Aon Risk Solutions

Global Risk Management Survey

2013

Risk. Reinsurance. Human Resources. **Empower Results**®

Aon

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Introduction

The ability to anticipate opportunities and effectively respond to threats is critical for organizations to grapple with new challenges. Fact-based insights are the best way to ensure optimal decision making. Aon's 2013 Global Risk Management Survey report is part of this process, capturing the latest risk trends and priorities facing companies around the world.

Conducted in the fourth quarter of 2012, the survey has gathered the input from 1,415 respondents, which represent companies of all sizes around the globe, both public and private. In this web-based biennial survey, we have noticed that, despite their diverse geographies, companies have shared surprisingly similar views on the risks we are facing today. These shared views, as well as the industry and geography specific facts presented, will allow organizations to benchmark their risk management and risk financing practices and help them identify processes or approaches that may improve the effectiveness of their own risk management strategies.

With our global footprint—Aon operates in more than 120 countries staffed by 65,000 colleagues—we strive to provide clients with fact-based analytics that focus on identifying, assessing, measuring and managing risks. These insights can assist clients in developing forward-thinking strategies and gaining a competitive edge.

We will continue to leverage our unmatched global network to provide businesses with our industry-leading business intelligence.

If you have any comments or questions about the survey, or wish to discuss the findings further, please contact your Aon account manager or visit **aon.com/2013GlobalRisk**

Best regards

Steve McGill
Group President, Aon plc
Chairman & CEO,
Aon Risk Solutions

Executive Summary

The economy of Cyprus, a small island country with a population of just slightly more than one million, merely represents less than 0.5 percent of the wider Eurozone economy. Yet, when Cyprus sneezed, the whole world held its breath. The banking crisis in the tiny island nation in March 2013 jilted investors—the stock market wobbled in the midst of an historic bull market.

In today's globally interdependent environment, risks to businesses, no longer isolated by industry or geography, are becoming complex in nature and global in consequence. Even the most seasoned risk managers find it a challenge to anticipate and respond effectively to the increasingly expansive and evolving threats to their organizations. Therefore, managing and mitigating risk is a necessity for survival, driving a company's success in this diverse, competitive and fragile marketplace.

As part of our efforts to help companies stay abreast of emerging issues and learn what their peers are doing to manage risks and capture opportunities, Aon has conducted this survey, which contains some detailed facts and figures gleaned from more than 1,400 organizations of all sizes from all regions of the world.

Top 10 Risks

One of the perennial highlights of this survey is the ranking of top 10 risks facing organizations today.

2013
1. Economic slowdown / slow recovery
2. Regulatory / legislative changes
3. Increasing competition
4. Damage to reputation / brand
5. Failure to attract or retain top talent
6. Failure to innovate / meet customer needs
7. Business interruption
8. Commodity price risk
9. Cash flow / liquidity risk
10. Political risk / uncertainties

As one ponders the list, it is important to review some key international events, before and during the period that occurred when this survey was conducted. This enables us to gauge if these headline-grabbing events, many of which are on-going and increasing in intensity, have influenced the way surveyed organizations perceive and rank the above risks.

- Continued weakness in the eurozone
- Slowed growth in world's major developing economies such as China and India
- The Japan earthquake and tsunami
- New rounds of layoffs by multinational companies and elevated unemployment rate in many parts of the country
- U.S. fiscal debacle over debt ceiling
- Cruise ship accident in the Mediterranean
- The re-election of Barack Obama in the U.S.
- Superstorm Sandy in the U.S.
- Severe drought in North America
- Flooding in Thailand and Australia
- The capture and death of Osama Bin Laden
- Political turmoil in the Middle East and North Africa
- Tension in the Korean Peninsula
- The Communist Party leadership transition in China
- Introduction of broader regulatory oversight in countries around the world
- The Occupy Wall Street movement

The first and obvious correlation is related to economic slowdown/slow recovery, which has been listed as a number one risk concern for the third consecutive study since 2009. The prolonged eurozone financial crisis, the slowed growth in China and India, and the uncertainties surrounding the U.S. fiscal policies have no doubt dented an organization's confidence in the economic recovery and raised concerns about the overall fragility of the global financial system.

Meanwhile, the capture and death of Osama Bin Laden and the absence of terrorist activities on the scale of 9/11 have most likely contributed to the lower priority ranking of global terrorism threats (ranked 46 overall). However, the deepening crisis and turmoil in the Middle East and North Africa have aggravated worries about political risk and uncertainties, further fueled by the leadership transition in China territorial disputes between Japan and China, and the rising tension in the Korean Peninsula. As a result, commodity price risk continues to loom large for surveyed companies, and political risk and uncertainties have entered the top 10 risk list for the first time since the survey was launched in 2007.

Similar to the prior survey, study findings highlight the interdependency among many of the top risks as well as risks outside of the top 10 rankings. Political risk can impair an organization's ability to procure raw materials or energy from affected nations, posing a threat to the supply chain and leading to business interruption and damage to reputation. A company with damaged reputation might find it hard to attract talent and the lack of talent would result in failure to innovate and meet customer needs. The list goes on. This interdependency between risks illustrates that organizations can no longer evaluate risk in isolation but must consider their interconnectedness. Failure to do so could result in underestimating the impact of risks and misdirect a company's risk management priorities.

The wider global participation by more than 1,400 companies of all sizes, both public and private, has enabled Aon to provide insights into risk management practices by geography and industry. For instance, Asia Pacific is the only region ranking weather/natural disasters as a top 10 risk, which is understandably driven by the flooding in Thailand and Australia, as well as the Japanese earthquake and tsunami. Meanwhile, the survey shows that economic slowdown has less impact on basic needs-type infrastructure industries, such as food processing and distribution, utilities, and natural resources than on other sectors — basic needs are relatively insulated from the economic downturn. Damage to reputation/brand and failure to innovate are both ranked higher by respondents in industries where brand differentiation matters and there is an element of choice for customers/consumers — retail trade, aviation, technology, hotels and hospitality, real estate, education, and nonprofit.

Projected Risks

When asked to project the top 10 risk concerns in the next three years, survey respondents continue to point at economic slowdown/slow recovery as a number one risk. At the time of writing, the Cyprus financial crisis is flaring up, and China and India are reportedly experiencing strong headwind in their economic growth. As these gloomy economic predictions continue to dominate the headlines, concerns over the macroeconomic conditions and the overall fragility of the global financial system could hover for the next three years.

Meanwhile, political risk and uncertainties, after breaking into the top 10 risk list for the first time, is projected to move up from the current number 10 to number six. News events, such as the ongoing civil war in Syria; the social and political conflicts in Libya, Egypt and Nigeria; the uncertainty from Hugo Chavez's illness and then death in Venezuela; the potential military confrontation in the Korean Peninsula; and the scandal that rocked China during the leadership transition have probably aggravated respondents' worries about political risks and their potential threats to a company's business objectives.

Weather/natural disasters, while not far off the radar at a current ranking of number 16, is projected to jump to number nine — the unusual climate patterns worldwide and an unprecedented increase in natural disasters and weather events, earthquakes, droughts and hurricanes, might have contributed to this risk projection. On a related topic, business interruption is projected to drop out of the top 10 risks; this could be partly due to the insurability of many aspects of this risk and the improved business recovery planning.

Risks Underestimated

Looking at the overall risk ranking, there are several on the list that we believe might have been underrated, but could emerge as key risk concerns for organizations if not managed properly. For example, computer crimes/hacking/viruses/malicious codes is recognized as the number eight risk by respondents in North America, where hardly a week goes by without hearing news reports about data security breaches. The barrage of media reports have heightened people's awareness and influenced companies' perception. However, this same risk is ranked lower by respondents in other regions - Asia Pacific (37), Europe (19), Latin America (35), and Middle East and Africa (19). With the recent high-profile network breaches in South Korea and the cyber attacks on the European Commission, the ranking of this risk is very likely to be re-evaluated. The legal exposure, reputational harm and business interruptions from cyber attacks could wreak havoc on a company's bottom line.

Social media, which is currently ranked number 40, is another underrated risk. Social media can serve as a valuable marketing and communication tool in this digitally connected world but can also turn into a nightmare, rather quickly, damaging a company's reputation in as fast as a tweet.

Lastly, pension scheme funding, listed at 47, also appears to be an underranked risk factor. Since the financial crisis, organizations have been facing a host of challenges from equity risks to interest rate changes, making navigating volatile markets a challenge for all pension plan sponsors. These factors have led to underfunding which can cause substantial liabilities for organizations. Besides, this risk is further compounded by the pensioners' extended life span.

Risk Readiness

The 2013 survey has revealed a disturbing trend in risk readiness and losses. On average, reported loss of income from the top 10 risks has increased 14 percent, from 28 percent in 2011 to 42 in 2013, while reported readiness has dropped 7 percent, from 66 to 59 percent. Of the 28 industry sectors defined in this report, only three sectors (pharmaceutical and biotechnology, non-aviation transportation manufacturing, and agribusiness) have reported the same or improved levels of readiness in the 2013 survey. One possible explanation could be that the prolonged economic recovery has strained organizations' resources, thus hampering their abilities to mitigate many of these risks. On the other hand, it can be interpreted that there is a growing risk awareness among surveyed companies, which had an inadvertent false confidence. They might have put in place plans to address the risks but discovered later that those plans were inadequate or unworkable. In other words, companies are becoming more knowledgeable and pragmatic in the understanding of their true exposure to risk.

Measuring Total Cost of Risk

The majority of respondents in the 2013 survey consider lowering total cost of risk or TCOR as one of the top benefits of investing in risk management. However, no more than 33 percent say they have tracked and managed all components of their TCOR, down from 39 percent in 2011. The majority of respondents attribute failure to track and manage TCOR components to shrinking resources/expertise and lack of data/information. Thirty-two percent do not find the process valuable. This trend should be a cause for concern. In the long run, failure to track and manage all aspects of TCOR could be detrimental to an organization because it is difficult to manage what is not measured.

Risk Management Department and Function

Despite the growing complexity of risk, the levels of risk management department staffing appear, on an aggregate level, to have remained stable, with the majority of organizations maintaining staffing levels at fewer than five employees. Twenty-eight percent of respondents report having a Chief Risk Officers and companies in the heavily regulated industries are more likely to have a CRO.

Board Oversight and Involvement

As is consistent with the prior two surveys, risk management remains a strong focus of boards of directors regardless of company size or type. Eight out of 10 companies say their board or a board committee has established or partially established policies on risk oversight and management. Board-level commitment is critical to establishing, maintaining and funding a framework for risk oversight and risk management, and embedding this framework within the culture of the organization.

Priorities in Choice of Insurers / Limits and Retentions

For the first time, claims service & settlement is cited as the top criterion in an organization's choice of insurers, replacing "financial stability," which topped the list in the past three surveys. This pivotal change in priority is not totally unexpected, because 2011 saw one of the largest loss years in recent history. In addition, the insured losses in 2012, including those from Superstorm Sandy, also exceeded the global ten-year average. After all, the ultimate purpose of an insurance policy is the promise to pay for a covered loss.

The 2013 survey shows that most organizations are comfortable with their current limits purchased and maintain their current deductible/retention levels. Coverage terms and conditions remain stable with property and D&O having experienced the most improvement.

Global Programs

Globalization continues to be a consistent theme for companies pursuing improved operational results. As such, the need for risk management strategies to focus on larger geographic spread while addressing variations in regulatory controls, exposures, and options for optimal risk finance program designs has presented opportunities and challenges. Forty-nine percent of companies operating in more than one country say their corporate headquarters control procurement of all of their global and local insurance programs, while 43 percent control some lines and leave local offices to purchase other lines. The most common types of global policies purchased are general liability including public/product liability, as well as property damage/business interruption.

Captives

Organizations in all industry groups and geographies continue to use captive insurance companies as a cost-effective and strategic risk management tool. About 15 percent of respondents report having an active captive or Protected Cell Company. Within a captive, property and general liability are the most often underwritten lines of coverage. We expect to see continued steady growth in captive formations, and expansion of those already established as well as increasing interest in emerging markets, such as Latin America and certain parts of Asia Pacific.

In summary, as companies are facing increasing pressure from stakeholders to save costs and optimize insurance programs in this post-recession world, these industry and geography-specific insights allow organizations to benchmark their risk management and risk finance practices, and help them identify approaches that may improve the effectiveness of their own risk management strategies.

Global Risk Management Survey Risk Ranking

1 Economic slowdown / slow recovery	**2** Regulatory / legislative changes	**3** Increasing competition	**4** Damage to reputation / brand
9 Cash flow / liquidity risk	**10** Political risk / uncertainties	**11** Exchange rate fluctuation	**12** Technology failure / system failure
17 Property damage	**18** Computer crime / hacking / viruses / malicious codes	**19** Growing burden and consequences of corporate governance / compliance	**20** Counter party credit risk
25 Injury to workers	**26** Workforce shortage	**27** Merger / acquisition / restructuring	**28** Environmental risk
34 Directors & Officers personal liability Understaffing	**36** Product recall	**37** Corporate social responsibility / sustainability	**38** Climate change
44 Pandemic risk / health crisis	**45** Outsourcing	**46** Terrorism / sabotage	**47** Pension scheme funding

*Where two risks are shown under the same number, that indicates a tie.

5 Failure to attract or retain top talent	**6** Failure to innovate / meet customer needs	**7** Business interruption	**8** Commodity price risk
13 Third-party liability	**14** Distribution or supply chain failure	**15** Capital availability / credit risk	**16** Weather / natural disasters
21 Lack of technology / infrastructure to support business needs	**22** Inadequate succession planning	**23** Failure of disaster recovery plan / business continuity plan	**24** Crime / theft / fraud / employee dishonesty
29 Loss of intellectual property / data	**30** Failure to implement or communicate strategy	**31** Interest rate fluctuation	**32** Globalization / emerging markets; Natural resource scarcity / availability of raw materials
39 Absenteeism	**40** Social media; Asset value volatility	**42** Share price volatility	**43** Unethical behavior
48 Sovereign debt	**49** Harassment / discrimination; Kidnap and ransom / extortion		

Respondent Profile

The number of respondents has increased substantially, from **960** in the 2011 survey to **1,415**. The survey represents a broader range of industry sectors, encompassing small, medium and large companies in 70 countries from all regions of the world.

Aon's Global Risk Management Survey, a web-based biennial research report, was conducted in Q4, 2012 in 10 languages.

The number of respondents has increased substantially, from 960 in the last survey to 1,415. The survey represents 28 industry sectors, encompassing small, medium and large companies in 70 countries from all regions of the world.

About 57 percent of the participants are privately-owned companies and 28 percent public organizations. The rest are primarily government or not-for-profit entities.

The robust representation of the 2013 survey has enabled Aon to provide insight into risk management practices by geography and industry, and has validated the data that illustrate risks that are common to all industries.

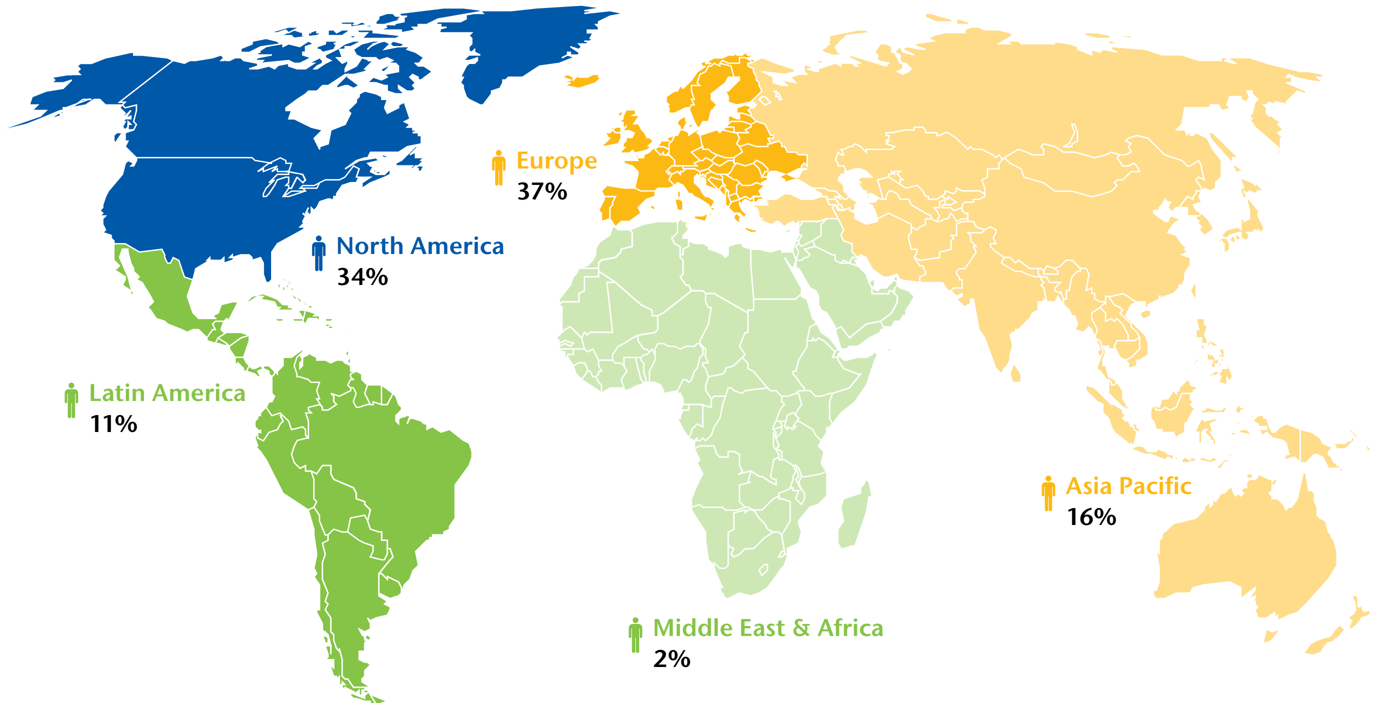
While overall demographic changes widened the appeal of the survey, they may have also impacted the survey results. For example, one of the most notable changes in respondent profile this year is a 14 percent increase in participation by organizations under USD1 billion—from 50 percent in 2011 to 64 in 2013. At the same time, the number of participating companies in the U.S. has decreased from 50 percent in 2011 to 27 this year. As a result, the average amount of limit purchased this year is smaller than that in previous years, while the percentage of companies maintaining a captive has dropped by 9 percent. This is because larger entities and those in the U.S. typically purchase higher limits and adopt captives more often.

Survey respondents by industry

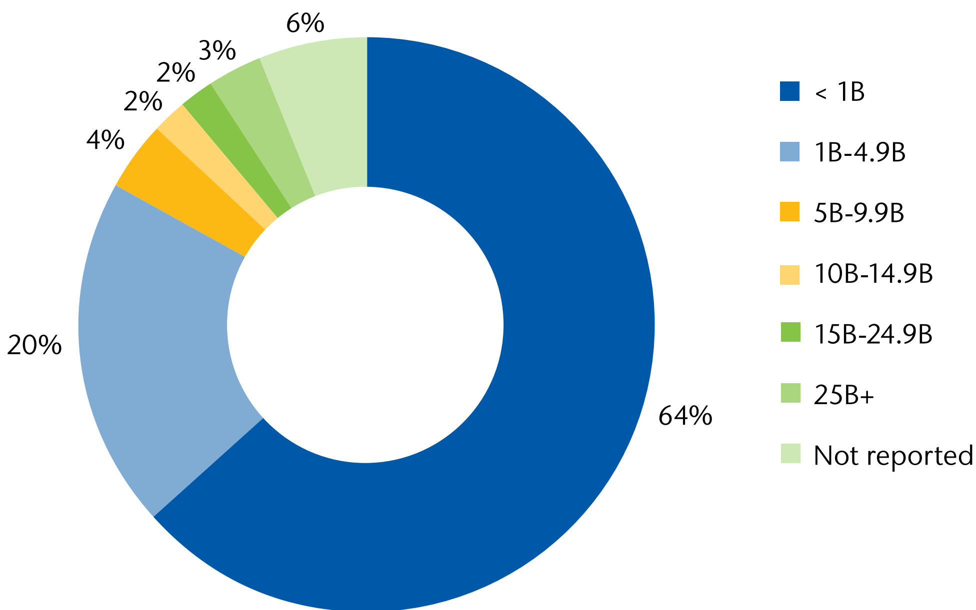
Industry	Percent	Industry	Percent
Agribusiness	2%	Metal Milling and Manufacturing	3%
Aviation	1%	Natural Resources (Oil, Gas and Mining)	5%
Banks	3%	Non-Aviation Transportation Manufacturing	1%
Chemicals	3%	Non-Aviation Transportation Services	4%
Conglomerate	1%	Pharmaceuticals and Biotechnology	2%
Consumer Goods Manufacturing	4%	Printing and Publishing	1%
Construction	8%	Professional and Personal Services	6%
Educational and Nonprofits	3%	Real Estate	3%
Food Processing and Distribution	4%	Retail Trade	4%
Government	3%	Rubber, Plastics, Stone and Cement	2%
Health Care	4%	Technology	5%
Hotels and Hospitality	2%	Telecommunications and Broadcasting	2%
Insurance, Investment and Finance	7%	Utilities	5%
Lumber, Furniture, Paper and Packaging	2%	Wholesale Trade	4%
Machinery and Equipment Manufacturers	5%		

Restaurants included in Hotels and Hospitality; Beverages included in Food Processing and Distribution; Textiles included in Consumer Goods Manufacturing

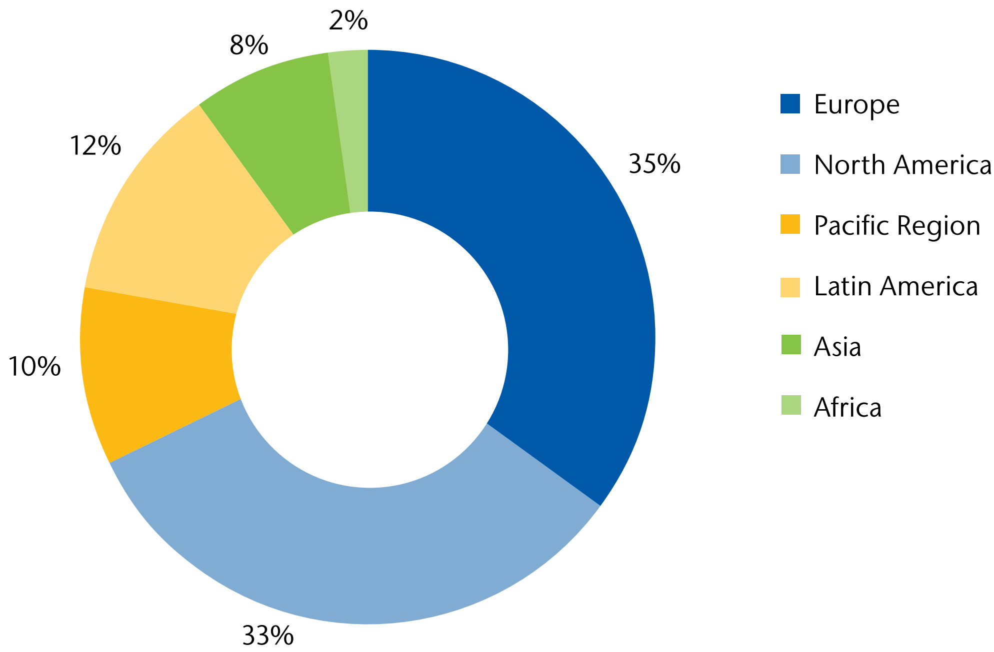
Survey respondents by region



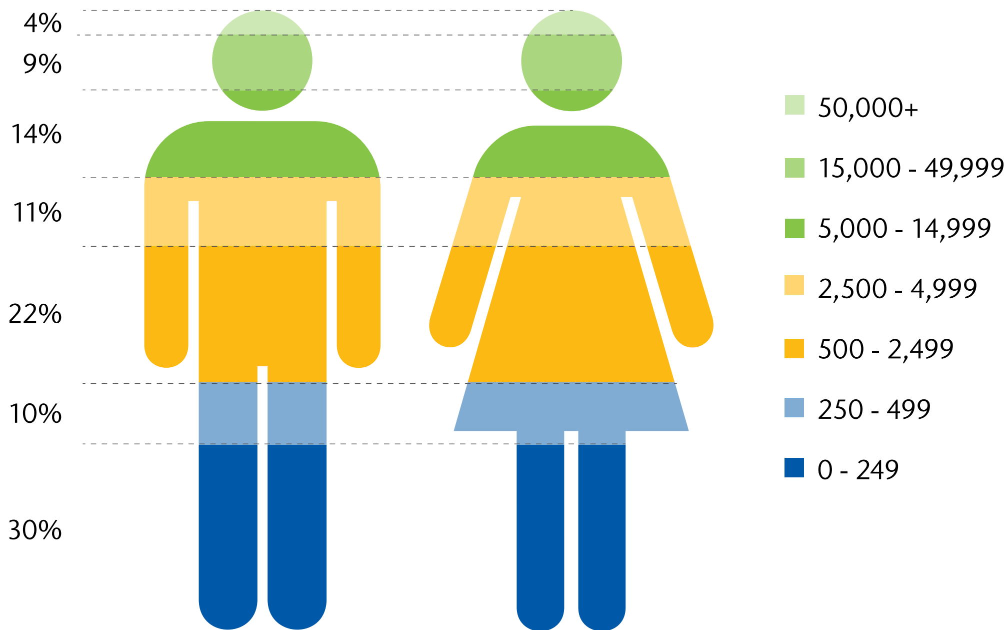
Survey respondents by revenue (in USD)



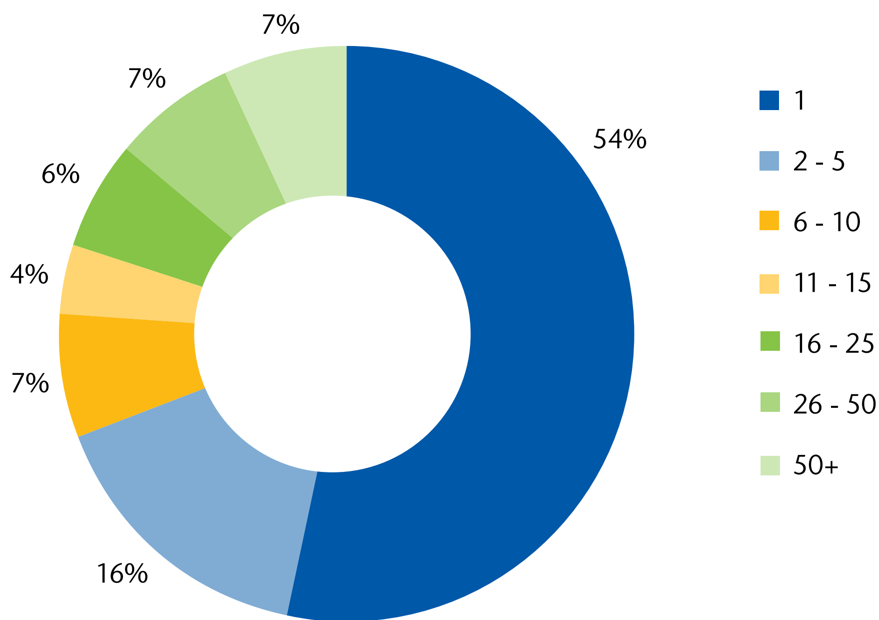
Survey respondents' revenue by area



Survey respondents by number of employees



Survey respondents by number of countries in which they operate



Survey respondents by role

Role	Percentage
Risk Manager or Insurance Manager	33%
Chief Financial Officer	13%
Other	13%
Chief Risk Officer	8%
Chief Executive	6%
Finance Manager	6%
Treasurer	5%
General Business Manager	3%
President	2%
Company Secretary	2%
Chief Operations Officer	2%
Chief Administration Officer	2%
Managing Director / Partner	2%
Chief Counsel / Head of Legal	1%
Head of Human Resources	1%
Risk Consultant	1%

