

MARSH

New Zealand Survey of Risk 2010
The Fourth Marsh Biennial Report



Foreword

Marsh is pleased to provide you with our fourth biennial Survey of Risk, which was conducted in December 2010.

It is not surprising, given the events of the year, that business disruption caused by natural disaster should be top of mind for businesses in this survey.

Whilst only 17% of the survey respondents originated from the Canterbury region, the earthquake has been a strong reminder to our clients across New Zealand of the importance of having good business continuity plans in place.

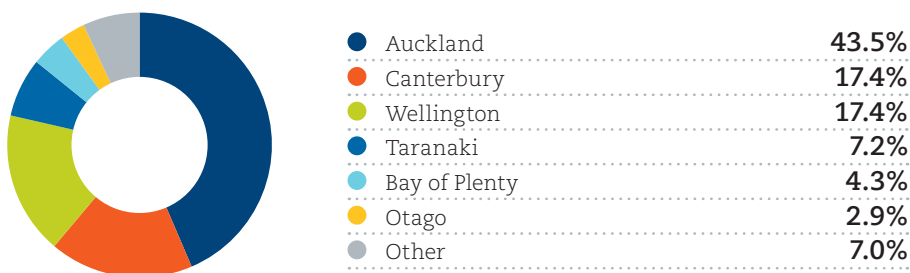
We have benchmarked the year's results against the 2006 and 2008 surveys to enable you to see how the risk landscape has, and is, changing.

I would like to thank the executives who took the time to participate in this research programme. Without your support and commitment, this report would not have been possible.



Grant Milne
Country Head
Marsh Limited, New Zealand

Survey responses by region



Top Risk Issues 2010

The earthquake in Canterbury in September has clearly been at the forefront of peoples' minds. Disruption to business following a major incident, such as fire, earthquake, flood, act of terrorism related to natural disaster was at the top of the 2010 table.

Business disruption has been in the top five risks of the last three surveys and this year has seen it elevated to the top spot for obvious reasons. Not only have we weathered a major earthquake, but also the usual spates of flooding in the North and heavy snowfalls in the South.

The destruction of assets by fire, flood or other natural disaster follows closely behind. This issue has not featured prominently since the 2004 survey, when it was in the top three risks for public companies.

Loss of data however has remained a major concern for many businesses over the last six years – whether it be by system security failure, data corruption or hacking.

The strengthening of the Kiwi dollar has clearly had an impact on businesses trading with overseas in 2010. This is the first time that this risk has featured so highly since 2004. Economists predict that the dollar will continue to remain high in the short term.

How are these risks being managed?

The majority of businesses tell us that they are prepared should a major disaster happen. 16.9% of respondents though still do not have a plan in place to manage business disruption from a natural disaster. On the other hand, 95.4% tell us that their assets are protected should something occur.

This would suggest that some organisations believe that as long as their assets are insured that they are in good stead if something happens. However, if we have learnt anything from the Canterbury earthquake, it is not so much the damage to the assets of a business that can cause it to topple but more the ongoing impact to revenue and income as a flow on from the physical damage.

Managing losses

To help support the point above, of the 20.8% of respondents who have suffered a high impact financial loss in the last three years, only 46.7% had insurance policies that covered the losses. This demonstrates the importance of not only having the right insurance policy in place, but also having good risk management strategies to support them. 93.3% of the companies who suffered losses have now put plans in place to help reduce the future impact of losses in these areas.

Top five risks 2010

- 1 Disruption to your business following a major incident, such as fire, earthquake, flood, act of terrorism
- 2 Destruction of assets by fire, flood or some other natural disaster
- 3 Loss of data, data corruption or failure of systems security or website security ("hackers" etc)
- 4 Fluctuations in exchange rates: strengthening Kiwi dollar
- 5 Drop off in demand

Top five risks 2008

- 1 Drop-off in demand
- 2 Losing key staff to competitors
- 3 Loss of data
- 4 Disruption to your business following a major incident
- 5 Lost productivity and reduced efficiency due to staff absenteeism, stress, low morale and staff turnover

Top five risks 2006

- 1 Loss of data
- 2 Disruption to the business following a major incident
- 3 Losing key staff to competitors
- 4 Lack of strategic planning
- 5 Failure of systems security

How New Zealand Companies Manage Risk

Who is responsible?

