world's main power source.

For the foreseeable future, however, current renewable energy sources – including sunlight, wind, rain, tide, wave and geothermal heat – are the available options; each source coming with its own risks, making it still largely unfeasible for majority use by businesses and governments. Technological risks include the inability to properly harness, store and utilise produced energy, while financial risks involve making the cost of sourcing and using renewable energy essentially unprofitable for businesses and consumers without heavy and costly government subsidies. Efficiency and efficacy of the energy itself in terms of where it is located and how it is sourced and used feeds into a definite political risk and power struggle meaning renewable energy's lustre is starting to wane for many businesses.

Risk managers and business leaders say the first step to properly utilising renewable energy for business is to reduce operational and management costs of the energy source itself. Renewable energy development firm RES chief economist David Handley says improvements in technology are already reducing costs. "We are seeing more renewable technology being built onsite so we can now work with individual companies to find the best, most cost-effective renewable energy source available to them. A reduction in costs of particular technologies has brought it down to a much more manageable level." Handley adds, however, that it is still only a cost-effective, viable business option for large industrial companies at the moment.

Slow uptake for renewables

Independent risk consultant Marcel Steward agrees slow uptake of renewable energy resources by business is primarily due to prohibitive costs, but believes the recession helped push forward renewables as an alternative for businesses looking to cut energy overheads. "If businesses can reduce their overheads and their power costs that means they've got a better chance of survival. It also means they can leverage everything they possibly can to meet fierce competition in their main operations, for example, if a company is in manufacturing from the Far East."

Steward also says that slow uptake is a result of confusing government subsidies or subsidy terms over time. "It's very cost orientated and cost sensitive because it is a changing field from the point of view of the government subsidy and the government strategy. There's been this question of 'I'm not sure there is going to be a 10-year payback or it's going to be a 20-year payback or can I afford it now? I don't know how much I'm going to get next month in the subsidy'. That's why we've got this relatively slow take-up in the West."

Such heavy reliance on government subsidies means renewable energy firms are also struggling to sell renewables as a viable business option. »

» Aon Renewables head of renewables Tom Sexton says the issue of government subsidies will remain until the real cost of producing megawatts of renewable energy reduces. "There is still quite heavy reliance on government subsidies because the actual cost of producing one megawatt of renewable energy electricity is still probably higher than traditional, conventional power sources."

'You wouldn't go down the route of one technology to replace all of your energy supply'
Marcel Steward risk consultant

But experts agree that any majority reliance on renewables as an energy source is not a risk any business should be undertaking just yet. Aon Power chief executive Hamish Roberts says it is all about having the right mix. "You've got to have a fuel combination. Renewable energy, nuclear, coal, combined cycled gas etcetera all have their issues. Some are ugly. Some are pretty. Some are dangerous. Some are expensive. They all have their benefits and they all have their deficiencies and that's why you've got to have a mix."

Steward agrees that the risks with renewable energy are still too great to have all the energy eggs in one basket, but says companies can increase their green values in other ways.

"You wouldn't go down the route of one technology to replace all of your energy supply. That just wouldn't happen. That risk is not really there, and even if you use, for instance, photovoltaics [solar panels], which will replace perhaps a proportion of your energy usage, you can still up your green credential aspect in terms of where you're buying your power. You can buy from a utility provider that is generating electricity from green resources in wind energy or whatever else. You can still get the carbon reduction and the green credibility effect by choosing your supplier in terms of your back-up supply. There's relatively little risk in that respect."

Storage and volatility

But one major risk that continues to plague the entire energy sector is the inability to store electricity, whether it is obtained via traditional fossil fuels or through renewable resources. Roberts says: "The unique thing about the power sector is that you cannot store electricity. It is instantly volatile and that means that the electricity in a light bulb is instant. It is produced the moment it arrives, whereas oil, gas, chemical, and petrochemical are physical commodities and they can therefore be stored and therefore they're less volatile." Roberts says this volatility increases the production price, and by extension, the financial risk for businesses looking to use renewables.

Another risk for businesses to consider is ensuring the effectiveness and appropriateness of the renewable energy for the site location of their business. Employing solar panels in England is just as fruitless as employing hydropower in the landlocked Middle East. Engaging with regulatory policy issues also poses a significant risk to business. But once these hurdles are overcome, says Handley, the possibilities for businesses are endless.

"Once you've got the site there, and it's operating, it runs incredibly well. Plus, you've effectively mitigated or reduced your exposure to a lot of those more volatile longer-term risks [associated with traditional carbon-based fuels]. However, businesses do have short-term deployment risk that needs to be managed effectively," says Handley.

A question of time

Deployment of cost-effective, reliable renewable energy onsite is the future of business, but experts are drawn on exactly how far away this future is. Handley argues that space onsite is the key determinant for utilising renewable energy sooner rather than later. "If you've got space to deploy renewables like wind turbine technology, then there are very good prospects for you over the next four or five years.

"If your site is potentially more constrained space wise, but you have a resource like a food waste product, then again, there are lots of opportunities for you.

"I think the challenge for most businesses is to understand what the best opportunities are and the ones most appropriate for their site. Then look at the way to exploit those opportunities most cost effectively, within the quickest time schedules," Handley adds.

Western government economies are not yet built to withstand the instability and pressures of an entirely renewable energy based system, say experts.

"At this point, I don't think we're in a position where we're likely to see a complete replacement of the fossil-fuel energy resource, either practically or politically," says Handley. "I don't think we're anywhere close yet to coming up with a particularly well differentiated or sophisticated strategy for integrating renewable energy into any economy worldwide. At the moment we're still feeling our way."

Even so, recent pressure on the UK electricity industry and its highly unpopular pricing hikes may force both businesses and governments to rethink strategies and forward planning sooner than expected. "Over the next three or four years, certainly on the electricity side, we can see there are increasing concerns about investment in the UK infrastructure at a national level," says Handley. "That certainly is likely to re-accumulate or repeat over the next three- to four-year time period. If that investment isn't coming forward appropriately, then there's likely to be greater volatility in the electricity prices, and having renewable energy that is contracted on your business site could provide a very cost-effective hedge to that."

Handley adds: "Utilising renewable energy is something that is going to be growing for most industries and most companies. Renewable is about taking control of your energy supply chain, and becoming more aware of how you manage energy risk. How businesses source their energy is going to be a critical risk factor. Effectively, it will be the icing on the board agenda cake." SR


*References the 2008 Forbes Tax Misery & Reform Index
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ON THE RIGHT TRACK

PROFILE: MALWINE BRAUNWARTH

Focusing on the smaller things is crucial for risk management in the transport sector, according to Bombardier's head of risk engineering

CV

- Malwine Braunwarth holds an MSc in civil engineering from the university of Karlsruhe, Germany
- After graduating in 2000 she worked for three years as a project engineer in the traffic and transport planning sector before being hired by FM Global as a loss prevention engineer
- Braunwarth joined Bombardier Transportation in 2008 and was appointed head of risk engineering in 2011
- She is a member of the German risk management association DVS Deutscher Versicherungs-Schutzverband
- Her hobbies include golf and improving her Swahili

COMING FROM AN ENGINEERING background, Malwine Braunwarth finds being head of risk engineering, global risk management and insurance at the multinational aerospace and transportation firm Bombardier just about the perfect job.

"I love fast trains," she says. "There are more than 100,000 rail vehicles in operation and because of my extensive travel I've already used several of them. I love speed – especially when it comes in combination with our smart energy-saving ECO 4 technologies.

"Bombardier's Zefiro will be my chosen train going on vacation in 2014 when I go travelling through Italy. The V300 Zefiro can reach a speed of up to 360km per hour and will link north and south Italy – I like that 360km per hour speed.

"Having used one of our Zefiro trains already in China, where they have already been in use for four years, I know that it will be a very comfortable journey."

The new C Series aircraft are another favourite.

"They are one of the quietest commercial aircraft in production," she says. "As I know many people who live near the airport in Berlin, I know personally how much noisy aircraft can affect people's quality of life."

But hi-tech engineering like this requires a comprehensive approach to risk, and when Bombardier staff tuned in to watch a live feed of the maiden flight of the C Series 100 on 16 September 2013 it was the culmination of a sophisticated programme of analysis and risk management.

"We have to make sure that the assembly of the aircraft doesn't face any delays from supply chain problems or incidents at the facility itself," says Braunwarth.

Risk engineering for the C Series' assembly sites, for example Belfast, Northern Ireland or Mirabel, Quebec, was carried out in line with Bombardier's corporate standards relating to construction, occupancy, protection and exposure – just one set of directives that Braunwarth believes makes the firm a world leader in risk management.

Prepare for any eventuality

The overall mandate of Bombardier's Global Risk Management and Insurance is to adequately protect the assets and liabilities of the Bombardier Group. "We look at the big picture," says Braunwarth. "We look at risk based on our entire product range and our worldwide portfolio across product liability, risk during the development phase, supply chain risk, high-value concentration, property and business interruptions scenarios, builder risk and wrap-up.

"We act as internal consultants to Bombardier Group companies on risk management, insurance, loss prevention, risk engineering, claims settlement and marine cargo insurance matters.

"You never quite know what a typical day will bring. For example, I arrived at work this morning and received a call to say one of our trains had derailed, which obviously required my attention immediately.

"We have a small team, only 12 people, but overall our department deals with about 300 proposals a year on various projects, with our response led by Bombardier senior director of global risk management and insurance Daniel Desjardins.

"We closely examine contract terms and conditions, examining indemnities and meeting insurance requirements," says Braunwarth. "Our aims are to minimise the frequency and severity of losses through implementation of loss prevention measures; provide effective loss control by assisting in the equitable settlement of losses or in the defence of third-party claims and to minimise the effects of large, unexpected losses through effective risk transfer.

"Our philosophy at Bombardier is that there is nobody that understands our risk better than Bombardier."

In line with many multinationals, Bombardier is increasingly aware of the complexities of international work. "If there is one risk that keeps me up at night it is supply chain," says Braunwarth. "Even before the March 2011 event in Japan we launched a major business continuity and supply chain exercise with Marsh risk control consultants, their engineers and forensic accountants to help evaluate the business continuity risk of some of our key facilities."

One of the reasons for this early action was the 2010 flood when the River Spree burst its banks and flooded a 90,000sqm Bombardier manufacturing site in Germany.

The speed and pure volume with which the normally small river that ran adjacent to a Bombardier manufacturing site flooded the facility meant even the best planning wasn't enough to avert disaster.

The sheer size of the facility meant that a huge amount of equipment and stock was exposed to potential damage. "We knew what we needed to do in the event of a flood. For example, using sandbags and lifting equipment and stock off the floor. But within fewer than three hours the flood level had reached a height of 1.65m," Braunwarth says. »

'It can be challenging operating across many countries'
Malwine Braunwarth
Bombardier

» "The rapidly rising water, coupled with the lack of any flood warning, meant our emergency plan could not be effectively implemented.

"Although the situation was gradually brought under control, we knew that loss at one site could have a severe impact on the rest of Bombardier's business – at the time, the light rail vehicle site had 28 ongoing projects at the manufacturing unit."

Learning process and being at a project's start

Braunwarth and the team had to find the best way to restore activities and get back to business as quickly as possible. "Although the cleanup was completed within about a month, it took almost a year for everything to return to normal," she says. "However, we didn't lose a single contract due the flood and the insurance claim was settled within a year.

"We certainly learned a lesson. Now we invest even more time evaluating natural hazard exposures, investing in physical protection measurements, educating site personnel on the threat of catastrophes and being more prepared for the unexpected."

This learning process fits in with what Braunwarth sees as a trend towards an increase in natural catastrophes.

She says that to fully appreciate your exposure it's important not to make the mistake of only focusing on where you spend the most money – you need to make sure that you are focusing on the smaller, potential high-impact suppliers of critical sub-components, items with long replacement times, supplies that can only be obtained from a single source, those with a long lead time and components that are vital to safety standards.

"It is critical that we are involved early in any project," says Braunwarth. "We are very good at the traditional risks – fire, property, that kind of thing – and we are getting more and more expert at looking at the emerging risks [see box].

"It can be challenging operating across many countries, with different legislation and operating environments. I was at a meeting recently in Casablanca and I would say that we had eight nationalities around the table, all different languages. Being female, being involved in this international project, being the only one there from the customer side – you need to be prepared and you need to listen as well as lead."

Braunwarth believes that the risk manager needs to be a connector between the internal and external aspects of a project. "You need to be not only technically focused, but you also need to lead a meeting in such a way that everyone feels able to give their opinion," she says. "People are usually willing to engage with risk management if they understand that we are not a remote department that is just bringing extra cost, and the best way to make sure people understand that is to be there on a project from the beginning.

"It's about showing how you can make things run more smoothly, more safely and save people time and money.

"Risk management is a daily learning curve – be open minded." SR

Examination of different risk scenarios

Reputation
"Globalisation coupled with the growing and fast-moving internet world will intensify reputational risk, making it increasingly difficult to deal with," says Braunwarth. "Content posted on Facebook, Twitter and other social media platforms has the potential to reach billions of users within seconds.

"People often form opinions based on what has been tweeted or posted on an online social media website – even if it may not be true. Personally, I would consider reputational risk as the hardest threat to control for any business."

Cyber
Increasingly complex, interconnected networks working across multiple sites and nations – and interacting directly with customers – expose firms to a rapidly evolving risk. "Several questions about cyber risk were raised at the DVS symposium last September," says Braunwarth. "What amount should be insured?', 'Will insured parties get adequate cover?' But these are questions that should only be raised after the potential insured has thought through and formed a detailed understanding of the related loss scenarios.

"Ultimately, both insured and insurers need to do their homework and find some time to form a common agreement and understanding of related risk scenarios."

Supply chain
The vulnerability of international supply chains has been exposed time and again, and smart companies are working hard to re-analyse their exposure to this risk. "Bombardier's interest is to understand and evaluate the risks in and around our supplier's site location and try to quantify the interconnected risks – such as nat cats – that could affect suppliers down the global supply chain," says Braunwarth. "Climate change and the increase in natural disasters will continue to affect global supply chains. A natural catastrophe in one country will affect the availability of supplies in another. You need to know where your suppliers are located and understand how products are going to be transported and what the route is.

"At Bombardier, we have a very robust strategy and, together with our insurers and business units, we will go on to work with the different threads to our business, which will help us return to normal operation after a catastrophic event."

'Europe has changed almost beyond recognition since the 1930s, yet disturbing similarities remain'

OPINION
MIKE JONES
EDITOR, STRATEGICRISK

IN JUST A FEW MONTHS EUROPE WILL MARK THE CENTENARY OF THE START OF THE Great War. There will, of course, be no celebrations, merely sombre reflection on one of the most senseless and destructive conflicts in human history.

More than 16 million people died. However, despite the grim human toll this was not the war to end all wars, instead it just sowed the seeds for another even more appalling conflict a mere 20 or so years later. Germany's perceived injustice at the Treaty of Versailles led to a rise of nationalism that was exploited by Adolf Hitler, who found – in the Jewish religion – a convenient scapegoat for all the country's woes. Right-wing movements also sprang up elsewhere in Europe throughout the 1920s and 1930s – notably in Italy and Spain where ultimate power was seized. Other countries including the UK, Belgium, Portugal, Poland and Greece also had sizeable groups from the far-right at this time.

While the rise of fascism was triggered by different reasons in many of these countries, there were also common grievances such as bitterness and resentment at the impact of the straitened financial circumstances that became the Great Depression of the 1930s. Europe has changed almost beyond recognition since those dark days, yet disturbing similarities remain today.

Right-wing politics has always flourished during periods of adversity where causal accusations could be laid squarely at the door of particular societal groups or organisations. Now is such a time once more. For the past decade those European parties that have campaigned on an anti-immigration platform have seen support grow steadily. However, the real catalyst has been the global financial crisis.

The 1929 Wall Street Crash was echoed in the collapse of Lehman Brothers in 2008 – two events on the other side of the Atlantic that had huge economic and political repercussions for Europe. The eurozone was meant to bring financial strength and unity to the continent, but the aftershocks of the US financial meltdown also led to its near ruination.