Survey results—by numbers

$76,055,607,258 Total limit purchased for Umbrella / Excess Liability

$36,188,336,250 Total limit purchased for Directors and Officers Liability

$2,250,000,000 Maximum limit purchased for Umbrella / Excess Liability

$500,000,000 Maximum limit purchased for Directors & Officers Liability

$128,689,691 Average limit purchased for Umbrella / Excess Liability

$61,544,790 Average limit purchased for Directors & Officers Liability

$1,000,000 Minimum limit purchased for Umbrella / Excess Liability in North America

$500,000 Minimum limit purchased for Directors & Officers Liability

$323,975 Minimum limit purchased for Umbrella / Excess Liability

14,007 Number of risk prioritization decisions for top 10 risks

1415 Companies participated in the survey

801 Private companies participated in the survey

777 Companies with risk management departments

525 European companies participated in the survey

434 Companies with more than USD 1B in revenue

390 Public companies participated in the survey

227 Asia Pacific companies participated in the survey

183 Companies with 15,000+ employees

142 Financial industry companies

100 Companies with operations in more than 50 countries

58 Food Processing and Distribution companies participated in the survey

30 French companies

2 Priority ranking of financial stability / rating in choice of insurer

1 Ranking of economic slowdown / slow recovery on top 10 risk list

98% Companies USD 25+ billion revenue with a formal risk management department

59% Average reported readiness for the top 10 risks

66% Companies that want to see broader coverage / better terms and conditions

49% Companies in more than one country that control procurement of all insurance centrally

42% Average loss of income experienced from top ten risks in the last 12 months

33% Companies measuring Total Cost of Insurable Risk

28% Companies with a Chief Risk Officer

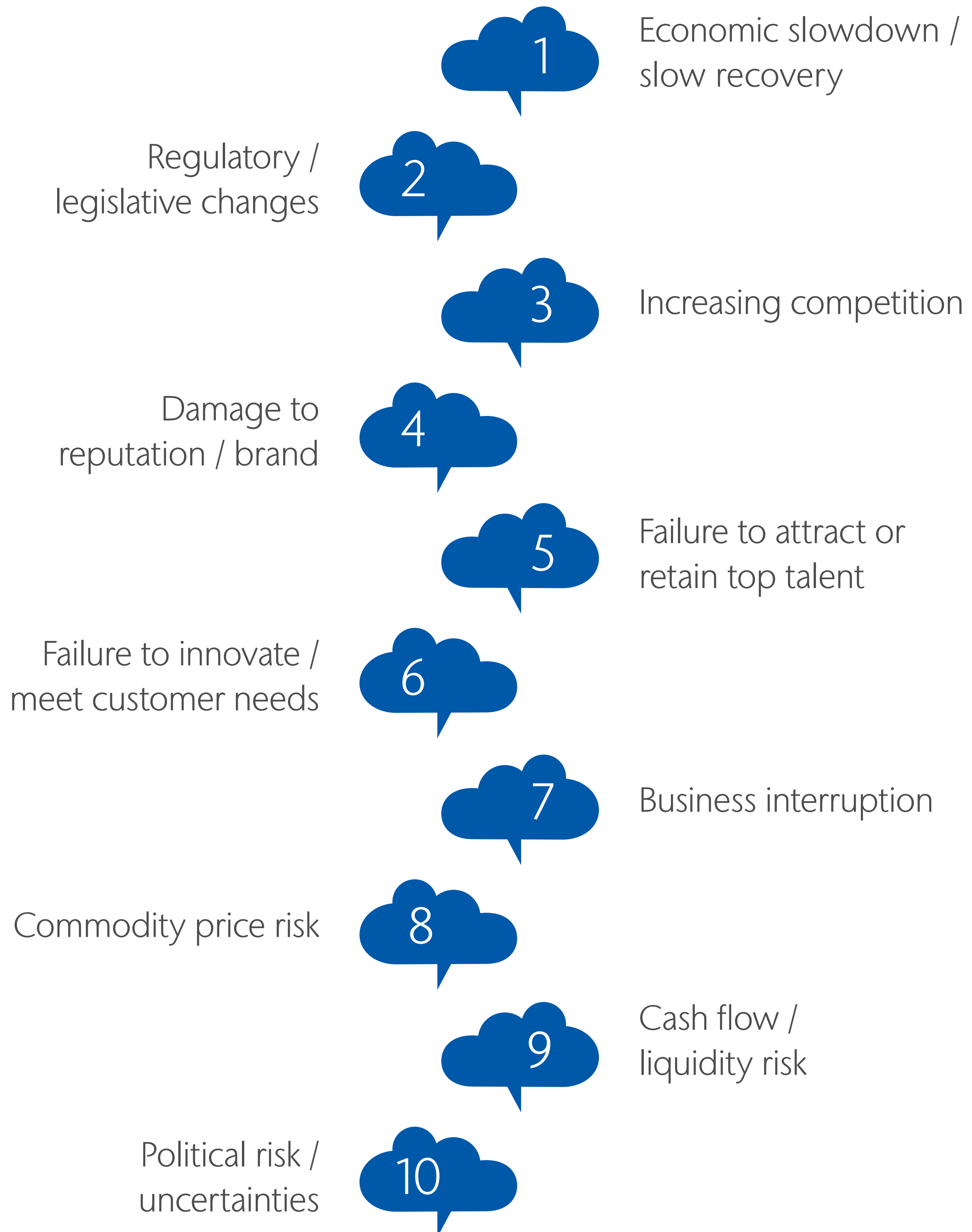
13% Percentage of Chief Financial Officers that respondent to survey

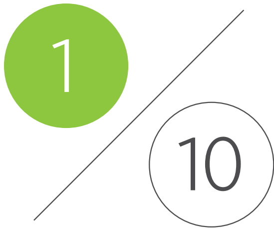
9% Companies planning to create a captive or PCC in next three years

5% Companies with between six and 11 employees in Risk Management Department

Top 10 Risks

For the third straight time, economic slowdown / slow recovery has been ranked as the top risk facing organizations, and is projected to be the number one risk three years from now. Political risk / uncertainties have entered the top 10 list for the first time. On average, reported loss of income from the top 10 risks has increased from 28 percent in 2011 to 42 in 2013, while reported risk readiness has dropped 7 percent. Political risk / uncertainties, failure to innovate / meet customer and weather / natural disasters are all projected to move up in the ranks while business interruption and damage to reputation / brand drop in priority.


1
Economic slowdown / slow recovery
2
Regulatory / legislative changes
3
Increasing competition
4
Damage to reputation / brand
5
Failure to attract or retain top talent
6
Failure to innovate / meet customer needs
7
Business interruption
8
Commodity price risk
9
Cash flow / liquidity risk
10
Political risk / uncertainties



Economic slowdown / slow recovery

In its 2013 global economic forecast report, the Conference Board states:

The global economy has yet to shake off the fallout from the crisis of 2008-2009. Global growth dropped to almost 3 percent in 2012, which indicates that about a half a percentage point has been shaved off the long-term trend since the crisis emerged. This slowing trend will likely continue. Mature economies are still healing the scars of the 2008-2009 crisis. But unlike in 2010 and 2011, emerging markets did not pick up the slack in 2012, and won't do so in 2013. Uncertainty across the regions...will continue to have global impacts in sluggish trade and tepid foreign direct investment.

The economic uncertainties also weigh heavily on the minds of participants in Aon's 2013 Global Risk Management Survey. For the third straight time, economic slowdown/slow recovery is ranked overall as the top risk facing organizations. It is also considered number one by respondents in 16 of the 28 reported industries and three out of the five regions. Meanwhile, this risk has also been cited as causing the greatest reported income loss. When asked to rank the overall top risks three years from now, respondents project that economic slowdown will continue to dominate the list.

This risk perception could be fueled by a slew of news coverages before and during the period when this survey was conducted:

- Continued weakness in the eurozone
- Slowed economic growth forecast in India and China
- Persistent fiscal changes in Japan
- Elevated unemployment figures around the world
- Uncertainties related to fiscal policies in the United States

These grim reports have no doubt undermined an organization's confidence in the economic recovery, raising concerns about the overall fragility of the global financial system, despite the recent bounce in the equity market and improved housing market, in parts of the world.

Since concerns over the world's economy will not go away soon, organizations need to embrace it for the long-term and from a global perspective. We are no longer sitting on an island by ourselves. What happens on the other side of the world can have a direct impact on every organization, whether it has international operations or not. For example, during the financial crisis, the drop in real estate values, record high foreclosure rates and default rates on loans in the U.S. triggered a worldwide credit crisis that affected businesses everywhere, making it harder for them to obtain loans and expand.

Therefore, organizations must plan for this risk by learning from lessons in the past, stepping out of their day-to-day operations and thinking in terms of organizational readiness for the future. Companies also must remain flexible enough to adapt. A comprehensive and successful response to this risk requires the consistent application of excellence in all facets of risk management.

Rankings by industry for economic slowdown / slow recovery in comparison to other top risks*

1

Aviation

Chemicals

Conglomerate

Consumer Goods Manufacturing

Construction

Hotels and Hospitality

Lumber, Furniture, Paper and Packaging

Machinery and Equipment Manufacturers

Metal Milling and Manufacturing

Non-Aviation Transportation Manufacturing

Non-Aviation Transportation Services

Professional and Personal Services

Real Estate

Rubber, Plastics, Stone and Cement

Technology

Wholesale Trade

2

Banks

Government

Retail Trade

3

Educational and Nonprofits

Health Care

Insurance, Investment and Finance

Pharmaceuticals and Biotechnology

Telecommunications and Broadcasting

5

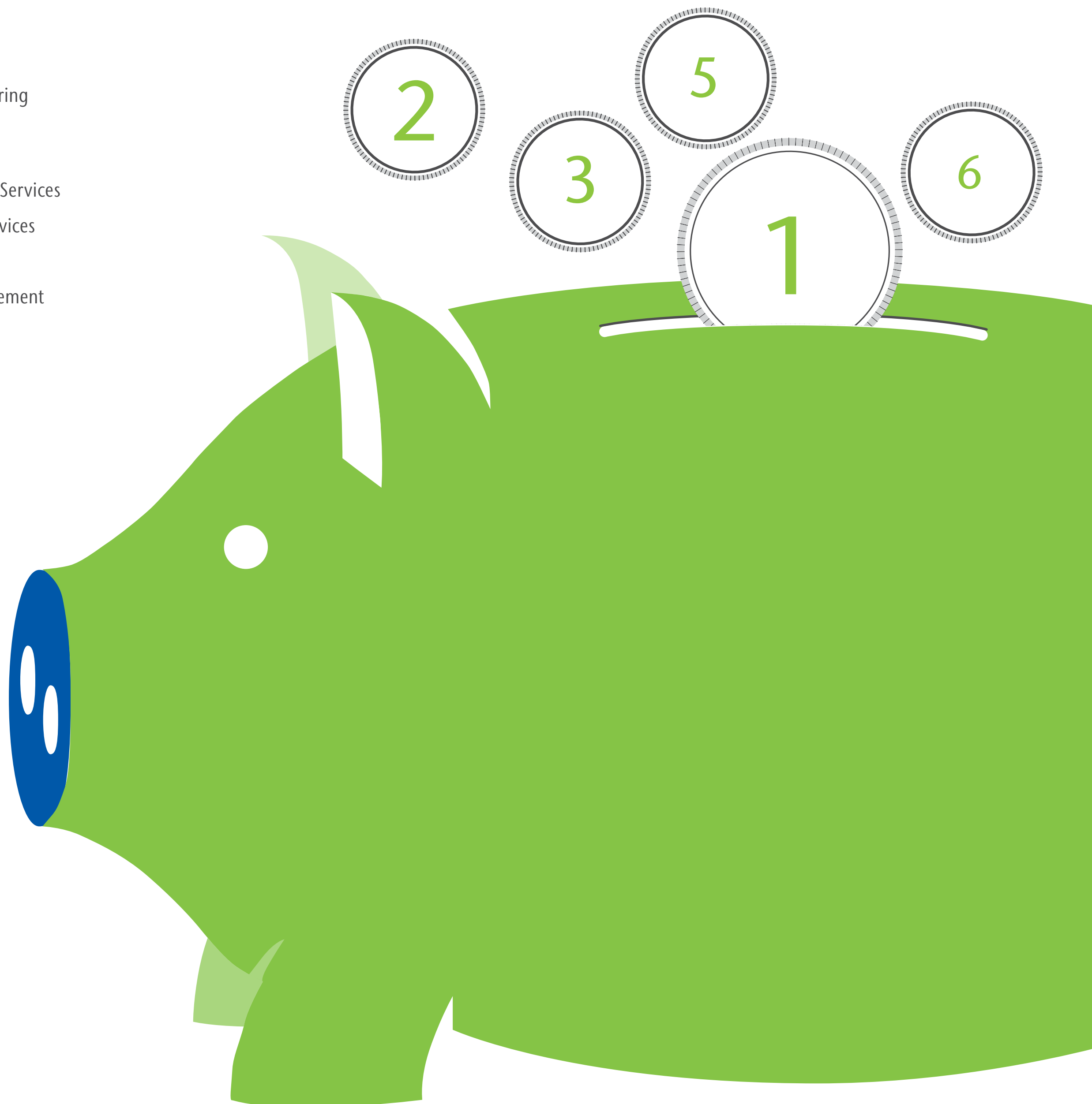
Natural Resources (Oil, Gas and Mining)

Utilities

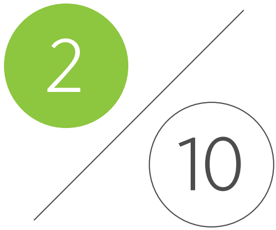
6

Agribusiness

Food Processing and Distribution



*Reflects industry ranking of economic slowdown / slow recovery as compared to 49 other risks surveyed; List of 50 risks outlined on page 10



Regulatory / legislative changes

Since the financial meltdown in 2009, governments around the world have stepped up their regulatory functions and are becoming more robust in setting and determining policies for businesses, not simply for the financial sector, but for industries across the board. While most companies accept the need for rules to govern business and are accustomed to working within regulatory constraints, the sheer volume and complexity of these rules can still be daunting, not to mention the frequency with which they change. The tremendous time and resources spent in complying with different types of evolving regulations, such as Basel III, Solvency II, foreign corrupt practices legislation, local privacy laws and the International Financial Reporting Standards, present serious challenges for businesses. Moreover, operating globally adds to the complexities of the compliance function. Non-compliance with regulations could result in loss of markets, reputation and customers — severe consequences that could stretch far beyond any direct penalty imposed by enforcement agencies.

Ironically, regulations, which are designed to help businesses mitigate risks, are now perceived as a key risk factor facing businesses. More companies see the increasingly stringent regulations as intrusive and burdensome. This sentiment is accurately captured in the survey. For three consecutive times, regulatory / legislative changes has been ranked second overall on the top 10 risk list — a significant change from 2007 when it was ranked sixth in this survey.

Regulatory/legislative changes is considered a number one risk by banks, government, health care, insurance, investment and finance, pharmaceuticals and biotechnology, telecommunications and broadcasting and utilities, all of which are traditionally subject to heavy regulations.

As expected, Chief Risk Officers, who often oversee or directly handle regulatory compliance, also cite regulatory / legislative changes as the number one risk. In the projection of top ten risks for the next three years, regulatory and legislative changes remains number two on the list.

In the survey, the reported readiness by companies to handle regulatory/legislative changes has dropped 11 percent, from 55 percent in 2011. Consequently, 54 percent have indicated a loss of income in the last 12 months from regulatory / legislative changes, a dramatic increase from 22 percent in 2011.

Regionally, the U.S. is commonly viewed as one of the most heavily regulated countries in the world, although with regulations in Latin America expanding, companies in that region now rank regulations as the number one risk.

Rankings by industry for regulatory / legislative changes in comparison to other top risks*

1

Banks

Government

Health Care

Insurance, Investment and Finance

Pharmaceuticals and Biotechnology

Telecommunications and Broadcasting

Utilities

2

Educational and Nonprofits

Non-Aviation Transportation Services

Professional and Personal Services

Real Estate

3

Agribusiness

Natural Resources (Oil, Gas and Mining)

Non-Aviation Transportation Manufacturing

4

Aviation

Wholesale Trade

5

Lumber, Furniture, Paper and Packaging

Rubber, Plastics, Stone and Cement

6

Chemicals

Construction

Metal Milling and Manufacturing

8

Consumer Goods Manufacturing

Food Processing and Distribution

Hotels and Hospitality

Retail Trade

9

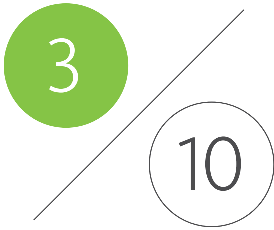
Conglomerate

Technology

11

Machinery and Equipment Manufacturers

*Reflects industry ranking of regulatory / legislative changes as compared to 49 other risks surveyed; List of 50 risks outlined on page 10



Increasing competition

In its quest to become the global powerhouse, the Chicago-based Groupon, a deal of the day website that launched in 2008 to feature discounted gift certificates usable at local or national companies, discovered in 2010 that its lucrative business model had soon attracted a formidable army of skilled copycats worldwide. Since its concept is relatively easy for consumers and local business owners to grasp, thousands of Groupon clones sprung to life in markets stretching from Latin America to Europe. In China alone, there were more than 1,000 Groupon-like businesses, including an exact replica that uses groupon.cn as its web address in 2010.

Even though Groupon has many of its own unique characteristics, its experience has offered a glimpse of the increased competition that businesses are facing nowadays, especially in the global market. While competition is central to the markets, and fosters innovation, productivity and growth, it can also eat away market share and end a business.

It doesn't come as a surprise that organizations have ranked increasing competition as a top three risk for second consecutive time. Increased competition is ranked number two for big conglomerates as well as the construction, insurance, investment and finance industries. Increased competition can lower market share and decrease profits for a company. While larger business organizations may be able to fend off higher amounts of competition than smaller ones with limited resources, all organizations, regardless of size, see competition as a priority risk.

Increased competition has a direct and lasting impact on earnings. At present, a weakened global economy means that consumers have less disposable income and companies are competing for a smaller base of clients with decreased spending power.

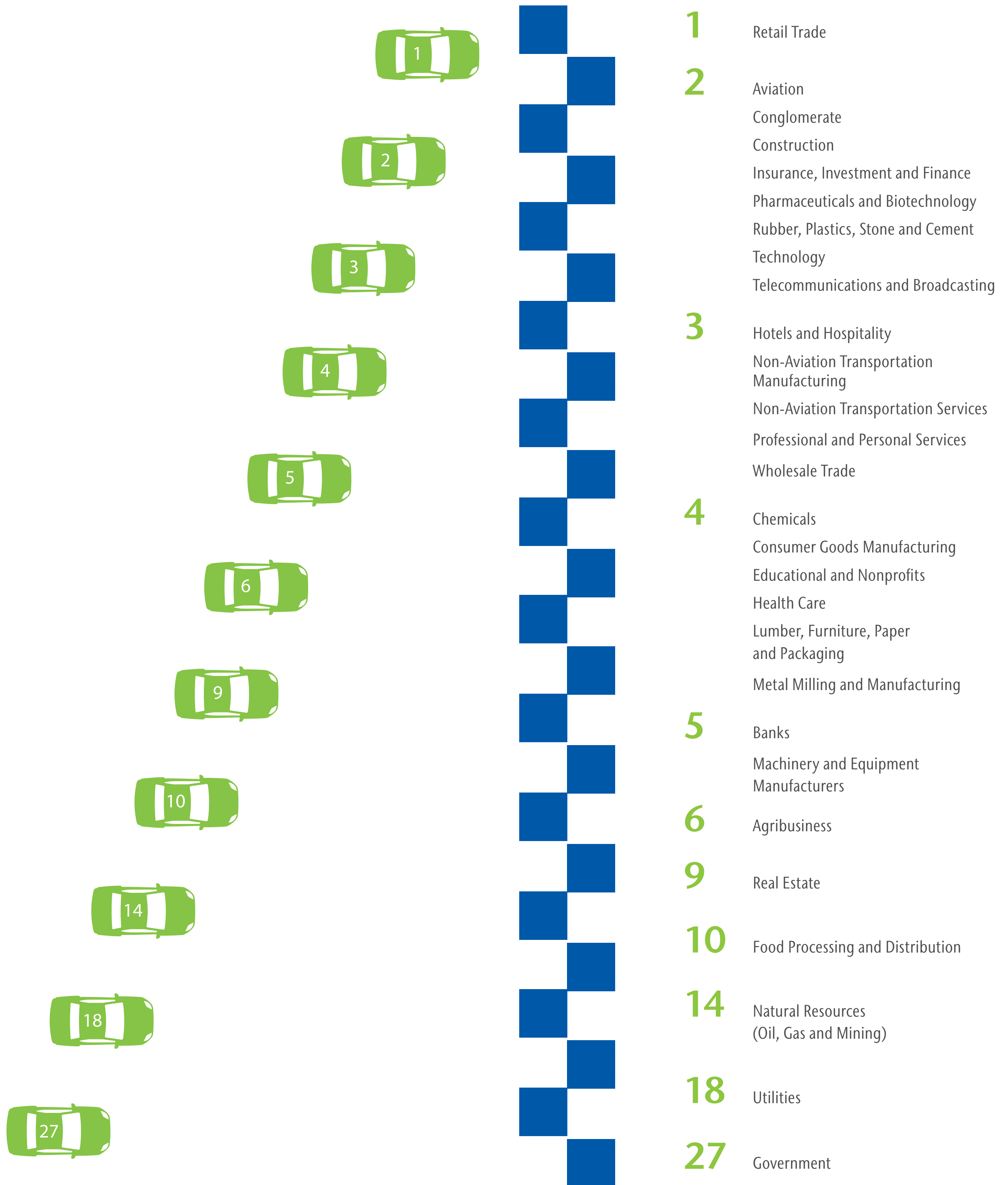
Therefore, increasing competition has made it imperative for companies to focus on innovation, brand recognition and product differentiation to survive and thrive.

Managing competition risk demands a high-level, enterprise-wide approach that includes:

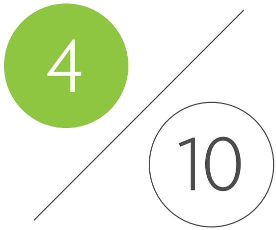
- Identifying and understanding new competitors entering the marketplace.
- Discovering the latest consumer trends and developing the requisite flexibility to adapt and respond to those trends.
- Staying abreast of technological advancements to ensure that your business is integrating the most effective techniques and technologies available.
- Understanding globalization, including the entry of lower-cost economies into the global marketplace.
- Preparing for aggressive action on the part of competitors, such as price wars.

As stakeholders' focus on financial performance continues to sharpen, effective management of the risk of increased competition will be a key focus for the board of directors and senior management.

Rankings by industry for increasing competition in comparison to other top risks*



*Reflects industry ranking of increasing competition as compared to 49 other risks surveyed; List of 50 risks outlined on page 10



Damage to reputation / brand

Damage to reputation / brand captures a wide range of events such as product recalls, supply chain disruptions, ethics charges against business leaders and regulatory challenges, all of which are often beyond an organization's control. Since reputational events often arrive with little or no warning, organizations are forced to respond in real time and economic losses are mounting.

The unpredictable nature of reputational and brand-related events continues to elude companies, which see damage to reputation/brand as a top risk concern—ranking number four on the top 10 risk list. In the survey, respondents say that losses of income in the last 12 months increased dramatically rising from 8 percent in 2011 to 40 percent in 2013. The increase could be driven by organizations' improved abilities to identify and measure losses associated with reputational risks, and also by the impact of social media and its abilities to make any news feed viral.

When examining the correlations between corporate reputation and financial performance, it is important to study the effects of large-scale crises, either manmade or driven by external forces—product recalls, salmonella outbreaks, banking mismanagement and accounting improprieties have caused many organizations to lose value. According to a separate Aon-sponsored 2012 Reputation Review, seven of 10 measured companies impacted by major reputational crisis say they have lost more than a third of their value; two companies claim to have lost more than 90 percent.

In an age of 24-hour news cycles and instant social media, the response to a reputational crisis must be swift and on point. Meticulous planning for crises, understanding individual roles and responsibilities, and developing a road map are keys to protecting a brand.

While the principles of reputation recovery are made more vivid by a major crisis, they apply equally to lesser events. Based on the 2012 Reputation Review, there is an 80 percent chance of a company losing at least 20 percent of its value (over and above market) in any single month, in a given five-year period due to reputational issues. This suggests that reputational events strike organizations on a regular basis.

For many organizations, a comprehensive reputation risk control strategy can prevent a critical event from turning into an uncontrollable crisis and help maximize the probability of recovery. Those that have a firm grip on their brand and are better prepared can weather a crisis with minimum damage. In fact, in some case, companies that successfully navigate a crisis can actually build additional value.

Rankings by industry for damage to reputation / brand in comparison to other top risks*

1	Educational and Nonprofits
2	Food Processing and Distribution Hotels and Hospitality
3	Banks Pharmaceuticals and Biotechnology Real Estate Retail Trade
4	Aviation Conglomerate Insurance, Investment and Finance
5	Health Care Professional and Personal Services
6	Technology
7	Telecommunications and Broadcasting Consumer Goods Manufacturing
8	Utilities
9	Non-Aviation Transportation Manufacturing
11	Lumber, Furniture, Paper and Packaging Natural Resources (Oil, Gas and Mining)
13	Construction Machinery and Equipment Manufacturers
14	Metal Milling and Manufacturing
15	Agribusiness
16	Chemicals Government Non-Aviation Transportation Services
17	Wholesale Trade
21	Rubber, Plastics, Stone and Cement

Reflects industry ranking of damage to reputation / brand as compared to 49 other risks surveyed; List of 50 risks outlined on page 10

Failure to attract or retain top talent

The slow economic recovery has put a significant financial strain on organizations, which are challenging employees and leaders to deliver unprecedented results of growth with fewer resources and tighter budgets. Undoubtedly, employees and leaders have been pushed out of their comfort zones as companies are struggling to generate more productivity and innovation from each remaining person.

According to the Aon survey, respondents rank failure to attract and retain top talent as the fifth most critical risk area for their organizations. This risk has gained urgency since Aon conducted the last survey in 2011, when it was rated number seven. The technology, health care and government sectors consider it a number two risk.

All surveyed regions, except Europe, rank failure to attract or retain top talent among the top 10 risks. Given its turbulent economic situation, it is not surprising that attracting and retaining talent is taking a back seat in Europe (number 12) to seemingly more pressing concerns.

Overall, the survey underscores the importance for organizations to keep attracting and retaining talent a key business strategy. This includes ensuring that leaders set the tone, build relationships, show their commitment to their talent and hold themselves accountable in meaningful ways.

