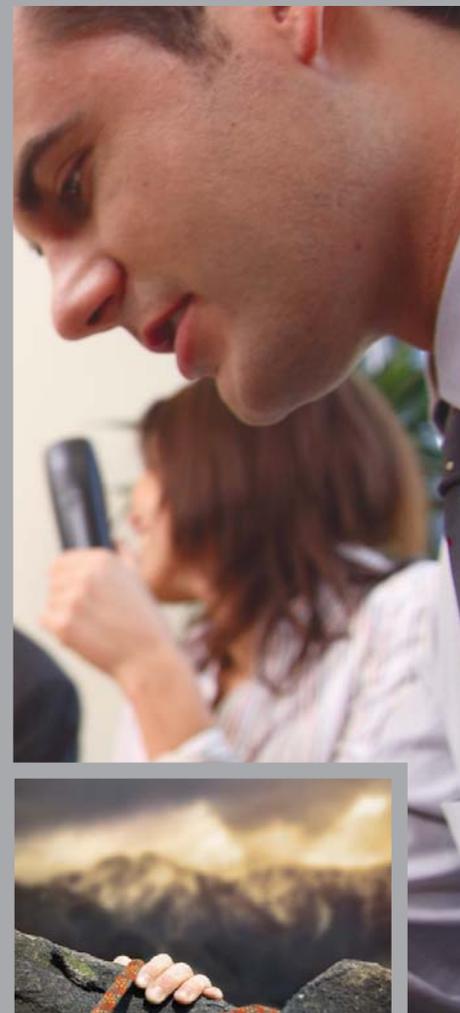


FERMA risk management benchmarking survey 2010

5th Edition

Keys to understanding the diversity of risk management practices in Europe

In partnership with Ernst & Young and AXA Corporate Solutions



In collaboration with



and



Key findings

“ This year marks the fifth time that FERMA and its partners Ernst & Young and AXA Corporate Solutions have conducted the risk management benchmarking survey. We started with 49 replies in 2002. Now, thanks to the responses we have built up since then and the record number of 782 replies received this year, the FERMA survey gives the best available picture of the evolution of risk and insurance management and its role in Europe today. ”

Peter den Dekker,
President of FERMA

Risk Management

- **The risk management environment is evolving** towards more regulations and standards, which should play a fundamental role and significantly impact risk management practices in the coming years (8th EU directive, ISO 31000 standard). However, the survey results show that current awareness levels regarding these new regulations and standards still remain very diverse.
- **Risk management is now on the agenda for top management, the board and shareholders** which clearly support and sponsor the function in its traditional objectives (compliance, risk mitigation) as well as in its new ambitions (better integration in decision making process, regular reporting on risk management topics). However, even if risk management now appears to be better known and valued at top management level, its role (limited or expanded mandate), as well as its level of (increasing) coordination with other risk functions, must be clarified and supported by top management.
- **A trend towards more consistent risk practices and tools** is appearing through a broader scope of intervention and convergence of risks practices and tools (the risk mapping exercise has become an undisputable practice). However, in spite of this “consistency trend”, the risk management approach remains more qualitative (assessment workshops) than quantitative (strong analytic tools) among most companies.
- **A more mature internal communication on risk is emerging** through the definition of risk management policies or charters within most of the European companies and a deeper involvement in board decision making process. However, unlike internal communication, practices in external communications vary widely, especially in unlisted companies.
- **Furthermore, the survey also reveals that each companies’ complexity has a clear impact on the maturity of risk management practices**, especially when it comes to risk governance and risk communication topics, **and that companies’ risk appetite, relies more on the risk category than on the significance of the risk assessment**. Consequently, companies mainly adopt risk-taking strategies for external risks and tend to be totally averse to risks regarding regulatory and safety issues.