Economic Armageddon was narrowly avoided yet Europe remains on a perilous precipice. This situation has played directly into the hands of the right who now have another target – the EU. Last month the leader of the right-wing Dutch Freedom Party Geert Wilders joined forces with French National Front leader Marine Le Pen ahead of next year's European elections.

Le Pen described it as "an historic day". "The time of patriotic movements being divided is over," she said. Wilders called it the "start of the liberation of Europe from the monster of Brussels". Where once such a move would have raised eyebrows but not enormous concern, there are now genuine fears about the potential implications of this growing alliance.

They have plenty of support for their twin campaign policies: to give EU countries the powers to control their own economies and borders once more. And there are other parties elsewhere that could find such an alliance attractive, including Vlaams Belang in Belgium, the Danish People's Party, the Sweden Democrats, Freedom Party in Austria and Italy's Lega Nord. Many of these are expected to win a large number of votes in the 2014 European elections next May. Their reasons for working together may be varied but most share broad views on EU powers and fears over immigration.

Long-term unemployment, collective austerity measures and the influx of migrants, both from within the EU and beyond, have given this group of right-wing parties a collective cause. If voters support them in the numbers predicted and the parties stay together they could influence EU laws as a bloc. Even if they do not wield enough power to ultimately change policy they could at least stifle or derail decision making processes.

There is little doubt that next May's European election results will be the most closely watched for many years

A more chilling prospect might be the effect that such power has outside Brussels – emboldening supporters to take to the streets and apply more direct action against common enemies, who or whatever they might be. Anarchist groups across Europe often come together for street protests – it is not inconceivable that like-minded members of the far right could do the same en masse. In the 1930s, propaganda was a key element of galvanising people to their cause. Today's leaders have the internet, social media and instant messaging to promote their causes for immediate action.

While it is unlikely that we will ever again see the level of mass extremism that brought such misery to the continent during the fascist era, trouble does appear to be brewing once more. History may not be repeating itself, but there is little doubt next May's European election results will be among the most closely watched for many years. **SR**

'Things are more difficult in the economically fragile less developed countries'

OPINION
ANDREW LESLIE
EUROPEAN EDITOR, STRATEGICRISK

ANOTHER MONTH, ANOTHER NATURAL DISASTER. TYPHOON HAIYAN, which hit the Philippines on 8 November, is estimated to have left about 5,000 dead and hundreds of thousands more displaced. It's just the latest in a long line of natural catastrophes to have caused mass death and devastation over the past couple of decades. We may not be able to prevent the disasters, but are we getting better at managing the risks?

In some cases, the answer is positive. In 1991, a cyclone killed almost 139,000 in Bangladesh and destroyed 780,000 homes. In May of this year, cyclone Mahasen left a death toll of 17. Admittedly the two storms were not comparable in strength, but two decades of risk reduction measures by the United National Development Programme and the Bangladesh government have done much to reduce the impact. Before Mahasen struck, a network of 50,000 volunteers took to the roads to warn people to move to higher ground, while 3,700 shelters stood ready to receive displaced people. Similarly, following the tsunami that hit an unprepared Thailand in 2004, the Pacific Tsunami Warning Center was expanded and its range extended. SMS messages to mobile phones following an alert are available for many of the countries in the region.

So it may be argued that pre-disaster measures, such as providing early warning, ordering evacuations, or providing resilient infrastructure have improved. But in the immediate aftermath of a disaster, things are more difficult. The problem is that, without a proper assessment of what is needed where, aid may arrive in the wrong place, in the wrong quantities at the wrong time. We saw the problems this can cause in the aftermath of the 2010 Haiti earthquake, where aid piled up at the airport because distribution networks were inefficient, flights in weren't properly prioritised, and there was consequent delay. Yet it takes time to make an assessment, especially if there are isolated populations that are cut off by infrastructure damage, while the need for the basics – food, water, shelter – is immediate. Disaster experts reckon there is a three-day window before people start being driven to take what they need, with a consequent risk to law and order. Five days after Typhoon Haiyan, reports were emerging of widespread looting, while aid was backing up at Cebu airport due to a shortage of aircraft small enough to use the local airstrips. All these conflicting pressures, combined with a raft of risks arising from the local conditions – ranging from the efficiency of government and military structures to the damage to infrastructure – mean that it is hard to implement a coherent plan.

That it can be done is shown by the widely praised response to the 2008 Sichuan earthquake in western China, where more than 15,000 troops were mobilised almost immediately, working in appalling conditions, but with a proper command and control structure. But things are more difficult in the economically fragile less developed countries where the majority of natural disasters happen, and which are dependent on the outside world coming to their rescue.

That outside world is becoming better at managing another risk, with the multiplicity of charities, non-governmental organisations, specialist agencies and rescue teams ready to become involved. Increasingly, logistics and appeals are becoming co-ordinated through central structures such as the UK's Disasters Emergency Committee, which works under the overall umbrella of the International Federation of Red Cross and Red Crescent societies. But it is probably United Nations Disaster Assessment and Coordination – only founded in 1993, but now with 90 participating countries – that provides the best chance of co-ordinating multinational disaster response from a central point.

Natural disasters seem to be increasing in frequency and magnitude. The response will never be problem-free, but there is good evidence that many of the peripheral risks are being brought under control and actively managed. And, with each new disaster, we learn more, though usually at a great cost in lives. **SR**

It takes time to make an assessment, especially if there are isolated populations

RISKS

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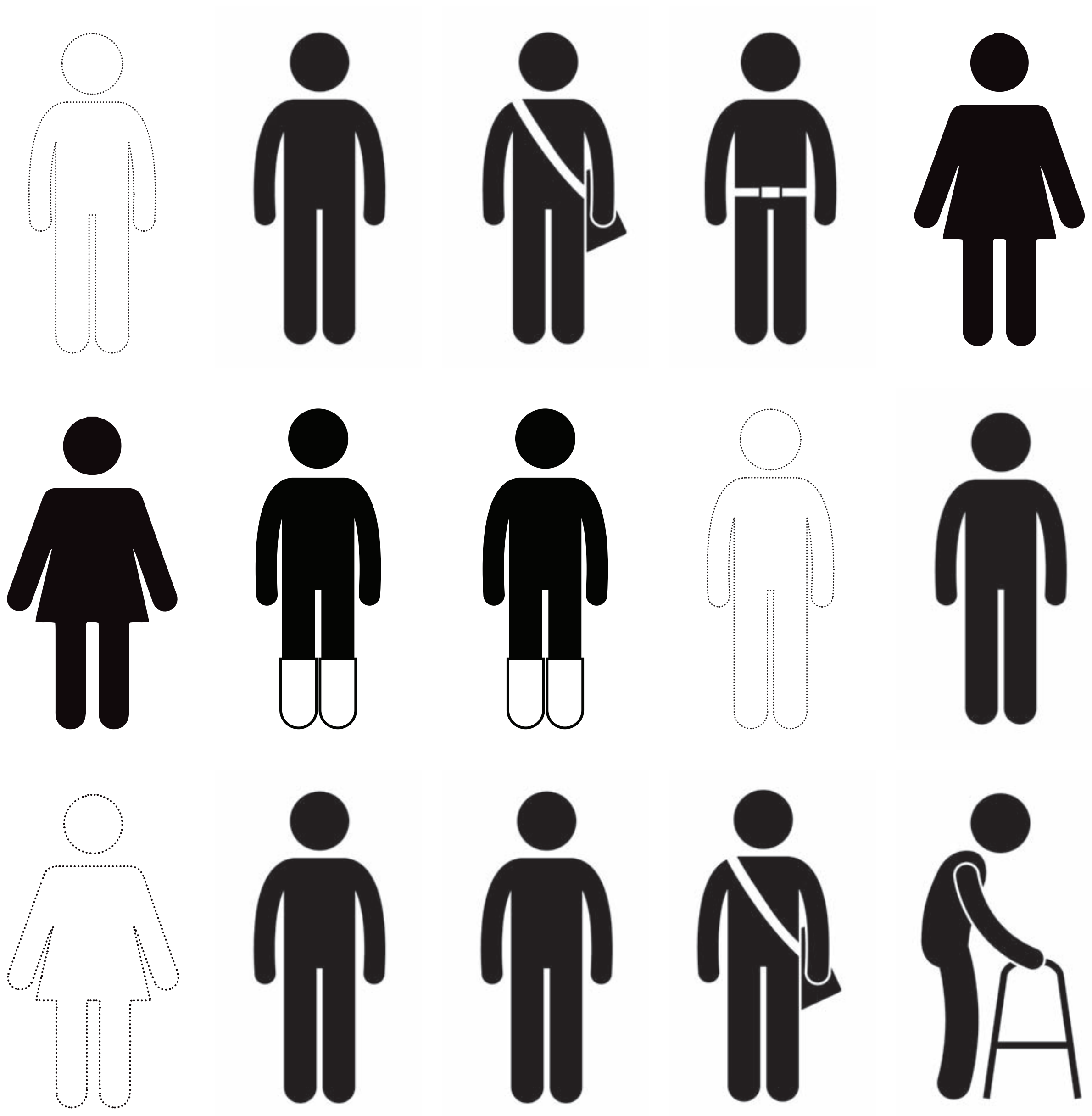

HUMAN CAPITAL

How staffing issues are changing
and how this affects businesses

»

YOUTH UNEMPLOYMENT

OVER THE PAST DECADE youth unemployment has reached crisis levels in many countries. In developed economies population demographics are changing. Employees are retiring later and staying longer in the workforce. At the same time, the financial crisis that reached its height in 2008 has shrunk the pool of available jobs and means that school leavers and new graduates are often going head to head with older, more experienced workers.

As a result, says Cass Business School professor of human resource management Nick Bacon, young workers are struggling to find adequate employment. He likens it to being in a "job queue". He says: "As soon as jobs become thin on the ground, people with less experience get pushed to the back of the queue, so it becomes harder and harder for young people to get into the jobs market to build up that experience that employers say they need."

In the UK in 2012, youth unemployment cost the economy £10.7bn in lost output, which will increase to approximately £28bn in just a decade, according to the Association of Chief Executives of Voluntary Organisations (ACEVO). The term NEET originated in the UK, meaning youths who are not in education, employment or training. In Greece and Spain more than half of young people are unemployed and NEETs are estimated to cost the EU €153bn (1.21% of GDP) a year. Jobless levels of 25% or more are common in Europe, the Middle East and North Africa.

Youth unemployment and dissatisfaction was one of the major triggers for the Arab Spring that has affected many countries in North Africa and the Middle East since 2010. The actions of one frustrated fruit seller in Tunisia sparked a wave of protests that caused riots, demonstrations and civil wars across the region.

Social unrest has also risen in the EU, sparked by the eurozone crisis, with numerous protests in Greece between 2010 and 2012. "In Greece unrest was prompted by a sense of unfairness about how the Greek economy is treated by the rest of Europe, as well as youth unemployment," says Bacon. "It normally needs a particular trigger to mobilise young people to act as a group."

Global estimates of youth unemployment are around 75 million. This number would triple if underemployed youth were included in the International Labour Organization estimate. "This represents not just a gigantic pool of untapped talent," states McKinsey & Company in its report *Education to Employment*. "It is also a source of social unrest and individual despair."

Minorities suffer most from un- and underemployment. In the US, figures show unemployment rates among young blacks are twice as high as those for their white counterparts. "The problem is very alive in the US," says Bacon. "There's a connection between an education system that's not producing enough people with the right skills and a long-term decline in the average earnings, particularly in the bottom quartile."

In Turkey, with one of the youngest populations in Europe, youth unemployment reached more than 20% in May 2013. Turkey came fourth in a list of the 10 most unproductive countries in Western Europe, according to the OECD. "Countries all over Europe are recognising the dangers a 'lost generation' of young unemployed present to social stability and future economic prosperity," notes this year's Lloyd's Risk Index.

"It's a danger and a risk," says Zurich Insurance in France chief executive Anne Charon. "Companies have workforces that are getting older and are not open enough. Even if you have fantastic, innovative and creative teams who want to move their business forward, to some extent they will stay as they are. Having young people on board is really an opportunity to open minds with fresh ideas and see things from a different angle. Having said that, the key to success comes from a mix of young and experienced staff, who are able to jointly provide support to the table."

Low-skill, low-wage economy

It is a Catch-22 situation. Young workers cannot get a foot on the jobs ladder because they lack experience, experience they are unlikely to get until they land their first job. There are a variety of government initiatives trying to encourage employers to take on new graduates and school leavers including the EU's Youth Guarantee. However, in reality only around one-fifth of UK

Too many young people have limited access to high-quality work experience

companies are willing to employ somebody straight from college or university, reveals Bacon.

"You start to see youth unemployment problems accelerate around 2005 and actually predating the recession, but the recession then makes it worse," he says. "Inevitably when you get people with lots of experience coming back into the labour market, young people do get pushed further back."

Young people who are unemployed for a long time will earn less throughout their whole lives, studies show. "The group we're all worried about is school leavers with no qualifications, because we just know they're twice as likely to be unemployed," says Bacon. "They are condemned to a lifetime of being in and out of work, and when they're in work, it's very low paid occupations that are very insecure. This is the lost generation that everybody is very concerned about.

"Our overall human capital in the country starts to deteriorate if we don't provide clear incentives and benefits for trained-up young people who have done well at school," he concludes. "People will get dispirited and question what training and education is for. This is an important issue for universities given that students are paying more for their education. If that investment is not going to pay off in terms of enhanced earnings for all students then it may deter some young people from investing in education, and the UK may slip into a low-skill, low-wage economy more quickly as a result."

Youth unemployment is closely interlinked with another global crisis, the shortage of people with critical job skills, according to McKinsey. Nearly 40% of employers say a lack of skills is the main reason for entry-level vacancies.

'The UK may slip into a low-skill, low-wage economy'
Nick Bacon Cass Business School

The Forum of Private Business (FPB), which represents over 18,000 small and micro businesses in the UK, says while its members are keen to give young people opportunities to succeed, many are being discouraged because of "recruitment risks", which are "too difficult to bear in the current environment". Several FPB members also felt young people were not adequately prepared by schools for the workplace.

Employers have difficulties with succession-planning, reveals the FPB, because there is no longer a retirement age. Companies struggle to let go of older workers (many of whom are choosing to work longer into retirement due to the difficult economy), even if they are unproductive, as a result of barriers such as HR law and concerns about employment tribunals.

The solution

To avoid future deterioration of human capital the private, voluntary and public sector need to work together to close the gap between young people's skills and the experience demanded by employers. Young people need both the hard and soft skills to progress in education or work and too many have limited access to high-quality work experience and information and advice, says ACEVO.

Employers, education providers and youth live in parallel universes, says McKinsey, and need to become more engaged. By including work placements as part of their studies, students will be more able to build up a track record that is likely to impress prospective employers when they leave school, says Charon.

"When they leave school, graduates often do not have any experience from a professional point of view," she says. "They have some theoretical knowledge, but not always practical skills. In business schools we are now seeing that students are obliged, during the course of their degree, to take on internships, which is a good way for them to reinforce their CVs when they arrive in the work market."

Zurich also makes use of the fresh perspective a younger workforce can offer when it comes to strategic decision-making. It pulls together young staff from all areas of the business to brainstorm. Winning ideas are put into practice at a group level. The company also has a junior committee tasked with challenging the firm's country committee, a formal group comprising the legal, risk and communication heads for Zurich in France.

As well as offering work placements and recruiting plenty of young talent into the organisation, Charon stresses the importance of offering training and clear opportunities for progression. "When you invest for two years in young talent – training him or her and giving opportunities to be visible, to engage other people in the company – at the end of two years I don't want to see them leaving and going to a competitor. So we do our best to retain our talent." **SR**

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OFFSHORE CENTRES

THE 1990S AND EARLY 2000S SAW a boom in offshoring, with global giants such as IBM, Microsoft and Accenture making use of India's low-cost English-speaking workforce. Global insurer RSA followed suit in 2004 when it announced the transfer to India of 1,200 front-line customer and administration roles. The offshore project was predicted to save more than £10m a year and the insurer promised consistent service, wherever the call was answered.