Boards still hold the ultimate responsibility for developing and implementing risk management procedures within organisations, with this being the case in 43% of the companies surveyed.

It would appear that Boards are meeting more frequently than what they were two years ago. 30.6% of Boards are now meeting monthly, compared to 20.4% in the 2008 survey. 25% of boards meet every quarter and 11.1% once per year. In 2008, 23.9% of Boards were meeting on an ad hoc basis or “as needed”. This has dropped to 15.3%.

These results would imply that Boards now have more to meet about and are thus taking a more structured approach to their corporate governance.

Many smaller companies do not of course have a Board of Directors. It tends to be in these cases where the ultimate risk responsibility falls with the most senior executive as highlighted in the chart below.

We know from past experience, and previous survey results, that CFOs are heavily involved in decision making around risk, however very few of them take ultimate responsibility for the role.

External advice

The amount of companies seeking risk advice externally has increased slightly from 2008 to sit at 64.8% in 2010.

There has been an interesting shift in who they consult. A higher proportion of respondents stated that they are using risk management consultants - who have moved from a 5th place ranking in the last survey to the 3rd spot in 2010.

Organisations are seeking less external risk advice from their legal counsel and IT vendor than in the 2008 and 2006 surveys. Whilst auditors and accountants continue to occupy the 2nd spot in the table it is by a lesser percentage than in the previous survey.

Is risk reviewed more regularly?

48.6% of those surveyed said that they are reviewing risk more regularly than in 2008. The same percentage of respondents believe that this has not changed in the last two years, with only 2.8% saying that it is less.

Who do companies go to for advice?

- 1 Insurance broker
- 2 Auditor / accountant
- 3 Risk management consultant
- 4 Legal counsel
- 5 IT vendor

Who is ultimately responsible for risk in New Zealand companies?



Issues of Concern to SMEs

Small to Medium Enterprises (SMEs) are the backbone of New Zealand business, which is why we dedicate a section of the survey to the specific risk concerns they have.

37.4% of the 2010 respondents were from a business with less than 50 employees. The risks that these organisations are facing are slightly different to the overall results.

Staff is a major concern for those companies that have less of them. The core issue being the loss of key staff to competitors. This has been a consistent theme over all of the surveys with this issue being the top risk for SMEs in 2010, 2006 and 2004 and ranking third equal in 2008.

Swiftly on the heels of this is lost productivity due to staff absenteeism, stress, low morale and staff turnover - which ranks equally with business disruption and loss of data.

The slow economy has clearly hit small businesses with the roll on effect being extra pressure placed on employees to perform. It has probably also meant concern over job stability, leading to stress and a lack of focus, which ultimately affects productivity.

As the economy improves, it will be even more challenging for small businesses to keep good staff - as there will be greater opportunities available to them elsewhere. SMEs will therefore need to adopt smarter strategies to ensure that these key staff are retained.

Business disruption, loss of data and drop off in demand remained consistent with the overall survey results.

Top five risks SMEs 2010

- 1 Losing key staff to competitors

- 2= Lost productivity and reduced efficiency due to staff absenteeism, stress, low morale and staff turnover

- 2= Disruption to your business following a major incident, such as fire, earthquake, flood, act of terrorism

- 2= Loss of data, data corruption or failure of systems security or website security ("hackers" etc)

- 3 Drop off in demand

Top five risks SMEs 2008

- 1 Drop off in demand

- 2 Disruption to business following a major IT disruption

- 3= Losing key staff to competitors

- 3= Loss of data

- 3= Increased competition

Top five risks SMEs 2006

- 1 Losing key staff to competitors

- 2 Lost productivity and reduced efficiency

- 3 Non compliance with legal contractual obligations

- 4 Loss of data

- 5 Loss of income due to poor emergency planning

Emerging Risks

Survey respondents were asked what they saw the main future / emerging risk issues being that would have an impact on their business in the next 24 months.

It would appear that the major disasters of 2010 are weighing heavily on peoples' minds, with the risk of most concern in the next two years being around business continuity.