“ As leader of the Risk management advisory services, Ernst & Young continues to be strongly engaged around the world in seeking to identify leading practices in risk management, that’s why we have supported the Ferma initiative since 2002. We are convinced that an appropriate risk management approach can bring value in the strategic decision making process, and avoid negative impacts on the business model. We hope that the main conclusions of this edition can help European companies to be more agile and able to operate more effectively. ”

Dominique Pageaud, Ernst & Young
Partner - Fralux Risk Advisory Leader

Insurance

- In general, **clients are reasonably satisfied with insurance prices**, and they are now looking for insurers to differentiate themselves through both innovation and services. There is, however, **real concern about the possibility of a hard market** and the potential impact of Solvency II on insurance capacity and pricing.
- The responses show a **good degree of satisfaction with insurers’ networks, knowledge and expertise**. Respondents are confident that their insurers can support them as their businesses develop and expand into new territories.
- As far as **innovation** is concerned, clients would like insurers to do more to help them manage new and emerging risks, particularly what are today “uninsurable” risks.
- With regard to services, the results show that respondents want **more sharing of claims data** and benchmarking by insurers. Information and management of premium-related cash flows could also be improved.
- Broker **transparency remains an issue**. Though improving, clients find it is not yet good enough. Similarly, the timely production of documents is still a weak point for some insurers.
- Finally, it is noticeable that the number of ‘don’t know’ responses has fallen substantially from previous surveys. This suggests that **respondents have increased oversight of the insurance programme**. The requirements of the job have certainly grown, perhaps at least in part due to the financial crisis and greater risk awareness.
- In summary, the 2010 benchmarking survey shows that respondents believe insurers **offer them good services at reasonable prices today with developing expectations** for the future.

“ The financial crisis reinforces the importance of long-term relationships between commercial insurance buyers and their insurers. Mutual confidence is based on a commitment by the insurer to support clients in their geographical and business development including the protection of their new risks. This means the insurer invests in innovative insurance and loss prevention products and services, as well as sound expertise in international claims and program management. ”

Philippe Rocard,
CEO of AXA Corporate Solutions

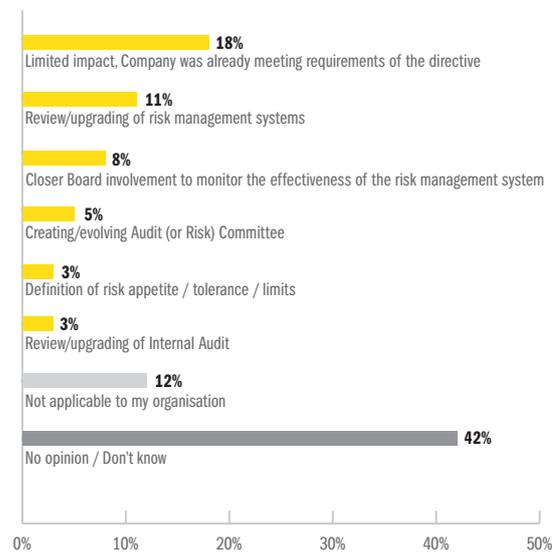
This 5th edition of the FERMA risk management benchmarking survey fits into the first strategic objective of FERMA to coordinate, promote and support the development and application of risk management in Europe by organising surveys and benchmarks to identify and share current practices.

Overall, the survey reveals continuing progress in risk management fundamentals. However, a closer analysis reveals significant disparities that remain from one company, country or risk management topic to another. In order to better measure and understand these discrepancies this year, we defined a multi-criteria analysis outlining different maturity levels. Our first objective was to highlight the major changes that have impacted risk management practices since 2008. Once the background was in place, we were eager to illustrate the growing maturity of risk management practices. We found that this progress has been driven by three main factors: company-specific triggers, risk appetite and company complexity.

Risk Management

An evolving risk management environment

Impact of the EU 8th directive (if applicable to the organization) on companies' Risk Management policy



New regulations and standards : where do we stand?

The 2008-2010 period has seen several new risk management regulatory requirements coming into force (most notably the 8th EU directive being passed into law in EU member states across the continent) and a new risk management standard being defined and gaining recognition (ISO 31000 standard).