Cheap overseas call centres must have seemed the perfect answer to the eternal question confronting many firms: how to stay competitive and keep costs down without losing or alienating their customers. But come the 10-year anniversary of RSA's offshoring deal, the insurer announced last month that it will no longer have overseas call centres.

So why did RSA repatriate its workforce and why have others taken similar action? In RSA's case, customer service was brought to the fore in March when it employed a new customer service director John Elliott.

"Our [business strategy] is so centred on customer excellence that it was clear from nationally available research that the right decision would be to repatriate voice roles," says Elliott. "There are parts of the market that don't feel reassured dealing with someone abroad – wherever it is."

Elliott is keen to stress that RSA's Indian teams are "brilliant at following process and transactions" but admits: "The missing ingredient was [business] culture. "

The insurer is keeping a team in India to deal with internal queries from staff. One-third of calls by RSA personal lines customers were answered in India. It finished moving 100 claims roles to the UK last month, and will transfer 250 roles in sales and servicing by the middle of next year.

Crucially, Elliott says, the move will not cost RSA anything. "Going offshore is a slightly false economy. The reality is that we were seeing hidden costs through customers calling us again for confirmation of what they'd been told by a colleague in India."

Industry experts agree that the sentiment tide is turning against overseas call centres. "Many players are reconsidering the use of offshore centres, given the concern over customer reactions and the importance of interaction by phone," says The Boston Consulting Group insurance partner James Platt.

Cheap overseas call centres once seemed the perfect answer, but offshoring is not a hit with everyone

"We know there is a link between customer satisfaction and the level of retention companies achieve, in some cases reducing customer departures by 25%," he adds.

"So, it's clear companies need to think carefully about the balance between potential for revenue gains and the reduction in operating costs."

Right calibre

Service providers, manufacturers and cosmetic companies are also among those to realise the benefits of offshore outsourcing.

For example, international law firm DLA Piper outsources some of its support services and routine legal tasks where precedents exist. Director of risk management and insurance Julia Graham says this strategy allows its high-calibre city-based lawyers to spend less time on the more commoditised activities.

"Outsourcing can be an answer to securing the right calibre of worker," says Graham, who is also the current president of Ferma. "The ability to attract, develop and retain talent has become one of the biggest competitive issues for law firms.

"We are a knowledge business and talent management is an issue of strategic importance. The 'right' and consistently high-quality talent is at a premium in the world of law."

Graham says mobility of its workforce is a strategic tool through which talent can be grown and developed and the vision and values of the firm "exported".

"Consistency is key," she says, when considering outsourcing and staffing decisions. "Clients expect work to be delivered to a consistent standard and differences in working methods, practice maturity and standards of legal education across the globe can be a material challenge."

In some sectors the legal and regulatory challenges for talent mobility can be considerable – and cross-border working may not simply be an issue of gaining permits or the 'right to work'.

"The importance of talent management has drawn HR into the spotlight as a strategic business partner and not purely part of a firm's administrative back-office," she says.

Outsourcing of back-office functions has been where some dotcom enterprises have found their niche in the past decade.

Peopleperhour.com and Elance.com are among two of the successful companies where firms around the world tender for services such as design, IT and tech support using a traditionally lower-cost workforce in India and China.

Interestingly, however, Peopleperhour.com has reported that it is now seeing 'reverse offshoring', where jobs are being created for European professionals servicing emerging economy companies looking to up their game.

The company reported a trebling over the past year in the number of users selling their skills to firms based in countries that have historically been outsourcing hubs. The number of PeoplePerHour users selling to India alone has increased 239% to 1,119.

Writing clear and concise English copy, helping with basic maths or data management and organisational tasks are all in demand, according to the firm.

This reverse offshoring focuses on harnessing specialist skills, rather than the traditional focus of driving costs down: the average British freelancer on PeoplePerHour earns $35 per hour, while the equivalent in India is about $9 per hour.

This flow of services from Europe to emerging economies is a consequence of the offshoring trend, according to Martyn Hart, chairman of the National Outsourcing Association.

"The real problem is that people cannot decide what they think about offshoring," he says.

"You have to be careful how you manage it, but globally it is good for everybody."

However, some doubt that the hunger for reverse offshoring can last. As Graham says: "A bad process outsourced will still be a bad process – but conducted a long way from base."

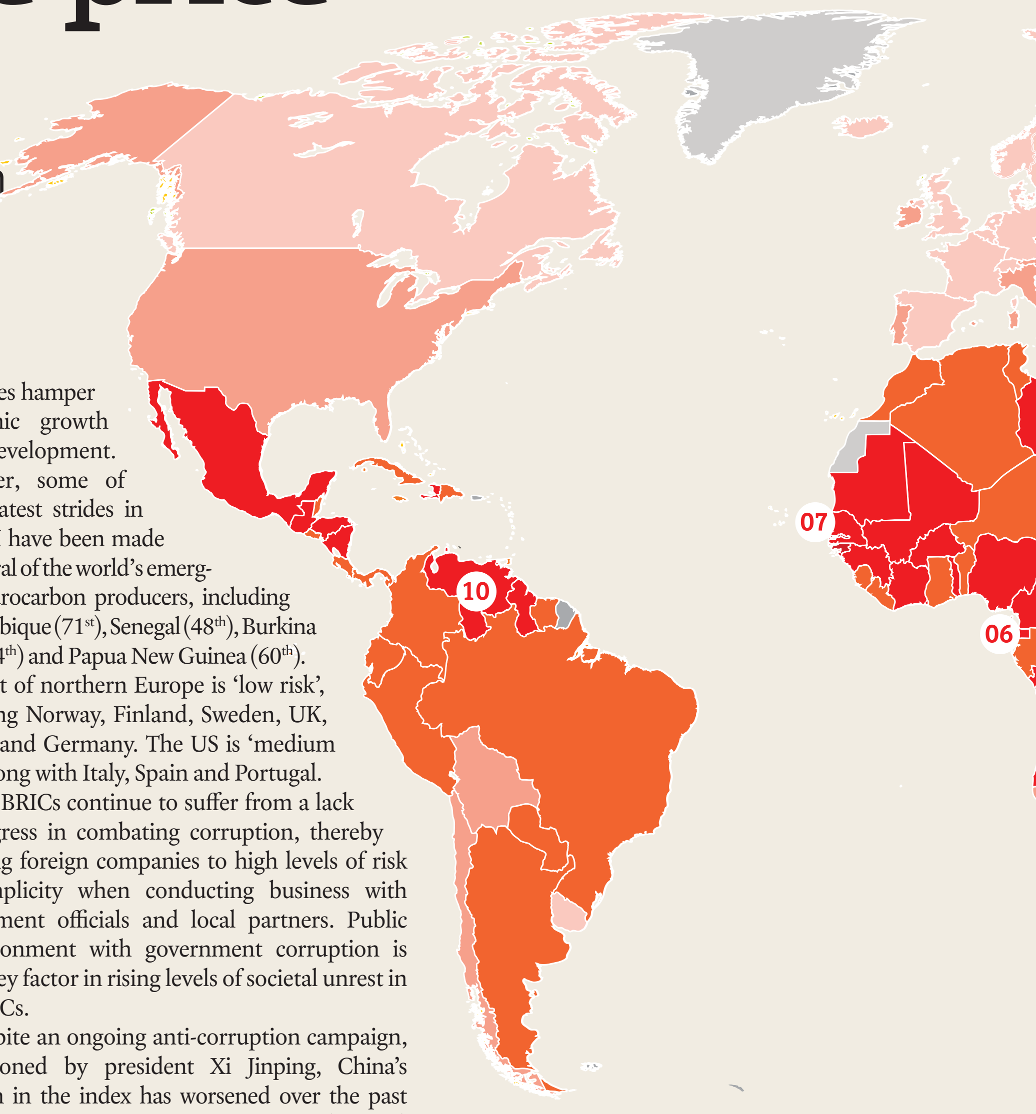
So whether it's traditional or reverse offshoring, it seems that the tide is turning on strategic decision-making when it comes to outsourcing.

For now, RSA says its net promoter score – a customer satisfaction measure – has risen from 19% to 40% since March, when it axed scripts and began transferring claims roles to the UK. That means More Th>n and RSA have 40% more advocates than detractors.

Keeping its customers happy is what it's all about at RSA and, where big players go, others follow. This may not be the last time we see a major player repatriate its customer-facing workforce to more common ground. SR

Paying the price

Inability to deal with corruption is having an impact on the economic growth of the BRICs



Economic growth in Brazil, Russia, India and China – the BRIC countries – continues to be inhibited by corruption and high-profile scandals, with their respective governments unable, or unwilling, to enforce appropriate laws and unmoved by street protests.

Research by Maplecroft found that anti-corruption laws are in place in all the BRIC economies, but implementation and enforcement remains consistently weak, indicating a lack of political will to address the issue.

In the past four years, there has been no improvement in the rankings of the BRICs in Maplecroft's Corruption Risk Index (CRI) of 197 countries. Russia (25th from bottom) and India (69th place) remain as 'extreme risk', while Brazil's ranking shows no progress at 90th and is still in the 'high risk' category.

The CRI evaluates countries on the reported prevalence and persistence of corruption in the public and private sectors, as well as the efficiency of governments in tackling the issue, and enables companies to identify where the risk of association with corruption is highest.

The World Economic Forum estimates corruption adds 10% to the global cost of business and up to 25% to that of procuring contracts in developing countries. Six of the top 10 'extreme risk' countries are in Africa, with Myanmar (3rd), North Korea (8th), Cambodia (9th) and Venezuela (10th) completing the top 10.

Oil- and gas-rich economies are sometimes associated with what is referred to as the 'resource curse,' whereby widespread corruption and economic mismanagement of natural resources hamper economic growth and development. However, some of the greatest strides in the CRI have been made by several of the world's emerging hydrocarbon producers, including Mozambique (71st), Senegal (48th), Burkina Faso (54th) and Papua New Guinea (60th).

Most of northern Europe is 'low risk', including Norway, Finland, Sweden, UK, France and Germany. The US is 'medium risk', along with Italy, Spain and Portugal.

The BRICs continue to suffer from a lack of progress in combating corruption, thereby exposing foreign companies to high levels of risk of complicity when conducting business with government officials and local partners. Public disillusionment with government corruption is also a key factor in rising levels of societal unrest in the BRICs.

Despite an ongoing anti-corruption campaign, championed by president Xi Jinping, China's position in the index has worsened over the past year, with the country dropping from 88th to 75th within the 'high risk' category. High-profile scandals have dogged the country over 2013, culminating in a series of arrests of allegedly corrupt officials at the state-owned China National Petroleum Corporation in early September.

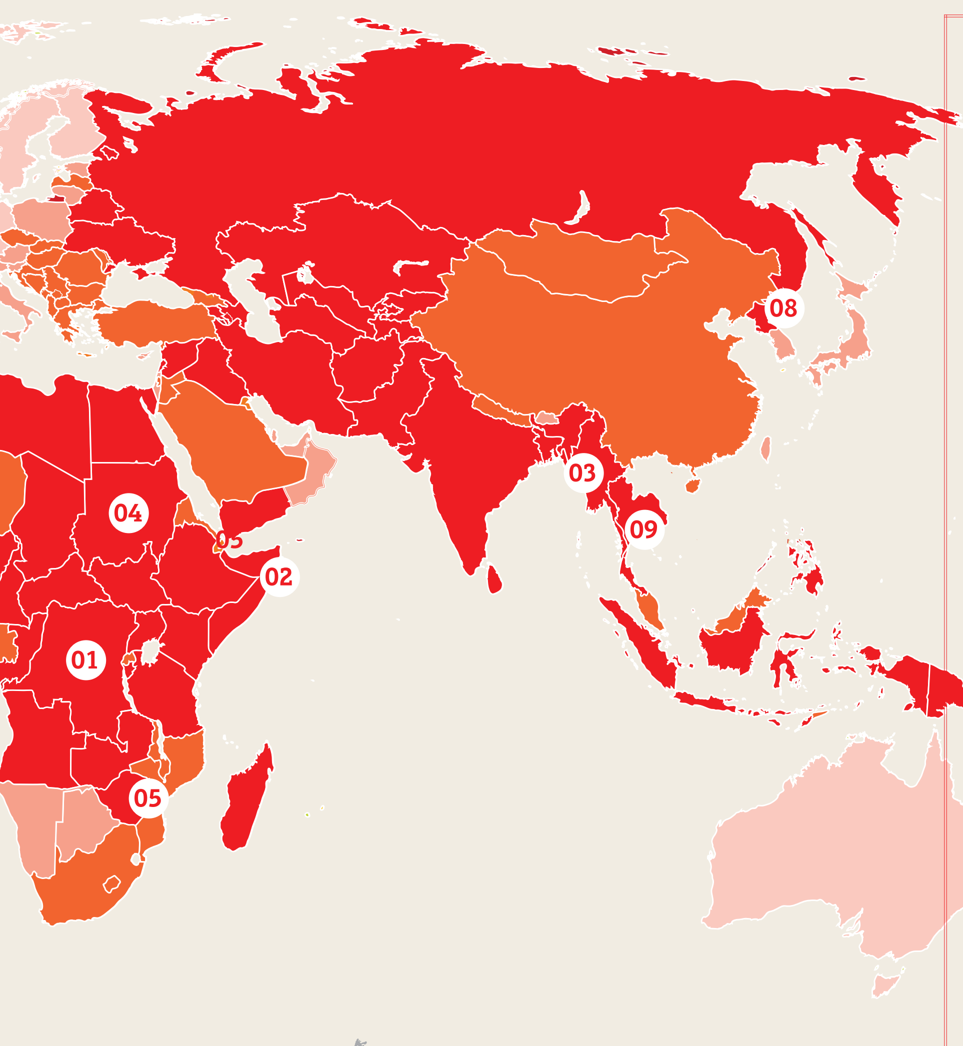
More of a concern for business is the ongoing scrutiny of the pharmaceutical sector, which has seen Western multinationals accused of allegedly bribing doctors to secure procurement contracts. These cases underscore the risks foreign firms face when engaging with public bodies in growth markets.

Since the majority of global brands operate in the BRICs, the CRI results may raise concerns for companies about exposure to potential reputational damage and legal repercussions under extraterritorial anti-corruption legislation, such as the UK Bribery Act and the US Foreign Corrupt Practices Act.

Maplecroft senior corruption analyst Trevor Slack says: "Scandals continue to arise in all of the key growth markets and corruption remains one of the most prominent compliance risks that businesses face. Where corruption is widespread, it also impedes democracy, the rule of law, protection of human rights and economic development."

If the BRICs want to reignite economic growth, their respective governments must tackle corruption and begin to build a cleaner, more reputable marketplace for business to operate in. **SR**

AIG



CORRUPTION RISK TOP 10

1 **DR Congo**
2 **Somalia**
3 **Myanmar**
4 **Sudan**
5 **Zimbabwe**
6 **Equatorial Guinea**
7 **Guinea**
8 **North Korea**
9 **Cambodia**
10 **Venezuela**

KEY

- Extreme risk
- High risk
- Medium risk
- Low risk
- No data

Expert view: Corruption

Corruption takes many forms and in recent years Western governments have brought in legislation that has introduced sanctions on firms found to be in breach of the regulations. Good examples are the Foreign and Corrupt Practices Act in the US, which has been in force for many years, and the 2010 Bribery Act in the UK which replaced the old common law with a new consolidated and comprehensive anti-bribery code.

Western economies are not alone in outlawing corrupt practices. Many countries have similar legislation, including all the BRIC countries. As research from Maplecroft shows, applying and enforcing that legislation is another issue altogether. It also indicates that there has been little or no improvement in many countries in recent years.