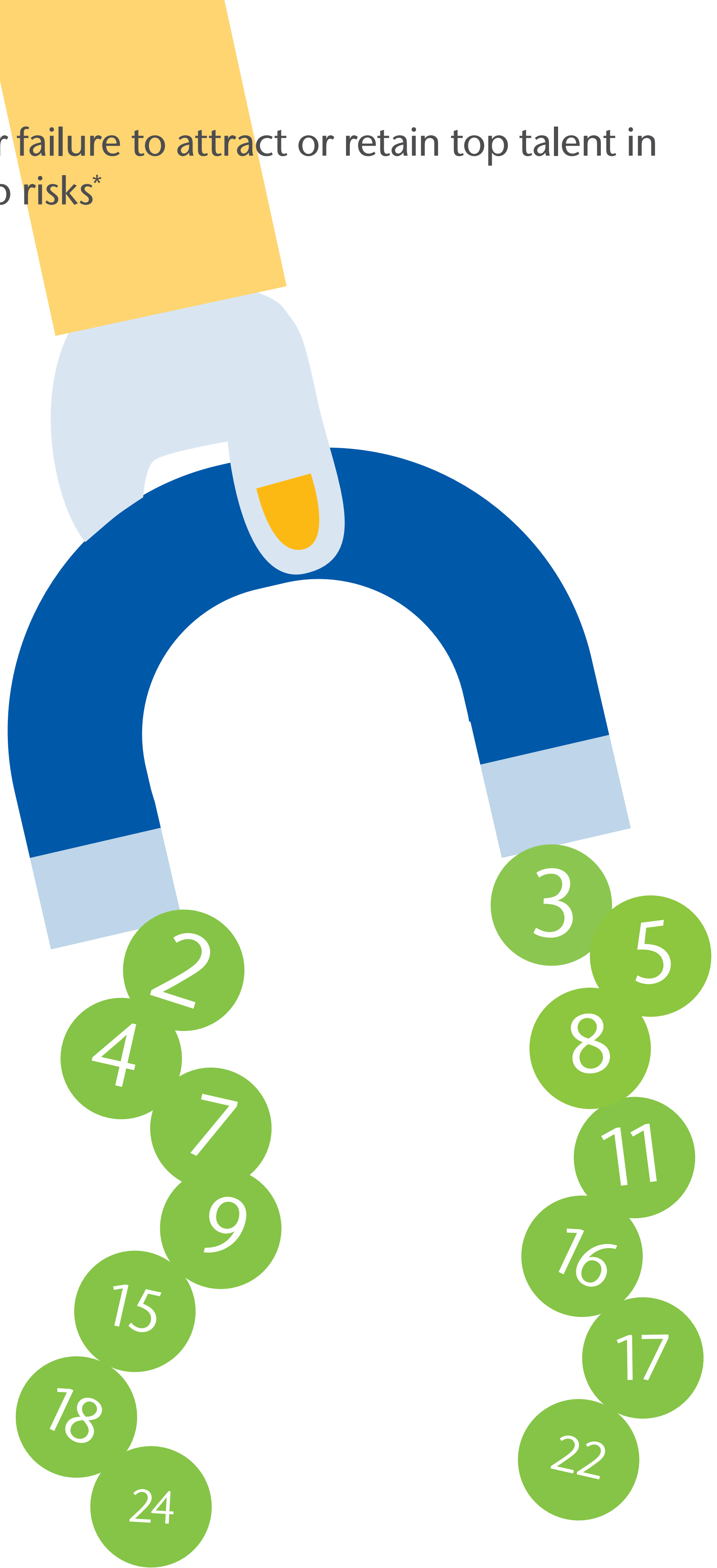
Talent is a scarce commodity, and with the economic recovery under way, competition for talent can become fierce. People are looking for companies which are market leaders and where their expertise will be treasured.

To win the war on talent, companies need to have an engaged workforce. Aon Hewitt's engagement research has shown that an engaged workforce means having engaged leaders, who are more likely to drive productity in the workforce and generate stronger business results. This research also indicates that an engaged workforce is more likely to promote the organization in a positive way, and employees are less likely to leave the organization for other opportunities.

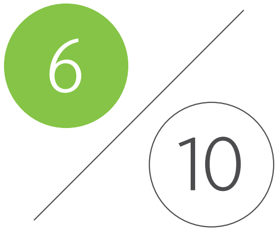
Therefore, organizations that are concerned about their ability to retain and attract key talent should ensure they have a formal mechanism in place to evaluate the engagement levels of their organization, develop robust action planning processes and put in place comprehensive communication plans to target specific areas of engagement risk. Organizations that build an edge to their ability to retain and attract talent will thrive in the tough competitive marketplace.

Rankings by industry for failure to attract or retain top talent in comparison to other top risks*

Rank	Industry
2	Government Health Care
3	Technology
4	Metal Milling and Manufacturing Natural Resources (Oil, Gas and Mining) Professional and Personal Services
5	Educational and Nonprofits Lumber, Furniture, Paper and Packaging
7	Chemicals Non-Aviation Transportation Manufacturing
8	Banks Insurance, Investment and Finance Pharmaceuticals and Biotechnology Telecommunications and Broadcasting
9	Aviation Conglomerate Non-Aviation Transportation Services Retail Trade
11	Consumer Goods Manufacturing Construction Machinery and Equipment Manufacturers
15	Agribusiness
16	Food Processing and Distribution Utilities
17	Real Estate
18	Hotels and Hospitality
22	Wholesale Trade
24	Rubber, Plastics, Stone and Cement



*Reflects industry ranking of failure to attract or retain top talent as compared to 49 other risks surveyed; List of 50 risks outlined on page 10



Failure to innovate/ meet customer needs

The Borders bookselling chain, which opened its first store in Ann Arbor, Michigan in 1971, pioneered the book megastore business and dominated the field for 40 years. However, in 2011, hundreds of Borders stores were closed and more than 10,000 employees lost their jobs after the company filed for bankruptcy. The vast tracts of retail space that Borders vacated in cities across the U.S. speak volumes to a gigantic business that failed to innovate itself to anticipate and meet customer needs. When millions of book lovers thronged to buy books online, Border lost out.

History is full of examples of companies like Borders that failed because they could not innovate. Albert Einstein once said, “The significant problems we face today cannot be resolved at the same level of thinking we were at when we created them.”

The issue of innovation is well recognized by the current survey respondents, who list failure to innovate/meet customer needs as a top 10 risk (number six), similar to the ranking in 2011.

Results from the Aon survey are also consistent with other industry data. A recent survey of 1000 executives conducted by Rochester, NY-based Harris Interactive indicates that, while 95 percent of the surveyed companies recognize the criticality of innovation to future growth, more than half acknowledge that their companies have no system, tools or processes for fostering enterprise innovation. At least a third of those surveyed see the lack of such tools and processes as barriers to innovation at their company.

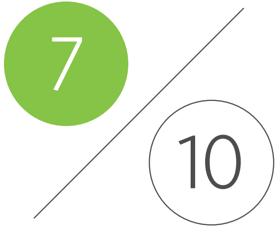
Often times, companies equal innovation with technological upgrades or massive (and often costly) research and development projects, but experts say innovation is more about engaging employees at every level to think creatively about the design of powerful futures. To promote innovation, companies should foster an innovation culture from the CEO down. Companies must first develop or improve operations and processes that can serve as the foundation for their creations. Doing so will lead to new efficiencies and bring more differentiated products to the marketplace.

Another key component of the innovation is to improve an organization’s abilities to anticipate the needs of customers and produce products to meet those future needs. Some companies have established elaborate programs to capture customer data and feedback and carefully analyze them to determine their needs, recommendations and desire for future products and services. At the same time, management needs to be aware that customer feedback has limitations, because people can’t always identify what it is they’ll want in the future. But strategically, you can’t plan for right now; you have to plan for the future if you want to ensure your company’s survival.

Innovation often comes from the producer—not from the customer. Henry Ford once said that if he’d asked his customers what they wanted, they would’ve asked for a faster horse.

Rankings by industry for failure to innovate / meet customer needs in comparison to other top risks*

Reflects industry ranking of failure to attract or retain top talent as compared to 49 other risks surveyed; List of 50 risks outlined on page 10



Business interruption

Most business interruptions are difficult to predict. The factors that contribute to business interruption are often sudden and unpredictable, making it a challenging task to understand and manage.

While business interruptions typically conjure up the image of major disasters that create havoc and impact whole communities, such as hurricanes, earthquakes or terrorist attacks, one cannot ignore those occurring on a smaller scale that might not make it to the headlines—a power outage or water main break in the immediate area, fire in a room of a building, a bomb threat, or a workplace violence incident.

Unforeseeable risk events, both natural and manmade, big and small, can have a crippling effect. Studies show that 80 percent of companies that fail to recover from a major disaster within one month are likely to go out of business. Experts also claim that the average impact of a system shutdown is one-half of a percent of market share every eight hours, and that it takes three years to recover that percentage of market share. Being prepared is both ethically correct and good business.

It does not come as a surprise that respondents to the Aon survey cite business interruption as one of the top 10 risks (ranked seventh). Thirty-six percent of respondents have reported loss of income due to business interruption in the last 12 months, up 16 percent from 2011.

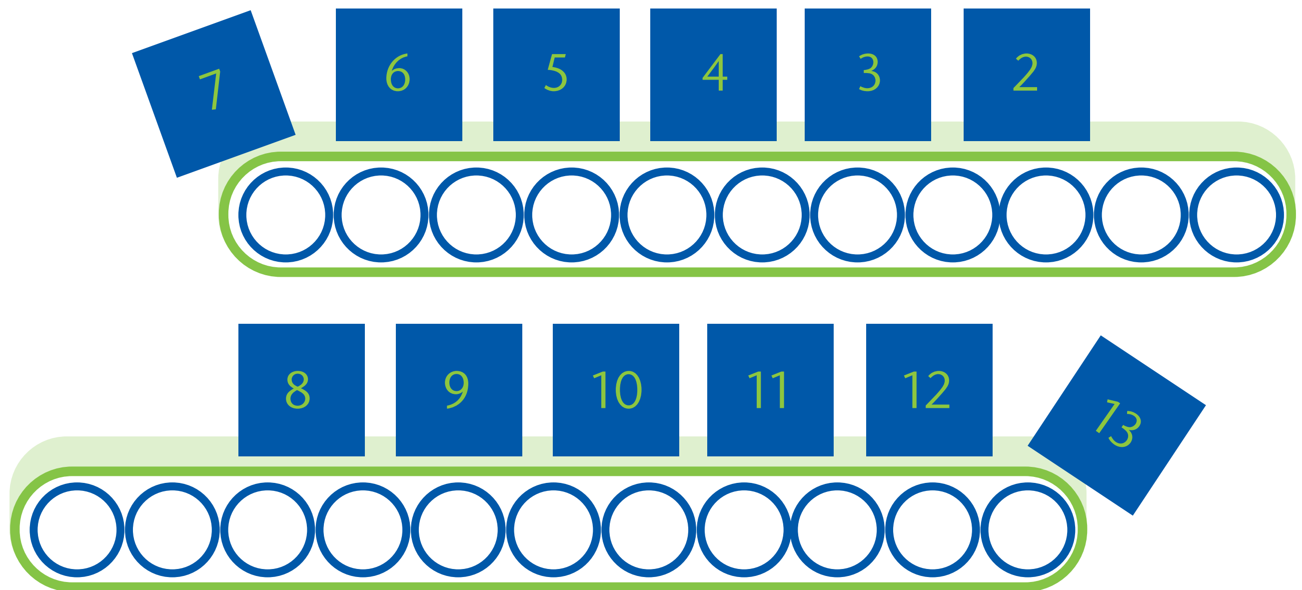
Respondents in the utilities industry rank business interruption as number one while those in metal milling manufacturing number two. In addition, businesses interruption is also cited as a greater concern for companies with more than USD1 billion in revenue, due to their complex infrastructure, supply chains and overseas operations.

The recent events of the Japanese earthquake and tsunami, the flooding in Thailand and Australia, and the Superstorm Sandy in the U.S. have served as a wake-up call, heightening awareness of the need for businesses in all industries, from manufacturing to professional services, to have continuity plans and mitigation options available. That probably explains why a large percentage of surveyed organizations—69 percent—describe their organization as being ready for an interruption, similar to what was reported in 2011.

In comparison with the survey in 2007, when respondents ranked business interruption as number two on the list, the drops in rankings in the past six years show the increasing confidence by organizations in their preparedness. As more and more companies are taking a more rigorous approach to managing such exposures, the survey indicates that this risk is expected to fall outside the top 10 risk list three years from now.

Due to its unpredictability, organizations must effectively address this risk by identifying all potential threats to their business and evaluating their mitigation options for each threat. In addition, organizations also need to consider their coverage options for non-damage related losses, such as off-site service interruptions to utility suppliers, which was a major cause of disruption from Sandy. More and more insurers are now creating provisions within policies to limit their exposure to such occurrences, which could leave the insured without coverage and foot the bill for extra expenses.

Rankings by industry for business interruption in comparison to other top risks*



2

Metal Milling and Manufacturing

Utilities

3

Lumber, Furniture, Paper and Packaging

4

Conglomerate

Retail Trade

5

Chemicals

Technology

6

Consumer Goods Manufacturing

Food Processing and Distribution

Insurance, Investment and Finance

Natural Resources (Oil, Gas and Mining)

7

Non-Aviation Transportation Manufacturing

8

Hotels and Hospitality

Professional and Personal Services

Rubber, Plastics, Stone and Cement

Telecommunications and Broadcasting

9

Machinery and Equipment Manufacturers

10

Educational and Nonprofits

11

Health Care

12

Non-Aviation Transportation Services

Pharmaceuticals and Biotechnology

Real Estate

13

Government

17

Agribusiness

Wholesale Trade

18

Banks

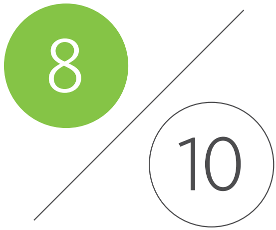
21

Aviation

23

Construction

Reflects industry ranking of business interruption as compared to 49 other risks surveyed; List of 50 risks outlined on page 10



Commodity price risk

Commodity price risk has remained on the top 10 list for the third consecutive time, and it is rated as the number one risk by agribusiness, food processing and distribution, and natural resources. In addition, respondents have indicated they are less prepared to manage commodity price risk than in Aon's last survey, with nearly 40 percent of companies feeling they are not ready to manage commodity price risk in the current business environment. However, the percentage of companies experiencing losses from commodity prices has decreased 35 percent, from 45 percent in 2011.

The survey results reflect concerns for the strong pricing in several markets, including agribusiness, crude oil, and metals.

In the agribusiness market, corn prices continue to rise in Europe, Latin America, and in the U.S., increasing by more than 10 percent from those of 2011. Proteins have also shown strong pricing over the last two years, up an average of nearly 10 percent over this period. These price hikes have led to increased business interruption exposures for commodity sellers and placed profitability pressures on food processors.

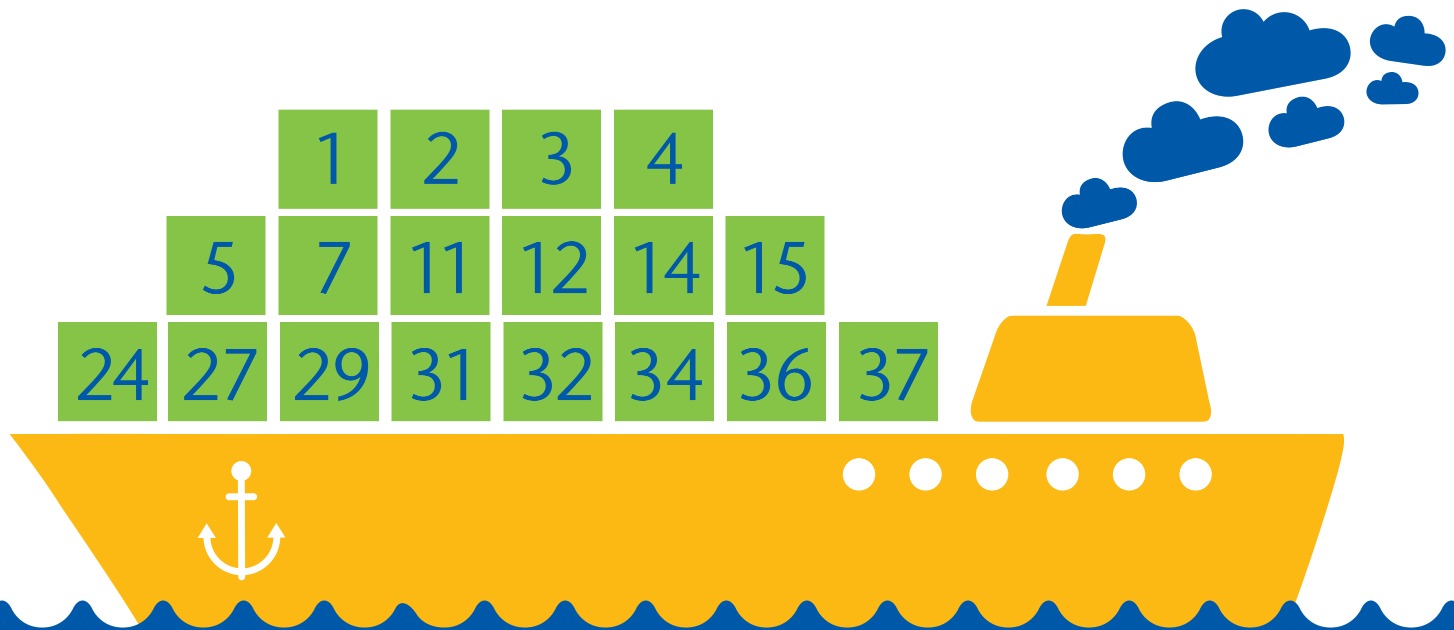
Crude oil has maintained strong pricing, averaging in the mid USD 90 per barrel (WTI index) since the beginning of 2011, with a low of approximately USD 75 per barrel and a high of just above USD 110. This is a significant increase over the two-year average of approximately USD 70 between 2009 and 2010. While current pricing supports strong financial fundamentals for upstream energy companies, it also amplifies the financial impact of potential disruption events such as the recent hurricanes in the Gulf of Mexico—a significant production region for oil consumed in the U.S. Additionally, although non-OPEC production is expected to be greater than one percent in 2013, the reduction in production expected in Saudi Arabia keeps the anticipated supply and demand increases in balance.

Natural gas has lowered an average of 15 to 20 percent in price across the globe over the past year, reducing cash flows for upstream energy companies (counter to the oil price trend). The pricing decline has also put a great deal of pressure on alternative options for power production (the coal sector suffered in 2012 due to natural gas price declines), but provided relief for manufacturers that use natural gas as an energy source. Over the next few years, the potential effect of fracking could have a material impact on business and geo-strategic policies.

Copper prices have remained relatively stable, and if China keeps its current growth momentum, potential needs for construction and the consumer appliance markets could keep prices high.

What does this mean in general for our surveyed organizations? Commodities are having an increasingly material impact on financial performance, as well as the potential supply chain and natural disaster shocks that can result in lost profits (from either higher commodity prices or lost sales).

Rankings by industry for commodity price risk in comparison to other top risks*



1

Agribusiness

Food Processing and Distribution

Natural Resources (Oil, Gas and Mining)

2

Chemicals

Consumer Goods Manufacturing

Lumber, Furniture, Paper and Packaging

Machinery and Equipment Manufacturers

Rubber, Plastics, Stone and Cement

3

Metal Milling and Manufacturing

4

Aviation

Conglomerate

Construction

5

Non-Aviation Transportation Manufacturing

Wholesale Trade

7

Utilities

11

Retail Trade

12

Non-Aviation Transportation Services

14

Technology

15

Hotels and Hospitality

24

Banks

27

Pharmaceuticals and Biotechnology

29

Insurance, Investment and Finance

Real Estate

31

Professional and Personal Services

32

Educational and Nonprofits

34

Telecommunications and Broadcasting

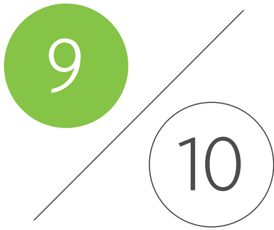
36

Government

37

Health Care

Reflects industry ranking of commodity price risk as compared to 49 other risks surveyed; List of 50 risks outlined on page 10



Cash flow / liquidity risk

Cash flow/liquidity risk, ranked number nine, has moved up one notch from the previous survey and has consistently been on the top 10 risk list since 2009 (at the onset of the recession). If we break down this risk into subcomponents—an organization's ability to generate cash flow and its ability to access capital (either leveraging a company's balance sheet or by raising capital through debt or equity), one should be able to see a clear picture of the general challenges that each category has posed since 2009.

Although fundamentals for generating cash flow have slowly become better on a global level, with the global GDP increasing USD 12 trillion since 2009, many industries still face challenges driving top line growth (see write-up for economic slowdown risk).

For instance, growth in the Latin American manufacturing sector was literally flat in 2012. Statistics from the Institute of Supply Chain Management (ISM) show that manufacturing in the United States has been weakening year over year with declining readings since 2010. In the December months of 2010, 2011 and 2012, the ISM reported a Purchasing Manager's Index at 57 percent, 53.9 percent and 50.2 percent, respectively.

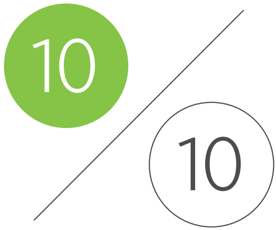
Additionally, the eurozone financial challenges, especially the government debt crises in Greece, Spain, and Italy have had an adverse impact on capital access in the region. This has also trickled into North America and Latin America, where capital outflow and currency appreciation are becoming significant concerns.

Meanwhile, there continues to be pressure on capital access in the construction industry. According to the U.S. Census Bureau report, housing starts in the country are on the rise but still lag significantly below the pre-2008 levels. Moreover, Eurostat reports that construction output in 2012 fell more than 5 percent in Europe. In Asia Pacific, where GDP growth in 2012 was relatively strong in places such as China (7.8 percent), India (4.5 percent) and, Australia (3.3 percent), new construction has been stable and access to capital has been less of a concern than in other regions. Although Asia Pacific has provided relief to the global downward pressures, in the aggregate, one-third of the surveyed companies do not feel they are ready to manage liquidity/cash flow risk (an increase of more than 10 percent since 2011).

Rankings by industry for cash flow / liquidity risk in comparison to other top risks*

3	Construction
5	Non-Aviation Transportation Manufacturing Wholesale Trade
6	Non-Aviation Transportation Services
7	Machinery and Equipment Manufacturers Professional and Personal Services Real Estate
8	Banks Metal Milling and Manufacturing
9	Aviation Conglomerate
10	Consumer Goods Manufacturing Health Care Hotels and Hospitality
11	Chemicals Food Processing and Distribution Retail Trade Rubber, Plastics, Stone and Cement
12	Pharmaceuticals and Biotechnology Technology
13	Agribusiness Educational and Nonprofits Utilities
15	Telecommunications and Broadcasting
16	Government
19	Insurance, Investment and Finance Natural Resources (Oil, Gas and Mining)
20	Lumber, Furniture, Paper and Packaging

Reflects industry ranking of cash flow / liquidity risk as compared to 49 other risks surveyed; List of 50 risks outlined on page 10



Political risk / uncertainties

At the end of 2012, Pew Research Center compiled 600 major news events for that year. Among those, more than half were related to political and military conflicts. For example, in January, Nigeria declared a state of emergency in ports off the country hit by sectarian violence, and the European Union agreed to embargo Iranian oil in protest against Iran's alleged nuclear weapons programs. In February, the Israeli Air Force conducted four air strikes in the Gaza Strip; South Korea angered North Korea as it proceeded with live fire drills in disputed Korean sea borders; the Syrian army killed 100 civilians in artillery shelling of Homs and Hama. The list goes on, offering a glimpse of the rising political risks and uncertainties that are threatening the operations of international businesses, especially those who are seeking alternative areas for growth in emerging markets, where political instabilities are common.

The Aon survey clearly reflects such political realities. For the first time since the start of the survey in 2007, political risk/uncertainties have showed up on the list of top 10 risks—jumping up from number 14 in 2011 to number 10 in 2013. Building on this upward trend, respondents project this risk to be ranked sixth three years from now.

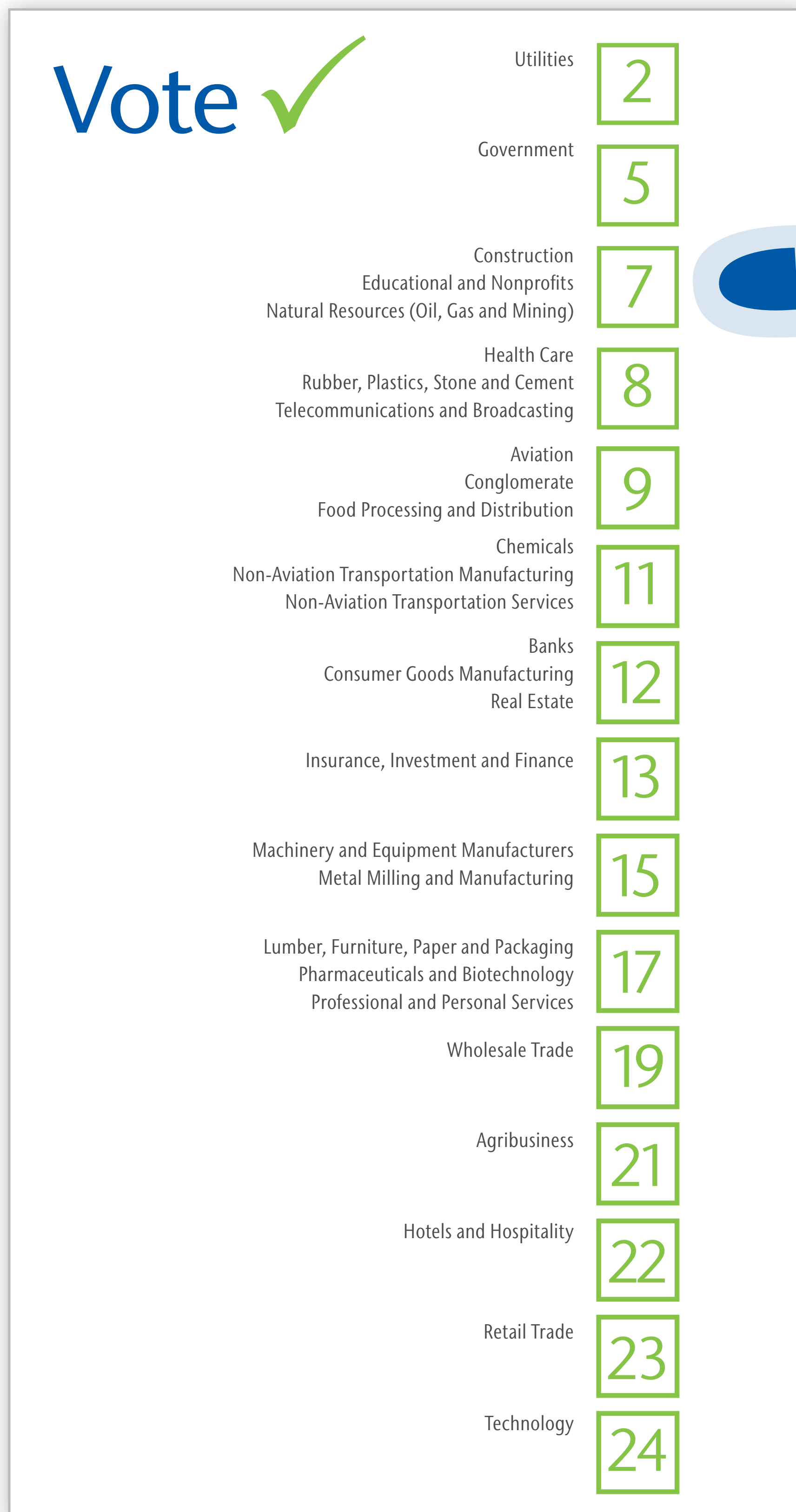
According to Aon experts, unforeseen political events can lead to:

- Confiscation, expropriation or nationalization of assets
- Export/import embargoes or cancellation of export/import licenses
- Physical damage to assets from political violence
- Termination of or default on contracts
- Non-payment or moratorium due to exchange transfer and currency inconvertibility
- Disruption to the flow of goods and/or services into or out of a country
- Calling of on-demand bid or contract bonds and guarantees for unfair or political reasons
- Forced abandonment or divestiture
- Non-payment by government and/or government-owned entities of trade-related debt to financial institutions
- Increase cost of commodities and raw materials

Regionally, political risk/uncertainties is ranked, as expected, the highest in the Middle East & Africa, which has seen continued war or civil unrest in countries such as Iran, Iraq, Libya, Syria, Algeria and Egypt. In Latin America, it is number three on the list. According to the 2013 Aon Political Risk Map which measures political risks in 163 countries and territories, Argentina has registered high levels of political risk across all major categories, notably legal and regulatory risk, political interference and sovereign nonpayment due to the nationalization of assets that occurred in 2012. Venezuela continues to have elevated risk indicators across the board, with particularly high exchange-transfer, as well as legal and regulatory readings. President Hugo Chavez's death in March 2012 has further aggravated political volatility in the country.