8th EU directive: an extremely varied level of awareness among listed companies

If the EU 8th directive has been globally taken into account by major listed companies - and their organization and processes modified accordingly if necessary -, the 2010 survey still shows that many risk and insurance managers among listed companies have poorly assessed and understood the impacts of this new regulatory requirement on their

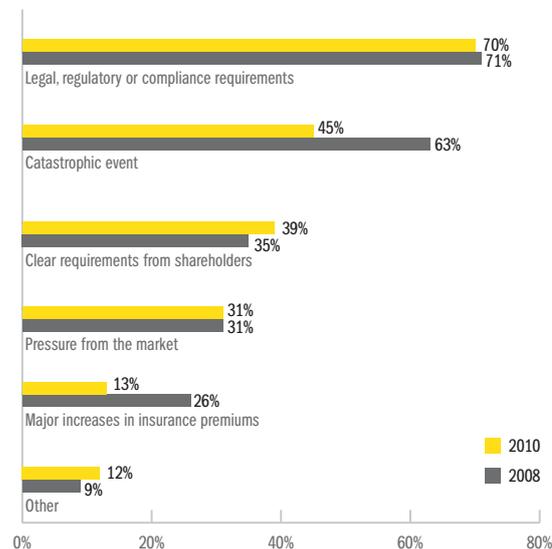
organization: 42% of the listed companies respondents have no opinion or no idea regarding the impact of the EU 8th directive on their organization.

ISO 31000 : a growing, but still limited, risk management reference standard

Although respondents still consider COSO 2 (30%) and National or European risk management standards (23%) as their main reference text, a significant part (13%) of the respondents now explicitly refer to ISO 31000 within their risk management framework.

However, another, and perhaps more important teaching from our survey, lies in the fact that currently, 47% of the companies do not refer explicitly to any risk management standard.

Main external factors triggering Risk Management within your company



Risk management objectives: what's new?

Traditional expectations still at the top of the list...

Compliance and legal requirements, as well as business regulations, remain the major external factors triggering risk management efforts within companies (70%).

Similarly, the main objectives assigned by top Executives to risk management remain focused on its traditional roles: minimize operational surprises and losses (70%) or, identify and manage transverse risks (52%).

... but growing expectations from shareholders and increasing links with strategic decisions

A clear mandate voiced by shareholders (39% vs 35% in 2008) is now considered as the third main external factor triggering risk management within companies.

Likewise, "aligning risk appetite and strategy" (37%) and "linking growth, risk and return" (36%) are rising towards the top objectives to be achieved through the investment in risk management.

A trend toward increased maturity, but diverse practices still exist

In order to illustrate companies' different maturity levels regarding risk management practices, we defined a multi-criteria approach based on three categories (risk governance, risk practices & tools and risk communication) and four maturity levels (Emerging, Moderate, Mature and Advanced) depending on respondents' answers to 13 relevant questions.

Based on this approach, we have assessed the maturity level of each company.

Risk governance: a first move towards risk convergence

Recognition at Executive management and board levels...

The Risk Management function is sponsored by and globally reports to top management: CEOs and boards (45%) or CFOs (35%). However, although reporting at CEO and boards levels has emerged as a good practice (giving a broader view over company-wide key issues), reporting to CFOs still remains widespread in certain countries (especially Germany).

Furthermore, companies believe that risk management activities are correctly embedded in reporting to "the board" (78%) and risk management topic is generally formally addressed by the board at least on an annual

basis. The most advanced countries regarding this topic (Switzerland, France, the UK and Germany) are, not surprisingly, those which have established strong governance rules and practices over the last 20 years : UK (Combined Code), France ("Rapport Bouton and code AFEP-MEDEF), Germany (Kontra G and BillMog).

...but a role assigned and a level of coordination with other functions still to be specified

Board Audit and/or Risk committees are now widely established, however, for 60% of the respondents, their mandates remain limited to specific areas (44%) or unclear (16%).

Moreover, if a "minimum" level of coordination is now said to exist among the various risk functions (broadly 84%, and specifically between internal audit and risk management departments for 64%), only 23% of the respondents indicate a full level of coordination with other risk functions (quality, environment, legal, ...). Clearly this lack of coordination can result in negative effects including an extra cost burden, controls overlap, conflicting risk reporting etc.

A growing level of risk governance maturity* for 56% of the respondents

Risk practices and tools: more homogeneity but still a qualitative approach

A broader scope of intervention and a convergence of practices and tools...

The survey reveals a significant increase in activities covered by the risk management function since 2008 (77% of European companies now perform a risk mapping exercise, which leads 72% of the companies to identify and quantify their risks and controls) even if only 43% of the companies can currently be considered as mature or advanced regarding this topic.