However, UK and US legislation has a long geographical reach. For example, it can apply to offences committed outside the UK by foreign commercial organisations with only a nameplate business presence in the UK, even if the UK-based part of the business was not involved in any bribery.

For example, a ship-owner incorporated abroad but with a London office conducting its chartering operations may be caught by the act should one of its vessels pay a facilitation or 'grease' payment to jump a queue at a port outside the UK.

It is therefore incumbent on risk managers to understand the potential risks and put in place adequate governance. Having a robust governance procedure that follows the six principles set out by the Ministry of Justice allows a company to defend any prosecution. These are:

- proportionality – larger organisations need to do more;
- top level commitment;
- risk assessment – know the people and markets you operate in and the practices that prevail;
- due diligence – Know with whom you are dealing and who might be representing your business;
- communication – ensure that staff know and understand company policies and procedures; and
- monitor and review – keep pace with any changes in legislation and the markets in which you operate.

The risks of getting it wrong are immense, not only in financial terms but also with respect to reputation damage. Indeed, looking at recent high-profile examples in the pharmaceutical industry, getting it wrong could compromise strategic investment in new markets.

When it comes to corruption the key messages are understand and manage the risks endemic in the markets where you operate and choose partners that have a history of experience in those markets and which can be trusted.

Grant Merrill
Commercial directors' and officers' and crime manager, AIG

Courting the capital markets

A fall in prices for some of the more traditional catastrophe cover is forcing insurance-linked securities to seek more diverse premium markets

THE TRANSFER OF peak catastrophe risk to the capital markets has hit an all-time high in 2013. But what does "convergence" mean for insurance buyers?

A significant change has been taking place in the property catastrophe (re)insurance market over the past decade, one that has been ramped up since 2008. In the low interest rate environment capital market investors, pension funds and institutional investors have increasingly been turning their attention to insurance. Among the risk transfer solutions they have been backing are fully collateralised reinsurers, catastrophe bonds and industry loss warranties (ILWs).

An estimated $42bn of these insurance-linked securities (ILS) will be in force by the end of this year, according to Willis Re. The influx of non-traditional capital on the sector was felt at the mid-year US property catastrophe renewals, with pricing for traditional reinsurance dropping as a result of the competition. Non-traditional capacity now makes up an estimated 14% of global property catastrophe limit, with much of it (over 70%) focused on US peak risk, such as Florida windstorm and US earthquake. This could grow to 30% within three to four years, says Willis Re.

But what does this mean for commercial insurance buyers? There is anticipation there will be a further influx of up to $100bn of additional ILS capital over the next five years. This could have a profound impact on the insurance industry, with a ripple effect that is likely to affect classes of business outside of property catastrophe. The 'fungible' nature of the capital, which can move far more quickly in and out of the insurance industry, is also expected to remove the peaks and troughs from the insurance cycle.

"As Airmic and as insurance buyers we like to think that the big fluctuations in premium rates is not something we'll confront in the future," says Airmic technical director Paul Hopkin. "That is substantially driven by the fact there is significant capital available to provide insurance and other risk financing mechanisms."

The growth in ILS also means the insurance industry will be forced to respond and potentially become more innovative. "Insurance products have to remain relevant to organisations," says Hopkin. "Otherwise they run the risk that other funding mechanisms put themselves forward and are considered to be more relevant by people who are currently insurance buyers."

In the future buyers could enjoy softer pricing for many classes of business, as excess capital is spread around the sector exerting competitive downward pressure on rates. Willis Re predicts between $30bn and $40bn of traditional property catastrophe reinsurance capacity could be displaced by the new money coming in. While some of this will be returned to shareholders, some of it will be redeployed into other parts of the business, including commercial insurance.

Going direct

There is also the option for some insurance buyers to directly tap the capital markets for capacity. This year's MetroCat Re cat bond is a good example. Worth $200m and issued on 30 July, it was sponsored by First Mutual Transportation Assurance Company, the New York-based captive insurer of the Metropolitan Transportation Authority (MTA). It was the first cat bond to solely cover storm surge risk.

The MetroCat deal was deemed attractive in the aftermath of Superstorm Sandy, which inundated parts of New York's Manhattan Island in October last year, including the Brooklyn-Battery tunnel and seven subway stations. "The traditional avenues we use for insurance and reinsurance contracted dramatically, making it exceedingly difficult for the MTA to obtain insurance," said MTA chairman and chief executive Thomas Prendergast. "We anticipate that this deal represents the start of a long-term alternative reinsurance option that diversifies MTA's risk management strategy."

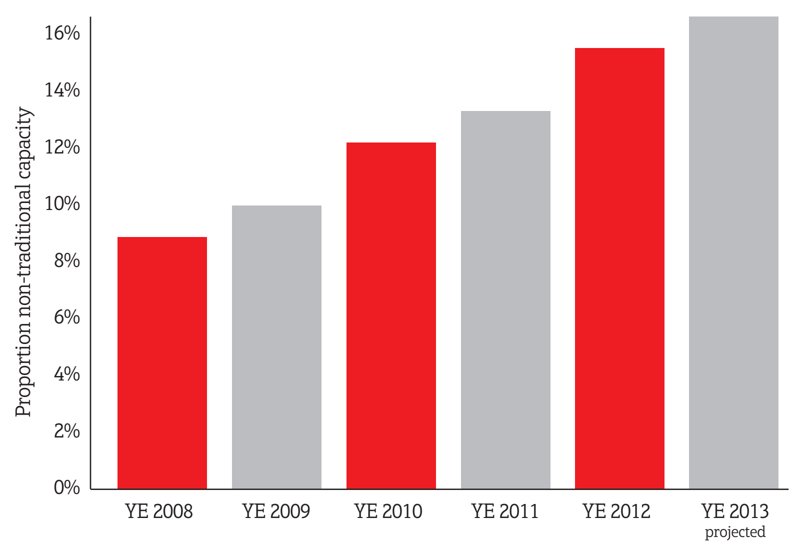
And according to Guy Carpenter vice-chairman David Priebe, there are similar deals in the pipeline. Its ILS advisory, GC Securities, acted as bookrunner, joint structuring agent and lead manager on the cat bond. "MetroCat Re is not a one-off," he says. "We are seeing real demand and interest from corporate insureds to access the capital markets as a way to secure additional capacity."

"The insurance market continues to be the solution provider of choice, as it provides tailored coverage on a very cost effective basis," continues Priebe. "However, large corporate buyers are looking to access the capital markets for increased capacity beyond what is available from the general insurance market and the capital markets are poised to offer solutions. The area of greatest focus is towards protecting assets and earning streams that are highly exposed to natural catastrophes."

With ILS costs and barriers coming down the option of tapping into capital market capacity will become more feasible for insurance buyers. ILS pricing has reduced by between 25% and 70% for peak US risk transactions, and this non-traditional capacity is increasingly branching out into other areas. Cat bonds to cover workers' compensation, motor and terrorism have been structured in the past and aviation cat bonds have been mooted.

The launch of two cat bond platforms this year could help broaden the scope of cat bond perils. The Tokio Tensai Platform (created by a subsidiary of Tokio Millennium Re and GC Securities) and more recently, Kane SAC's private cat bond platform, have been launched to facilitate smaller cat bond transactions.

Cell companies are increasingly being used to access capital market capacity, according to »



Source: Guy Carpenter & Co

Viewpoints

Paul Hopkin, technical director of Airmic
"We're of the opinion the cost of insurance seems to be fairly appropriate and the days of huge fluctuations in premium rates will not return. Significant capital available in the insurance market and with other risk financing products is partly what supports that."

Justin Wallen, MD of Hexagon PCC Group
"With increasing amounts of capital heading into the ILS space we are confident that the growth we have experienced under the Hexagon PCC umbrella during 2013 will continue and most likely be expanded upon in 2014."

Steve Evans, founder and owner of Artemis
"There is huge opportunity for large corporates to issue cat bonds privately, use collateralised cover etc. However, they do need to be large enough to segment off their property catastrophe risk, as capital providers won't want to take a bundle of other property risks within a deal, they'd likely prefer it segmented by wind, quake and other perils."

Expert view: ILS comes of age

Insurance Linked Securities (ILS) are growing in popularity among insurers as a means of accessing greater quantities of affordable risk transfer capacity. Investors are also increasingly attracted to ILS because returns are non-correlated with the general financial markets.

Aon Benfield says that in the 12 months to the end of June 2013, "the ILS market received record capital inflows from both new and existing investors". Specialist cat funds remain the largest part of the ILS investor base, however, institutional investors are a growing proportion. Mutual fund participation is up and is "a future source for increased direct participation in the ILS sector".

In a separate report Brian Schneider, co-head of reinsurance at Fitch Ratings, said: "The convergence of the reinsurance and capital markets is likely here to stay and should continue to grow in the near term."

Guernsey's long and strong heritage in both the investment and insurance sectors means that it is uniquely placed to service ILS structures.

The net asset value of funds under management and administration in Guernsey stands at €212bn. This comprises a wide range of investments, including the ILS asset class. One example is the DCG Iris Fund, which is traded on the London Stock Exchange, where Guernsey is the global leader in non-UK listed entities.

Vehicles established in the island can also access other global capital markets, including the Channel Islands Stock Exchange (CISX), which is based in Guernsey. In 2012, the CISX became home to the first private catastrophe bond listed on any exchange worldwide – Solidum Re Eiger IC (see case study).

ILS business within Guernsey's international insurance industry is growing significantly. There were 778 licensed entities at the end of September, which is net growth of 41 from the end of last year and a large number of the new entities are Protected Cell Companies, Incorporated Cell Companies or related cells engaged in ILS transactions.

There is growing recognition of the role that Guernsey can play as a centre where fund managers and promoters with capital to deploy are brought together with the transformation managers who understand insurance risk.

Fiona Le Poidevin is chief executive of Guernsey Finance – the promotional agency for the island's finance industry

'Large corporate buyers are looking to access the capital markets for increased capacity'
David Priebe Guy Carpenter

Justin Wallen, managing director of Guernsey-based Hexagon PCC Group at Robus Group. "I have seen a large influx of business into the three PCCs that we set up specifically in 2012 to provide transformer cell facilities to ILS Funds wanting to access returns available from ILS type transactions," he says.

"In the main, our cells enter into fully collateralised reinsurance contracts, although we have also facilitated a few fully collateralised ISDA [swaps and derivatives] contracts as an alternative way of taking on these risks," he explains. "We work with three different ILS Fund Managers and have set up 25 different cells to date during 2013, primarily to conclude collateralised reinsurance and with approximately $300m on risk.

"I have been responsible for these types of transactions since 2007 and the main difference I have noted in 2013 compared with prior years is the move away from the more traditional property catastrophe coverage to a broader cross-section of risks, including marine and energy, crop, personal accident, premium reinstatement and even prize indemnity," he continues. "I believe this is a diversification strategy for the ILS Funds being driven by two key components. First of all it is a risk mitigation strategy and secondly the fall in pricing for some of the more generic US windstorm, EU windstorm and Japanese/US quake covers is leading the ILS Funds to seek new markets to continue to be able to produce higher than average returns." SR

Case study

Aon Insurance Managers in Guernsey, which has been involved with more than 80 ILS transactions since 2006, has worked with Swiss ILS manager Solidum Partners to establish Solidum Re Eiger IC. It is an insurance vehicle that listed bonds with a value of €39m on the CISX. It was the first CISX listing where natural catastophe perils are the underlying exposure for 'principal at risk' notes.

Legal advice for the deal was provided by Bedell Cristin in Guernsey. Managing partner Mark Helyar, who finalised the listing, said: "Guernsey and the CISX are ideally placed to support this business because of the specialist sectors able to provide a high-quality, transparent marketplace for securitising cat risk in a well-regulated jurisdiction."

Cedric Edmonds, partner at Solidum and director of Solidum Re Eiger IC, said: "We chose Guernsey as a jurisdiction for its incorporated cell reinsurance company and private cat bond platform because of the Incorporated Cell Company legislation and the 'can do' attitude of the service providers."

SECTOR VIEW

TRANSPORT

Links that threaten logistics chain

The cost of moving a company's goods across the world are getting cheaper each day but that doesn't mean it is risk-free. Often the more complicated the route, the more exposed your company could be to the risk of supply chain disruption

MODERN BUSINESSES ARE on the move as never before.

Complex global supply chains stretching down to third, fourth, even fifth-tier suppliers are normal practice for many firms as globalisation offers cheaper products in ever further-flung corners of the world.

This transport boom is being accelerated by the fact that it is getting cheaper and cheaper to ship goods worldwide.

In 2006, Young's Seafood hit the headlines when news leaked of the firm's plan to ship British-caught prawns on a 12,000-mile round trip to Thailand to take advantage of low-cost labour to process the shellfish.

An extreme example, perhaps, but it is difficult to argue with the hard facts of globalisation. According to the Council of Supply Chain Management Professionals, in 1980 logistics represented 17.9% of US GDP. Today, it is 7.7%.

Logistics costs in Europe are even lower at, on average, 7.15% of European GDP.

But just because companies can move goods cheaply over huge distances, this does not necessarily mean that they should.

The longer and more complicated the route that your goods take to market, the more your company is exposed to the risk of disruption.

A 2012 survey by the Business Continuity Institute revealed 73% of respondents had been hit by at least one supply chain interruption, with the average being five, while 59% cited loss of productivity as the major impact of a disruption, up from 49% in 2011.

Across all indicators, interviewees reported greater experiences of these impacts, with an average of three distinctive consequences for each event.

'A lot of companies overlook the fact that there might be a key supplier that is small in size but critical in their operation'

Tom Teixeira, Willis

Since 2009 a string of nat cat events – including a tsunami in Japan and flooding in Thailand – have together served as a wake-up call to companies as they caused widespread and costly business interruption across many sectors as key suppliers were knocked offline for days, weeks and even months.

This occurrence was something that all too often came as a total surprise to risk managers.

"There are things that have not being considered in the past that need to be considered now," says Tom Teixeira, practice leader of integrated risk management at Willis.

"Irrespective of the sector one of the key risks faced by companies is the loss of key suppliers, and the resulting business interruption and additional costs of working."

The problem is, that in the modern world it can be hard for a company to actually work out where its logistics chain leads and who its key suppliers are. "Traditionally, because of the type of IT systems that are used for their procurement process, many companies used to base their assessment of a critical supplier on the amount of annual spend they had with that supplier," says Teixeira.

"The more they spent, the more critical the supplier was to them. But the recent catastrophes in Thailand, Japan and Hurricane Sandy have shown that that is not necessarily the case. A lot of companies, particularly technology and manufacturing companies, overlook the fact that there might be a key supplier that is small in size but critical to their operation.

"Add to that the fact that many companies are now keeping buffer stocks to a minimum to cut costs – and in the event of a disruption, those supplies soon run out. Then what?" **SR**

Better risk management

Risk transfer is just one solution to risk – and better risk management is also key, both as an end in itself and a tool to negotiate better insurance deals.

"Data collection, loss prevention and business continuity planning can all help present a more correct perception of your risk that brokers can use when presenting to insurers," says Marsh EMEA property practice leader Caroline Woolley.

"It all helps get them much more involved in the risk management process. Your broker can then take the data you have gathered and translate it into a form that will be the most meaningful for insurers – and make sure we get the best cover for you at the best price."

Talking to the risk market

Of course, there is only so much that a firm can – or might wish to do – itself when looking at transport and supply chain risk and at some point it will wish to take a proportion of that risk and transfer it to the market.

But before assuming that you are protected, rigorously investigate every aspect of your policy.

“All too often there is an expectation on the part of companies that they will be covered,” says Marsh EMEA property practice leader Caroline Woolley.

“Everyone has high expectations of their insurance. Insurance is a contract like any other and you need to be very careful with the wording to see what’s covered. There is definitely a recognition that supply chains are more complex than they used to be and businesses need to look beyond the first-tier supplier.

“Traditionally there has been a focus on first-tier suppliers and damage-related events. They need to look further down the supply chain and beyond damage.

“Some risk managers still don’t really understand the effect on their businesses if a fourth-tier supplier is affected by a major nat cat.”