Often, an organization's perception of the political risk associated with a certain location and industry can be either under- or overestimated. With political risk rising up on the boardroom agenda, companies need to consistently assess their political and security risks in all the countries and regions in which they operate or transact business. Systematic politcal risk management allows companies to anticipate change and build the appropriate mechanism to mitigate the risk.

Rankings by industry for political risk / uncertainties in comparison to other top risks*



*Reflects industry ranking of political risk / uncertainties as compared to 49 other risks surveyed; List of 50 risks outlined on page 10

Perspectives

Javier Gimeno, Aon Dick Verbeek Chaired Professor in International Risk and Strategic Management, a Professor of Strategy at INSEAD

The 2013 Aon Global Risk Management Survey confirms the primacy of strategic risks in terms of their overall importance and performance impact. The top three risks — economic slowdown/slow recovery, regulatory/legislative changes and increased competition — represent strategic risks that cannot be easily transferred with financial instruments. These risks must be analyzed and managed as part of the strategic management process. Proper response typically involves strategic levers such as changes in corporate scope, business model, or key activities and capabilities.

The survey shows an extremely consistent pattern across geographies, industries and time periods. For the five main regions, the same three top risks occupy at least two, if not all three, of the top three slots. Among the 28 industries reported, the same three strategic risks are either two or three of the top three risks for 25 industries. The expectation is that the same three risks will be predominant three years from now. The results reflect the systemic nature of these risks, and the high interdependence of the global economic activity. It is difficult to find a context where these strategic risks will not be present and predominant.

The predominance of strategic risks does not mean that they cannot be mitigated. But managing these risks often involves changing the strategy, requiring a close integration of the risk management process with the strategic planning process of the companies. Strategic risk management is, in my view, a very promising area for research and for development of best practices. The practice in many companies is still sequential: strategy development comes first, with a focus on opportunities, and risk management takes strategy as given and manages the ensuing risks. That may lead to strategies that are not sufficiently flexible or adaptive. When strategic risk management is embedded as an integral part of the strategy process, the strategies can become more robust to uncertainty, and more flexible and exploratory.

Strategic risk management has important implications for the strategy process and the governance of risk. It brings more responsibility for risk management directly to the general managers in charge of strategy and, ultimately, to the board. As part of the board responsibility to endorse and monitor strategy, directors should gain intimate understanding of the major strategic risks, possible scenarios, and how the strategy allows the exploration of uncertainties and mitigation of strategic risks. Given the results of Aon's 2013 Global Risk Management Survey, developing capabilities for strategic risk management by top management teams and boards should be an important priority in these uncertain times.

Top 10 risks

	2013	2011	2009	2007
1	Economic slowdown / slow recovery	Economic slowdown	Economic slowdown	Damage to reputation
2	Regulatory / legislative changes	Regulatory / legislative changes	Regulatory / legislative changes	Business interruption
3	Increasing competition	Increasing competition	Business interruption	Third-party liability
4	Damage to reputation / brand	Damage to reputation / brand	Increasing competition	Distribution or supply chain failure
5	Failure to attract or retain top talent	Business interruption	Commodity price risk	Market environment
6	Failure to innovate / meet customer needs	Failure to innovate / meet customer needs	Damage to reputation	Regulatory / legislative changes
7	Business interruption	Failure to attract or retain top talent	Cash flow / liquidity risk	Failure to attract or retain staff
8	Commodity price risk	Commodity price risk	Distribution or supply chain failure	Market risk (financial)
9	Cash flow / liquidity risk	Technology failure / system failure	Third-party liability	Physical damage
10	Political risk / uncertainties	Cash flow / liquidity risk	Failure to attract or retain top talent	Merger / acquisition / restructuring Failure of disaster recovery plan

Top 10 risks by region

	Asia Pacific	Europe	Latin America	Middle East & Africa	North America
1	Economic slowdown / slow recovery	Economic slowdown / slow recovery	Regulatory / legislative changes	Increasing competition	Economic slowdown / slow recovery
2	Regulatory / legislative changes	Increasing competition	Economic slowdown / slow recovery	Political risk / uncertainties	Regulatory / legislative changes
3	Increasing competition	Regulatory / legislative changes	Political risk / uncertainties	Economic slowdown / slow recovery	Increasing competition
4	Damage to reputation / brand	Cash flow / liquidity risk	Third-party liability	Business interruption	Damage to reputation / brand
5	Failure to attract or retain top talent	Commodity price risk	Increasing competition	Failure to attract or retain top talent	Failure to innovate / meet customer needs
6	Business interruption	Exchange rate fluctuation	Commodity price risk	Regulatory / legislative changes	Failure to attract or retain top talent
7	Failure to innovate / meet customer needs	Damage to reputation / brand	Cash flow / liquidity risk	Commodity price risk	Business interruption
8	Weather / natural disasters	Counter party credit risk	Damage to reputation / brand	Exchange rate fluctuation	Computer crime / hacking / viruses / malicious codes
9	Political risk / uncertainties	Business interruption	Failure to attract or retain top talent	Damage to reputation / brand	Commodity price risk
10	Exchange rate fluctuation	Failure to innovate / meet customer needs	Distribution or supply chain failure	Cash flow / liquidity risk Failure to innovate / meet customer needs	Inadequate succession planning

Note: In Asia Pacific risks 2 and 3 are tied for second. In Latin America risks 9 and 10 are tied for ninth. In the Middle East & Africa risks 1 and 2 are tied for first 6-9 are tied for sixth.

Top three risks by industry

Industry	Key Risk 1	Key Risk 2	Key Risk 3
Agribusiness	Commodity price risk	Weather / natural disasters	Regulatory / legislative changes
Aviation	Economic slowdown / slow recovery	Increasing competition	Failure to innovate / meet customer needs
Banks	Regulatory / legislative changes	Economic slowdown / slow recovery	Damage to reputation / brand
Chemicals	Economic slowdown / slow recovery	Commodity price risk	Exchange rate fluctuation
Conglomerate	Economic slowdown / slow recovery	Increasing competition	Exchange rate fluctuation
Construction	Economic slowdown / slow recovery	Increasing competition	Cash flow / liquidity risk
Consumer Goods Manufacturing	Economic slowdown / slow recovery	Commodity price risk	Exchange rate fluctuation
Educational and Nonprofits	Damage to reputation / brand	Regulatory / legislative changes	Economic slowdown / slow recovery
Food Processing and Distribution	Commodity price risk	Damage to reputation / brand	Product recall
Government	Regulatory / legislative changes	Economic slowdown / slow recovery	Failure to attract or retain top talent*
Health Care	Regulatory / legislative changes	Failure to attract or retain top talent	Economic slowdown / slow recovery
Hotels and Hospitality	Economic slowdown / slow recovery	Damage to reputation / brand	Increasing competition
Insurance, Investment and Finance	Regulatory / legislative changes	Increasing competition	Economic slowdown / slow recovery
Lumber, Furniture, Paper and Packaging	Economic slowdown / slow recovery	Commodity price risk	Business interruption
Machinery and Equipment Manufacturers	Economic slowdown / slow recovery	Commodity price risk	Exchange rate fluctuation
Metal Milling and Manufacturing	Economic slowdown / slow recovery	Business interruption	Commodity price risk
Natural Resources (Oil, Gas and Mining)	Commodity price risk	Environmental risk	Regulatory / legislative changes
Non-Aviation Transportation Manufacturing	Economic slowdown / slow recovery	Distribution or supply chain failure	Increasing competition Regulatory / legislative changes
Non-Aviation Transportation Services	Economic slowdown / slow recovery	Regulatory / legislative changes	Increasing competition
Pharmaceuticals and Biotechnology	Regulatory / legislative changes	Increasing competition	Economic slowdown / slow recovery Damage to reputation / brand Distribution or supply chain failure
Professional and Personal Services	Economic slowdown / slow recovery	Regulatory / legislative changes	Increasing competition
Real Estate	Economic slowdown / slow recovery	Regulatory / legislative changes	Damage to reputation / brand
Retail Trade	Increasing competition	Economic slowdown / slow recovery	Damage to reputation / brand
Rubber, Plastics, Stone and Cement	Economic slowdown / slow recovery	Commodity price risk	Increasing competition*
Technology	Economic slowdown / slow recovery	Increasing competition	Failure to innovate / meet customer needs Failure to attract or retain top talent
Telecommunications and Broadcasting	Regulatory / legislative changes	Increasing competition	Economic slowdown / slow recovery
Utilities	Regulatory / legislative changes	Political risk / uncertainties	Business interruption* Environmental risk*
Wholesale Trade	Economic slowdown / slow recovery	Exchange rate fluctuation	Increasing competition

*Tie for #2 risk

Interdependency of Risk

Study findings highlight the interdependency among many of the top risks as well as risks outside of the top 10 rankings. Political risk can impair an organization's ability to procure raw materials or energy from affected nations, posing a threat to supply chain and leading to business interruption and damages to reputation. A company with damaged reputation might find it hard to attract talent and the lack of talent would result in failure to innovate and meet customer needs.

Business interruption

Damage to reputation

Failure to attract or retain top talent

Failure to innovate / meet customer needs

Risk readiness for the top 10 risks

Risk readiness means a company has a comprehensive plan in place to address risks or has undertaken a formal review of those risks. In comparison with that of 2011, overall readiness for the top 10 risks has dropped by 7 percent to 59 percent. In fact, of the top 10 risks, all but business interruption has registered a decrease in overall readiness. Given the attention and scrutiny that risk management practices have received from stakeholders since the financial crisis, this is a distributing trend and a bit surprising. One possible explanation could be that the prolonged economic recovery has strained organizations' resources, thus hampering their abilities to mitigate many of these risks. On the other hand, it can be interpreted that there is a growing risk awareness among surveyed companies, which had an inadvertent false confidence. They might have put in place plans to address the risks but discovered later that those plans were inadequate or unworkable. In other words, companies are becoming more knowledgeable and pragmatic in the understanding of their true exposure to risk.

Meanwhile, this result also indicates that insurance markets solutions may not be responsive to key risk sensitivities and it is important to manage risk from an enterprise perspective. If this trend continues, organizations could face negative consequences.

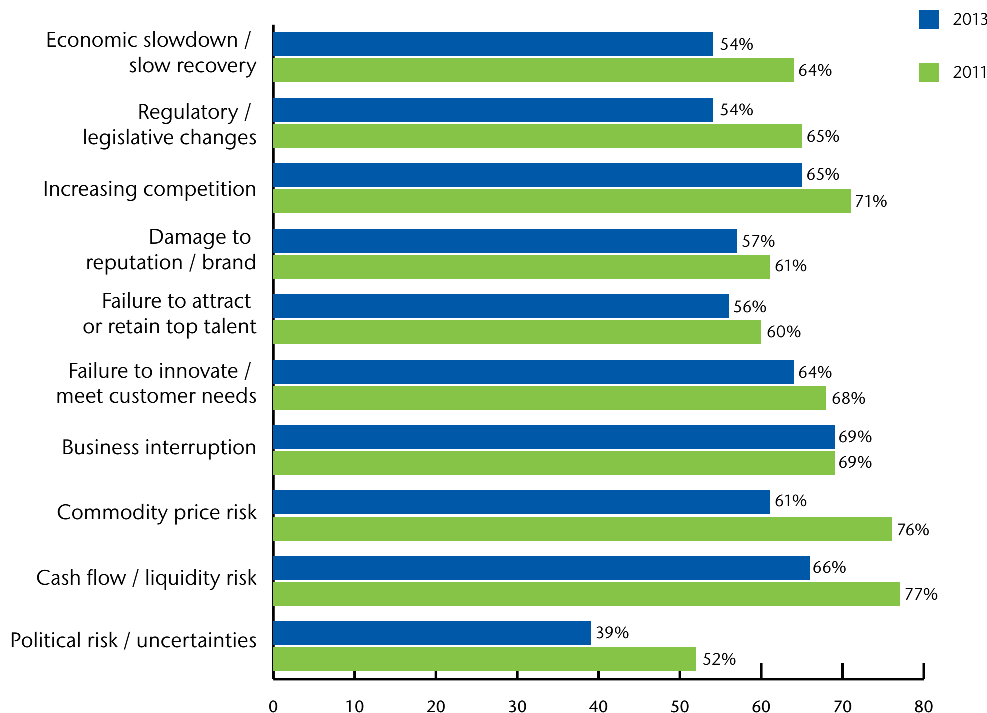
For each individual risk on the top 10 list, the highest percentage of readiness reported by respondents is related to business interruption, at 69 percent. Fifty-four percent say their organizations are prepared to handle the impact of the economic slowdown/slow recovery, compared with 64 percent in 2011. Fifty-four percent feel ready for regulatory/legislative changes, down from 65 percent in 2011 (see individual risk write-up for details), while 65 percent report readiness for increasing competition, down from 71 percent.

Three risks that respondents have identified as the most difficult to manage and they are the least ready for: political risk at 39 percent, and economic slowdown/slow recovery and regulatory /legislative changes, both at 54 percent. These risks are external in nature and two of them are largely uninsurable (see individual risk write-up).

From an industry perspective, the only two industry groups noting an increase in their levels of preparedness are non-aviation transportation manufacturing and pharmaceuticals and biotechnology, which appear to have adjusted their business strategies more effectively to cope with the risks while the other sectors are still grappling with solutions that best fit their industry and organizations.

It is our hope and expectation that this trend will reverse course: risk readiness will improve in the next two years.

Reported readiness for top 10 risks



Average reported readiness for top 10 risks by industry

Industry	2013	2011	Change
Utilities	68%	82%	-14%
Non-Aviation Transportation Manufacturing	67%	58%	9%
Telecommunications and Broadcasting	64%	75%	-11%
Health Care	62%	74%	-12%
Natural Resources (Oil, Gas and Mining)	62%	69%	-7%
Chemicals	61%	82%	-21%
Pharmaceuticals and Biotechnology	60%	58%	2%
Insurance, Investment and Finance	60%	68%	-8%
Aviation	60%	64%	-4%
Agribusiness	60%	60%	0%
Non-Aviation Transportation Services	60%	70%	-10%
Educational and Nonprofits	59%	69%	-10%
Food Processing and Distribution	59%	66%	-7%
Metal Milling and Manufacturing	59%	62%	-3%
Consumer Goods Manufacturing	59%	67%	-8%
Lumber, Furniture, Paper and Packaging	58%	70%	-12%
Technology	58%	71%	-13%
Banks	57%	77%	-20%
Hotels and Hospitality	57%	71%	-14%
Government	57%	70%	-13%
Conglomerate	57%	N/A	N/A
Construction	54%	67%	-13%
Real Estate	53%	71%	-18%
Wholesale Trade	53%	65%	-12%
Professional and Personal Services	53%	70%	-17%
Retail Trade	52%	79%	-27%
Machinery and Equipment Manufacturers	48%	62%	-14%
Rubber, Plastics, Stone and Cement	46%	70%	-24%

Positive change compared to 2011

Negative change compared to 2011

Average reported readiness for top 10 risks by region

Region	2013: Average reported readiness	2011: Average reported readiness
Asia Pacific	63%	70%
North America	60%	70%
Europe	55%	67%
Latin America	55%	63%
Middle East & Africa	75%	62%

Losses associated with the top 10 risks

Topping the list of income losses in the past 12 months relating to the most cited risks is economic slowdown and regulatory/ legislative changes, followed by increasing competition. Similar to 2011, 67 percent of the respondents say they have experienced loss of income from the economic slowdown, reflecting the continued challenges companies are facing during the slow economic recovery.

On average, reported loss of income from the top 10 risks has increased from 28 percent in 2011 to 42 percent in 2013. Of the 28 industry sectors and four regions defined in this report, all have reported higher than average losses from the top 10 risks in 2013. Losses from damage to reputation / brand and regulatory/ legislative changes have registered the greatest increase, at 32 percent respectively. The increase could be attributable to organizations' improved abilities to identify and measure losses associated with these risks as well as to the decrease in readiness reported earlier in this section.

Losses from damage to reputation / brand and regulatory / legislative changes have registered the greatest increase

Losses from top 10 risks

Risk rank	Risk description	2013: Loss of income in last 12 months	2011: Loss of income in last 12 months
1	Economic slowdown / slow recovery	67%	67%
2	Regulatory / legislative changes	54%	22%
3	Increasing competition	50%	42%
4	Damage to reputation / brand	40%	8%
5	Failure to attract or retain top talent	37%	14%
6	Failure to innovate / meet customer needs	37%	20%
7	Business interruption	36%	20%
8	Commodity price risk	35%	45%
9	Cash flow / liquidity risk	34%	18%
10	Political risk / uncertainties	30%	21%

On average, 42% have reported loss of income from the top 10 risks

Average percentage of respondents with loss of income from top 10 risks by industry

Industry	2013: Average loss of income experienced from top 10 risk in the last 12 months	2011: Average loss of income experienced from top 10 risk in the last 12 months	Change
Professional and Personal Services	48%	25%	23%
Non-Aviation Transportation Manufacturing	47%	22%	25%
Educational and Nonprofits	47%	21%	26%
Metal Milling and Manufacturing	46%	37%	9%
Technology	46%	20%	26%
Lumber, Furniture, Paper and Packaging	45%	43%	2%
Conglomerate	45%	N/A	N/A
Consumer Goods Manufacturing	45%	25%	20%
Retail Trade	44%	30%	14%
Aviation	43%	35%	8%
Health Care	43%	27%	16%
Chemicals	43%	29%	14%
Pharmaceuticals and Biotechnology	42%	11%	31%
Non-Aviation Transportation Services	42%	32%	10%
Telecommunications and Broadcasting	42%	36%	6%
Banks	41%	36%	5%
Rubber, Plastics, Stone and Cement	41%	26%	15%
Machinery and Equipment Manufacturers	41%	31%	10%
Insurance, Investment and Finance	41%	24%	17%
Food Processing and Distribution	40%	26%	14%
Utilities	40%	32%	8%
Construction	40%	37%	3%
Hotels and Hospitality	39%	29%	10%
Natural Resources (Oil, Gas and Mining)	39%	28%	11%
Real Estate	38%	26%	12%
Wholesale Trade	38%	27%	11%
Agribusiness	38%	22%	16%
Government	35%	25%	10%

Average reported loss of income from top 10 risks by region

Region	2013: Average loss of income experienced from top 10 risk in the last 12 months	2011: Average loss of income experienced from top 10 risk in the last 12 months
Latin America	39%	32%
Europe	42%	31%
Asia Pacific	41%	30%
North America	43%	26%
Middle East & Africa	50%	20%

Top 10 risks in the next three years

Economy remains king. Following its third consecutive ranking as the number one risk, economic slowdown/slow recovery has been projected to be the top risk three years from now, despite the modest improvement in economic conditions in many parts of the world. As we have mentioned earlier, reports such as the sovereign debt crisis in Europe and the gloomy growth forecast in emerging economies such as India and China have damped people's optimism about the economic recovery. Besides, the modest growth in the U.S. is still well-below the pre-recession levels, and unemployment rate still remains high at 7.6 percent. Therefore, companies are still concerned with macroeconomic conditions and the overall fragility of the global financial system.

After breaking into the top 10 risk list for the first time, political risk/uncertainties could move up the list from number 10 to a projected number six in three years, reflecting worries over rising political conflicts in Asia, the Middle East and Africa, and political instabilities in Latin America and other emerging markets, all of which could pose potential threats to their business objectives.

Failure to innovate / meet customer needs appears to be an increasing priority, jumping from number six to number four in the next three years. In an age of market globalization, businesses everywhere must be aware of local and global competitors. More than ever, innovation, speed, and feasibility will be essential to competing in the global economy.

Weather/natural disasters, while not far off the radar at a current ranking of number 16, is now projected to jump to number nine. Over the past few years, we have seen unusual weather patterns around the world and an unprecedented increase in natural disasters such as flooding in Thailand and Australia, droughts in the U.S., Japanese earthquake and tsunami, New Zealand earthquakes and more recently, Superstorm Sandy in the U.S. These events had devastating impact on many organizations, disrupting their supply chains and eroding profits. The uncertainty surrounding climate change has surely influenced the ranking of this risk.

An unexpected fall in ranking is damage to reputation/brand from number four to number eight. This ranking change does not diminish the importance of managing reputational risk. In fact, increased media and regulatory scrutiny, with a 24-hour news cycle fueled by social media, will only make it more imperative for companies to monitor crises that could directly impact their brand.

Business interruption is projected to move out of the top 10 risks to number 11, continuing a downward trend from 2007. But no matter where this risk falls organizations must be diligent in evaluating and mitigating this complex risk.

From an industry perspective, increasing competition and regulatory / legislative changes have appeared to gain importance as projected risks in the top 10 ranking for several sectors. For example, aviation, construction and technology, which are under closer scrutiny due to increasing public concern over safety and privacy, have listed regulatory and legislative changes as a number one risk. Machinery and equipment manufacturers, non-aviation transportation services and healthcare, which are facing cut-throat competition locally and from their counterparts in emerging economies, rank incresed competition as a number one.

On a regional basis, failure to attract or retain top talent appears to be a growing concern in Europe three years from now, moving up from a current ranking of 12 to five. As the European economic situation improves, attracting and retaining talent, which has taken a back seat to seemingly more pressing concerns, will be more imperative. Organizations who excel during an economic storm never take their eye off of talent retention and recruitment because they understand the short- and long-term gains of investing in their human capital.

In the Middle East & Africa, political risk/uncertainties are seeing a drop in status from the current number one risk to a projected number 10 in three years. This finding is bolstered by the Aon Political Risk Map, which indicates an upgrade in stability ranking in some countries in the above regions. This drop also illustrates that companies in the Middle East & Africa see the current political conflicts as temporary and are confident about possible solutions in the near future.

Top 10 risks in the next three years

Rank	2013	Projected 2016
1	Economic slowdown / slow recovery	Economic slowdown / slow recovery
2	Regulatory / legislative changes	Regulatory / legislative changes
3	Increasing competition	Increasing competition
4	Damage to reputation / brand	Failure to innovate / meet customer needs
5	Failure to attract or retain top talent	Failure to attract or retain top talent
6	Failure to innovate / meet customer needs	Political risk / uncertainties
7	Business interruption	Commodity price risk
8	Commodity price risk	Damage to reputation / brand
9	Cash flow / liquidity risk	Weather / natural disasters
10	Political risk / uncertainties	Cash flow / liquidity risk

Top five risks in the next three years by region

	Asia Pacific	Europe	Latin America	Middle East & Africa	North America
1	Economic slowdown / slow recovery	Economic slowdown / slow recovery	Regulatory / legislative changes	Economic slowdown / slow recovery	Economic slowdown / slow recovery
2	Regulatory / legislative changes	Increasing competition	Economic slowdown / slow recovery	Increasing competition	Increasing competition
3	Increasing competition	Regulatory / legislative changes	Commodity price risk	Failure to attract or retain top talent	Regulatory / legislative changes
4	Political risk / uncertainties	Failure to innovate / meet customer needs	Damage to reputation / brand	Commodity price risk	Failure to innovate / meet customer needs
5	Failure to attract or retain top talent	Failure to attract or retain top talent	Political risk / uncertainties	Regulatory / legislative changes	Failure to attract or retain top talent

Note: In Latin America risks 4 and 5 are tied for fourth. In the Middle East & Africa risks 2 and 3 are tied for second.

Top three risks in the next three years by industry

Industry	Key Risk 1	Key Risk 2	Key Risk 3
Agribusiness	Increasing competition	Failure to innovate / meet customer needs	Economic slowdown / slow recovery
Aviation	Regulatory / legislative changes	Political risk / uncertainties	Economic slowdown / slow recovery Commodity price risk
Banks	Economic slowdown / slow recovery	Regulatory / legislative changes	Cash flow / liquidity risk**
Chemicals	Economic slowdown / slow recovery	Regulatory / legislative changes	Increasing competition**
Conglomerate	Failure to innovate / meet customer needs	Regulatory / legislative changes	Economic slowdown / slow recovery
Construction	Regulatory / legislative changes	Economic slowdown / slow recovery*	Increasing competition
Consumer Goods Manufacturing	Economic slowdown / slow recovery	Increasing competition	Damage to reputation / brand
Educational and Nonprofits	Economic slowdown / slow recovery	Increasing competition	Regulatory / legislative changes Failure to attract or retain top talent
Food Processing and Distribution	Regulatory / legislative changes	Economic slowdown / slow recovery	Increasing competition
Government	Economic slowdown / slow recovery	Regulatory / legislative changes	Increasing competition
Health Care	Increasing competition	Economic slowdown / slow recovery	Regulatory / legislative changes
Hotels and Hospitality	Economic slowdown / slow recovery	Regulatory / legislative changes	Political risk / uncertainties
Insurance, Investment and Finance	Economic slowdown / slow recovery	Regulatory / legislative changes	Political risk / uncertainties**
Lumber, Furniture, Paper and Packaging	Regulatory / legislative changes	Increasing competition	Economic slowdown / slow recovery Failure to innovate / meet customer needs
Machinery and Equipment Manufacturers	Increasing competition	Economic slowdown / slow recovery	Failure to innovate / meet customer needs
Metal Milling and Manufacturing	Regulatory / legislative changes	Increasing competition	Economic slowdown / slow recovery
Natural Resources (Oil, Gas and Mining)	Regulatory / legislative changes	Economic slowdown / slow recovery	Increasing competition
Non-Aviation Transportation Manufacturing	Economic slowdown / slow recovery	Political risk / uncertainties	Commodity price risk
Non-Aviation Transportation Services	Increasing competition	Failure to innovate / meet customer needs	Economic slowdown / slow recovery
Pharmaceuticals and Biotechnology	Increasing competition	Commodity price risk*	Failure to attract or retain top talent*
Professional and Personal Services	Economic slowdown / slow recovery	Increasing competition	Regulatory / legislative changes
Real Estate	Regulatory / legislative changes	Increasing competition	Economic slowdown / slow recovery**
Retail Trade	Economic slowdown / slow recovery	Increasing competition	Regulatory / legislative changes Failure to innovate / meet customer needs
Rubber, Plastics, Stone and Cement	Economic slowdown / slow recovery	Computer crime / hacking / viruses / malicious codes*	Regulatory / legislative changes Cash flow / liquidity risk Commodity price risk
Technology	Regulatory / legislative changes	Increasing competition*	Economic slowdown / slow recovery
Telecommunications and Broadcasting	Regulatory / legislative changes	Economic slowdown / slow recovery*	Cash flow / liquidity risk*
Utilities	Regulatory / legislative changes	Economic slowdown / slow recovery*	Increasing competition
Wholesale Trade	Regulatory / legislative changes	Failure to attract or retain top talent	Damage to reputation / brand

*Tied for #1 risk
**Tied for #2 risk

Perspectives—Aon

The only real "dramatic" increase that I am picking up on three years from now is computer crime/hacking/virus/malicious codes. All government entities are coming under increasing attack. With limited resources, aging technologies and infrastructure, and an inability to attract top line information security talent, this will be of growing concern, whether the risk is generated through criminal or terrorist sources.

Craig Bowlus, ARM
Managing Director—Risk Pooling, Aon Risk Solutions—United States

The problem is that there is no fundamental growth driver, such as new technology or new energy sources on the horizon today. There should have been a revolution in renewable energy and energy efficiency to push economic growth but the difficult fiscal situation and burdensome regulatory environment have stunted development in these areas.