...but a limited involvement in strategic decisions and a little use of strong quantitative tools

Despite progress as outlined above, the survey points to a clear area where room for improvement exists: 64% of the companies (emerging and moderate levels) do not systematically include a risk analysis in their strategic decisions making process (budget decisions, investment decisions, strategic planning, major projects, contracts or bids, acquisitions or transfers decisions).

Moreover, risks assessment processes mainly remain qualitative (for instance performed through management workshops) and the use of advanced quantitative tools still appears as an exception (5%) even if more largely widespread within some countries (e.g. Germany and the UK).

Evolution but no revolution: good level of risk management maturity* for 48% of the respondents

Risk communication: a positive trend

A more mature internal communication...

The role of risk management is now clearly defined, or in the process of being defined, through a risk management policy or charter (83% of the respondents in 2010, compared to 66% in 2008). This practice is particularly widespread within Northern European countries.

Information flows are such that risk data available to Executive teams is now completely

embedded in the board's decision making process (for 28% of companies) or at least discussed on an annual basis (for a further 30% of companies).

...but a large array of external communication practices

The disclosure of risks in external reporting remains disparate and largely depends on company size. Even if 50% of companies communicate at least about major specific risks

faced by their company, the other 50% still have a very limited level of communication (24% state general or generic risks for the sector), minimal or even inexistent communication (26%).

Maturity* is in place but still room for improvement for 39% of the respondents

* Companies with a mature or advanced maturity level of risk management.

Company complexity and maturity of risk management practices: a clear impact but some common weaknesses amongst all companies

In order to complete our analysis of risk management maturity practices, we were keen to better understand and capture the interplay between risk management maturity and the level of company complexity (based on listing, size, number of countries of operations and degree of regulation) for our three risk management domains (risk governance, risk practices and tools, and risk communication).

The impact of company complexity on risk management practices is clear...

The degree of company complexity appears to have an indisputable impact over risk governance and risk communication topics. For these domains, “complex or very complex” companies are clearly displaying more advanced practices than their less complex counterparts.

Indeed, a closer analysis shows that 42% of complex companies benefit from an advanced risk management governance maturity level (compared to 28% for less complex companies), and 69% when it comes to risk communication (compared to 40% for less complex companies).

This difference can be largely explained by the fact that listing requirements (legal information to be disclosed, audit committees to be set up, etc.), high number of countries of operations (governance structure to be specified, etc.) and relatively high regulation all lead to higher degrees of formalization.

...but some weaknesses appear to be shared and widespread among all companies

If companies’ complexity seems to have a real impact on risk governance and risk

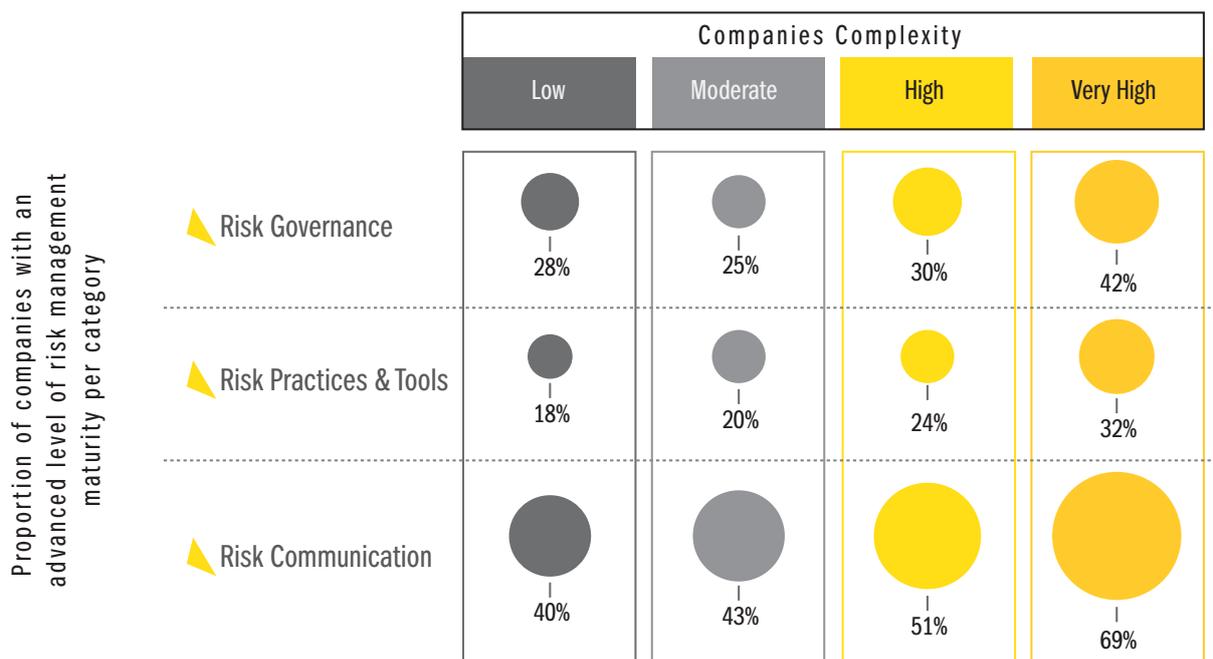
communication, the domain of risk practices and tools appears to be poorly influenced by company complexity. This is somewhat surprising.