Businesses also need to be looking at whether they are over-reliant on a single source supplier and factor that into their insurance purchasing.

“[Major nat cats] events do raise issues about the transport of goods, and also people. But it is also important to look at your cover for non-damage business interruption,” says Woolley.

“One of the key examples in non-damage events is strikes at ports or denial of access to roads or ports in terms of nat cats. These can really affect logistics.”

According to Woolley, firms need to realise that in many cases insurance has not caught up with the on-the-ground reality of modern supply chain complexity.

“People have tended to focus on the ‘traditional’ policies, looking separately at property damage and business interruption, marine and cargo policies,” she says.

But smart risk managers are now looking beyond these silos at a more holistic approach to supply chain risk.

“We are starting to see a trend now to look at ‘stock throughput’ policies that don’t just focus on these issues separately but over the whole journey, including warehousing.”

One key tactic is using supplier extensions to extend the coverage of existing polices beyond conventional limits. “Ask if, from a property damage perspective, there are supplier extensions available under the CBI policy,” says Tom Teixeira at global insurance broker Willis.

However, some insurers have been restricting cover on supplier extension clauses, because these policies were not designed to fit the complex supply chains we have today.

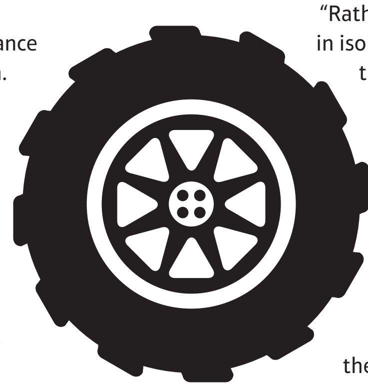
“But insurers are working on alternative products that will take cover far deeper and cover damage and non-damage cover,” says Woolley.

It’s important to remember when looking at your logistics risk cover that, in many cases, if your company doesn’t own any berths or assets in a port, you can’t use that port as a named location on their CBI policy. If something happens to that port and stops your goods from being exported, there is no cover.

“There are also new products out there that cover non-damage business interruption risks,” says Teixeira. “These new products – I call them standalone supply chain insurance products – provide that type of cover.”

According to Teixeira there are occasions, particularly for larger companies, where conventional insurance may not be enough.

“Some bigger companies say to me, ‘look we have some idea what our exposures are – they’re massive – and if you’re trying to sell us a policy that is going to give us $100m of cover, that’s not going to be enough. What else can be done?”



The answer may be leveraging your captive. “A lot of companies have been complaining about the effectiveness of their captives recently,” says Teixeira. “You can use a captive in a number of different ways in conjunction with these standalone policies.

“Each of these policies will have a deductible. One configuration is that the captive takes the deductible. Another configuration is that the captive can take the risk, fund the risk and then there is a re-insurance payout to the standalone policy.

“Capacity is an issue, but the standalone policy can act as an excess layer to the captive.

“These combinations could be used to provide greater levels of protection. We are seeing more and more standalone policies sold, and as the premium volume goes up, the rates are coming down and as they do, more attention should be given to them as a cost-effective way of dealing with the loss of a key supplier.”

The key to a successful approach is to look at all aspects of your operations and your cover with fresh eyes. Ask yourself, if your firm had no policies in place and could start afresh, what would you buy?

“We have to take the blinkers off,” says Woolley. “You can’t look at particular area of your operations in isolation.

“Increasingly companies are looking at their full-value chain from supplier, in transit, on locations and even in customer locations.

“Rather than looking at logistics in isolation, you have to look at the overall risk. You have to try and draw all the elements together.

“Rather than insurers focusing on perils, they need to look at the impact on the business. After all, this is the important thing for businesses and the insured.”

Reading the roadmap

Retrofitting risk management on to a pre-existing, complex logistics chain stretching across many countries is tough. But smart new tactics and technology are making things easier for those firms willing and able to face up to the reality of their logistics and supply chain risks.

"There are a number of companies that are nervous," says Tom Teixeira at global insurance broker Willis. "But then there are several that are undertaking a more sophisticated approach to supply chain risk management, in terms of understanding who their key suppliers are and ultimately what their financial exposures are."

Key to this approach is a simple – and often overlooked – first step: finding out exactly where your suppliers key sites are, rather than just using the head office address on the top of their invoice.

"There was a real problem in the past that when companies went looking for their suppliers' details, they would take their head office and record this as the address where things were being manufactured, when in fact the actual factory was some distance away," says Teixeira.

This could lead to a false – and dangerous – sense of security. "This meant that they might never have taken into account that the real location factory might be in a high nat cat risk area, an area of political or social risk, or high risk of kidnap and ransom," says Teixeira.

"Their approach was all about keeping costs down. Now companies are starting to get better at this. They are beginning to spend quite a bit on improving their knowledge of their supply chain and the precise locations of key manufacturing sites.

"It's a massive job for some companies, particularly those with complex supply chains – but they have no choice except to get on with it," says Teixeira.

Of course, logistics risk is not just about where you are going to get your supplies, it's about how those suppliers are moving to your sites and your customers.

Until recently, too many risk managers have overlooked the routes that are being used, whether by rail, road or sea.

"What they are not focusing on is the logistical pinch points, the actual routes that their materials take. But when they do start looking in detail at the logistical mechanisms they use, they are beginning to identify 'pinch points' where, for example, a number of different key supplies are coming into one port, or using the same railway or highway," says Teixeira.

These logistical pinch points represent a serious risk. "If something happens to these mechanisms, a nat cat affecting a highway or some social tension affecting ingress and egress at a port – say the port is shut for a couple of weeks – a firm will be seriously affected," says Teixeira.

"Companies need to work out what is happening on their logistic roots, they need to know the risks – and know the potential impact.

"We are beginning to get senior management's attention with our clients when they can see the pounds and dollars attached to these problems," he adds.

"Companies need to start planning their fallback positions, particularly firms that rely on importing a vast number of supplies. Because of globalisation it is very rare to find a company that sources supplies locally."

Expert insight: Sticking to the rules

These days many businesses are outsourcing their transportation and logistics services. As a result, supply chains are expanding, both in terms of size and complexity. The services are not only being outsourced to new and emerging markets but to riskier locations.

This trend arises from cost pressures forcing directors to cut budgets. As a result, more and more businesses are looking at markets that can help them provide the same service but at a fraction of the cost. By doing so, however, they are exposing themselves to more litigious situations. Compliance and understanding local laws, for example, becomes a greater challenge. At the moment, rules about corruption, bribery and contingency payments are some of the biggest challenges. There are also issues such as a lack of language skills causing problems in Europe.

But the endless regulatory reforms do not help. For example, there has been a recent requalification around the labelling of dangerous goods in Europe; fire safety is far from uniform and there are changes to how you can store and transport products in the same continent or sometimes even the same country. This makes it increasingly difficult to remain compliant.

Additionally the environment is becoming increasingly litigious. There are a number of factors that contribute to this: the fact that authorities exchange information through a database makes it an even bigger challenge to avoid fines. In times of crisis the number of claims continuously increases; and there is also a culture in the Western world where people are suing each other much quicker – our society is becoming less and less tolerant.

It is difficult to reduce the risks in such tough trading environments. But it is paramount that businesses are selective about their choice of contractors, doing as much research as possible into them before hiring them.

Secondly, it is advisable that businesses prohibit their contractors from subcontracting without written approval – this will help reduce compliance risks. The problem is you may hire a company that you feel is right for the job and later you find that the job has been sub-contracted to another business that has subsequently subcontracted out to another company in Asia, for example. At the end of the chain is a guy with no knowledge of the product, driving an old unsafe truck, delivering your goods – and who knows whether that company is compliant with all the necessary rules and regulations?

At Katoen Natie, we try to avoid such situations by issuing contracts to our outsourcing partners stating that they cannot subcontract without our written approval.

Carl Leeman, chief risk officer, Katoen Natie

Expert view: Clear logistics strategies

Compliance is a growing problem for the logistics and transportation sector. In other sectors international insurance programmes are common, but for logistics companies this has not been the case. However, insurers are beginning to systematically roll out international insurance programmes for freight forwarders. This is because many clients are becoming increasingly aware that without a compliant programme their activity can be badly affected by fines or withdrawal of licences.

But there are several obstacles to implementing such programmes. These include:

- logistics activities require more local policies than cargo business where imports/exports may be insured via the master policy overseas for many countries;
- as a result of different legal systems, the situation and the adequate cover differs from country to country; and
- in many countries there is no logistics line of business. This means it may not be easy to find a fronting company that can properly deal with local logistics policies, especially when it comes to claims.

The sector is also becoming more aware of tax requirements. The cargo policies that logistics companies sell their customers are of a particular concern when it comes to tax issues. There are forwarder's rebates related to commercial work of the forwarder. But the full amount has to be charged with the relevant insurance tax (in some countries there is no insurance tax for cargo and/or cross border shipments). In many cases the forwarder will charge his clients more than what is required by the cargo insurer, but this means that the insurance tax transferred to the authorities is incorrect. So transparency is crucial. The insurer needs to be fully aware of the exact premium that is being charged to the customer of the forwarder so that they can pay the adequate insurance tax.

In terms of emerging risks there are three that particularly apply to the logistics and transport sector. Outsourcing via contract logistics is a big issue. About 50% of warehousing services is outsourced today. And the more contracts that logistics firms acquire, the more accumulation risks regarding storage they will face in their warehouses. To fully cover these risks, significant insurance premiums are needed.

Secondly, the manufacturing industry has been passing more risk on to suppliers. Those logistic companies that are becoming more integrated with the production process could be at increased risk of product liability, where cover is difficult if not impossible to purchase.

Thirdly, container vessels are of concern mainly because of insufficient loss prevention, such as the lack of proper fire-fighting measures and the problem of misdeclaration of dangerous goods. Consequently we will have more total losses of container vessels, which cannot be in the interest of the forwarder and his clients.

To mitigate some of these risks the forwarder needs to be transparent about storage exposure so that the company will be able to buy adequate insurance. Logistic companies also need to devise a clear strategy that details the liability it is prepared to accept and at what price. Sound risk management systems and processes would be of great benefit in mitigating these risks.

Matthias Kirchner, logistics trade sector manager Marine, AXA Corporate Solutions

Mapping the risk

Of course, the best way to understand the spatial context of a risk is with a map, and technology and geographic information systems are making this complicated task easier.

"I've been involved with a number of projects using the latest tools and technology – software environments and simulations – that create a map of the world and use all the information available to identify and map where facilities are," says Tom Teixeira at global insurance broker Willis.

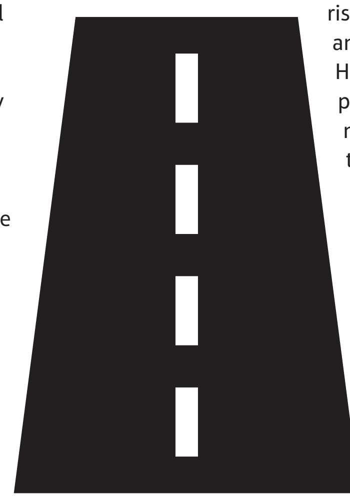
"As a result of these, our clients can then take the latest risk-mapping information and overlay it on their supply chain."

Brokers Marsh also produces a nat cat risk map. "It's not enough to just map and understand your supply chain and areas of reliance, you need to be able to see how the risk profile differs across this map," Marsh EMEA property practice leader Caroline Woolley says.

According to both Marsh and Willis, this technology is something their clients are requesting.

"They are nervous about their vulnerability, but they don't have the appetite to undertake a multi-million dollar exercise that will take two years," says Teixeira.

"They are asking for some innovation, some technology that will give them an early understanding of whether or not they have a potential problem and if so, where those hot spots are, and where their more detailed analysis should be focusing."



These tools are really increasing the visibility of what the supply chain actually looks like and what the threats are. "Many of these companies that we deal with are looking for a global sourcing strategy," says Teixeira.

"They want to keep costs down, and they are not thinking about whether or not a factory that they are buying sports apparel from in Japan is in a high-risk earthquake zone. They are only thinking, 'can these guys give us the quality we want at half the price?' "

But when they do start to look at risk and start thinking beyond cost, some firms are radically altering their approach to supply chain logistics. For example, as a result of greater visibility some multinationals are looking to source more locally, which, while it is more expensive, does offer a greater degree of protection. "They are also looking at dual sourcing," says Teixeira. "Especially in the electronics sector. I've seen some companies that, as a result of recent disasters and a greater awareness of their supply chain, now dual source up to 80% of their supplies."

All companies looking to reassess their logistics and take a more risk-based approach to their supply chain face difficult choices.

Their focus needs to be on getting the balance right. How much risk should they retain? Is it worth taking a particular risk if it is done from an informed basis? How much do they physically need to manage? Should they buy a weak or vulnerable supplier because they are heavily dependent on them? Or should they change their buffer stock strategy to create a larger stockpile? Or should they dual source more?

SPECIAL REPORT:

BUSINESS TRAVEL RISKS

On the road again

The recovery in business travel poses challenges for employers

IF THERE IS A SINGLE STATISTIC that summarises the rapid turnaround in global business travel, it is Germany's export numbers. In September, the latest available figure, the value of exports produced by Europe's manufacturing powerhouse exceeded the worth of its imports by €20.4bn. It was the country's biggest export surplus in more than five years.

But the statistic also illustrates the vital importance of business travel. German industry invests more on sending its salesmen, engineers, technicians and other senior executives around the world than any other European country. This year its manufacturing and other sectors will spend about $53bn (€39bn) on travel, a 5% increase on 2012.

But other countries are following suit. Although Germany is the biggest spender in Europe, more countries are earmarking ever larger travel budgets as the penny drops about the medium and long-term returns to be gained from face-to-face dealing with client companies and the supply chain. According to the Global Business Travel Association (GBTA), business travel worldwide will hit $1.12trn this year in a general recovery.

Encouraged by an export-mad government, UK industry has seen the light – the private sector will invest $41.3bn in travel this year. But in a transformational development, it is the BRIC countries that are leading the way as they seek opportunities in new markets. For example, China will hike its overall budget for business travel by 15% this year, according to the GBTA. Brazil, which will boost spending by 14.2%, is not far behind, while India and Russia will respectively outlay 10.4% and 8.5%.

What do those numbers tell us? Remarkably, the rate of increase in China's spending is more than three times that of the US and Germany and seven times that of Britain. The reason? Chinese business people much prefer dealing face to face with current and potential partners and are prepared to invest heavily to do so. According to a survey by the World Travel and Tourism Council (WTTC), no less than nine out of 10 Chinese executives are convinced that actually meeting people is "essential to the organisation's success and that business travel increases the chance of improving sales".

> *'The number of events – we could call them crises – has grown dramatically'*
> **Stéphane Baj** ACE

This growing stampede to seek commercial opportunities is based on the recognition, according to the WTTC's figures, that on average every dollar invested in international travel will generate $17 in trade. Clearly, a 1,700% return is not to be ignored. Just as compelling, the senior executives surveyed by WTTC say that 29% of new sales depend on business travel.

Medical risk

Yet, while actually turning up in somebody's office is proven to be a crucial element in doing business across borders, the rapid resurgence of commercially inspired travel poses mounting problems for companies with far-flung executives. "The variety of risks we're seeing is growing," says ACE director for Europe, Middle East and Africa Stéphane Baj. "Medical risks especially have increased a lot." (See thought leadership box.)

Indeed, as the firm's own detailed research shows, this is because the patterns of business travel are changing. Instead of despatching staff on long-term assignments overseas, companies are increasingly sending executives on whirlwind trips to several destinations over a period of several hectic weeks.

This trend raises a new set of challenges. Permanent staff quickly develop a sense of the dangers, something that in-and-out travellers cannot do. In short, the latter need to be educated before departure under a firm's duty of care towards employees.

"American businesses take these obligations very seriously," says Marianne Hoski, director of marketing for iJET, a global security and intelligence firm. "Most of our client companies run very rigorous programmes to observe duty of care."