Radoslaw Ziomko
Risk Management Director, Aon Risk Solutions—Poland

It is quite clear that the economic turmoil and the increasing focus on compliance / control / legislation have had an impact on more "classic" exposures such as business interruption. This risk will be pushed down on the "importance ladder" three years out.

Maths Stanser
Chief Commercial Officer, Aon Risk Solutions—Sweden

A number of risks, such as terrorism, natural catastrophes and pandemics, are widely reported in the Asian media and yet ranked low in the survey by the business community. Asian businesses ranked economic slowdown, competition and talent retention among the top 5 risks, and this is much more reflective of the discussions we have with our clients. Our clients operate in an environment where terrorism, natural catastrophes and pandemics are always possible, and to a large extent these risks are insured by our clients. However the top 5 Asian risks are uninsurable and therefore remain the focus of senior management, those who can differentiate themselves in this space stand to gain a competitive advantage.

Jane Drummond
Regional Director, Business Development, Aon Risk Solutions—Asia

Failure to attract or retain top talent is an issue affecting almost every industry in Asia. There is a massive shortage of quality and experienced individuals in the marketplace and very few firms have effective succession planning and training of key staff.

Nickolas Clarke
Regional Director, Strategic Account Management, Aon Risk Solutions — Asia

I'm surprised to see that failure of disaster recovery plan / business continuity plan is ranked at number 23. Companies might have their plans in place but many are untested or not sufficiently revisited. One would have thought that the recent events would give this risk a higher profile.

Theresa Bourdon
Group Managing Director, Aon Global Risk Consulting, Aon Risk Solutions

The risks, since 2007, have migrated from those largely internal to an organization — talent retention, innovation and disaster recovery — to those largely external — economic slowdown, regulation, commodity pricing and political risk.

Bridget Gainer
Director of Public Strategy, Aon Service Corporation

In the top 10 risk list, I can only see two risks that are "insurable" or which insurers entertain a realistic conversation about insurance — business interruption and political risk. Does this stress the need for the insurance industry to be more creative around product development to meet demand and need?

Andrew Tunnicliffe
Chief Operating Officer, Aon Risk Solutions – EMEA

Results from the "Top 10 Risks by Region" do not seem surprising – they reflect the unique challenges of the overall profile of each respective geography. For example, the results for Asia/Pacific mirror the opportunities and challenges of managing explosive but decelerating growth. Middle East/Africa is in a transformation phase of its development as an economic region. Latin America seems to be in a 'getting organized/preparing to get going' phase where opportunities to play on a larger stage are becoming more visible. Europe and North America are in a more mature stage of development.

Nancy Green, CPCU, ARM
Executive Vice President, Strategic Account Management, Aon Risk Solutions — United States

Identifying, Assessing, Measuring and Managing Risk

The majority of respondents in the 2013 survey consider lowering total cost of risk as one of the top benefits of investing in risk management. However, no more than 33 percent say they have tracked and managed all components of their TCOR, which is an effective way to reduce total cost of risks. Board and / or management discussion of risk during annual planning, risk assessment or other processes are cited as the most frequently used method to identify major risks facing their organizations, and 63 percent of surveyed organizations say senior management judgment and experience are critical in the assessment of risks.

Measuring Total Cost of Risk

One of the most effective ways to evaluate an organization's risk management strategy is to consistently measure and manage its total cost of risk or TCOR. An organization's TCOR comprises risk transfer costs (insurance premiums), risk retention costs (retained losses and claims adjustment costs), external (brokers, consultants and other vendors) and internal (staff and related) risk management costs.

We have observed a continued downward trend in the measurement of TCOR and each of its components during the past four Aon global risk management surveys. In 2013, no more than 33 percent of the respondents report having tracked and managed all components of their TCOR, down from 39 percent in 2011. Among the reasons cited for failure to measure all TCOR components, 55 percent attribute it to shrinking resources/expertise and 38 percent claim they lack data/information. Thirty-two percent of respondents do not find the process valuable. This trend should be a cause for concern—it is difficult to manage what is not measured. In the long run, failure to track and manage all aspects of TCOR could be detrimental to an organization.

When asked about how they measure each element of TCOR, risk transfer costs is the element most measured, by 79 percent of respondents, down from 86 in 2011. Risk retention costs are measured by 52 percent versus. 66 percent in 2011. Forty-five percent track external risk management costs, down from 55 percent, while 33 percent measure internal risk management costs, down from 39 in the earlier survey.

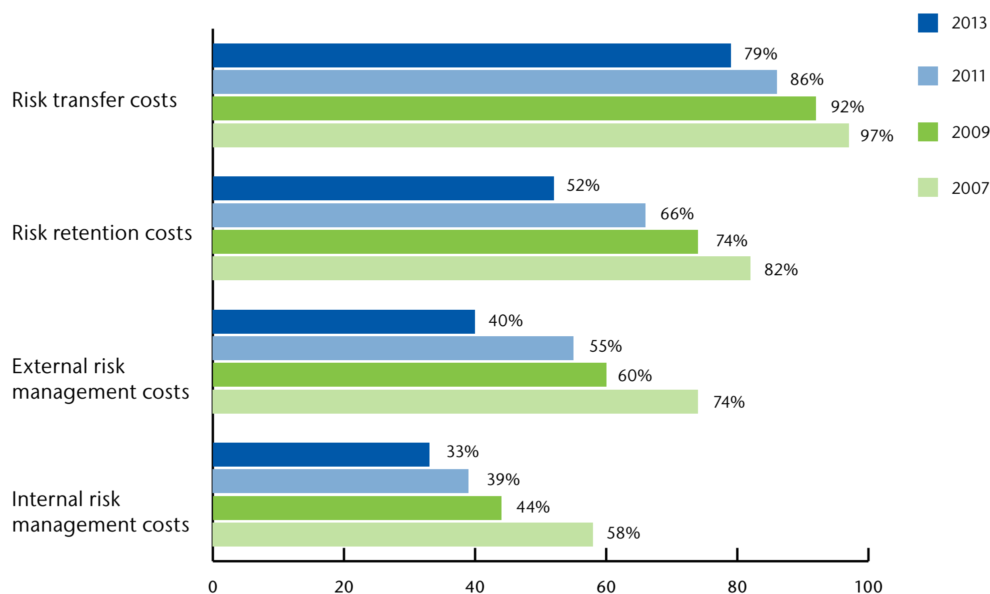
The percentage of respondents measuring full TCOR is correlated to an organization's size. Forty-four percent of companies with revenues of USD 1 billion or more measure full TCOR, whereas only 27 percent under USD 1 billion do.

Organizations with formal risk management departments are more likely to measure their full TCOR (44 percent), than those without one (18 percent). This indicates companies with higher revenues and/or with risk management departments have more resources to focus on measuring the full TCOR.

Reasons for not measuring all the elements of TCOR

Category	2013
Lack of resources / expertise	55%
Lack of data / information	38%
Don't find the process valuable	32%

Elements of TCOR measured



Identifying and assessing major risks

In today's global environment, companies are facing increasingly complex challenges—global economic volatility, extensive regulatory and compliance changes, rising litigation, and supply chain failures that could adversely affect businesses. To effectively manage risks, organizations must implement a comprehensive risk framework to identify, assess and address these evolving risk profiles.

According to risk experts, the most comprehensive method for organizations to identify and assess their risks should be a structured enterprise wide risk identification and assessment process. A third of survey respondents utilize this method to identify risks whereas only a little over a quarter use this process to assess their risk.

In practice, most organizations utilize a combination of methods to identify and assess major risks facing their organizations. Based on survey responses, 75 percent of respondents indicate two or more methods for identifying risk and 69 percent for assessing risk.

Board and/or management discussion of risk during annual planning, risk assessment or other processes is cited as the method most often used by surveyed organizations to identify major risks facing their organizations (60 percent), followed by senior management judgment and experience.

When it comes to risk assessment, the most frequently used method is senior management judgment and experience, at 62 percent. The second common method is board and/or management discussion of risk during annual planning, risk assessment or other processes, cited by 46 percent of the respondents.

Organizations with revenues greater than USD 1 billion are twice more likely to utilize a structured enterprise-wide approach in the identification and assessment of risks than companies under USD 1 billion.

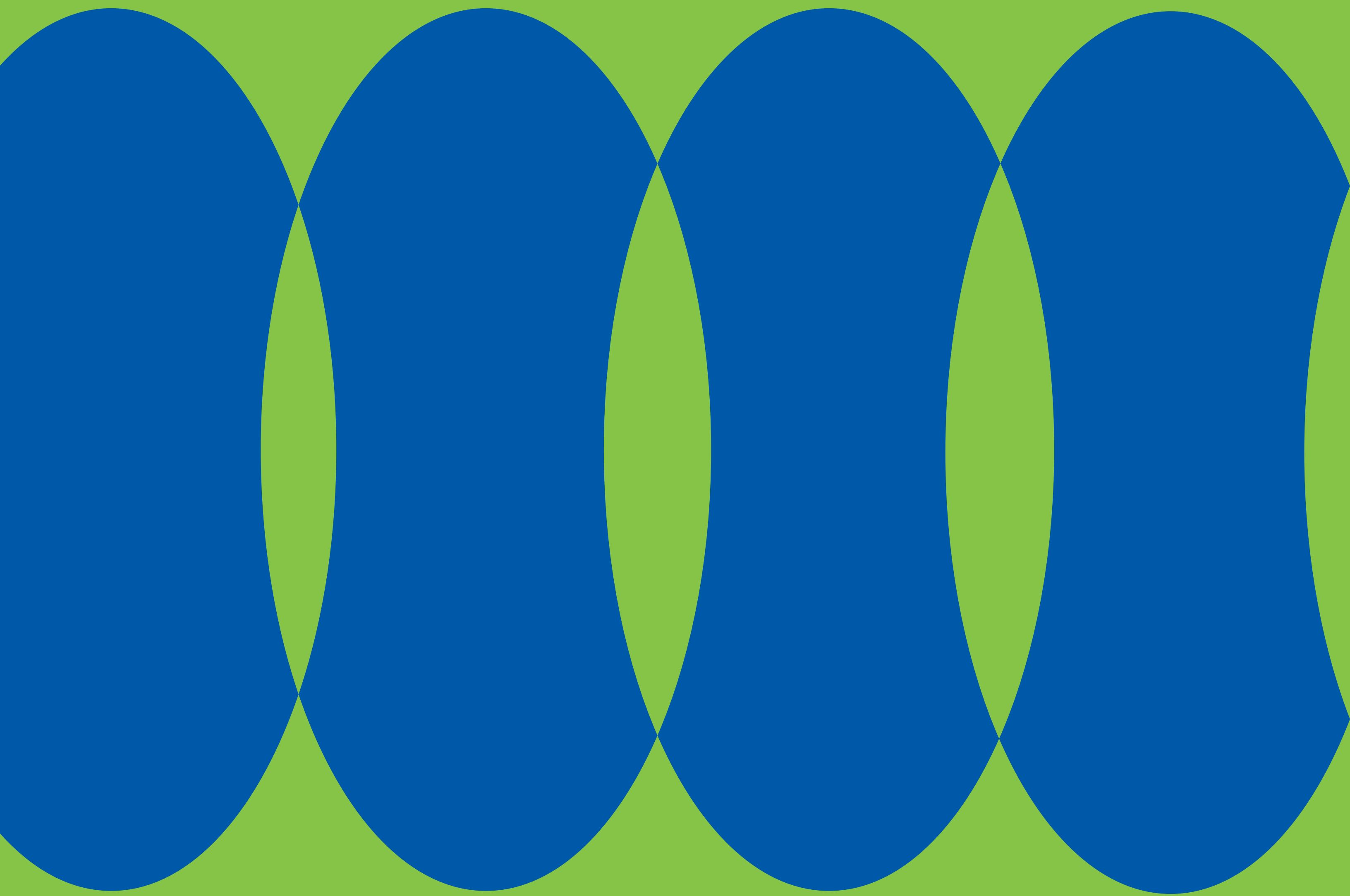
According to risk experts, the most comprehensive method for organizations to identify and assess their risks should be a structured enterprise wide risk identification and assessment process

Identification by region

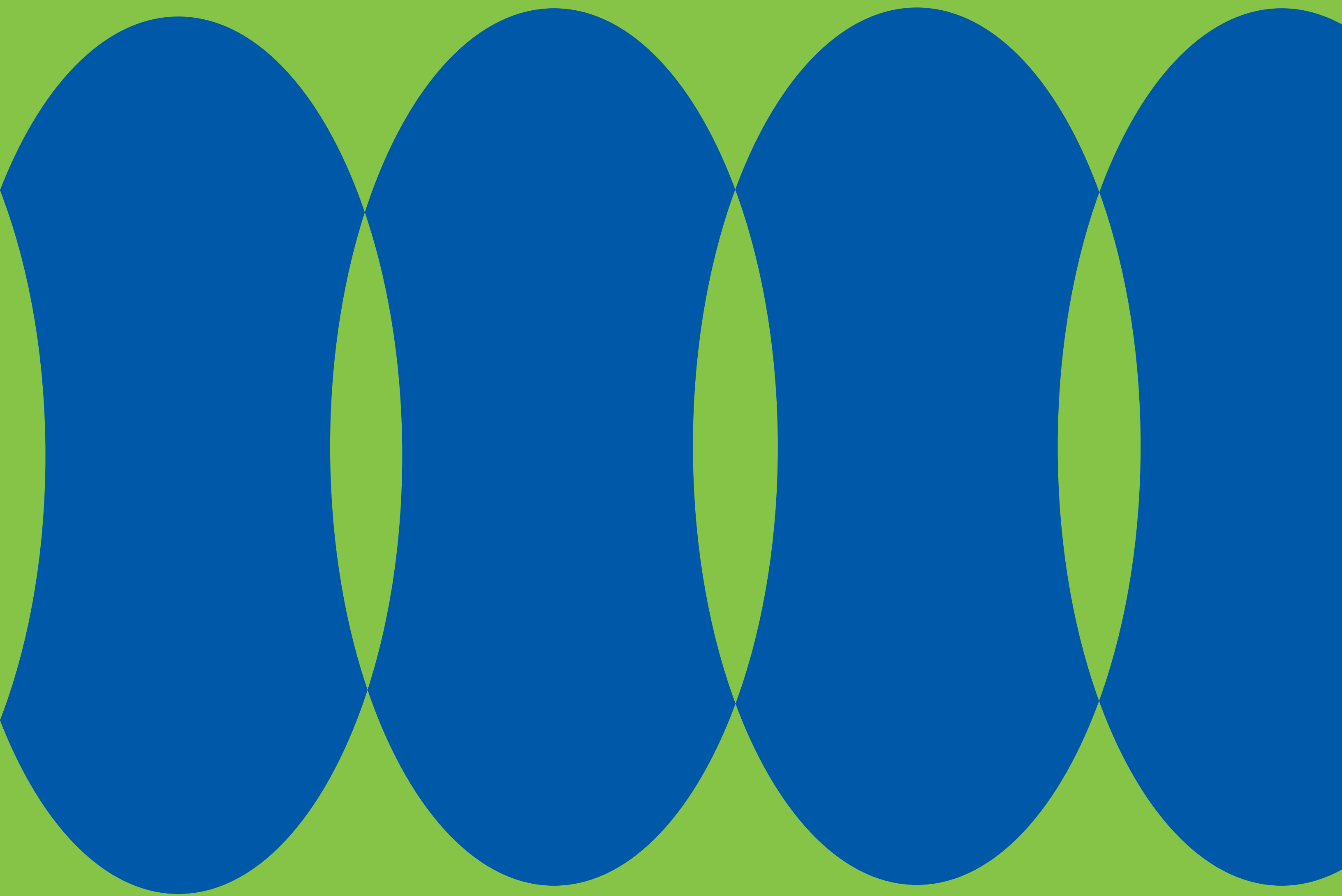
Category	All	Asia Pacific	Europe	Latin America	Middle East & Africa	North America
Board and / or management discussion of risk during annual planning, risk assessment or other processes	60%	66%	58%	52%	69%	61%
Senior management judgment and experience	58%	65%	48%	50%	55%	70%
Risk information from other function-led processes (e.g. internal audit, disclosure, compliance, etc.)	45%	54%	31%	52%	55%	53%
Industry analysis, external reports	30%	32%	21%	31%	38%	38%
Structured enterprise wide risk identification process	33%	43%	29%	31%	31%	34%
Other	2%	1%	2%	3%	10%	2%

Identification by revenue (in USD)

Category	< 1B	1B –4.9B	5B –9.9B	10B –14.9B	15B –24.9B	25B+
Board and / or management discussion of risk during annual planning, risk assessment or other processes	57%	67%	62%	71%	68%	58%
Senior management judgment and experience	58%	60%	73%	57%	60%	51%
Risk information from other function-led processes (e.g. internal audit, disclosure, compliance, etc.)	37%	62%	45%	68%	64%	67%
Industry analysis, external reports	27%	34%	33%	61%	32%	51%
Structured enterprise wide risk identification process	23%	49%	53%	64%	68%	58%
Other	2%	1%	2%	0%	0%	5%



In practice, most organizations utilize a combination of methods to identify and assess major risks facing their organizations



Assessment by region

Category	All	Asia Pacific	Europe	Latin America	Middle East & Africa	North America
Board and / or management discussion of risk during annual planning, risk assessment or other processes	46%	51%	42%	49%	52%	46%
Senior management judgment and experience	62%	64%	53%	54%	55%	73%
Risk Modeling / risk quantification analysis	34%	33%	33%	32%	45%	36%
Consult with external service provider/advisor	29%	31%	19%	44%	31%	35%
Structured enterprise-wide risk identification assessment process supported by a standard toolkit and methodology	26%	42%	20%	28%	28%	25%
Other	2%	0%	2%	2%	3%	2%

Assessment by revenue (in USD)

Category	< 1B	1B –4.9B	5B –9.9B	10B –14.9B	15B –24.9B	25B+
Board and / or management discussion of risk during annual planning, risk assessment or other processes	44%	51%	42%	57%	44%	37%
Senior management judgment and experience	63%	64%	69%	61%	52%	47%
Risk modeling / risk quantification analysis	28%	43%	44%	57%	32%	56%
Consult with external service provider/advisor	26%	31%	25%	46%	32%	47%
Structured enterprise wide risk identification assessment process supported by a standard toolkit and methodology	17%	41%	38%	54%	60%	53%
Other	2%	1%	2%	0%	4%	0%

Determining limits of insurance

When it comes to selecting the appropriate level of limits, organizations utilize a combination of methods. The most common approach identified in the 2013 survey is management judgment and experience (62 percent). Relying on a broker or independent consultant to help determine limit is ranked second, at 60 percent.

As organizations increase in size, they begin augmenting these traditional approaches with more sophisticated and analytical approaches such as quantitative analysis or metrics and specific studies or structured workshops.

On a regional basis, management judgment and experience and relying on a broker or independent consultant are listed across the board as two of the most common approaches. In North America, respondents use a combination of the methods shown in the exhibits to help determine what limits of insurance to buy. This is not surprising — the tougher legal environment (litigious) and the increasing exposure to large-scale natural catastrophes require that risk managers in North America rely more on a comprehensive approach than their counterparts in other regions because a single method alone cannot meet the challenges.

Ultimately, the decision on what level of risk to transfer via insurance policies is driven by a number of factors, including: risk severity, risk mitigation measures already in place under consideration, the regulatory environment in which companies operate, historical trend of loss activities, the insurance marketplace and appetite for risk. What is right for one organization may not work for another. Consideration must always be given to the impact of that loss retention on an organization's ability to achieve its objectives.

Management judgment and experience, and relying on a broker or independent consultant are listed across the board as two of the most common approaches

Determination of limits by region

Category	All	Asia Pacific	Europe	Latin America	Middle East & Africa	North America
Benchmark against peers	39%	36%	26%	33%	17%	57%
Management judgment and experience	62%	69%	51%	56%	66%	73%
Rely on broker or independent consultant	60%	68%	52%	58%	66%	66%
Quantitative analysis or metrics	30%	30%	27%	38%	38%	30%
Specific study or structured workshop	9%	16%	9%	13%	14%	4%
Other	5%	3%	5%	7%	0%	5%

Determination of limits by revenue (in USD)

Category	< 1B	1B –4.9B	5B –9.9B	10B –14.9B	15B –24.9B	25B+
Benchmark against peers	30%	59%	55%	57%	60%	63%
Management judgment and experience	60%	71%	56%	79%	56%	60%
Rely on broker or independent consultant	60%	65%	64%	57%	40%	44%
Quantitative analysis or metrics	24%	38%	40%	43%	56%	60%
Specific study or structured workshop	6%	11%	20%	14%	20%	23%
Other	5%	4%	9%	7%	8%	2%

Benefits of investing in risk management

Since 2009, the top three benefits for investing in risk management have remained the same, except for the differences in ranking from year to year. For the second consecutive survey, the majority of respondents have cited more informed decisions on risk taking/risk retention as the top benefit (65 percent), followed by improved internal controls. (55 percent) and lower total cost of insurable risk (52 percent). The consistent result illustrates the importance of these elements in evaluating the success of a risk management function within an organization.

Similar to last year's survey, organizations without a formal risk management department place less value on all the listed benefits. In the categories of informed decision-making on risk taking/risk retention and lowering total cost of insurable risk, there is a large gap in perceived value between organizations with a formal risk management department and those without (22 percent for informed decision-making and 20 percent for lowering TCOR).

These perception gaps might indicate that organizations without a formal risk management department lack understanding of the true value that professional risk management expertise could bring.

65% of surveyed organizations cite more informed decisions on risk taking / risk retention as the top benefit for investing in risk management

Primary benefits of investing in risk management

Category	All: 2013	All: 2011	With Risk Mgmt. Dept.: 2013	Without Risk Mgmt. Dept.: 2013	Difference in Perceived Benefits: 2013
More informed decisions on risk taking / risk retention	65%	71%	74%	52%	22%
Improved internal controls	55%	55%	59%	49%	10%
Lower total cost of insurable risk	52%	61%	61%	41%	20%
Increased shareholder value	47%	46%	49%	45%	4%
Improved standards of governance	46%	41%	51%	40%	11%
Improved business continuity planning	40%	40%	47%	31%	16%
Increased return on investment	25%	29%	30%	17%	13%
Improved business strategy	22%	23%	24%	19%	5%
Reduced compliance costs	18%	18%	19%	17%	2%
Other	2%	2%	2%	2%	0%

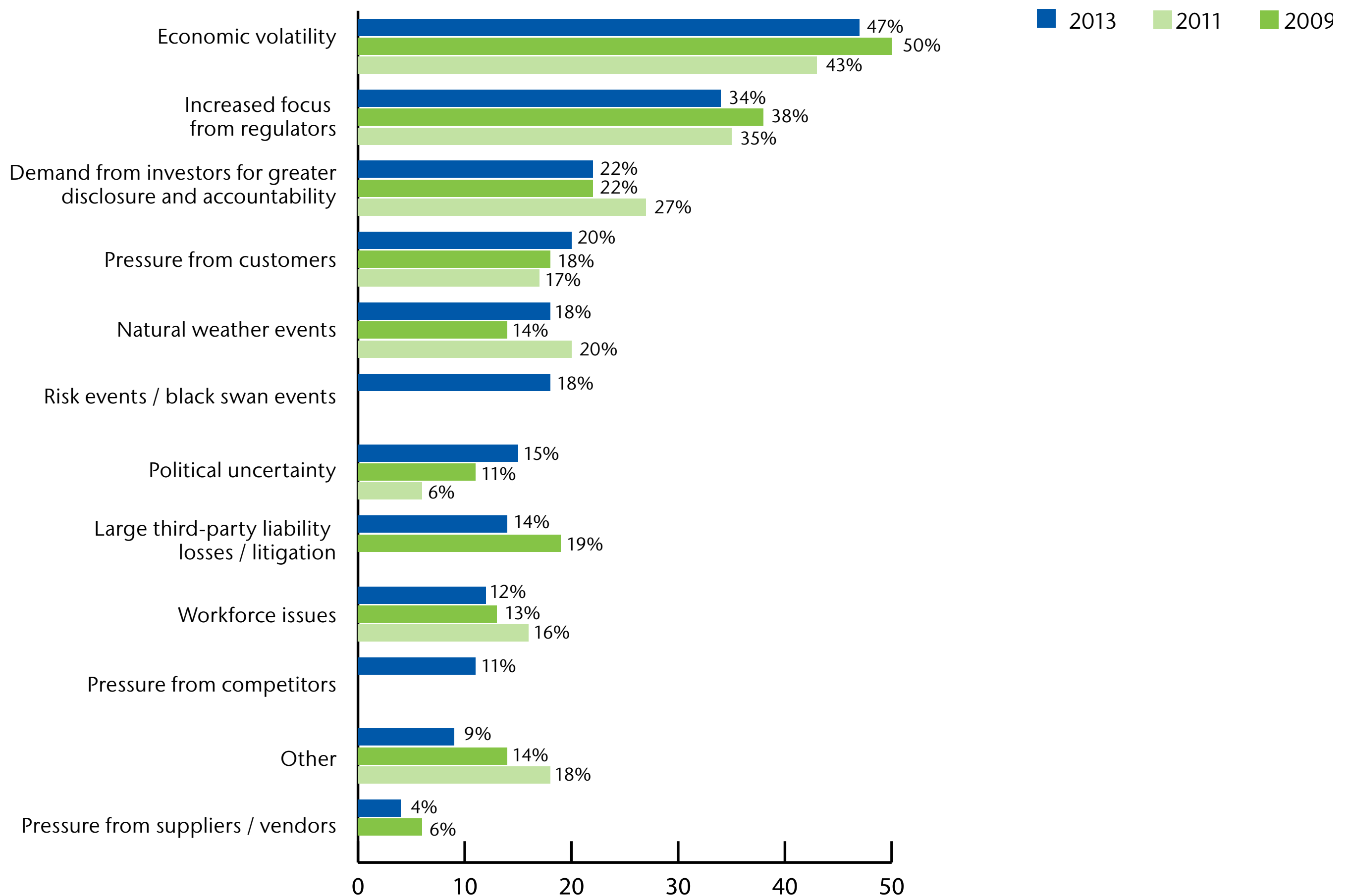
External drivers for risk management

Economic volatility and increased scrutiny from regulators remain the most important external drivers strengthening risk management. Since the global economic recovery still remains sluggish or negligible in many parts of the world, companies are paying close attention to the need to protect the organization from unexpected losses. They also have to assure full compliance with both new and existing regulations and disclosure requirements. It is also ironic that economic volatility is the cause behind reduced resources for measuring total cost of risks.

The only two factors that have seen an increase (4 percent) from those in previous surveys are natural weather events and political uncertainty. This is because we have experienced devastating natural catastrophes, including the Japan earthquake and tsunami, the Thailand floods, the Christchurch earthquake, the Australian floods and Superstorm Sandy. The political turmoil and volatility throughout the Middle East and North Africa, Asia and Latin America are also contributing factors to this increase.

New to the list are risk events/black swan events, cited by 18 percent of the respondents. A typical example of these unpredictable catastrophic events is the 2011 Japan earthquake, measuring at a magnitude 9.0 and triggering a powerful tsunami that caused ripples along the California coastline. The financial market meltdown in 2009, which adversely affected every business sector in every country, from Asia to Europe, is also considered a black swan event. Given their unpredictability and devastating severity, we feel that the percentage for this risk driver will increase over time.

External drivers strengthening risk management (past two years)



Best sources for accessing insurance / risk management information and data

The right knowledge at the right time can literally change the world. It has never been more critical for businesses to access accurate and realtime information. When it comes to insurance/risk management information and data, survey respondents regard insurance brokers as their best source for risk intelligence, followed, by a significant margin, their own organizations. This answer is consistent among all revenue ranges and geographical regions. It's important to note that the ranking of relatively new sources of information and data, like risk management websites and internet search engines might move up as they evolve into important source for risk management intelligence.

