

MARSH



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New Zealand Survey of Risk 2008

The Third Marsh Biennial Report



Foreword

Marsh is delighted to provide you with our third biennial Survey of Risk.

Over 113 responses were received, from across a range of organisations in different industries throughout New Zealand.

The current state of our economic climate is clearly reflected in the 2008 survey, with concerns such as drop off in demand, oil prices and competition featuring highly within the results.

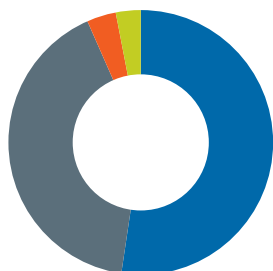
We have benchmarked these shifts against the 2006 and 2004 surveys to enable you to see how the risk landscape has, and is, changing. Given that 51% of organisations are now more regularly reviewing their risks than two years ago, it is clear that businesses are becoming even more aware of the importance of regular risk review and management to ensure the sustainability of their business.

I would like to thank the 113 senior executives of the companies who took the time to participate in this research programme. Without their support and commitment, this report would not have been possible.



Kirk Williams
Chief Executive Officer
Marsh Limited, New Zealand

Are risks reviewed more or less regularly than two years ago?



● More	51%
● The Same	42%
● Less	4%
● Don't Know	3%

Top Risk Issues 2008

As with previous years, the third Marsh Survey of Risk aimed to uncover changes in thinking and planning around risk management and business preparedness across New Zealand businesses over the last two years.

Losing staff to key competitors ranked as the third most prominent risk in 2004 and 2006. This year, focus on risk issues relating to employees comes in even more strongly - with losing staff to key competitors and lost staff productivity due to stress, morale and staff turnover appearing at number two and five respectively. With two of the top five risks relating to people, these results provide evidence that human capital is truly considered to be a company's most important asset and therefore poses the largest risk.

The top risk for 2008, drop off in demand, is not so much of a surprise given the current economic climate. All companies will of course be concerned about how their company will be impacted by cuts to consumer spending in a downturn.

Loss of data (the top risk in 2006) and business disruption (number two in 2006) still feature in this year's top five - just as they also did in 2004.

How are these risks being managed?

Identifying risk is of course only half the battle - the rest is in managing it.

44% of companies do not have procedures in place to manage drop off in demand and 36.6% fail to have procedures in place to manage the loss of key staff.

Additionally, there is a lack of procedure in place when it comes to lost staff productivity in 23% of companies, while business disruption fares slightly better at 20.4%.

Loss of data is the most well managed area with 89.4% of companies seemingly having this under control.

Top five risks 2008

- 1 Drop-off in demand

- 2 Losing key staff to competitors

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

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

- 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?

Companies will generally have several people involved in developing and implementing risk management procedures within their organisation.

Boards of Directors are still the primary entity responsible for this role and this has not changed since 2006. 23.9% of Boards meet every quarter, 20.4% monthly and 12.4% once a year. A large proportion (23.9%), only meet on an ad hoc basis to review risk.

In 2008, we have seen a large shift in the involvement of CFOs in the risk management process. CFOs now outrank CEOs as major decision makers in this area.

Larger organisations tend to have a dedicated Chief Risk Officer / Head of Risk Management and in this case are tasked with the responsibility. Within SME's, it is more likely to be the Owner / Proprietor.

HR, IT and legal executives have responsibility for risk within a small number of organisations.

External advice

57.5% of companies use an external provider to help them manage their business risks.

The majority of respondents use their insurance broker as their primary advisor, with auditors / accountants coming second. In both cases this is consistent with the 2004 and 2006 surveys.

The key shift in 2008 is the increase in the number of organisations that use their legal counsel and IT vendor to provide advice. This trend fits with respondent concerns over compliance and loss of data risk.

The involvement of risk consultants is still key and on a par with the 2006 survey results. Other advisors consulted were trade associations, insurance companies and e-commerce vendors. 15% even consulted their friends or contacts in other companies.

Who manages risk in New Zealand companies?