Further complicating things, most of these high-pressure travellers

Disasters do happen

They may make the headlines, but few business travellers will be faced with volcanic eruptions, floods and other natural disasters, coups d'etat and terrorism attacks. Security specialists spend most of their time fixing more mundane problems caused by closures of bridges or tunnels, lost baggage or flight delays.

However, major incidents do happen – there were 14 coups or attempted coups in sub-Saharan Africa in the past three years – and companies must have an action plan to deal with them, particularly those that are obliged to send their people into problem areas.

"More and more companies have to accept these risks to stay in business," says iJET's Ed Daly, director of watch operations and a veteran of security issues. By way of example he cites suppliers of equipment to oil firms operating in remote locations – "they have to send their people in, but they work hard to mitigate those risks".

And things can go wrong very quickly. During the Arab Spring the InterContinental group's Hotel Semiramis in Cairo found itself effectively under siege with a group of protestors threatening to burst through the doors and the army stationed outside with tanks. Guests including business travellers and staff were trapped and the situation was worsening by the hour. The hotel chain immediately dusted off a tried and tested strategy for critical emergencies. Head of risk management John Ludlow shut down the hotel and parachuted in two troubleshooters – a former military intelligence officer who secured the perimeter and a health and safety professional who helped manage the situation inside. In the emergency the group's company-wide system provided a kind of template that preserved a measure of control. "These crisis plans facilitate structured teamworking at a time where there is considerable uncertainty and behaviours are under pressure from the stresses that you get at such events," says Ludlow.

Crisis plans help travellers and staff alike in such emergencies.

represent the company's top talent, with more sales trips being made to relatively unfamiliar regions in Asia, South America, Middle East and Africa. While businesses based in Spain often have historic links to Latin America, for companies operating out of other countries these multiple-destination sorties put the onus inevitably on headquarters to educate their road warriors beforehand.

Indeed, this obligation is enshrined in law and companies are increasingly at risk if they do not observe duty of care obligations. However, the employer's responsibilities don't end at head office. When staff are out in the field, the employer is obligated to provide due protection, support, a safe system of work and rescue facilities.

Protecting employees through insurance is also important and considered an integral part of pre-travel preparation. Getting the right advice ahead of any potential problems is key to more comprehensive travel security and insurers can help with this.

Multinational coverage

These trips across several borders at once pose new problems for insurance companies in terms of providing policies that are applicable everywhere. Until very recently, most policies have covered a handful of jurisdictions and simply may not work in, for example, emerging countries.

"ACE has pioneered business-travel cover on a worldwide basis," says Baj. "It is just commonsense to have multinational insurance programmes now." In practical terms this removes the risk for an unlicensed or "non-admitted" insurer being unable to pay for out-of-country medical services such as evacuation, emergency cash payments, death or dismemberment benefits, as well as ensuring consistent cover for less dire events such as lost or delayed baggage.

Company-wide protocols

Until a few years ago it was standard practice for personnel to make their own insurance and even travel arrangements. But as business people travel more widely and more frequently, this relaxed attitude is being replaced by company-wide protocols. These make it easier for firms to manage incidents ranging from the 'high-frequency, low-impact' loss of commercially sensitive data and baggage to 'low-frequency, high-impact' events such as sudden illness, natural disasters and kidnapping.

The explosion in business travel is inevitably leading to more problems as well as opportunities. "The number of events – we could call them crises – has grown dramatically," says Baj.

The main thing to remember, advises Tony Ridley, chief executive of Asia-Pacific based consultancy Intelligent Travel, is to take appropriate precautions, wherever you happen to be. "Despite the considered hazards of a specific location, with the right solutions, the residual risk can be quite low," he says. "Country conditions are not the sole or exclusive element in the management of travel risk". SR

When much of the city of Brisbane in Queensland was under water nearly three years ago, the hotel group had a purpose-designed template called "Shelter in the storm". Top priority was to ensure the safety of guests and staff. Second, the group offered help to a stricken wider community.

That kind of preparedness for action goes straight to the bottom line. Over the years the number and cost of the hotel chain's average insurance claims per room has been falling and, with it, the price of annual premiums.

Preparation is paramount

Employers have a duty of care to protect their staff while travelling

NEVER SEND AN EMPLOYEE INTO THE LION'S DEN – at least not without a comprehensive heads-up. Highly summarised, that is a company's first obligation under duty of care. Thus when iJET's clients are about to send staff into new territory, it calls on its experts to deliver what watch operations director Ed Daley describes as a "pre-trip, full-spectrum deployment briefing".

"We never say 'don't go'", Daley adds. "But we do explain the risks. You can in fact go almost anywhere if you take the right precautions."

These briefings should cover the gamut from physical danger to health risks, a particularly important issue because sudden and severe illness can torpedo an entire project and involve a company in the heavy expense of flying staff home.

But these pre-deployment sessions also protect the company as well as the individual. Britain's manslaughter laws expose employers to heavy repercussions such as fines and even imprisonment if they have not taken appropriate measures to ensure the safety of their people. And the simple act of buying insurance cover against various eventualities may not satisfy the courts if an employee takes legal action after some mishap or other. Essentially, an aggrieved employee only has to prove he did not receive adequate advice or support.

Three steps

As a first step, the employee's fitness for travel and overseas work must be assessed in terms of health. Under the UK's Health and Safety at Work regulations, the basic rule of thumb is that the company should conduct "suitable and sufficient" pre-departure risk assessments.

And a briefing made last year – or even last week – may not represent a true picture of the situation, so quickly are the risk profiles of some regions, countries and cities changing. "Even if the travellers are experienced and educated with exposure to the destination, they need to be informed of recent events, changes and any updates," says Intelligent Travel chief executive Tony Ridley. He ticks off a string of items prone to constant reassessment – new concerns about health or illness, political upheavals, changes in the tourism infrastructure such as transport or hotels.

Travel novices should be given more detail. Ridley recommends they be provided with a full run-down on the country, city or cities on the itinerary, nearest and best hospitals, location of key landmarks such as airport and hotel, routine tips and any other information that will make them happier and safer. In practice, say travel experts, too few companies take these measures.

But the virtuous circle is not yet complete. ACE director for the EMEA regions Stéphane Baj says travellers should be debriefed when they return to base because they have acquired on-the-ground information that will be useful in future trips. »

» "Companies should also make sure they identify employees who require particular care because of the [higher-risk] nature of their work," adds Baj.

Scale of risk

To help the companies themselves understand the situation, security consultants typically rate countries and cities on a simple scale often running from one (as safe as you are likely to find anywhere) to five (an active war zone). Another point to remember is the variation in risks between cities, even in the same country, is often huge. For example, iJET's regional analyst for Africa Jay Dunne assesses Nigeria's most populous city Lagos as a "steady four" because of a rising likelihood of kidnapping, and the capital Abuja as a "high three to four" because of lower-end criminal activity. (Two UK business people were seized in Nigeria in the past few months.)

It is crucial that companies ensure that the business travel cover they have in place addresses such security situations.

Further, the level – and nature – of risk is in more or less constant flux in the more volatile regions. For many Africa experts such as Dunne, September's terrorist attack on the Westgate shopping centre in Nairobi, Kenya confirms what they feared – namely, that Al Qaeda-linked terrorist operatives are increasingly active. "We can expect a lot of alerts on soft targets in major cities in countries like Kenya, Uganda, Tanzania and Djibouti," he says.

Given such uncertainties, the main obligations on companies arise when an employee steps off the aircraft. Instead of abandoning them to their own resources, as was often the case, companies increasingly employ security firms and other specialist services as back-up. Using highly sophisticated GPS and other systems, these firms are able to locate individuals within seconds in the event of an emergency. Some, such as iJET's Worldcue system, issue travellers with special mobile phone apps they can use to alert staff manning 24/7 operations centres if they are in trouble.

Best-practice companies are also engaging consultants to measure their own travel management systems on scales that run in inverse ratio to country-rating systems. Thus, a five-rated company is effectively gold standard in terms of looking after its offshore people.

Peripatetic policies

But an insurance policy is of little use if it cannot pay out. If a Beijing-based employee of, say, a European company is compensated for hospital treatment while travelling within his own country or for losing a laptop, the payment is likely to raise important compliance issues with local authorities. Tax officials may want to know why a foreign firm is putting money into a citizen's bank account. Corruption watchdogs may come asking questions about bribery. And the central bank may ring about money laundering.

Thus, while the premiums on travel insurance may be low, the financial and compliance risks are often disproportionately high in an increasingly regulated world.

The only solution is to design a multinational insurance programme that performs in all jurisdictions. "Companies take a big risk by not being compliant in all countries," warns Baj. SR

How to stay out of trouble

- Don't look conspicuous – lots of bling, expensive luggage and watches, corporate logos on clothing, flash cars, is asking for attention and trouble
- The internet is NOT a reliable source of information about a country
- Generally, don't drink in bars and clubs that are off the beaten track unless you have been around a city long enough to know what you are doing
- Keep to yourself the nature of your project, your travel plans and other revealing information
- Try not to bring an arsenal of electronic devices with you. The more you take, the more vulnerable is the company's intellectual property and the more exposed you are to identity theft
- If in areas of high health risks, keep taking the pills the company doctor gave you

FLOODING RISK USHERS IN ERA OF CAUTION

Torrential rain in Thailand in 2011 caused huge problems for businesses around the world and left risk managers contemplating their response to a repeat scenario

THE 2013 MONSOON SEASON brought weeks of torrential rain and flooding to Thailand, killing dozens of people, destroying property and bringing businesses to a standstill.

While not quite on the scale of the unprecedented flooding catastrophe two years earlier that had such a huge impact on the supply chains of companies around the world, the 2013 events were a reminder that much still needs to be done by companies and the Thai authorities to mitigate the risk of serious business interruption.

Just before the rains came, *StrategicRISK Asia* travelled to Bangkok to host a round table with leading Thai risk managers, brokers and insurers.

And, although the sun was shining outside, the focus of most of the risk professionals who attended was on the dark clouds that had wrecked the infrastructure of large parts of the country in 2011 and threatened to return.

Of course, monsoons are nothing new in this part of South-East Asia, but so serious were the events of two years ago and the impact they had that they have become synonymous with the whole concept of supply chain interruption.

Whenever and wherever in the world *StrategicRISK* meets with risk managers, the issue of business continuity invariably emerges, with the 2011 Thai floods considered almost universally as a watershed moment in every sense.

How then, is the issue viewed by risk professionals in Thailand itself?

"After the (2011) flood, the risk landscape changed, the attitude of the big insurers also changed," says Aon Thailand executive vice-president Yoottana Kingkawtantong.

"Insurance used to be the last thing people thought of – they would buy insurance based on cost and not quality of coverage. Cheapest was always best. After the flood a lot of people found they were not insured, particularly in terms of business interruption exposure. The landscape has also changed from the perspective of insurers. In the past, nobody realised a flood could affect so many places in Thailand at the same time. Now insurers have had to change their views on catastrophic loss events in Thailand."

With so many parts of the country affected, businesses based in Thailand have been forced to rethink their entire operational strategies to ensure that, if the worst does indeed happen again, the effects will be more limited.

Phatchada Muenthong from Thai-based supermarket chain Big C explains how this has manifested itself in her business: "The company is now thinking more about geography and location, and also our logistical relationship with certain key suppliers and the impact it might have on us if things go wrong. So we are looking to mitigate our risks by undertaking a strategic review of suppliers."

A brand new approach

A more regional approach has also been taken by global conglomerate Charoen Pokphand (CP), which manufactures and distributes a wide range of products, everything from pet food to fertilisers to motorcycles.

CP's vice-president of insurance and head of risk engineering Komsun Intarasatakul says: "We learned a good lesson from our operations. We thought having a large central warehouse would be cost-effective, but after what happened with the floods we have now moved to smaller centres scattered around the country to limit exposure."

Such was the magnitude of the 2011 floods that the insurance industry faced one of its biggest-ever claims. »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» It too has changed as a result, according to Zurich Global Corporate global relationship leader Steve Robertson. "The insurance industry as a whole learned a lot from the events around the Thai floods and also what happened in Japan," he says. "Whether or not we have learnt enough to come up with solutions is another issue. We now want to know more about customers and suppliers so we can get an understanding of the risks – I don't think that before this happened, we understood those risks fully."

Despite this, Robertson says, more progress needs to be made by the insurance industry.

"There are some supply chain solutions out there, but I am still not sure of their relevance," he says. "This is because the risks are huge, but the capacity is probably not big enough and not enough organisations are buying in to create that premium pool. Underwriters like to have a fairly decent-sized premium pool to share that risk. So while the floods were a big wake-up call for the industry, they also remain a problem. I am not sure the industry as a whole has done enough."

While gaps in insurance might remain, the Thai floods have brought the role of risk management closer to the heart of many businesses in the country.

CP's Intarasatakul says: "Before the floods, no one in the business knew our name – afterwards we became more popular. We needed two years to settle our claims and we still have not finished.

"Now, instead of waiting until they have had an accident, they understand more about the protection. After the flood, it was clear that, if you believed Thailand was free of natural disasters, that was clearly not true. From that day onwards, we adapted our perception of our own country."

'Away from the danger of flooding, a storm is also brewing over the economy of Thailand'

Increased risk perception

Not only did the events highlight the importance of risk management, they also made more Thai companies increase their perception and understanding of risk, as Lockton Wattana Insurance Brokers executive chairman Wattana Wongvisesnopakun says: "Awareness has been heightened to an unprecedented level.

"Before the big flood in 2011, people looked at insurance as something they were obligated to do. Now people are taking insurance much more seriously.

"People are now more ready to talk insurance with us and their understanding of insurance is also much better. The claim experience of the Thailand flood has been a good lesson for the insurance market. Businesses now understand how the market operates in a way they did not before and also how insurance can be used to mitigate or reduce the eventual loss to their business."

Wongvisesnopakun says that it also focused minds on a hitherto misunderstood notion about Thailand's geographical vulnerability to natural disasters.

"The flooding destroyed the myth that Thailand is a natural disaster-free area," he says. "It has been a wake up call to the market, making people realise that the idea that you are looking at risk simply from a specific factor, area or concentration of property is no longer valid. We are talking about a country-wide disaster, looking at something that would be far bigger than what the insurance industry would consider to be its maximum loss. People now realise that you cannot look at a hotel, for example, on its own. Maybe you have to take Bangkok as the whole risk – or even half of Thailand."

Storm brewing

Away from the danger of flooding, a storm is also brewing over the economy of Thailand, with the country slipping into a technical recession during the summer.

Two consecutive quarters of contraction resulted in the Thai government cutting 2013 growth estimates to 3.7% from 4.5%, although businesses and economic forecasters remain positive about the country's financial future.

However, for now, consumer spending is restricted, as Phatparadee Chingulgitnivat at Big C, says: "We have seen the basket size of shoppers reduce since the beginning of this year." Chingulgitnivat says there are two key reasons for this: rising prices and the government's first car policy.

The scheme, which allows Thais to purchase vehicles at discounted rates through tax breaks, was instigated by the government after the floods to breathe new life into the automotive sector.

However, the scheme has reportedly led to more than 100,000 people defaulting on their payments or cancelling orders and left a hole in government finances of around $2.8bn.

Other government incentives have also proved problematic.

Farming protests

Rice farm subsidies were introduced to support rice farmers by guaranteeing them a minimum price for their crop. But the measure has led to a glut of rice, and resentment from other farmers. While *StrategicRISK* was in Thailand, there were protests by rubber farmers, angry they were not getting similar help after the price of the commodity dropped sharply this year.

There are fears this could lead to more widespread trouble and the type of unrest that can unseat political leaders.

"If commodity prices get weaker over the next few years, as I predict they will, then the problem is going to get worse," says Hana Microelectronics chief financial officer Terry Weir. "The rice support scheme means the gap will get bigger and the government will be forced to reduce that support.

"If commodity prices such as rubber, rice, palm oil and sugar all go down together and support is not provided evenly, there will be a double-standard argument and that could cause huge political problems."