Best sources for accessing insurance / risk management information and data by revenue (in USD)

Source	All	< 1B	1B –4.9B	5 B –9.9B	10B –14.9B	15B –24.9B	25B+
Insurance brokers	1	1	1	1	1	1	1
Own organization	2	2	2	2	2	2	2
Insurance carriers	3	4	4	3	4	4	3
Consultants	4	3	5	7	5	3	4
Risk management associations	5	6	3	6	3	5	6
Industry associations	6	5	6	5	7	6	5
Risk management publications	7	7	7	4	6	7	7
Risk management websites	8	9	8	9	11	No Responses	9
General news media	9	8	10	10	No Responses	8	No Responses
Internet search engines	10	10	9	No Responses	8	No Responses	8
Government	11	11	12	11	10	No Responses	10
Other	12	12	11	8	9	No Responses	No Responses

Best sources for accessing insurance / risk management information and data by region

Source	Asia Pacific	Europe	Latin America	Middle East & Africa	North America
Insurance brokers	1	1	1	1	1
Own organization	2	2	2	2	2
Insurance carriers	4	4	3	4	3
Risk management associations	6	5	6	5	4
Industry associations	5	6	7	6	5
Consultants	3	3	4	3	6
Risk management publications	7	7	5	9	7
Risk management websites	10	9	12	7	8
Internet search engines	8	10	10	8	9
General news media	9	8	8	10	10
Government	11	11	9	No Responses	11
Other	12	12	11	No Responses	12

Perceptions on available insurance / risk information and data

While the industry appears to be meeting or exceeding the expectation of the respondent group overall, there is still room for significant improvement. For each category of information and data evaluated, between 31 percent and 38 percent of respondents say they fall below or significantly below expectations. Tools and resources available to access relevant information and data is cited by 38 percent of survey participants as the area that need the most improvement. CEO, President and Treasurer are the least satisfied group — a combined average rating higher than 45 percent say the information and data available are below or significantly below expectations.

The results are consistent with those from other recent studies, showing that risk management professionals are searching for better and more accessible analytics and benchmarks to improve risk decision-making. The findings further demonstrate an opportunity not just for improved access to information and data, but for improvement in the quality, the quantity, and the tools and resources available to manage relevant information and data. As noted, with all four categories scoring at least 31 percent below expectations, and no category greater than 10 percent for exceeding expectation or above, there is a strong need for improvement in the area.

Risk management professionals are searching for better and more accessible analytics and benchmarks to improve risk decision-making

Perceptions on the availability of insurance / risk management information and data

Category	Significantly Below Expectations	Below Expectations	Meets Expectations	Exceeds Expectations	Significantly Exceeds Expectations
Quality of information and data available	3%	28%	62%	6%	1%
Amount of relevant information and data available	3%	28%	60%	7%	1%
Access to relevant information and data	3%	30%	61%	5%	1%
Tools and resources available to access relevant information and data	4%	34%	56%	5%	5%

Board Oversight and Involvement

As is consistent with the prior two surveys, risk management remains a strong focus of boards of directors regardless of company size or type. Eight out of 10 companies say their board or a board committee has established or partially established policies on risk oversight and management. "Board considers specific business risks or receives a regular update on key risks and risk management activity" is the most common approach to risk management at the board level.

Policies on risk oversight and management

The boards of directors of publicly traded companies remain under increasing pressure from various stakeholders to maintain effective oversight of risk management discipline and results within their organizations. There is also rising interest in risk management as a competitive advantage both in decision-making (tackling the risk the organization wants or needs to take, and planning accordingly) and event response (crisis management, business continuity, etc.). The survey results show that risk remains firmly on the board agendas. Eighty-one percent of companies say their board or a board committee has established or partially established policies on risk oversight and management.

Board level commitment is critical to establishing, maintaining and funding a framework for risk oversight and risk management, and embedding this framework within the culture of the organization. As risk and risk management continue to generate attention at the board or board committee level, risk management leaders face challenges in meeting expectations while delivering sustainable risk management practices and processes that "fit" the organization's culture and risk profile. In addition, regulatory focus on risk management capability combined with growing understanding of "near miss" events suggests that risk oversight will continue to increase.

If we compare a company's board involvement in risk oversight and management with how organizations rank on Aon's Risk Maturity Index, we can see that the more advanced a company progresses on Aon's Risk Maturity Index, the higher the involvement of its board in establishing policies for oversight and management.

Of all the regions surveyed, the Asia Pacific and the Middle East & Africa regions have the highest percentages of respondents with established or partially established policies, at 86 percent and 90 percent respectively.

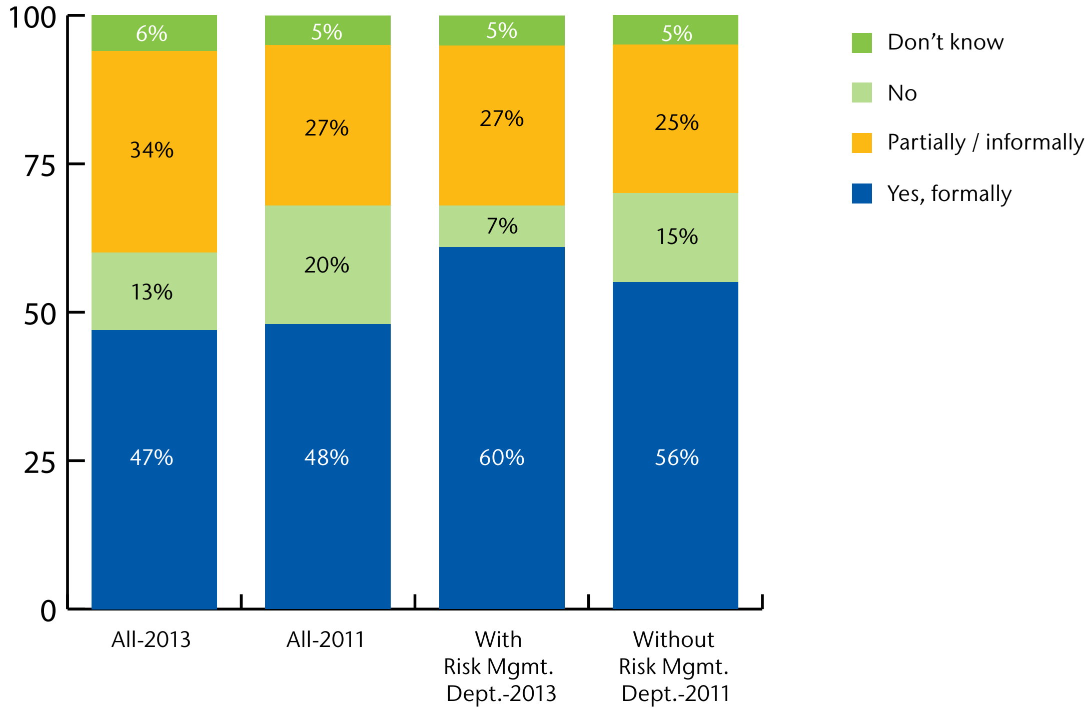
Across industries, the following sectors indicate the highest rate of board involvement—greater than or equal to 89 percent:

- Banking
- Insurance, investment and finance
- Natural resources (oil, gas and mining)
- Telecommunications and broadcasting
- Food processing and distribution

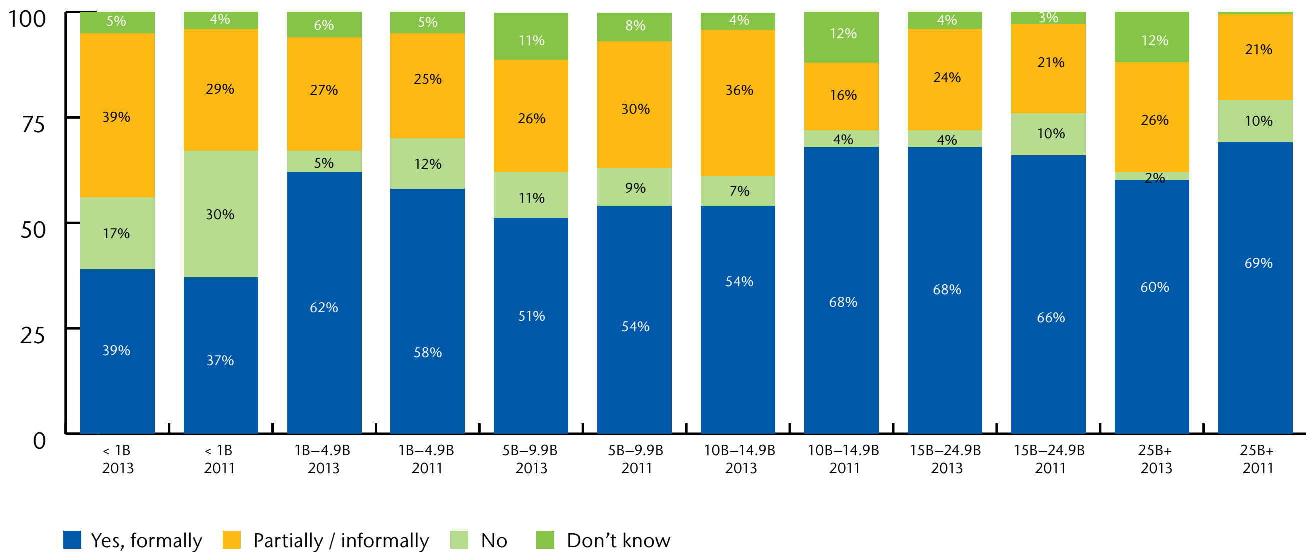
Organizations with a risk management department are more likely than those without one to have established or partially established board policies on risk oversight and management.

The more advanced a company progresses on Aon's Risk Maturity Index, the higher the involvement of its board in establishing policies for oversight and management

Board of directors or a board committee has established policies on risk oversight and management by risk management department



Board of directors or a board committee has established policies on risk oversight and management by revenue (in USD)

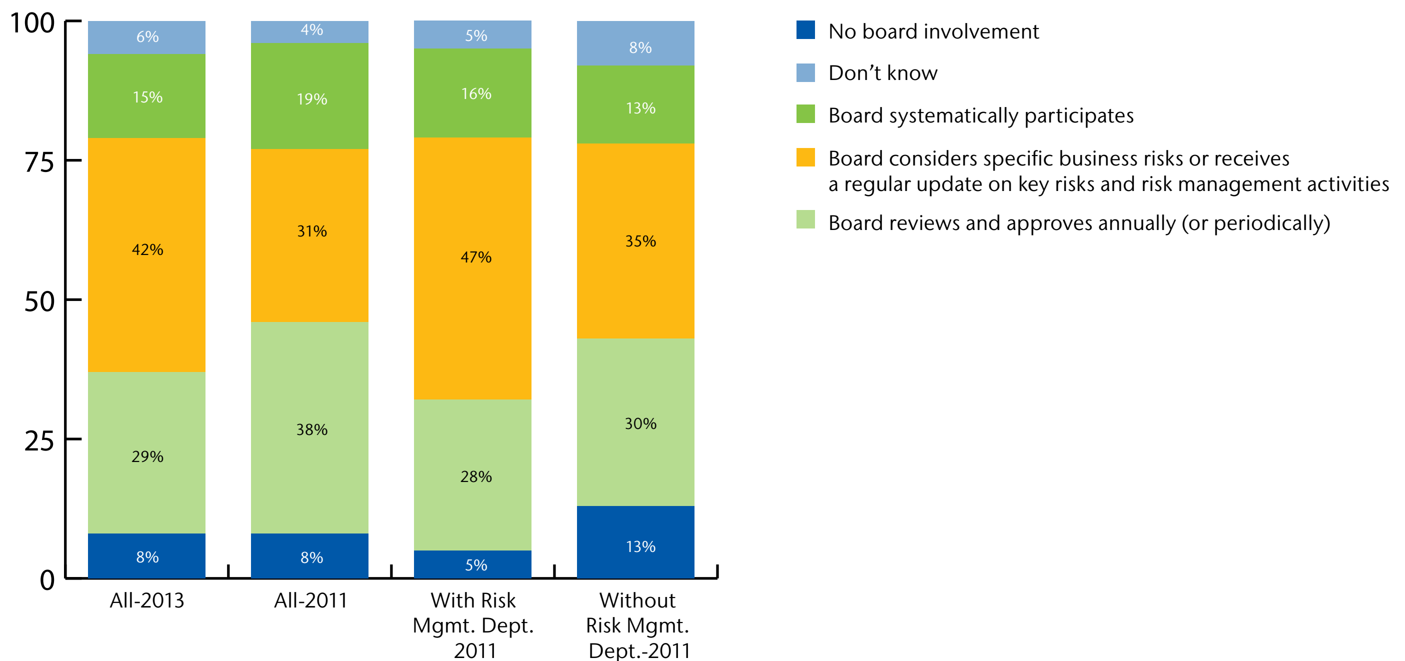


Approach to risk management at the board level

Organizations establish varying approaches to risk oversight and risk management at the board level, depending on their targeted risk maturity. What is critical is that these approaches should be acknowledged, supported, formalized and documented. In terms of a company's overall risk maturity, the lowest level is no board involvement, followed by board reviews and approves annually (or periodically), then by board considers specific business risks or receives a regular update on key risks and risk management activities, and finally board participates systematically in risk desision-making that systematically participates.

Of the approaches most cited by respondents, "board considers specific business risks or receives a regular update on key risks and risk management activities" is the most common (42 percent), followed by "board reviews and approves annually," (29 percent). The primary use of these two approaches remains consistent by industry, revenue and region with just a few exceptions.

Current approach to risk management at board level by risk management department



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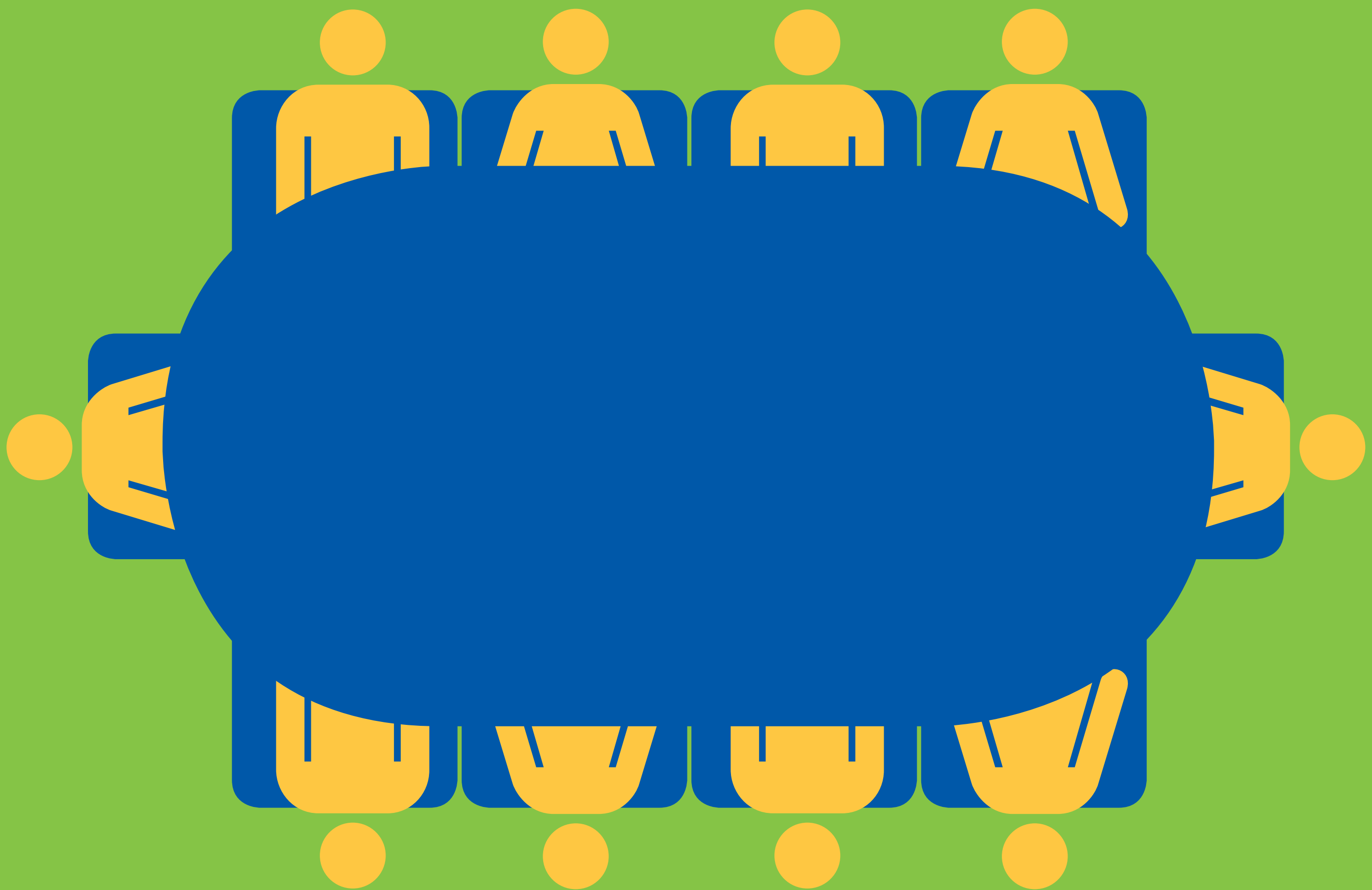
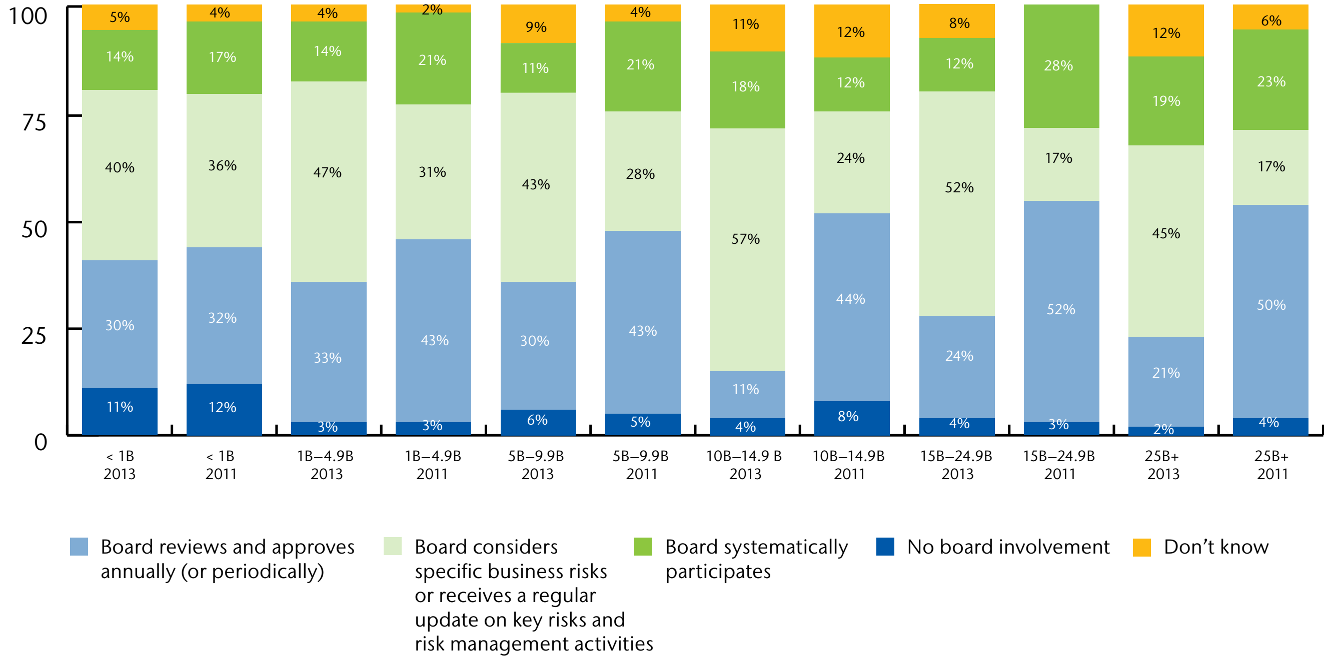


Current approach to risk management at board level by revenue (in USD)



Perspectives

Christopher Ittner, Ernst & Young Professor of Accounting
The Wharton School, University of Pennsylvania

As Aon's latest Global Risk Management Survey indicates, the world remains a risky place to do business. More companies have reported losses from risk events in the last 12 months and a greater percentage of firms believe that their level of risk preparedness is lower than that in the past.

Yet, despite the increasing number of respondents experiencing losses and the lower perceived preparedness, the majority of companies do not appear to have made risk management a key element in their strategic decision-making. The boards of the majority of firms still have not established formal policies on risk oversight and management. Intuition and experience, rather than more formal, structured methods, remain the primary sources of risk information.

Joint research between Aon and the Wharton School finds that more mature risk management programs are associated with lower stock market volatility and higher financial performance. However, the responses to the 2013 Aon survey indicate that the majority of companies continue to have relatively immature risk management programs. The survey results highlight the significant opportunities that are available to improve risk management and increase organizational performance through the adoption of more strategic risk management practices that are driven by the board of directors and that incorporate more sophisticated risk measurement and management tools and techniques.

Risk Management Department and Function

Despite the fact that the complexity and pace of change in risk are increasing, the levels of risk management department staffing appear, on an aggregate level, to have remained stable, with the majority of organizations maintaining staffing levels at fewer than five employees. Twenty-eight percent of respondents to this year's survey report having a Chief Risk Officer as compared with 31 percent and 25 percent in the prior two surveys.

The majority of the respondents indicate that they have a formal risk management department. Among those, 51 percent say the risk management department reports to the CFO / Finance / Treasury. In the case where no formal risk management department exists, 35 percent say their CFO handles risk management, while 25 percent indicate that the function is handled by the CEO / President.

Chief Risk Officer

Despite the growing need to manage risk on an enterprisewide basis, most surveyed organizations plan to leverage existing teams and use risk committees for driving change rather than establishing a separate and distinct organizational Chief Risk Officer role.

Twenty-eight percent of the respondents report having a CRO. The responsibilities of a CRO vary from company to company and industry to industry. Often, CRO's are given the tasks including managing credit risk, market risk, regulatory risk and compliance risk, which may or may not include insurance/ hazard risk.

Among those who have CROs, 18 percent say the CRO function includes risk management, a decrease from 2011, when 19 percent reported such an alignment. In the case when CROs do not handle traditional insurance/hazard risk management, our experience tells us that the responsibilities are typically handled by a risk manager, who reports to another area or an executive such as the CFO.

About 63 percent of the surveyed organizations say they do not have a CRO, nor do they plan to create one, up from 60 percent in 2011. However, 7 percent of respondents do not have a CRO but are considering creating such a position, slightly up from 6 percent in 2011. In Aon's view, this seems to suggest that the trend toward creating a CRO position within organizations has peaked. It is unclear to what extent recent economic conditions may be contributing to firms reporting they have or plan to have a CRO.

The existence or absence of a CRO appears to be correlated with a company's size. Seventy-eight percent of organizations with revenues less than USD 1 billion indicate that they do not have a CRO, as opposed to 56 percent for organizations with more than USD 1 billion in revenue.

From an industry standpoint, highly regulated sectors such as banking, utilities, insurance, investment and finance are more likely to have an established CRO position.

Role of the CRO

Role	2013	2011	2009	2007
Yes, but this role does not include risk management	10%	12%	11%	8%
Yes, this role includes risk management	18%	19%	14%	17%
No, but we are considering creating this position	7%	6%	10%	10%
No, and we do not plan to create such a position	63%	60%	62%	60%
Don't know	2%	2%	3%	4%

Who is handling risk?

Similar to 2011, the percentage of firms with formal risk management departments has registered a decline in this survey. This change could once again be attributed to the evolving respondent profile. The percentage of companies with revenues under USD 1 billion continues to rise in 2013. Smaller companies are less likely to have a formal risk management department.

The larger a company's revenue and employee count, the more likely it has a formal risk management department. In this survey, 86 percent of companies greater than USD 1 billion in revenue report having a formal risk management department, as opposed to 43 percent under USD 1 billion. Typically, as organizations grow, the complexity of risks and mitigation needs increase, requiring special focus and attention. Therefore, a formal risk department is needed to handle the challenges.

In addition, corporate structure is also a factor in whether or not an organization has a formal risk management department. Public companies are far more likely to have a formalized department (76 percent) than a private company (47 percent) Private companies tend to be smaller and less risk averse because of their compact corporate structure and less stringent financial reporting requirements. In contrast, public companies are subject to more rigorous standards, driven by significant financial regulatory oversight and investor scrutiny.

By industry, utilities and banks are most likely to have a formal risk management department, while wholesale trade operators are the least likely.

Managing risk on an enterprisewide basis continues to escalate in importance and a proactive, more holistic approach to the process becomes even more critical. Therefore, risk is no longer the responsibility of the few. From the board through operations, there must be a network of people working in concert to identify and address issues that could have enterprisewide impact.

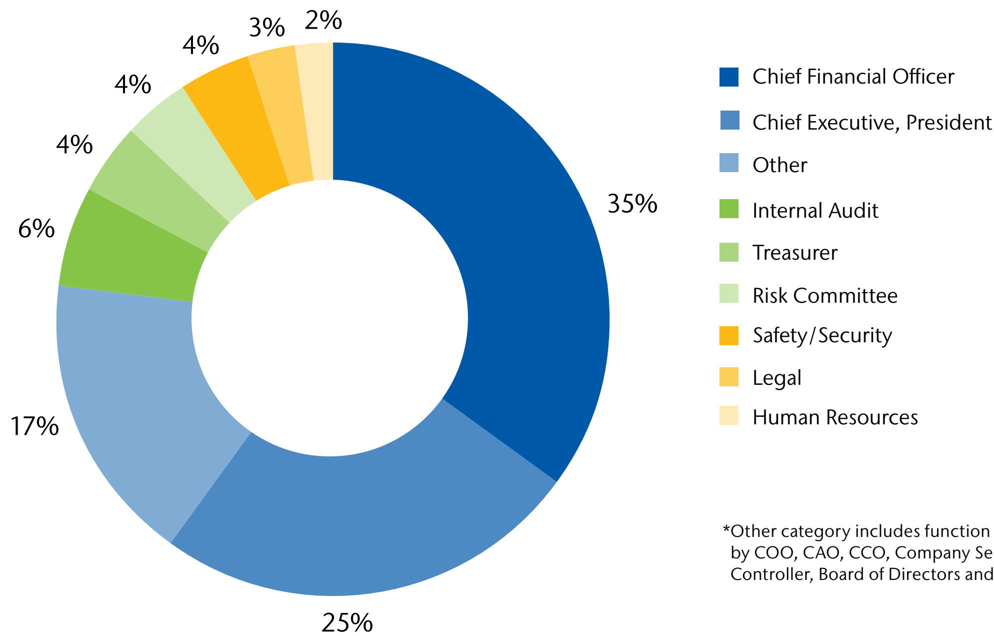
In every organization, there should be someone managing risk, whether it is a president, CFO, treasurer or another executive who adds risk management to their other duties. For smaller and mid-sized organizations, this role may be handled by the CFO or president, while larger organizations have a formal risk management department led by a professional risk manager. Overall, organizations that leverage risk management to make better decisions by incorporating risk/return considerations into all aspects of business are more likely to be competitive. Research shows, organizations that score on the high end of maturity in Aon's Risk Maturity Index demonstrate a commitment to developing risk adjusted return expectations by department or business units. As Wharton and Aon have reported based on this research, higher risk maturity ratings are correlated to reduced volatility and increased financial returns.