There remains room for improvement for all companies, regardless of their degree of complexity.

In fact, if only 18% of the less complex companies have an advanced level of risk management maturity rating regarding practices and tools, the complex companies also appear to be poorly equipped (32%).

This poor maturity level regarding risk practices and tools can be explained by the limited involvement of risk management in some strategic decisions, and the low use of strong quantitative tools.

Link between advanced level of risk management maturity and companies’ complexity



The future of risk management: common triggers for risk appetite and rising expectations from shareholders

The respondents were required to classify risk significance and define risk appetite for 23 generic risk areas identified in the four most important areas of their organization: Strategic & governance risks, External risks, Operational risks and Compliance & Ethics risks.

Some common risk appetite triggers are emerging...

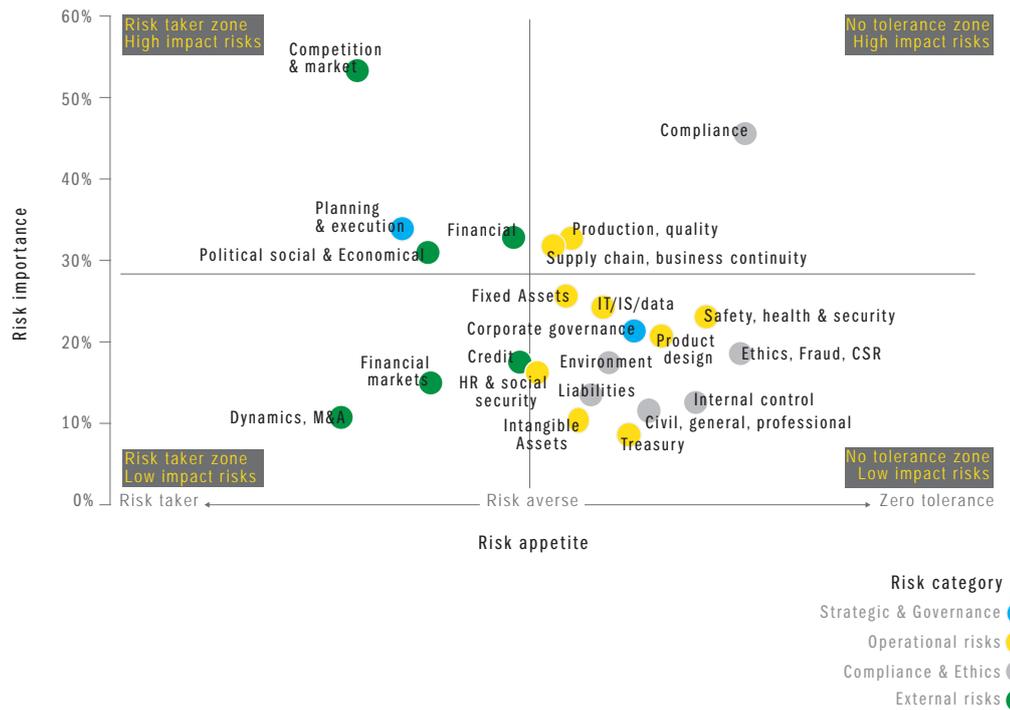
Our analysis reveals that companies' definition of risk appetite (e.g. "zero tolerance" stance vs "risk taker" position) only partially depends on their assessment of the significance of each risk.