And worse could follow, as Wongvisesnopakun adds: "This is Thailand – anything is possible." SR

LITIGATION POSES A GROWING THREAT

International litigation is on the rise, with an increasing number of claimants turning to the UK courts to resolve their disputes

A BULLETIN ON FINES FOR health and safety breaches hardly sounds like bedtime reading but its perusal should certainly be obligatory in boardrooms. Issued by Field Fisher Waterhouse, this seemingly innocuous publication is a symbol of the explosion in litigation faced by UK companies as employees, consumers and various authorities mount often expensive and reputation-damaging cases for alleged failures to observe the law.

Three cases that illustrate the ever-present risks of prosecution for health and safety breaches alone. All of these judgments were handed down in the past few months.

After developer St George South London commissioned signage company AE Tyler to advertise a property, the sign unfortunately collapsed on an individual and caused permanent brain damage. The consequent fine for both parties amounted to £360,000 (€429,000), not counting the £250,000 costs.

When an employee died after an accident at Nolan Recycling Waste plant, the fine came to £250,000 with £53,000 costs on top.

And when a worker at Aesica Pharmaceuticals suffered severe skin burns and damage to one eye as a result of being sprayed by a toxic chemical, the company was ordered to pay £100,000 in fines and nearly £8,000 in costs.

Litigation capital

The bulletin makes for sober reading, not just for the misfortunes of varying severity suffered by the individuals, but for the mounting risks that all employers face from almost any kind of injury incurred on their premises.

As Field Fisher Waterhouse corporate risk management group dispute resolution lawyer Rhys Griffith says: “The fines and costs which may flow from safety-related incidents can be significant, not to mention the reputational stigma the company will suffer.”

And litigation is very much on the rise in the UK. Indeed London could be turning into the litigation capital of Europe. According to *The Lawyer*, the number of international litigants turning to the commercial court to resolve disputes has grown by an average of 10% a year in the past three years. Over a five-year period the volume of European-based litigants taking their cases to the capital soared by 165%.

Unsurprisingly, across the Atlantic the risks of prosecution are rising all the time. All Europe-based companies with US operations face an increasingly complex litigation scene. As US litigation specialists Crowell & Moring’s chairman Kent Gardiner says in the firm’s latest litigation forecast: “Everything from protecting innovation to protecting contracts to growing through acquisitions and avoiding compliance penalties may be at stake [in these cases].”

As an indication of the growing aggression of state agencies, a phenomenon that is also reflected in the UK and Europe, Gardiner estimates that two-thirds of the firm’s lawyers litigate before federal and state trial appellate courts and before government agencies.

In the UK as elsewhere the law makes prosecution a relatively easy matter, and especially so for consumers. How many of Britain’s hotel owners know, for example, that they are strictly liable for the loss of property brought by their guests unless they can prove that the item went missing because of the guest’s own negligence?

As commercial barristers Quadrant Chambers’ Thomas Macey-Dare says, this strict liability dates from the Middle Ages when inn-keepers were often in league with highwaymen to rob guests while they slept.

These days the law is enshrined in the Hotel Proprietors Act of 1956. Although the proprietor’s exposure, being limited to £750 per item and £1,500 in total, would hardly put the business at risk, it does demonstrate how vulnerable businesses can be to events that may be only technically within their control.

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As businesses expand beyond their home base, directors may be increasingly open to another country's system of litigation. In Australia, law firms have identified a trend towards piercing the 'corporate veil' that is putting directors' personal assets and even their freedom at risk.

"For many years the corporate veil has been under attack to the point where, according to some, it's been reduced to little more than a tattered rag," says Stacks/The Law Firm business law specialist Tony Mitchell.

The Australian corporate watchdog ASIC has been particularly aggressive in recent cases. As Mitchell says, directors can be held personally liable for a string of misdemeanours including unpaid superannuation, allowing the company to continue to trade when there are grounds to suspect it may become insolvent, failure to exercise a reasonable degree of skill, failure to disclose material personal interests and other alleged breaches of their obligations.

"The continuing deterioration of the corporate veil means it is more important than ever for company directors to develop and have in place appropriate strategies to protect their personal wealth and their families' wealth," Mitchell warns.

As in other jurisdictions, the risk of prosecution by aggrieved consumers is also growing. Take door-knocking, a sales technique that does not normally attract the ire of consumer watchdogs. But when energy group AGL sent out salespeople who failed to reveal, as required, that they were in fact salespeople and then compounded their mistake by misleading homeowners on the company's pricing, the result was a whopping total penalty of A$1.75m (€1.22m).

Proactive approach

And from the serious to the ridiculous, the Australian Competition and Consumer Commission lately took a company called Turi Foods to court on the grounds that its chickens were not "free to roam around in large barns" as advertised. The ACCC argued that in fact the chickens were "subjected to such stocking densities that they do not, as a practical matter, have a substantial space available to roam around freely". As is usually the case, the ACCC won and penalties are yet to be decided.

Increasingly, litigation over allegedly defective products is going international, as an un-named German bike manufacturer discovered when a teenager was badly injured after the front fork of a Taiwan-assembled, A$1,200 bike collapsed in Australia. As lawyer Ben Stack of the firm of the same name aptly put it, "what followed was an international conga line of blame".

It surely was. The boy's lawyers sued the importer, who sued the manufacturer, who sued the Taiwanese sub-contractor who made the part, and who then sued another Taiwanese manufacturer that fitted the same part to the bike. On the fourth day of the trial the defendants settled for an eight-figure sum.

So what can a company do in the face of such a diverse array of potential prosecutions? Get a lawyer, obviously. And even better, suggests Crowell & Moring's Gardiner, make it an in-house lawyer. "For corporate legal departments today, success demands a more proactive approach than hiring outside counsel [in order to manage] costs. In-house lawyers need to know more than ever [if they plan] to succeed, both about their clients and the legal landscape," says Gardiner.

The good news is that, in England and Wales at least, a professional defence may not be as costly as many companies think. Six months ago it became legal for firms to charge their clients contingency fees, which essentially permit them to offer a range of funding arrangements to suit the requirements. For years, commercial clients have asked for flexibility and certainty in costs and some risk-sharing by their lawyers.

It is fair to say most UK firms have resisted taking on cases against contingency fees (although it has long been normal practice in the US), but that is now changing. Field Fisher Waterhouse, for example, has introduced a package called FeeSolve that, it says, does the job. Given the litigation that may be looming over the horizon, this could prove a popular innovation. SR

BEST PRACTICES

Companies should look at the way that other businesses around the world operate to make sure that their legal team is being managed properly

THE NATURE AND GLOBAL reach of modern business dictates that an in-house legal capability is appropriately risk managed – from its structure to the sourcing and provision of advice. Whether a business is looking to establish an in-house legal division or enhance the performance of its existing in-house team the importance of a robust risk strategy should not be underestimated. Accordingly, any business with a global footprint should look to all corners of the world when developing an in-house legal strategy.

Operational framework

The independence of both the internal legal team and its advice is paramount. The structural integrity of the in-house legal team is pivotal to this. The first step in any risk strategy looks at addressing the structure and use of the in-house legal function. Only when this has been achieved can other legal risk management strategies be properly developed and implemented as part of an organisation's broader risk profile.

More than 10 years may have passed since the Enron debacle, yet it remains the 'red flag' barometer on what not to do with the in-house legal function. The fallout left various strategic legacies, including redirecting businesses to centralise in-house legal teams – a mindset that has been reinforced post-financial crisis.

Enron had a decentralised in-house legal model. Each division had its own internal and external legal counsel and a general counsel (GC) without proper overall authority. In so doing, the company had created roadblocks preventing a consistent, quality and ethical legal work product that was far from being accountable, independent, transparent or safe. Clouding the lines of authority and responsibility created a system counterintuitive to the way in which both in-house and external lawyers work.

With that in mind, understanding the centralised in-house legal structure and its associated benefits is key.

Multifaceted global businesses are complicated and an organisation's particular nuances, and jurisdiction-specific and cultural issues, cannot be overlooked when structuring the in-house function. Yet it is important not to stray too far away from a structure where the GC directly reports to the chief executive and, as a minimum, has a functional working relationship with the board. From there, all other in-house legal reporting lines should dovetail into and from the GC position within a central legal department so there is co-ordination and overseeing of work (see fig 1).

From this point, all legal matters should then be directed via the in-house legal department, which can decide who should deal with them and/or whether external counsel is needed (see fig 2).

Significant legal and economic benefits flow from implementing such a framework and system of practice. For example, it provides quality control not only over the in-house legal team's work product but also over externally sourced legal work. As well as quality control there are cost control measures regarding the external legal advice, a strengthening of the organisation's purchasing power and loyalty from its external advisers to consider.

Within the business, greater certainty related to internal legal resourcing needs and improved professional development for junior and mid-level in-house lawyers are positive consequences of implementing a central in-house legal team. The checks and balances associated with a centralised model allow the ethical behaviour of internal and external lawyers to be thoroughly scrutinised. Equally, it is not a system that restricts innovative, commercially minded and solutions-based legal advice.

Experience suggests working within any other framework constrains an in-house lawyer to such an extent that it makes it difficult to feel that an optimal service is being provided to the business and/or that wider professional obligations expected of all lawyers are being fulfilled.

Risk managing in multiple hats

Many of today's in-house lawyers, especially at senior level, also hold positions with non-legal responsibility. That can take any form, including company secretary, compliance and ethics officer, privacy officer, risk manager or senior executive member.

Best practice demands that, when an in-house lawyer undertakes non-legal responsibility, this is appropriately managed. Global case law and legislation show that a failure to manage the issue could expose an in-house lawyer personally as well as the business. Therefore, individuals and business alike need to be fully cognisant of the roles being played, especially if the lawyer holds a position beyond his/her traditional legal practice.

Additional duties may move an in-house lawyer into the territory of being a 'director or officer' of an organisation. As such, appropriate directors' and officers' insurance policies should reflect and cover such personnel and that may, in fact, include an organisation's in-house lawyers. Beyond that, insurance policies bespoke to the in-house role are available and worth exploring.

Fig 1
In-house legal reporting lines

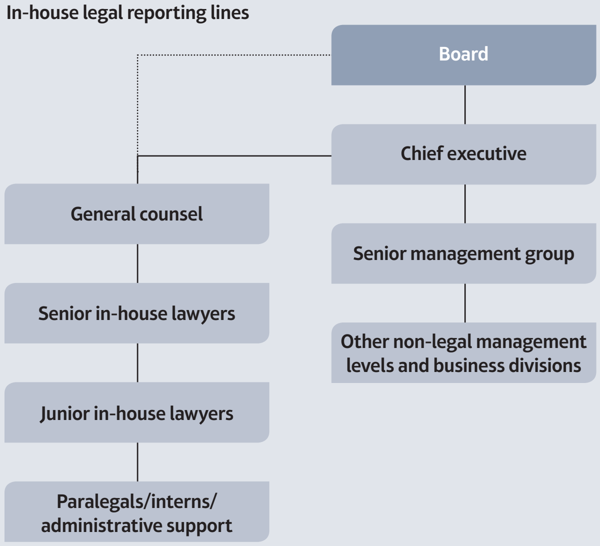
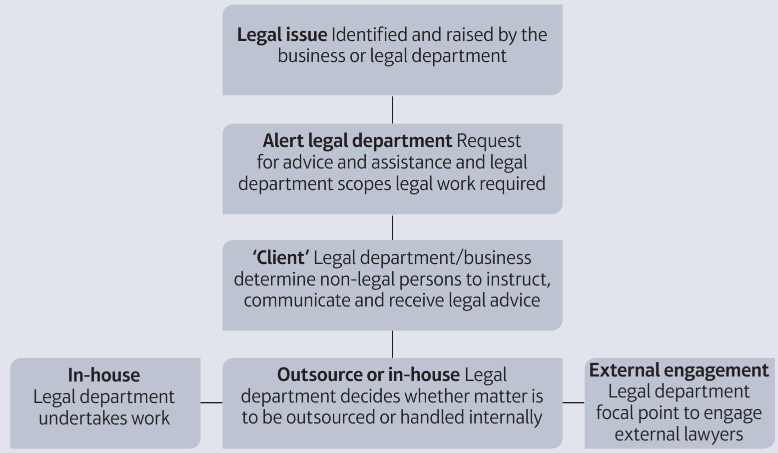


Fig 2
In-house legal workflow model



Other strategies can be utilised when managing this issue: from maintaining separate and distinct email sign-offs and letterheads to the use of separate document management systems. These are all necessary components of sensible strategic management when in-house lawyers wear more than one hat.

Again, experience shows that playing multiple roles can place a heavy administrative burden on the in-house lawyer, but not doing so can leave the organisation with a flawed operational framework.

Other key strategies

Other issues associated with operating an in-house legal team also require proper risk management. Some are discussed below but only look at the broader considerations. Additional issues (see Top tips below) are equally important and require the development of appropriate strategies.

'Client': From the UK and Europe to US and Australasia, case law has helped steer business as to how this complex issue should be handled and, in so doing, defined global best practice.

The bottom line is an organisation cannot assume that all its employees will be legally viewed as the 'client' for the purposes of instructing its lawyers (internal or external) and receiving advice. Potentially, only particular individuals sufficiently close to the project will be viewed as representing the client.

The practical consequence is that organisations should be clear about documenting which individuals and stakeholders are responsible for dealing with internal or external lawyers. Should a need arise to go beyond the core group, this should be implemented and documented to explain the reasoning behind what is done.

Corporate groups: Corporate groups add another layer of complication as confusion can easily reign as to who an in-house lawyer may be acting for within the group. Again, courts worldwide have addressed the consequences of not handling matters correctly in such a setting.

It is vital to have an appropriate strategy in place to counter any potential adverse consequences. The reality is that the strategies that can be deployed are relatively straightforward yet effective. An in-house lawyer's employment contract, for example, should specify for which entities he/she is employed to act. Similarly, prefixing the in-house lawyer's title with 'Group' may be appropriate.

File and document management: Risk management strategies associated with file and document management are critical to any legal practice. An in-house legal practice is no different. To that end, a separate and centralised legal and document management system, restricting access to only the in-house lawyers and their support staff, should be established.

Final reflection

These issues only gloss the surface of the strategies required to guarantee the operational integrity and effectiveness of an organisation's in-house legal function. An organisation's failure to understand such pressure points potentially exposes it to negative legal and economic consequences. Conversely, if managed properly, it leads to more efficient and effective management of cross-border transactions, disputes and appropriate responses to regulatory investigations and/or enforcement.

By implementing global best practice, policies, procedures and structures, a business not only maximises the performance of its in-house legal capability but also insulates itself, as much as it is reasonably possible, against risk.

Lastly, but importantly, these strategies are not cost prohibitive and, in the long run, should provide cost benefits and a competitive advantage.