The larger a company's revenue and employee count, the more likely it has a formal risk management department

Formal risk management department by revenue (in USD)

Formal Risk Management Department	All: 2013	All: 2011	< 1B	1B–4.9B	5B–9.9B	10B–14.9B	15B–24.9B	25 B+
Yes	58%	70%	43%	87%	88%	93%	92%	98%
No	42%	30%	57%	13%	12%	7%	8%	2%

Responsibility for risk in absence of a risk management department



*Other category includes function being handled by COO, CAO, CCO, Company Secretary, Controller, Board of Directors and Procurement.

Where does risk management report?

Effective risk management requires the involvement of individuals throughout the organization who share a common understanding and commitment to risk management goals and processes. The risk management department will serve as a resource and catalyst that drives the risk management process throughout the organization.

While the organizational location and reporting relationship for the risk management function vary by organization, a majority of respondents (51 percent) with a risk management department say this function reports into the CFO/finance/treasury, which remains consistent with results in prior surveys. For most organizations, complex risk financing programs, loss cost/cash flow considerations, significant risk retentions and utilization of captive insurance facilities make insurance risk management a natural fit within the finance/treasury function.

Organizations facing significant risk retentions, complex contractual claims and/or litigation issues often choose to put the risk function within the legal department. An example of this alignment is the healthcare and pharmaceutical and biotechnology industries, where nearly a quarter of respondents indicated that risk management reports to the general counsel.

In organizations under USD 100 million in revenue or with fewer than 500 employees, the function reports directly to the chief executive or the president.

51% say their risk management departments report into the CFO / finance / treasury

Organizational reporting for risk management

Department	2013	2011	2009
CFO/Finance / Treasury	51%	54%	62%
Chief Executive, President	12%	10%	6%
Chief Risk Officer (CRO)	11%	8%	6%
General Counsel / Legal	9%	10%	8%
Other	8%	8%	9%
Internal Audit	3%	1%	1%
Company Secretary	2%	1%	3%
Human Resources	2%	3%	2%
Chief Administrative Officer	1%	2%	2%
Safety / Security	1%	0%	1%
Controller	1%	1%	1%

Risk management department size

Risk management department staffing levels appear, on an aggregate level, to have remained fairly consistent since 2009, with the majority of organizations (65 percent to 71 percent) maintaining staffing levels at fewer than five employees.

The staffing level within the department also seems to be somewhat correlated to revenue. Twenty-nine percent of survey respondents with a risk management department have more than five employees. The percentage gradually increases, for the most part, with size. For companies greater than USD 25 billion, 59 percent have six or more employees in the risk department.

By industry, the banking sector has the largest risk management departments, with more than 51 percent of banks having five or more employees, and 17 percent having more than 15. Larger department sizes in this sector may be driven by the increasing regulatory and compliance requirements for the industry since the world's economic meltdown of 2009. Rubber, plastics, stone and cement firms report the lowest number of risk management employees—88 percent with only one or two employees.

The staffing level is also influenced by a company's approach to risk, as well as the scope of responsibilities of each risk management department. Some organizations focus primarily on risk financing analysis and insurance program management while others have extensive responsibilities such as extensive claims, risk control or environmental, health & safety activities. These differences in focus clearly affect the size of the risk management department. In addition, the degree to which a company outsources its activities may also have an impact on its risk management department staffing level.

Over 70% of respondents have risk management department staff of less than five employees

Department staffing by revenue (in USD)

Staffing level	All: 2013	All: 2011	<USD 1B	1B - 4.9B	5B - 9.9B	10B - 14.9B	15B - 24.9B	25B+
1-2	40%	36%	49%	33%	41%	8%	26%	17%
3-5	31%	31%	30%	34%	37%	32%	26%	24%
6-8	10%	12%	8%	11%	11%	16%	13%	15%
9-11	6%	5%	5%	7%	0%	24%	9%	12%
12-15	5%	4%	5%	8%	4%	0%	4%	5%
16-20	2%	3%	2%	3%	0%	4%	4%	10%
21-25	1%	2%	1%	1%	4%	0%	0%	0%
26-30	1%	1%	1%	0%	0%	4%	4%	2%
31-35	0%	1%	0%	0%	0%	0%	0%	0%
36-40	1%	0%	0%	0%	0%	4%	4%	0%
Over 40	3%	3%	1%	2%	2%	8%	9%	15%

Department staffing by industry

Industry group	1-2	3-5	6-8	9-11	12-15	16-20	21-25	26-30	31-35	36-40	Over 41
Agribusiness	27%	**36%**	0%	9%	9%	9%	0%	0%	0%	0%	9%
Aviation	14%	**64%**	14%	0%	0%	0%	0%	0%	0%	0%	7%
Banks	**26%**	23%	9%	9%	17%	6%	0%	0%	0%	0%	11%
Chemicals	**52%**	29%	10%	5%	0%	0%	0%	0%	0%	0%	5%
Conglomerate	**70%**	0%	0%	10%	10%	0%	0%	0%	0%	0%	10%
Consumer Goods Manufacturing	38%	**46%**	8%	4%	0%	4%	0%	0%	0%	0%	0%
Construction	**43%**	27%	14%	6%	6%	3%	0%	0%	0%	0%	0%
Educational and Nonprofits	**43%**	40%	3%	3%	3%	0%	3%	0%	0%	0%	3%
Food Processing and Distribution	**46%**	39%	7%	4%	0%	4%	0%	0%	0%	0%	0%
Government	**32%**	29%	7%	4%	11%	7%	0%	0%	0%	4%	7%
Health Care	28%	**35%**	8%	8%	5%	8%	0%	0%	3%	0%	8%
Hotels and Hospitality	**47%**	21%	11%	16%	0%	0%	0%	0%	0%	0%	5%
Insurance, Investment and Finance	25%	**30%**	8%	10%	12%	2%	5%	2%	2%	2%	3%
Lumber, Furniture, Paper and Packaging	**57%**	21%	0%	0%	7%	0%	7%	0%	0%	0%	7%
Machinery and Equipment Manufacturers	**56%**	16%	20%	8%	0%	0%	0%	0%	0%	0%	0%
Metal Milling and Manufacturing	**52%**	26%	13%	4%	0%	4%	0%	0%	0%	0%	0%
Natural Resources (Oil, Gas and Mining)	**38%**	24%	22%	4%	2%	2%	4%	0%	0%	0%	2%
Non-Aviation Transportation Manufacturing	**55%**	18%	18%	0%	9%	0%	0%	0%	0%	0%	0%
Non-Aviation Transportation Services	31%	**41%**	13%	3%	9%	0%	0%	3%	0%	0%	0%
Pharmaceuticals and Biotechnology	**33%**	**33%**	22%	11%	0%	0%	0%	0%	0%	0%	0%
Professional and Personal Services	**40%**	29%	9%	6%	11%	3%	0%	3%	0%	0%	0%
Real Estate	**40%**	**40%**	12%	8%	0%	0%	0%	0%	0%	0%	0%
Retail Trade	**39%**	**39%**	6%	0%	3%	9%	0%	0%	0%	3%	0%
Rubber, Plastics, Stone and Cement	**88%**	13%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Technology	**57%**	34%	3%	0%	3%	0%	0%	0%	0%	0%	3%
Telecommunications and Broadcasting	**40%**	20%	20%	12%	8%	0%	0%	0%	0%	0%	0%
Utilities	**37%**	31%	6%	13%	4%	0%	0%	6%	0%	2%	2%
Wholesale Trade	27%	**47%**	13%	7%	7%	0%	0%	0%	0%	0%	0%

Claims and safety / risk control roles

In-house staffing of claims and safety/risk control functions can dramatically affect the size of the risk management department. As in prior surveys, larger risk management departments typically include more in-house claims and safety/loss control staff.

The majority of respondents with risk management departments (63 percent) say they have one or two claims staff. Only 19 percent with risk management departments do not have any claims personnel. Looking at the revenue bands, there is a higher percentage of respondents with a staff of 10 or more in the USD 10 billion-plus bands.

About half of the respondents with a risk management department indicate that they have one or two safety/risk control staff. Twenty-eight percent do not employ any safety/risk control staff, while 12 percent maintain a staff of three to five people.

Majority of respondents with risk management departments have one or two claims and safety / risk control on staff

Claim staff within risk management dept by region

Region	1–2	3–5	6–9	10+	None
All	63%	13%	4%	2%	19%
Asia Pacific	62%	12%	4%	2%	20%
Europe	56%	10%	5%	0%	29%
Latin America	70%	14%	4%	1%	10%
Middle East & Africa	61%	17%	6%	0%	17%
North America	66%	14%	2%	4%	13%

Claim staff within risk management dept by revenue (in USD)

Revenue	1–2	3–5	6–9	10+	None
< 1B	65%	12%	1%	1%	21%
1B – 4.9B	66%	13%	5%	1%	15%
5B – 9.9B	63%	7%	13%	0%	17%
10B – 14.9B	48%	28%	0%	12%	12%
15B – 24.9B	52%	22%	0%	9%	17%
25B+	44%	12%	12%	7%	24%

Safety / risk control staff within risk management dept by region

Region	1–2	3–5	6–9	10+	None
All	52%	12%	3%	5%	28%
Asia Pacific	57%	14%	4%	9%	16%
Europe	47%	10%	4%	4%	35%
Latin America	62%	13%	3%	5%	17%
Middle East & Africa	56%	28%	0%	6%	11%
North America	50%	12%	2%	4%	32%

Safety / risk control staff within risk management dept by revenue (in USD)

Revenue	1–2	3–5	6–9	10+	None
< 1B	56%	14%	3%	4%	24%
1B – 4.9B	51%	9%	4%	4%	33%
5B – 9.9B	41%	9%	0%	13%	37%
10B – 14.9B	44%	24%	0%	12%	20%
15B – 24.9B	48%	13%	4%	4%	30%
25B+	37%	10%	5%	7%	41%

Third-party service providers

Even though the global economy appears to be stabilizing and recovering, organizations still feel apprehensive about or reluctant to use and/or re-engage third-party service providers. Compared with the 2011 survey, reliance on independent consultants for individual project work, ongoing consulting and outsourcing support/staff has decreased. If this downward trend in the use of third-party providers continues and in-house staff are not picking up the services formerly provided by third parties, it may have an adverse impact on the organization's overall ability to effectively manage risk.

Overall, companies utilize third party service providers mostly for what are deemed "core services"—actuarial/risk bearing capacity/risk modeling, claims advocacy/specialized claim consulting and property loss control, all of which are the least likely to be affected by an ailing or recovering economy.

However, even these "core services" can be affected as companies start to allocate more resources for unexpected events such as claims preparation/forensic accounting due to natural catastrophe and asset valuation services as a result of natural catastrophe and resurgence of refinancing/M&A activities. If the overall budget for third party services remains flat, the relative percentage must shrink in order to accommodate these new areas of focus.

Use of independent consultants by revenue (in USD)

Category	All: 2013	All: 2011	< 1B	1B–4.9B	5B–9.9B	10B–14.9B	15B–24.9B	25B+
Project work	33%	36%	25%	47%	46%	59%	40%	53%
Ongoing consultation	47%	63%	41%	62%	46%	59%	52%	68%
Outsource support / staff	15%	22%	12%	23%	10%	26%	24%	24%
Not applicable	35%	21%	43%	16%	31%	11%	24%	18%

Types of services provided by third parties

Activity	All
Actuarial, risk bearing capacity analysis, risk modeling	28%
Claims advocacy / specialized claim consulting (i.e. not claims adjustment services provided by a carrier or TPA)	25%
Property risk control	22%
Contract review	21%
Workers compensation/health & safety advice	19%
Independent insurance program analysis	17%
Enterprise risk management and consulting	16%
Captive management / consulting	15%
Business continuity planning	14%
Claims preparation / forensic accounting	14%
Asset & business interruption valuations	13%
Risk management information systems	13%
Environmental	10%
Risk financing and alternative risk transfer	9%
Mergers and acquisitions	9%
Crisis management	8%
Credit / trade credit	7%
Premium allocation modeling, premium tax strategies	6%
Self-insured compliance	6%
Talent recruitment strategies	3%
Workforce planning, including leadership development and succession	3%
Predictive analytics	3%

Survey results indicate a continued downward trend in the use of third-party providers which may be driven by economic conditions and may lead to greater risk exposure.

Overall, companies utilize third-party service providers mostly for what are deemed "core services"—actuarial / risk bearing capacity / risk modeling, claims advocacy / specialized claim consulting, and property loss control, all of which are the least likely to be affected by an ailing or recovering economy

Insurance Markets

For the first time, claims service & settlement is cited as the top criterion in an organization's choice of insurers, replacing "financial stability," which topped the list in the past three surveys. The majority of respondents would like to see more flexibility and broader coverage / better terms and conditions in the insurance market.

Priorities in choice of insurer

For the first time, claims service & settlement is cited as the top criterion in an organization's choice of insurers, replacing "financial stability," which topped the list in the past three surveys. Claims service & settlement has also seen the greatest increase in priority among all surveyed factors. This pivotal change in priority is not totally unexpected, because 2011 was one of the largest loss years on record. Moreover, the insured losses in 2012 (which included Superstorm Sandy) also exceeded the global 10-year average. After all, the ultimate purpose of an insurance policy is the promise to pay for a covered loss.

Relating to claims service and settlement is financial stability, which ranks second on the list, followed by value for money. This shows that concerns for pricing are still tempered by an interest in dealing with carriers who have the financial capacity to pay claims and meet minimum financial ratings demand within contracts and corporate policies.

With the fast pace of globalization, companies are in dire need of a carrier which can support their international operations. In the subcategory of companies with offices in more than 16 countries, an insurer's ability to deliver a global program ranks number one in their choice of an insurer, versus number eight for overall respondents, even before an insurer's pricing.

Rounding out the bottom of the list in the choice of insurers is speed and quality of documentation, and risk control and engineering. Speed and quality of documentation, which has been listed at the bottom or near the bottom during three consecutive surveys, may no longer be seen as a differentiating factor among insurers. Risk control and engineering has showed up in the ranking last on the list this year, illustrating that organizations consider their brokers or their own internal staff as primary resources for this activity.

Claims service & settlement has been cited as the top criterion in an organization's choice of insurers, replacing three-time leader financial stability

Priorities in choice of insurer

Factors	2013 Rank	2011 Rank	2009 Rank	2007 Rank
Claims service & settlement***	1	3	3	4
Financial stability / rating	2	1	1	1
Value for money / price	3	2	2	2
Industry experience	4	4	5	6
Capacity	5	7	4	Not Ranked
Long-term relationship	6	6	6	Not Ranked
Flexibility / innovation / creativity	7	8	7	3*
Ability to deliver a global program	8	9	8	8**
Speed and quality of documentation	9	10	10	5
Risk control and engineering	10	Not Ranked	Not Ranked	Not Ranked

*This was the ranking for Flexibility only in the 2007 survey
** This was the ranking for Global Representation
***Settlement was added to Claims Services in 2013 survey and Prompt Settlement of Large Claims was removed

Desired changes in the insurance market

When asked what changes organizations would most like to see in the insurance market, the majority of respondents desire:

- Broader coverage/better terms and conditions has increased from 63 percent in 2011 to 66 percent in 2013, a 3 percent jump
- More flexibility has increased 14 percent, from 52 percent in 2011 to 66 percent
- Recognition of investments in internal risk management efforts through lower premiums has decreased 3 percent, from 58 percent in 2011 to 55 percent

These answers remain consistent with those in the previous surveys. However, the number of respondents who list more flexiblity as a desired change has increased by 14 percent. It clearly indicates that, as companies are facing increasingly broader and complex exposures, they are looking to their insurers for more flexible solutions to meet their business objectives.

On a regional basis, organizations in Europe appear to be the most satisfied with the insurance market, while Latin American respondents feel their region has the most opportunity for improvement — more than 77 percent indicate that insurers need to improve coverage terms and conditions, and be more flexible in program design and delivery.

Companies are looking to their insurers for more flexible solutions to meet their business objectives

Desired changes in the insurance market

Desired market changes	2013	2011
Broader coverage better terms and conditions	66%	63%
More flexibility (i.e. underwriting, coverages, pricing)	66%	52%
Recognition of investments in internal risk management efforts through lower premiums	55%	58%
Improved documentation accuracy and timeliness (policy issuances and endorsement processing)	39%	42%*
More sophisticated claims information technology (IT) systems	27%	28%
Increased capacity	26%	18%
Streamline / innovate underwriting process	25%	N/A
More product innovation	22%	32%
Other	5%	7%

*42% in 2009 represents the Better Quality of Service

Desired changes in the insurance market by region

Desired market changes	Asia Pacific	Europe	Latin America	Middle East & Africa	North America
Broader coverage / better terms and conditions	70%	61%	73%	85%	66%
Recognition of investments in internal risk management efforts through lower premiums	62%	52%	57%	54%	55%
Increased capacity	33%	27%	22%	35%	23%
More flexibility (i.e. underwriting, coverages, pricing)	60%	63%	69%	77%	71%
More sophisticated claims information technology (IT) systems	30%	22%	38%	38%	27%
Streamline / innovate underwriting process	29%	9%	26%	38%	39%
Improved documentation accuracy and timeliness (policy issuances and endorsement processing)	33%	38%	47%	31%	40%
More product innovation	29%	14%	31%	31%	23%
Other	3%	4%	7%	0%	6%

Risk Financing

Most organizations are comfortable with their current limits purchased and maintain their current deductible / retention levels. Coverage terms and conditions remain stable, with property and D&O having experienced the most improvement.

Limits

Umbrella / Excess Liability

An optimal program design, characterized by broad coverage and efficient use of insurance funds, is driven by a number of factors, such as risk severity, risk mitigation measures already in place or under consideration, the regulatory environment in which companies operate, historical trend of loss activities, the insurance marketplace, and appetite for risks.

Similar to that in prior surveys, the most commonly purchased limit cited by respondents in the 2013 survey is USD 100 million, whereas the average limit purchased for all surveyed companies totals USD 129 million. For companies with revenues of more than USD 1 billion, the average limit is USD 198 million, a decrease from USD 213 million in 2011. The decrease might be accounted for by the fact that a large number of smaller organizations have participated in this year's survey.

In 2013, the highest limit reported by all respondents totals USD 2.25 billion and the lowest USD 323,975. Both the highest and the lowest limits are reported by companies in the Asia Pacific region. In the 2011 survey, the highest limit, was reported in Latin America, with USD 1.25 billion, and the lowest, USD 1 million, was reported in multiple regions.

The level of limits purchased is in highly correlated to a company's revenue size—a larger company with a higher profile can represent a bigger target for legal actions. Healthcare companies have purchased the lowest average limit at USD 51 million, a slight increase from the 2011 survey. Among all the surveyed industry groups, aviation-related companies have purchased the highest average limit at USD 368 million. This is consistent with the industry's high historical loss or claim records.

The average and most common limit purchased by respondents in 2013 totals USD 129 million and USD 100 million respectively

Umbrella / excess liability limits by region (in USD)

Category	All: 2013	All: 2011	Asia Pacific	Europe	Latin America	Middle East & Africa	North America
Minimum	323,975	1,000,000	323,975	1,000,000	1,000,000	1,000,000	1,000,000
Average	128,689,691	138,989,396	219,979,844	141,692,651	57,540,000	65,426,667	105,440,281
Most Common	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	10,000,000	100,000,000
Maximum	2,250,000,000	1,250,000,000	2,250,000,000	1,000,000,000	300,000,000	275,000,000	950,000,000

Umbrella / excess liability limits by revenue (in USD)

Category	< 1B	1B–4.9B	5B–9.9B	10B–14.9B	15B–24.9B	25B+
Minimum	323,975	1,000,000	1,000,000	120,000,000	35,000,000	30,000,000
Average	57,245,213	159,262,401	223,216,216	479,332,235	211,417,495	291,564,815
Most Common	10,000,000	100,000,000	150,000,000	250,000,000	100,000,000	500,000,000
Maximum	1,000,000,000	900,000,000	650,000,000	2,250,000,000	500,000,000	1,000,000,000

Directors & Officers Liability

The average D&O limit purchased by all respondents is USD 62 million, whereas companies with more than USD 1 billion in revenue have purchased an average of USD 100 million in D&O liability, down from USD 114 million reported in the 2011 survey.

The highest limit purchased by any organization is USD 500 million, which is reported in Asia Pacific. In 2011, the highest limit was in Europe, at USD 700 million. The lowest limit purchased remains the same at USD 500,000.

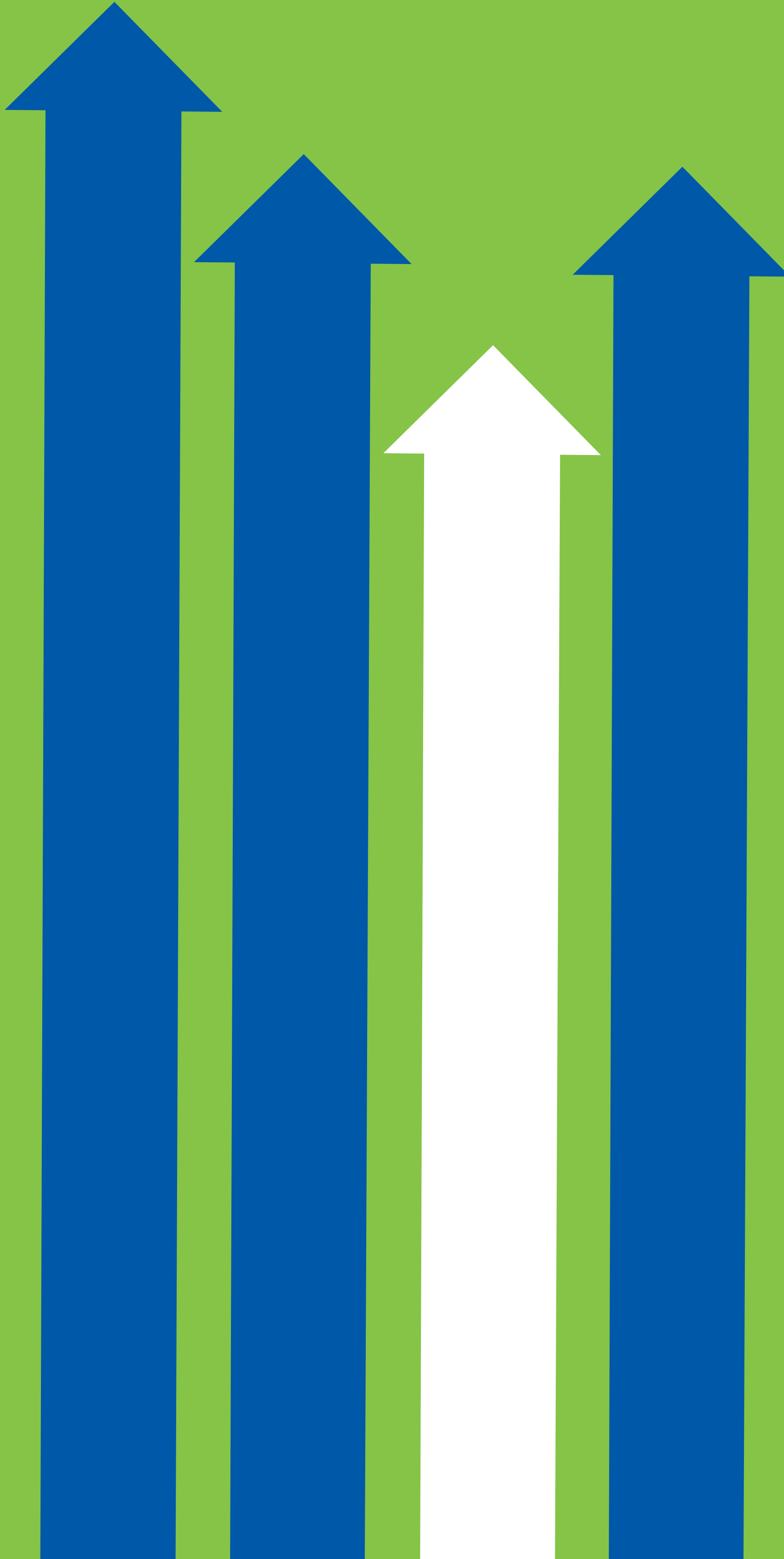
Since the first survey in 2007, two trends in D&O limits have remained consistent — the D&O limit purchased is correlated with an organization's size, and public companies purchase much higher limits than private companies, with a 3 to 1 ratio in the current survey. Historically, private companies have purchased lower limits because many feel they have no public shareholders, thus their D&O liability exposure is limited. In addition, private companies tend to believe that they have the financial abilities to indemnify directors or officers for any claims that may arise. Nonetheless, D&O coverage is becoming more important to private companies, which are facing litigation risks from shareholders, employees, creditors and the government.

Directors & officers liability limits by region (in USD)

Category	All: 2013	All: 2011	Asia Pacific	Europe	Latin America	Middle East & Africa	North America
Minimum	500,000	500,000	1,000,000	600,000	1,000,000	1,000,000	500,000
Average	61,544,790	71,095,698	64,439,117	67,873,344	39,424,938	48,692,308	60,507,269
Most Common	10,000,000	10,000,000	20,000,000	25,000,000	10,000,000	1,000,000	10,000,000
Maximum	500,000,000	700,000,000	500,000,000	390,000,000	200,000,000	500,000,000	400,000,000

Directors & officers liability limits by revenue (in USD)

Category	< 1B	1B–4.9B	5B–9.9B	10B–14.9B	15B–24.9B	25B+
Minimum	500,000	1,000,000	1,000,000	25,000,000	10,000,000	5,000,000
Average	22,388,467	73,564,409	110,474,359	174,876,111	156,698,824	221,709,615
Most Common	10,000,000	50,000,000	100,000,000	250,000,000	100,000,000	300,000,000
Maximum	200,000,000	500,000,000	390,000,000	400,000,000	400,000,000	500,000,000



The D&O limit purchased is correlated with an organization's size. The ratio in average limits purchased between public and private companies is more than 3 to 1

Satisfaction with limit levels

Umbrella / Excess Liability

Similar to the results in 2011, nearly 80 percent of respondents say they are comfortable with the level of umbrella/excess liability limits purchased.

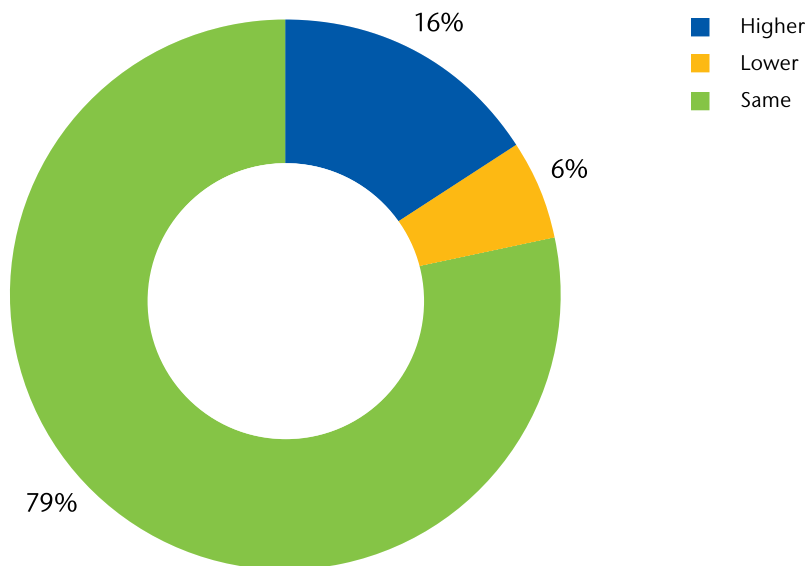
From a regional perspective, Latin America is the least satisfied with limits purchased (70 percent), and Asia Pacific is the most satisfied (81 percent).

Interestingly, in terms of organizational size, companies falling into the largest revenue groups (with USD 25 billion or greater) and smallest (between USD 0—USD 99 million) are the least satisfied with limits purchased.