Increasing corporate governance requirements - which was the top emerging risk in the 2008 survey and oil spike / price rise - ranked second in the 2008 survey, are also of major concern.

The global financial crisis really brought to the fore the importance of good corporate governance and it is clear that organisations have taken this to heart. Businesses are all too aware that those that do not keep up with changing legislation or have good reporting systems in place, not only risk their reputation, but also the success and / or failure of their business.

With oil prices being at a two year peak during the period that the 2010 survey was undertaken, it is hardly surprising that this has featured highly in our emerging risks. It is anticipated that oil prices will only continue to rise in the coming years as demand outstrips supply.

Preparedness for these emerging risks

Given the concern around these emerging risks, how prepared are companies to manage them?

Most organisations are prepared to deal with business continuity risk, with 81% having a plan in place to manage it.

There has been a slight increase in those who have procedures in place to manage corporate governance issues from the last survey – with this shifting from 41.6% to 49.2%. It does of course though mean that there are over 50% who do not.

Despite oil spike / price rises being ranked highly as an emerging risk, only 23.8% have plans in place to manage it. This has dropped from the 2008 survey, when 28.3% of organisations had plans in place should this happen.

A better level of preparedness is in place for a pandemic outbreak (62.5%) and environmental issues (49.2%).

Top five emerging risks 2010

- 1 Business continuity
- 2 Increasing corporate governance requirements
- 3 Oil spike / price rise
- 4 Pandemic outbreak
- 5 Environmental issues

Top five emerging risks 2008

- 1 Increasing corporate governance requirements
- 2 Oil spike / price rise
- 3 Security / fraud
- 4 Bird flu
- 5 Climate change

Top five emerging risks 2006

- 1 Pandemic outbreak
- 2 Security / fraud
- 3 Increasing corporate governance requirements
- 4 Foreign exchange rate fluctuations
- 5 Oil spike / price rise

Conclusion / About the Survey

Survey findings

In conclusion, it is clear that the events of 2010 have had a major impact on businesses and the awareness they now have around being prepared for a natural disaster.

Few would have predicted that an earthquake would happen in Canterbury, which reinforces that we should never be complacent about having solid risk management plans in place for any type of disaster.

Some of those who have been impacted by events have discovered that their insurance policy did not cover what they thought it may and this too reiterates the importance of having regular insurance and risk reviews with your advisor.

SMEs need to ensure that they have solid plans in place moving forward to deal with people risks – in

particular with implementing strategies to retain their key staff.

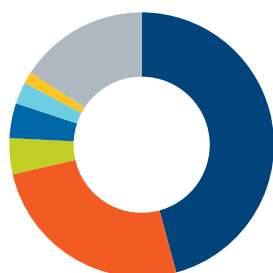
Businesses, both small and large, need to ensure that they are better equipped to deal with corporate governance issues.

Those organisations that are pro-active in addressing both current and emerging risks will be those that are the most well equipped to succeed in the coming decade.

About the respondents

To ensure that we had a well spread view of opinions, our survey sample included businesses from one employee through to 300+ in private, public and government organisations.

A breakdown of the respondents is shown below.



Organisation Type

Private or Family Owned	45.7%
Public Limited Company	25.7%
Government Department	4.3%
District Health Board	4.3%
Partnership	2.9%
Local Authority	1.4%
Other	15.7%



Organisation Size by Number of Employees

1 – 50	37.4%
51 – 100	2.8%
101 – 200	15.3%
201 – 300	11.1%
300+	33.3%



Respondent's Job Title

CFO / Financial Director	46.4%
Other	11.6%
Member of Board of Directors	10.1%
Chief Risk Officer / Head of Risk Management	10.1%
Managing Director	7.2%
Legal Counsel / Company Secretary	5.8%
Owner / Proprietor	4.3%
CEO	4.3%

About Marsh

Marsh is the world's leading insurance broker and risk advisor. We provide risk management and consulting and insurance broking services for businesses, public entities, public listed companies, state owned enterprises, associations, professional services organisations and private clients.

We have been operating in New Zealand since 1958 and have over 240 experienced staff in seven offices throughout New Zealand.

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