Sascha Hindmarch is of counsel in the London office of litigation boutique Hausfeld & Co

Top tips

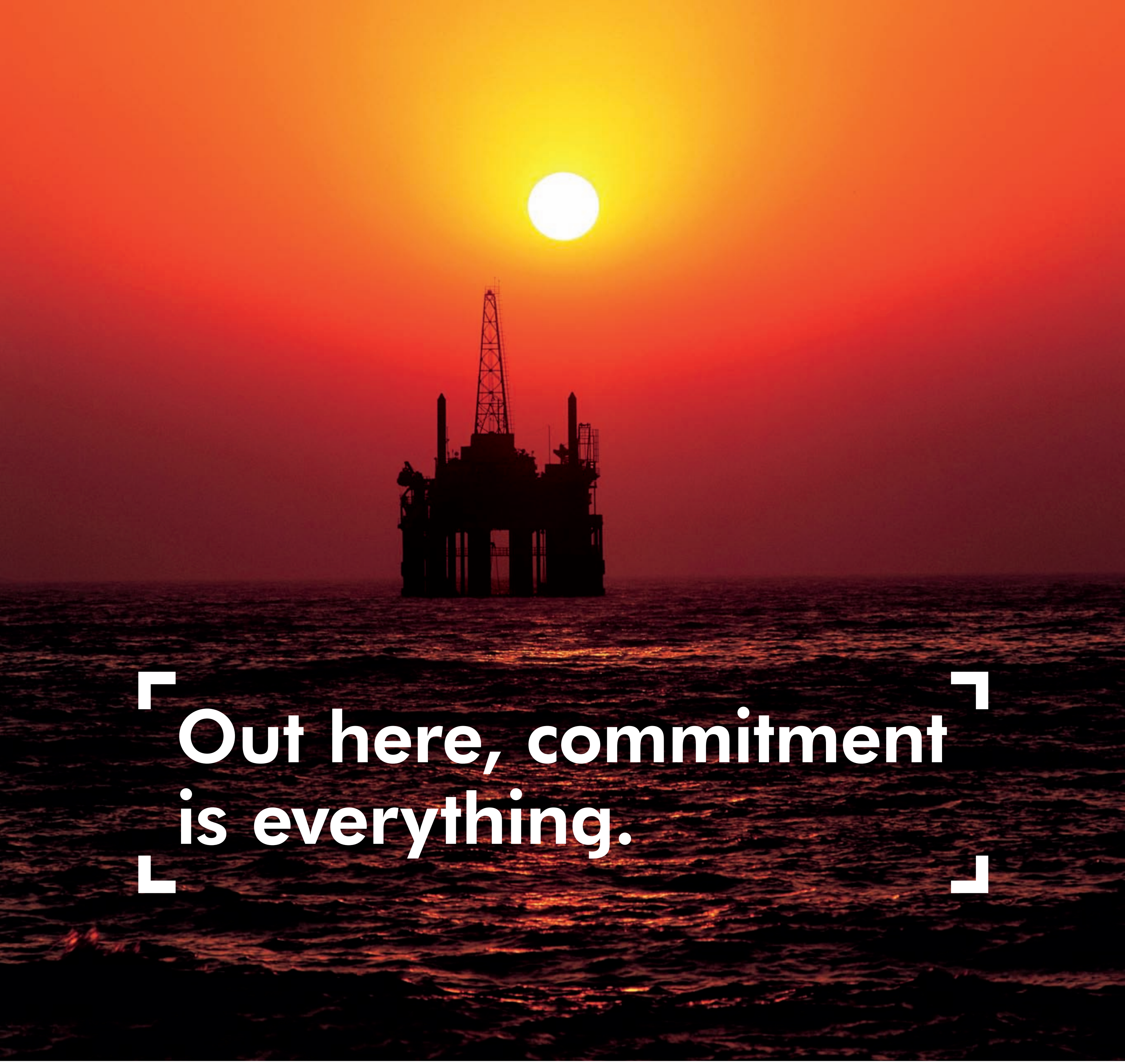
1 Centralise the in-house legal team. The GC reports to the chief executive/ board and in-house lawyer reporting lines fall from the GC. All legal matters, including those to be outsourced, are managed by the legal department.

2 Prior to instructing in-house and/or external lawyers, clearly identify those employees/stakeholders responsible for instructing and receiving legal advice – document appropriately.

3 Where in-house lawyers also perform non-legal functions, ensure an appropriate operational framework supports them.

4 Establish a legal file and document management system that restricts access to only the in-house legal team and support staff.

5 Implement further strategies around: in-house lawyer employment contracts; internal/external legal audits; communication practices; organisational systems; corporate policies and protocols specific to legal issues (for example, responding to a subpoena); physical location of the legal department; training; and education.



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Stupidity and risk

Financial institutions are investing heavily in risk management in a bid to avoid the massive fines handed out since the global economic crisis began

MANY FINANCIAL INSTITUTIONS AROUND THE world are beginning to put a large focus on expanding their risk and compliance departments. This is a reaction not just to the financial crisis, but the mounting fines that are being levied on these institutions. It was recently revealed that since the financial crisis, JP Morgan has spent more on lawyers and fines than on its core resource – its people.

To halt the rogue activities that have landed so many banks into such trouble recently, their senior managements are investing heavily in risk management systems. They have increased their spending on new technology as well as new staff. It was recently revealed that the UK's financial regulator, the Financial Conduct Authority, has been finding it difficult to hold onto its staff as the large banks poach them for their own expanding risk management functions.

Most of the revenue-generating parts of banks now come with large risk and compliance teams. The strategic thinking appears to be that more risk and compliance people on staff will help prevent the kind of financial misadventures with which the banks have recently become associated.

In many ways this renewed focus on risk within large banks has been welcomed. It ensures that these institutions have a better understanding of their exposure to risks within the market. It also helps to pre-empt the kind of dangerous behaviour that led so many banks into disastrous positions in the wake of the financial crisis. The risk function should also help preserve a more cautious approach to business. This is likely to make banks safer but also potentially a little less profitable. But the really big strategic question that the boards of banks need to ask themselves is whether employing more risk and compliance officers and putting into place expensive new IT systems will stop the next rogue trading or market manipulation scandal?


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» The answer to this question is far from clear. Typically, financial crises tend to direct banks to adopt a more cautious and risk-conscious approach for some time after. For example, following the savings and loan scandals in the US during the 1980s, many of the banks put in place more developed risk functions. But as the economy began to pick up again, many of these hard-won lessons were forgotten and risk functions bypassed.

The result was that trading teams began to have greater degrees of freedom both to make money, but also to make mistakes. The upside was staggering profits. The downside was often staggering losses in the form of fines.

Functional stupidity

There is a significant likelihood that much of the investment in risk and compliance within the banks will only last for a short time. When the economy picks up again, it is likely that the strategic priorities of firms will change with it. When this happens, making money and being entrepreneurial may return to the agenda. The result will be that all the investment in risk and compliance may be overlooked. Then we are likely to see the same kinds of scandals that have blighted the sector's past few years.

The big banks must ask themselves how they can ensure that the current heavy investment in risk and compliance remains sustainable. New personnel and systems are important. But transforming the wider culture and routines of these institutions is probably more of a priority.

A wider risk culture needed

Many studies of rogue traders show that all too often it is the informal organisational and institutional culture that allows bad behaviour in banks to happen. Putting in place systems without addressing these cultural issues is unlikely to change anything. If banks are serious about risk, they need to develop a wider risk culture.

To begin to build such a culture, firms must be ready to tackle the lack of critical thinking that characterises so many of our largest institutions. From our own research on knowledge-intensive firms, we found that many organisations were dominated by a culture of functional stupidity. This is not about having a low IQ. In fact, many of the firms we studied prided themselves on employing the best and the brightest. What was so striking is what happened once these smart people began working for the firm.

Expert view: Avoiding another crash

To identify the right solutions, we have to go back to the causes of the financial crisis. By doing so, we'll be able to identify what banks have done wrong and how they can avoid making the same mistakes. History has repeated itself already – the problems that brought about the 1929 crash are similar to the causes of the 2008 meltdown. We cannot allow history to repeat itself once more.

Careful attention should be paid to the consequences of the removal of the Glass-Steagall Act in 1999. The 1933 Act was introduced to separate investment and commercial banking activities to prevent savings-and-loan type banks from engaging in speculative and risky trading activities with customers' deposits. But when the act was repealed in the late 1990s (because most in the financial community felt it was too harsh) investment banks were once again able to increase their activities – and they did so in huge volumes. Demand for large returns were high, bankers were making huge profits and were getting greedier and greedier, taking bigger risks for higher returns.

The greed culture was also to blame for the onslaught of new financial products being placed on the market, many of which were being developed by people who did not have the proper controls. Not only that, many did not fully understand how these products worked. Further fuelling the greed among banks were silly bonus schemes. All these factors contributed to a culture where many bankers were 'playing games' with their company's capital, neglecting the fact that they could be increasing the risks for both their company and their shareholders.

Many continue to ask, how can we protect against another financial crisis? Is the answer greater regulation? Perhaps. But in addition to that, every single board member must take proactive steps to install strong governance and robust organisational structure. They must pay more attention to selecting competent and fit employees and take greater responsibility for the decisions that they make. If they fail they should be held accountable to financial regulators, their customers and the shareholders. The sad fact is that board members and supervisors have failed to act appropriately – 2008 has shown us that. The challenge remains: how do we safeguard ourselves from another banking crisis?

Changes in the business strategy are essential. And, they have to be visible to the market to deserve the right to be accepted as a sustainable partner for economy and society.

Guenter Droese, chairman of the European Captive Insurance and Reinsurance Owners Association, former global head of corporate insurance at Deutsche Bank Group

When they came into the organisation they were encouraged not to use the thinking skills they were hired for. We found employees were encouraged to not think about the ultimate results of their behaviours, to avoid giving – and asking for – justifications of behaviours, and not to question widespread assumptions. Managers would encourage employees not to think, and simply focus on taking action. The mantra seemed to be 'don't think, just get something – anything – done'.

Because the people working in these companies were smart, they quickly learned this lesson and self-censored their critical-thinking capacities. The result was that within a few months even the more critical and questioning employee became a thoughtless action taker.

Explosive issues

But perhaps the biggest surprise from our research was that this kind of thoughtlessness actually helped companies to function. By not asking too many questions, we found that employees were freed up to get the job done and deliver on time.

Furthermore, it allowed companies to avoid conflict and awkward conversations that would lead to bad feelings within the organisations. Finally, it helped the organisations to maintain a relatively coherent image as successful and action-orientated firms. Being 'thoughtless' also brought some significant benefits to individuals. It allowed them to make relatively smooth and impressive progress within the firm. It helped employees avoid tricky and potentially politically explosive issues. It also allowed them to avoid seeing any of the more unpleasant results of their action.

But this widespread 'functional stupidity' was not all good news.

In many contexts it would lead individuals and indeed whole organisations to make minor mistakes and to overlook important errors. This is OK at times. But when several mistakes are overlooked, they can quickly build up and lead to large-scale disasters.

It was only when these disasters – such as rogue trading scandals – happened that the organisation was pushed into thinking in a more rounded and critical way. And it was only following these disasters that firms began asking bigger questions about assumptions, justifications and ultimate goals. But often this broader thinking came too late.

The lesson from firms thinking about risk and compliance is that to prevent disasters, it is necessary to create space and processes for broader critical thinking in firms. Employees should be systematically encouraged to question assumptions, ask for and give justifications for their action, and consider the result of their own as well as others' actions.

Doing this is likely to mean there is more conflict within the firm and that getting things done takes a little longer. It will also mean that individuals need to risk articulating what can often be unpopular opinions. But it will help organisations to spot small problems before they become large disasters.

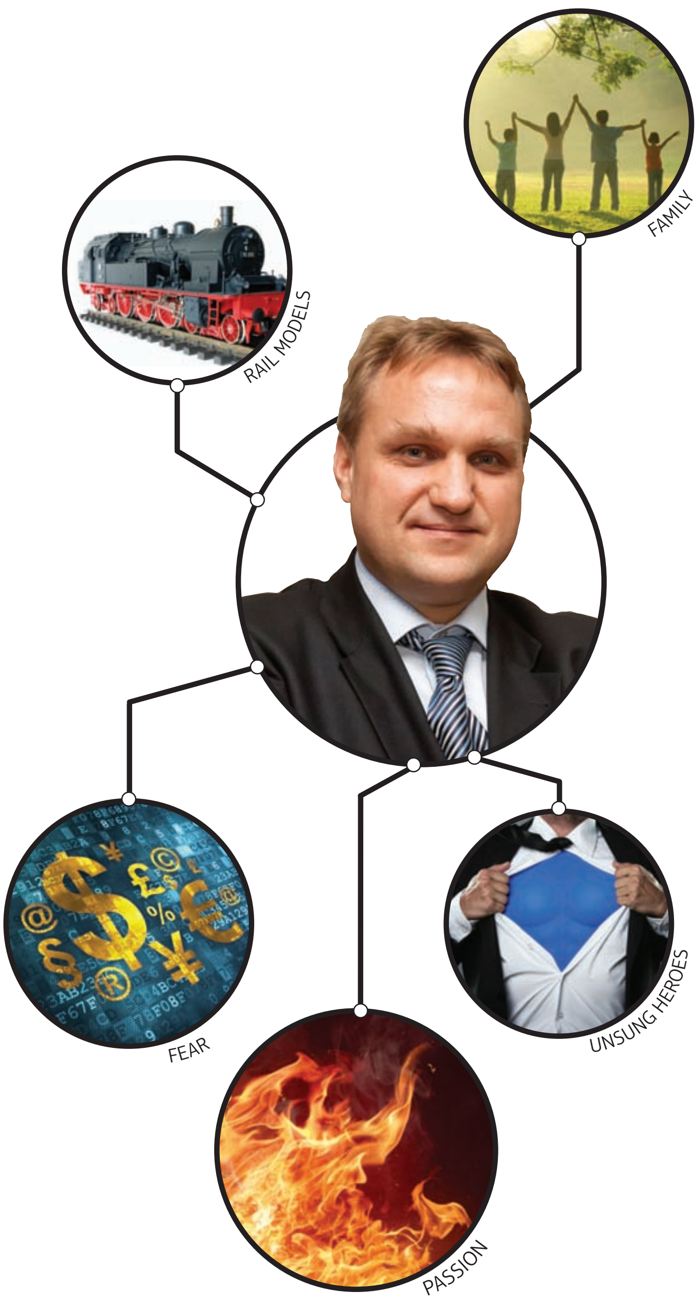
What is more, no amount of risk officers or IT systems can ensure this happens throughout the company. It is vital to establish a critical-thinking routine as an important part of how business is done daily. A little questioning and critical thinking will go a long way to making banks safer and to better serve the needs of society. **SR**

Andre Spicer, professor of organisational behaviour, Cass Business School

If banks are serious about risk, they need to develop a wider risk culture

Sławomir Pijanowski

'You have to retain your humility but really believe in yourself'



What are you thinking about right now?
I'm heavily engaged in developing a stronger risk management profession in Poland and also contributing to Ferma initiatives with a Polish attitude to risk: Poles are brave and action-oriented, but don't always like planning ahead. This shows up not only in our history but also our position during the Second World War – our soldiers fought together with many European nations. A famous Polish writer, Waldemar Łysiak, once said: "Wherever there is a fight for freedom and independence you'll find a Polish citizen."

What is your most treasured possession?
Perhaps possession isn't the right word, but I treasure my family, values and open mindset to people, ideas and cultures. I was told by my parents to speak, understand and interact with people regardless of their social or work status, or appearance. They also told me to listen to others and not to take things at face value.

Who is your greatest hero?
My heroes are all the people who dare to change their lives or situations and who overcome difficulties. We all meet many unsung heroes while travelling, passing people on the street, in our jobs, families and friends. You can't fake bravery, as it arises from deeds and actions, not from talk. Secondly, you need passion in whatever you do, regardless of whether it's in business or a hobby you love – then you are the world's best performer in your domain. Passion releases determination and persistence in reaching your goals – motivation is not sufficient.

What's the biggest risk you have taken?
I'm taking it right now. I can't give you many details now, but the results will be visible within two years and it has a lot to do with the risk management profession ...

What is your greatest fear?
This is a difficult question to answer. I could tell you that I'm not afraid of something, but then I might be when I actually face it, and vice versa. My fear relates to the efficiency and credibility of the economic system, that is, the dark side of human nature, for example, greed.

Tell us a secret?
I wanted to keep it secret, but it looks like I can't get out of it. I'm passionate about collecting railway models (H0 scale 1:87) and railway landscape modelling. I also collect weathered models of houses, stations and buildings that look realistic and not like plastic toys. I share this passion with my nine-year-old son.

What makes you happy?
Being surrounded with people who share your vision and passion, and who are enthusiastic about what they do, regardless of whether it be collecting stamps or a sport. Passion makes us optimistic, like wearing rose-tinted glasses but maintaining a reasonable dose of reality.

What is the most important lesson you have learnt?
You have to retain your humility, but really believe in yourself. We have yet to learn how to manage the paradoxes around us. **SR**

Sławomir Pijanowski, Polrisk president

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