In fact, a closer analysis of the results shows that the declared risk appetite is mostly triggered by the risk category, rather than the risk assessment.

Consequently, it appears that companies mainly adopt risk-taking strategies when it comes to external risks (competition, financial markets, macroeconomic issues, mergers and acquisitions), or, especially for complex companies, for planning and execution decisions.

Conversely, companies appear to be totally averse to risks for regulatory and safety issues (risks related to compliance, internal control, corporate governance, health and safety, fixed and intangible assets, or liquidity issues).

Risk Appetite per risk category



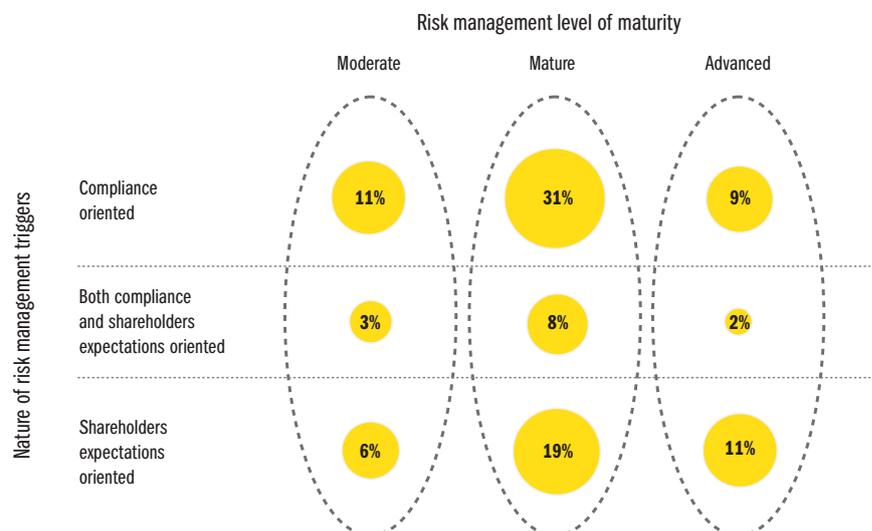
... whilst risk management is turning into a major concern for shareholders

An analysis of the different maturity levels in terms of risk management shows that risk management maturity (particularly for more complex companies) is no longer a "pure compliance mirror effect" but a true shareholder expectation.

Our survey illustrates this trend, and shows that even if 51% of the companies still consider that compliance remains the main trigger for their risk management maturity, 36% now put shareholders' expectations on top of the list.

Also, among advanced companies in terms of maturity, shareholder expectations are now considered as the key trigger for their risk management maturity (11% compared to 9%).