Like what was reported in 2011, no industry group is 100 percent satisfied with limits purchased. Companies specializing in natural resources (oil, gas and mining) are the least comfortable with their limits, (70 percent). The aviation and non-aviation transportation manufacturing sectors are the most satisfied (92 percent).

79% of respondents are comfortable with the level of umbrella / excess limits purchased

Comfort level with limits for umbrella / excess liability



Directors & Officers Liability

Seventy-seven percent of survey respondents have indicated they are comfortable with the level of D&O limits purchased, compared with 79 percent in 2011. In general, companies' purchasing decisions related to limits are linked to one or more of the following factors:

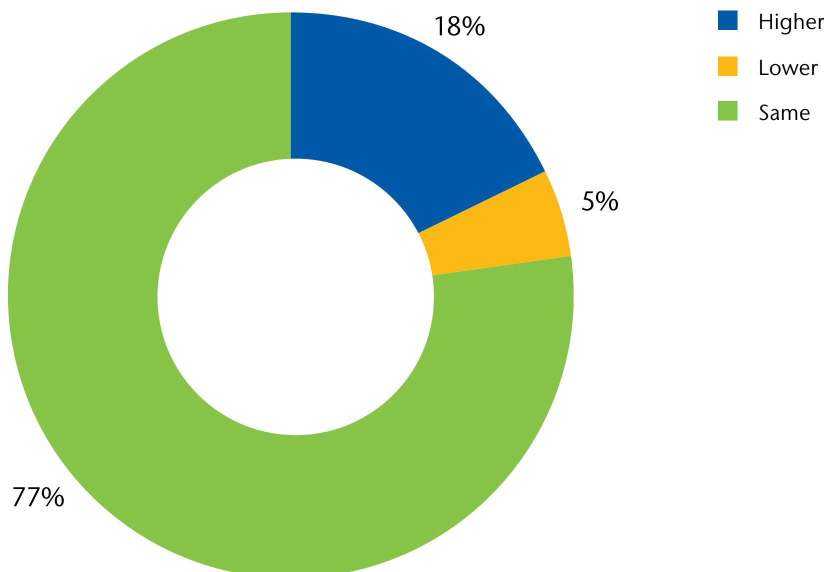
- Increasing D&O claims frequency
- Increasing D&O claims severity
- Decreasing pricing environment
- Concern about the financial health of D&O insurance carriers

Europe has the highest satisfaction level (81 percent), while Middle East & Africa is the least satisfied (55 percent).

For the second straight survey the banking industry is the least comfortable with its limits purchased (54 percent). The lack of satisfaction with the limits purchased is probably caused by the uncertainties surrounding new and pending legislation. In addition, directors and officers feel that higher limits would provide them with more personal protection.

77% of respondents are comfortable with the level of D&O limits purchased

Comfort level with limits for directors & officers liability



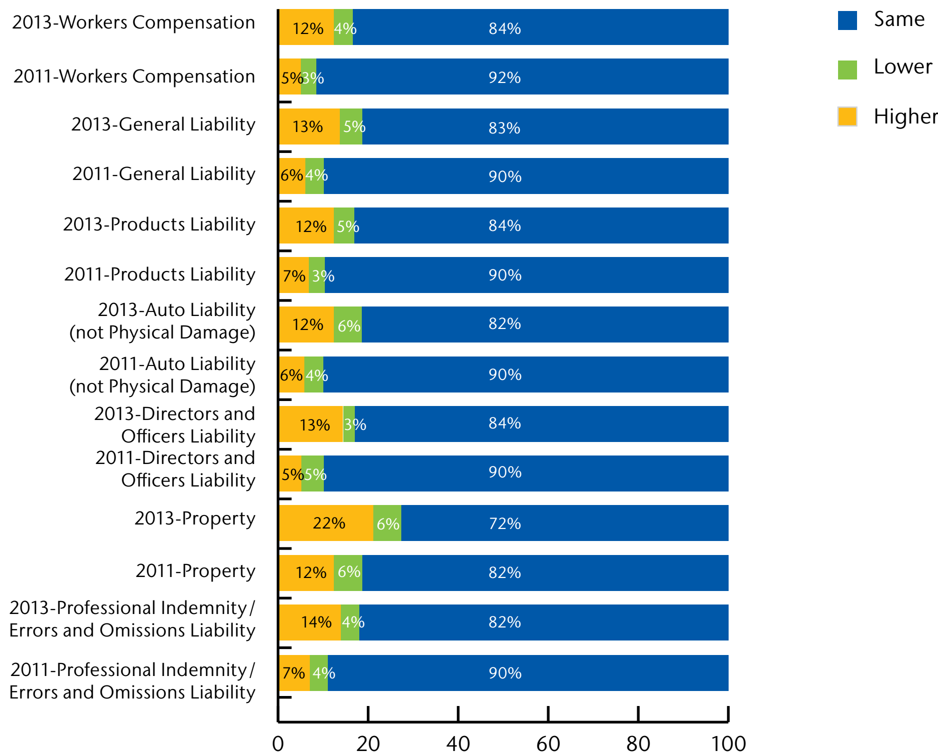
Changes in retention levels

While the majority of organizations have not changed their retentions from the prior policy period, we do note an increase in retention levels across all the coverage lines surveyed. The retention increases are most likely the result of an organization's exposure to natural catastrophe risk, adverse loss experience and the desire to control premium spend in an increasing-rate environment.

Similar to results in the three prior surveys, property has experienced the most changes in retention levels. Twenty-two percent of respondents indicate an increase, while 6 percent note a decrease. Some larger examples of increases take place in the natural resources — oil, gas and mining (41 percent), and chemicals (38 percent), and hotels and hospitality (36 percent) industries. When you consider 2011 was the second-largest insured loss year on record and that the global catastrophe losses in 2012 ranked significantly higher than the average for the last ten years, it is not hard to understand why retentions have gone up for these industries.

Increasing retention levels is a growing trend across all the lines of coverage surveyed

Changes in retention levels

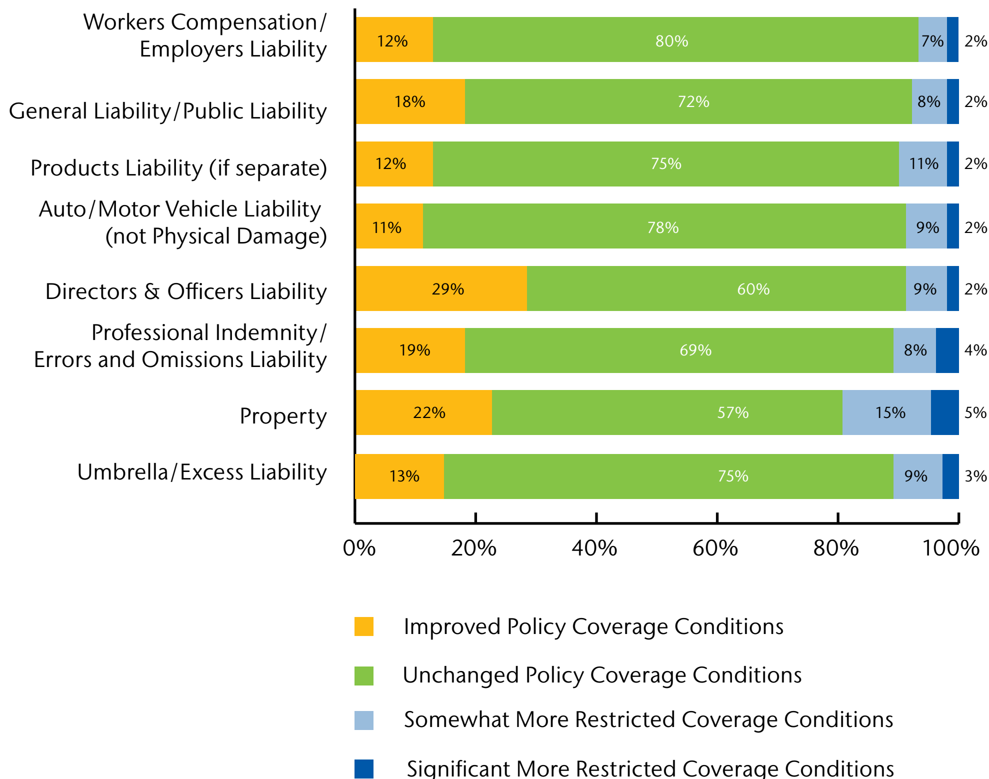


Changes in coverage

In comparison with the prior year's programs, the majority of respondents indicate that the terms and conditions for all surveyed lines of coverage remain unchanged. Like what was reported in 2011, the coverage lines that have experienced the most improvement in coverage terms are property (22 percent) and D&O (29 percent). On the other hand, property also experienced the greatest restriction in coverages, (20 percent). This is primarily due to an increasing number of natural catastrophes over the past two years. Underwriters are now seeking to clarify/amend definitions surrounding flood, wind and contingent business interruption coverages.

Terms and conditions for all surveyed lines of coverage remain unchanged; property and D&O have experienced the most improvement in coverage terms

Changes in coverage



Perspectives

Gail McGovern
President and CEO, American Red Cross

When I started as president of the Red Cross in June 2008, the organization was in a difficult financial position. We had to erase a USD 209 million operating deficit even as the nation was hit with the economic crisis and multiple natural disasters.

Aon's Global Risk Management Survey currently ranks weather and natural disasters at number 16 on its list of risk concerns facing companies, and projects it to jump to number nine in the next three years. The risks are notable, as more than 50 percent of all Americans live on or near a coastline, where they are vulnerable to hurricanes, storm surges and other weather-related disasters, and that percentage is expected to increase to 75 percent by 2025. Fourteen of our nation's 20 largest cities are on the coast, and more than 40 percent of new development is along our coastline. Disasters such as Superstorm Sandy in 2012 show the devastating impact weather can have on our coastal communities.

To take on our multiple challenges, the Red Cross needed to become more efficient in its operations, but we had to do so without any reduction in services since we help, on average, 63 individuals per minute, every day.

We resolved to be more effective at delivering our services while reducing costs. We consolidated procurement and back-office functions. We reduced chapter and headquarters staff by ten percent, and cut 400 positions from our Biomedical Operations division. We also focused on finding new sources of revenue that aligned with our mission, and became better year round fundraisers. These changes helped us eliminate our operating deficit over a two year period.

Aon's survey outlines the challenges for organizations that fail to innovate in order to meet customers needs. From the Red Cross' perspective, we have had to adapt our disaster preparation strategy to address a range of issues outside of natural disasters such as pandemic flu or a Gulf oil spill. We also have embraced new technologies to better communicate with clients, donors and partners.

Today, we are offering more online training options in Red Cross health and safety courses. We're providing more hospitals with blood products and exploring developing medical technologies. We're on the forefront of culture and technology, having created a series of highly successful mobile apps on First Aid and emergency preparedness. We've also opened our Digital Operations Center in Washington, D.C., which constantly monitors social media so that when an emergency happens, we can immediately evaluate the situation and anticipate needs on the ground.

Our goal is to be a strong, dynamic, financially stable organization that the nation can rely on for generations to come. Thanks to the commitment and generosity of our supporters, partners and staff, we're achieving that goal and making our donors even more proud of the work that they fund.

Global Programs

Forty-nine percent of companies operating in more than one country say their corporate headquarters controls procurement of all of their global and local insurance programs, while 43 percent control some lines and leave local offices to purchase other lines. The most common types of global policies purchased are general liability, including public / product liability, as well as property damage / business interruption. The most important factors to global program purchase decisions are certainty of coverage followed by cost.

Global programs

Globalization continues to be a consistent theme for companies pursuing improved operational results. As such, the need for risk management strategies to focus on larger geographic spread while addressing variations in regulatory controls, exposures, and options for optimal risk finance program designs has presented opportunities and challenges for multinational firms.

Regulatory controls dictate how and what insurance coverage is to be procured along with what taxes or fees must be paid for risk transfer in a given geography. In addition, there has been some movement to review how risk transfer programs respond to a claim including how and where indemnities may be paid and what, if any, costs may be due on the same and where.

In addition to the regulatory controls that have always been present but perhaps better defined and enforced in recent years, market offerings have also changed. In some cases these changes create greater opportunity for multinational firms to align their risk finance structures to address country specific regulations. In other cases, offerings are more clearly defined relating to how, where, and on whose behalf a policy may, or may not respond. These market developments mean the buyer of insurance needs to consider how and what they may be purchasing because they may impact the performance and response of their risk finance programs. This will also enable them to select the best program structure to efficiently address their firm's risk management objectives.

The 2013 survey aims to gauge how companies handle such challenges and opportunities relative to multinational risk management strategies and insurance.

Global insurance purchasing habits

When reviewing how insurance procurement is controlled within multinational firms, 49 percent of all respondents — the largest group amongst all respondents — have reported to control all insurance purchases including corporate and local placements from corporate headquarters. Interestingly, the group with largest representation exercising this tight control is multinationals with operations in two to five countries. Conversely, the group with the largest representation, which combines controlling some lines from corporate for all operations with allowing local purchases, is multinationals with operations in 26 to 50 countries. This demonstrates that the ability to control all placements runs in opposite correlation to the number of countries in which multinational firms operate.

49% of all respondents say they control all insurance purchases including corporate and local placements from corporate headquarters

Global insurance purchasing habits

Category	All*	2–5	6–10	11–15	16–25	26–50	51+
No, each operation buys its own insurance with no coordination from corporate headquarters	8%	13%	10%	10%	1%	4%	4%
Corporate headquarters controls some lines and leaves local office to purchase other lines	43%	27%	47%	44%	51%	57%	51%
Corporate headquarters controls procurement of ALL insurance programs (global / local)	49%	60%	42%	46%	48%	39%	44%

*All represents respondent operating in more than one country.

Global insurance buying patterns

The answers by respondents clearly suggest that for multinational firms, reliance on local insurance procurement at the foreign subsidiary level or complete reliance on policies with global territories procured at the corporate headquarters level is not the norm. In fact, it is safe to derive from the responses that the purchase patterns clearly point to a combination programs, purely local and global policies purchased at the corporate headquarters. This could be a result of several factors, such as market offerings inclusive of programs that local and master policies do not yet exist for all lines from all insurers, and/or, the fact that in many countries there are country specific insurance that must be procured in the country for risks present in only that country (i.e. compulsory coverage).

Global insurance buying patterns

Category	All*	2–5	6–10	11–15	16–25	26–50	51+
Buy global policies issued to the parent with no local policies	9%	12%	6%	8%	9%	4%	10%
Buy “programs” which may include global policies issued to parent and local policies issued to local operations	54%	47%	43%	64%	67%	56%	58%
Buy local policies only	6%	12%	3%	0%	3%	4%	3%
Combination of two or more of above	31%	29%	48%	28%	21%	36%	28%

*All represents respondent operating in more than one country.

Types of global insurance coverage purchased

Consistent with that in prior years, general/public liability, property damage/business interruption, and D&O liability are most frequently purchased as programs including a global/master policy issued to the parent with local policies issued to some or all of the international subsidiaries.

The most common types of global policies purchased are general liability including public / product liability, and property damage / business interruption

Types of global insurance coverage purchased

Category	All*	2–5	6–10	11–15	16–25	26–50	51+
General Liability / Public Liability	86%	82%	85%	89%	89%	90%	87%
Property (Property Damage and Business Interruption)	78%	71%	75%	83%	85%	82%	81%
Directors & Officers Liability	63%	48%	60%	69%	77%	78%	71%
Marine / Ocean Cargo	43%	28%	45%	54%	50%	49%	53%
Auto / Motor Vehicle Liability	40%	44%	39%	40%	45%	30%	35%
Workers Compensation / Employers Liability	39%	42%	34%	40%	48%	39%	31%
Crime	32%	23%	28%	31%	38%	33%	47%
Other	9%	7%	13%	11%	15%	3%	6%

*All represents respondent operating in more than one country.

Importance to global program purchase decision

When respondents are asked to rank their reasons for purchasing multinational insurance programs which include policies issued to the parent and foreign subsidiaries, from a defined list of options, the desire for coverage certainty is the lead basis for this type of purchase. Interestingly, in looking at all respondents, the ability to allocate costs and ensure fiscal compliance and payment of related premium taxes and fees are the least dominant drivers, with the purchase of programs being more economical coming in second and statutory compliance third.

Importance to global program purchase decision

Category	All: Average Score*	2-5: Average Score	6-10: Average Score	11-15: Average Score	16-25: Average Score	26-50: Average Score	51+: Average Score
Certainty of Coverage — knowledge of what coverage is included in the program	2.4	2.5	2.3	2.1	2.3	2.3	2.3
Cost — this approach is more economical	2.9	3.1	2.8	2.8	2.9	2.9	2.8
Statutory Compliance — access to local admitted coverage where nonadmitted is prohibited	3.2	3.5	3.1	2.9	3.1	2.5	3.3
Program Performance — access to local claims and / or other services from local insurer / policy provider	4.1	4.1	4.1	4.6	4.2	3.9	3.9
Fiscal Compliance — ability to pay insurance premium and related taxes	4.3	4.6	4.3	3.9	4.4	3.8	3.9
Accounting — ability to allocate risk transfer costs to local operations vs. pay from corporate	5.5	5.4	5.4	5.8	5.7	5.4	5.9

*All represents respondent operating in more than one country.
**Based on 1 - 10 scale. (1 representing the highest priority)

Captives

Organizations in all industry groups and geographies continue to use captive insurance companies as a cost-effective and strategic risk management tool. About 15 percent of respondents report having an active captive or Protected Cell Company. Within a captive, property and general liability are the most often underwritten lines of coverage. We expect to see continued steady growth in captive formations, and expansion of those already established. In emerging markets, such as Latin America and certain parts of Asia Pacific, we are seeing more interest in captives.

Organizations that use captives

Most captives are formed by companies in North America and Western Europe where risk management programs are most developed. Captive usage in other parts of the world is low, but emerging. About 15 percent of the survey respondents say they have an active captive or Protected Cell Company (PCC), down from 26 percent in 2011. The drop is attributable to the significant respondent profile change for the 2013 survey—the number of respondents under USD 1 billion in revenue has increased from 50 percent (2011) to 64 percent (2013), and the number of participates from the U.S. has decreased from 50 percent (2011) to 27 percent (2013). Global captive statistics reveal a 4 percent increase in captive formations globally and a 16 percent increase in the United States over the same period.

From a regional perspective, we believe that there is room for growth in captives in Latin America over the next five years, with longer-term potential for Eastern Europe, Middle East & Africa and Asia Pacific. At present, market liberalization issues and local regulatory restrictions can still be barriers to entry for potential captive owners in the above regions. However, as the risk management needs of regional industries are increasing in scope and complexity, local carriers will struggle to meet future risk financing demands.

During the economic downturn, we spotted greater activity and interest in exit strategies, however, this trend seems to have slowed. For 2013, 4 percent of respondents indicate an interest in closing their captive vehicle and 5 percent consider their captive vehicle to be dormant, or in run-off. We anticipate that pure financial assessment based on opportunity cost of capital will drive this position. Future developments in Europe with regard to Solvency II and the growing political sensitivity to offshore domiciles globally will further contribute to this debate. As the economy improves, increased M&A activity resulting in consolidation strategies being required for multiple captive owners is likely to be a prominent feature.

For organizations that are planning to create a new captive or PCC, industry sector analysis reveals where the main interest is likely to be in the next three years. The top four sectors are: pharmaceuticals and biotechnology at 20 percent, banks at 19 percent, utilities at 18 percent, and hotels and hospitality 17 percent. In the pharmaceutical industry, interest in captives is primarily driven by inadequate capacity for product liability, while the utilities sector is experiencing a hardening property market, especially for wind storm. Captives are being used to underwrite areas where there is no commercial appetite for the risk and for absorbing high self-insured retentions. Financial institutions are interested in increasing income-producing opportunities by expanding their captive programs to customer risks. Finally, the hotel and hospitality industry is finding that captives are helping on a number of fronts. They help support terrorism-related insurance programs in the U.S., and given the size of their employee base, are commonly used to write workers compensation and general liability risks. For global programs, the captive provides a cost-effective tool to bring consistency and coordination to global program terms and conditions.

Organizations with a captive or PCC by current and future use

Category	2013	2011	2009
Plan to create a new or additional captive or PCC in the next 3 years*	9%	12%	12%
Currently have an active captive or PCC	15%	26%	37%
Have a captive that is dormant in run-off	5%	6%	N/A
Plan to close a captive in the next 3 years?	4%	8%	N/A

*In 2009 we used next year not next 3 years

Organizations with a formal risk management department are four times more likely to have an active captive than those without (26 percent vs. 5 percent). Larger and more sophisticated buyers are more likely to explore the captive option as part of their risk management and financing strategies. The survey shows that only 9 percent of respondents under USD 1 billion of revenue have a captive. The percentage goes up significantly to more than 40 percent for organizations with revenues in excess of USD 5 billion.

The survey indicates that only 9% of respondents under USD 1 billion of revenue have a captive

Organizations with a captive or PCC by revenue (in USD)

Revenue	2013	2011	2009	2007*
< 1B	9%	12%	19%	N/A
1B – 4.9B	26%	33%	31%	42%
5B – 9.9B	42%	50%	53%	54%
10B – 14.9B	54%	64%	55%	54%
15B – 24.9B	64%	67%	67%	53%
25B+	56%	72%	87%	76%

*The 2007 percentages for USD 5 billion–USD 9.9 billion and USD 10 billion–USD 14.9 billion represent the 2007 respondent revenue group USD 5B–USD 14.9B revenue range

Organizations with a captive or PCC by region

Region	2013	2011	2009
All	18%	28%	41%
Asia Pacific	17%	27%	42%
Europe	14%	34%	55%
Latin America	12%	14%	13%
Middle East & Africa	33%	29%	43%
North America	22%	25%	36%

Reasons for captives

Organizations establish captives for many different reasons. While the two most cited ones are strategic risk management tool and cost efficiencies, there does not appear to be one overwhelming result, illustrating the uniqueness of every organization's decision/reasoning for establishing a captive. Tax optimization, although often discussed as a key driver, occupies a relatively low position.

Reason for captive

Reason	Percentage
Strategic risk management tool	18%
Cost efficiencies	18%
Reduction of insurance premiums	12%
Risk finance expense optimization	12%
Control on insurance programs	11%
Access to reinsurance market	7%
Cash flow optimization	7%
Other	6%
Tax optimization	4%
Ability to establish reserves	4%

Key risks underwritten

Similar to the 2011 survey, general liability and property are the most often underwritten lines of coverage within a captive, both at 41 percent. Other popular lines include: auto liability at 33 percent, employers liability / workers compensation 32 percent, products liability 23 percent and professional indemnity / errors & omissions 19 percent.

In the 2013 survey, respondents indicate increased interest in underwriting the following risks over the next five years:

- cyber liability/network liability: 7 percent

  Lack of appropriate cover in the commercial market place is driving clients to manuscript captive policies

- employee benefits (excluding health/medical and life): 6 percent

  Mainly larger entities looking to reinsure their pension liabilities

- directors & officers liability: 6 percent

  Typically deductibles and self insured retentions only. Side A D&O is not written in captives

- credit/trade credit: 5 percent

  Captives are used to consolidate global programs by filling the gap between corporate appetite and local requirements.

- employment practices liability: 5 percent

  EPL retentions and primary limits are written by captives to lower the overall cost of the program

The above facts tie in with a general trend — captive owners are seeking opportunities to create diversity across captive portfolios and use their captives strategically.

Since the financial crisis, internal competition for capital has forced many captive owners to question and test the appropriateness of their captive vehicles from an overall efficiency perspective. As a consequence, those that were not effectively utilized have either been closed or reassessed to optimize their alignment with corporate objectives. This accounts for the large decline both in the number of parent entities considering closure of their captives and in the number of entities in run-off. Most captives that are currently licensed have largely met their parental objectives and in fact, many have expanded, both for first party risks and for income generation opportunities, such as warranties, coverage for strategic business partners, and combining coverage with products sold.

When reviewing the top 50 risks of concern that respondents have listed in the 2013 survey, we notice that captives are often used as a risk financing mechanism for these risks, such as weather / natural disasters (number 16) and property damage (number 17. The benefits of using a captive as part of a coordinated global program include pre-funding for losses, access to additional capacity in the reinsurance markets, more control over claims handling, leverage point to negotiate best and consistent terms and conditions, and capturing cash flow that might otherwise go to the commercial market (cash flow / liquidity risk number 9). It is also worth noting that as regulatory and legislative changes are becoming more burdensome to companies, captive usage will increase as a means to regulate corporate deductibles and retentions in a controlled audited environment.

Current and future coverage underwritten

Coverage	2013: Currently underwritten	2013: Continue/ plan to underwrite same/new risk in next five years	2013: Percentage change
General / Third-Party Liability	41%	37%	-4%
Property (Property Damage and Business Interruption)	41%	42%	1%
Auto Liability	33%	31%	-2%
Employers Liability / Workers Compensation	32%	32%	0%
Product Liability and Completed Operations	23%	21%	-2%
Professional Indemnity / Errors and Omissions Liability	19%	21%	2%
Directors & Officers Liability	18%	24%	6%
Health / Medical	17%	20%	3%
Catastrophe	16%	17%	1%
Life	16%	17%	1%
Marine	15%	15%	0%
Crime / Fidelity	14%	17%	3%
Employee Benefits (Excluding Health / Medical and Life)	13%	19%	6%
Terrorism	12%	15%	3%
Third-Party Business	11%	8%	-3%
Employment Practices Liability	10%	15%	5%
Environmental / Pollution	10%	13%	3%
Warranty	10%	12%	2%
Credit / Trade Credit	9%	14%	5%
Aviation	6%	6%	0%
Owner Controlled Insurance Program / Contractor Controlled Insurance Program	6%	8%	2%
Financial Products	5%	7%	2%
Cyber Liability / Network Liability	4%	11%	7%
Other	4%	3%	-1%
Sub-contractor default insurance	3%	6%	3%

Methodology

This Web-based survey addressed both qualitative and quantitative risk issues. Responding risk managers, CROs, CFOs, treasurers and others provided feedback and insight on their insurance and risk management choices, interests and concerns.

Aon Risk Solutions conducted this survey with the support of Aon Hewitt's research specialists, who collected and tabulated the responses. Other Aon insurance and industry specialists provided supporting analysis and helped with the interpretation of findings.

All responses for individual organizations are held confidential, with only the consolidated data being incorporated into this report. Percentages for some of the responses may not add up to 100 percent due to rounding or respondents being able to select more than one answer. All revenue amounts are shown in US Dollars.

Aon at a Glance

Aon plc (NYSE:AON) is the leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 65,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, reinsurance intermediary, captives manager and best employee benefits consulting firm by multiple industry sources. Visit www.aon.com for more information on Aon and www.aon.com/manchesterunited to learn about Aon's global partnership and shirt sponsorship with Manchester United.

Aon Analytics provides clients with forward-looking business intelligence, comprehensive benchmarking and total cost-of-risk analysis as well as global market insights using proprietary technology like the Aon Global Risk Insight Platform® (Aon GRIP℠) to enable more informed and fact-based decision making around risk management, risk retention and risk transfer goals and objectives.

Based in Dublin, Ireland, the Aon Centre for Innovation and Analytics provides Aon colleagues and their clients around the globe fact-based market insights. As the owner of the Aon GRIP, one of the world's largest repositories of risk and insurance placement information, the Centre analyzes Aon's global premium flow to identify innovative new products and to provide Aon brokers insights as to which markets and which carriers provide the best value for clients.

Aon Global Risk Insight Platform® (Aon GRIP℠) is the world's leading global repository of global risk and insurance placement information. By providing fact-based insights into Aon's global premium flow, Aon GRIP helps identify the best placement option regardless of size, industry, coverage line or geography.

The Web-accessible data produced by Aon GRIP helps Aon brokers evaluate which markets to approach with a placement and which carriers may provide the best value for clients. It also gives Aon brokers a leg up when it comes to negotiations, making sure every conversation is based on the most complete, most current set of facts.

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