- 1 Board of Directors
- 2 CFO / Financial Director
- 3 CEO
- 4 Managing Director
- 5 Chief Risk Officer / Head of Risk Management

Who do companies go to for advice?

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

Issues of Concern to SMEs

New Zealand is a nation of small businesses. Out of a total of nearly 300,000 local enterprises less than 3,000, or a mere one percent, employ more than 50 people, according to the latest figures available from Statistics New Zealand.

For this reason, the survey further drilled down to look at the key risk issues facing SMEs – classed in this survey as respondents from organisations with less than 50 employees. SMEs accounted for 42% of the total survey sample.

IT risk appears to be the current core concern for SME businesses with IT disruption and loss of data ranking second and fourth respectively.

Similarly, with the overall survey results, drop off in demand and losing key staff were in the top five.

A 'new entry' was increased competition. Businesses across the board are facing this issue, however as SMEs have smaller infrastructures and will likely be hardest hit in the pocket, their concern is understandably much greater.

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, data corruption or failure of systems security or website security ("hackers" etc)
3=	Increased competition

Top five risks SMEs 2006

1	Losing key staff to competitors
2	Lost productivity and reduced efficiency due to staff absenteeism, stress, low morale and staff turnover
3	Non compliance with legal & contractual obligations
4	Loss of data
5	Loss of income due to poor emergency planning

Emerging Risks

In the 2006 survey, respondents were asked to rank their level of awareness and concern about the top emerging global risks identified in the 2005 / 2006 World Economic Forum Report. The 2008 survey asked respondents to rank the same areas of concern as a comparison.

Given the changes in the global environment over the last two years, it is no surprise that there has been a shift in the rankings of these emerging risks.

Increasing corporate governance requirements has moved from third place in 2006 to the top of the table in 2008, with 80.5% of respondents rating it as an emerging core concern.

With the recent fluctuation in oil prices, it is probably no revelation that this concern has shifted to the number two spot in 2008 - from fifth place in 2006.

Security / fraud has remained in the top three, however slips from second spot in 2006 to third spot in 2008.

Preparedness for these emerging risks

Interestingly enough, whilst corporate governance was rated as the top emerging risk, only 41.6% of respondents have a procedure in place to manage this risk. Likewise with oil spike / price rises, only 28.3% of the organisations surveyed had preparations in place. Security / fraud fared better with 54% of respondents stating that they had a risk management procedure in place.

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, we have seen that the current global financial situation is already having an impact, and causing concern, for many of the organisations surveyed in 2008. It is also clear, by reviewing past trends, that the risk landscape is continually changing.

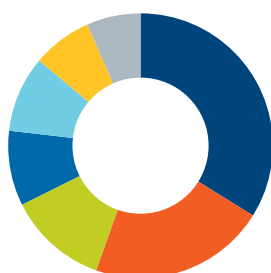
Businesses should therefore be reviewing their risks on a regular basis to ensure that procedures are in place to deal with any new / emerging risks. Companies who are swift to do so will be the ones who maintain their competitive advantage and market position despite the economic uncertainty.

About the respondents

113 senior executives with responsibility for risk within their organisation participated in the survey.

In order to obtain a balanced view of opinions, our survey sample included organisations from a range of company sizes, industries and geographies.

There was also a good geographical spread across New Zealand, with the three main business centres being evenly represented – Auckland (32.7%), Wellington (23%) and Christchurch (21.2%).



Respondent's Job Title

● CFO / Financial Director	35%
● Other	20%
● Owner / Proprietor	12%
● CEO	10%
● Chief Risk Officer / Head of Risk Management	10%
● Managing Director	7%
● Member of Board of Directors	6%



Organisation Size by Number of Employees

● 1 - 50	42%
● 51 - 100	13%
● 101 - 200	11%
● 201 - 300	6%
● 300+	28%



Organisation Type

● Private or family owned	44%
● Other	27%
● Public limited company	19%
● Partnership	5%
● Government Department	4%
● District Health Board	1%

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About Marsh

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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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