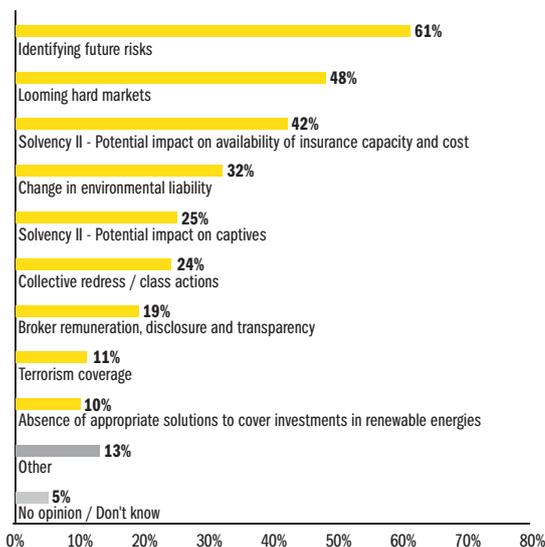
Risk management maturity triggers



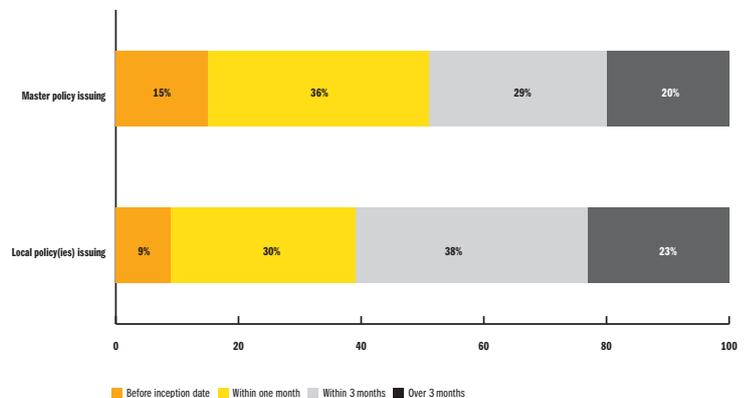
Developing expectations

- Many respondents see the insurance market as remaining good value, and 33% indicate they would like to lock in their programme at current prices for the long term.
- It is noteworthy that in current market conditions, nearly half - 48% - expressed concern about a looming hard market. We welcome this as an indication that insurance buyers would not be surprised if insurers raised rates.
- Forty-two percent were concerned about the possible effect of Solvency II on capacity and rates, and 60% of the respondents who own a captive regard Solvency II as major issue.
- The responses show a good degree of satisfaction regarding insurers' networks, knowledge and expertise: 83% expressed confidence in their insurers' ability to adapt to their needs geographically and 79% in the development of their business activities.
- However, a desire for an extension of scope of coverage and more tailor-made policy wordings is clearly a significant finding. It proves again that clients are looking more for innovation than premium reduction (only 27% of respondents).
- Many respondents are not confident about insurers' ability to identify future risks (61%), and they are uncertain about insurers' expertise in the area of renewable energies, and especially emerging risks, where only 15% believe insurers have a sufficient expertise.
- The financial crisis has heightened awareness of interdependencies; only 14% admit to having no expectations of insurers in this field. Businesses have clearly seen the potential for disruption from the failure of suppliers and distributors and even third parties over which they have no control.
- It's interesting to see how much clients now rely on internal teams for claims management: 43% percent now regard a dedicated internal team as the best partner for claims management compared to 29% two years ago in the previous FERMA benchmarking survey.
- With regard to risk engineering services insurers have, as historically, been seen as the best partners for fire prevention and safety (32%) and natural catastrophes (25%). Brokers predominate on public and products liability (35%), marine (30%) and construction (29%).
- Nearly half the respondents say they would like more innovation from insurers on programme structuring (48%) and increased sharing of claims experience and benchmarking (47%). Insurers who understand how much their clients value claims information are investing in new procedures to collect and analyse claims data in ways that will produce useful reports.
- With respect to contract certainty, 46% said they have experienced improvement in the issuing of master policies documents but only 30% in terms of local policies. Over 20% of policies have still not reached their customers more than three months after inception!
- We believe insurers differentiate themselves by getting documents out in a timely manner.
- In summary, the 2010 benchmarking survey shows that respondents believe insurers offer them good services at reasonable prices today with developing expectations for the future.

The top 3 issues that most concern you about the insurance market



When were your policy documents issued versus the policy inception date?



Contacts



FERMA, the Federation of European Risk Management Associations, brings together the national risk management associations of 18 countries.

FERMA exists to widen understanding of risk management and raise its standing throughout Europe with its members and with the risk management and insurance community.

It achieves these aims by working with other European organisations, promoting awareness of risk management through the media, information sharing and supporting educational and research projects.

FERMA - Federation of European Risk Management Associations, aisbl

Avenue Louis Gribaumont, 1 / B.4, B-1150 Brussels, Belgium

Florence Bindelle, Executive Manager

Phone: +32 2 761 94 32 - Email: info@ferma.eu

www.ferma.eu



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It helps multinational businesses prevent, insure and manage their Property-Casualty risks, as well as their Marine, Aviation and Space risks, worldwide. AXA Corporate Solutions employs 1,400 people and has an international network that extends to more than 90 countries.

AXA Corporate Solutions Assurance – 4, rue Jules Lefebvre 75009 Paris - France / Phone: + 33 1 56 92 83 97

Philippe Rocard, Chief Executive Officer

Email: philippe.roc card@axa-cs.com

Régis Demoulin, Chief Commercial Officer

Email: regis.demoulin@axa-cs.com

Philippe Jouvelot, Chief Underwriting Officer P&C

Email: philippe.jouvelot@axa-cs.com

www.axa-corporatesolutions.com

Emmanuel Nivet, Chief Executive Officer UK branch

Email: emmanuel.nivet@axa-cs.com

Stéphanie Augustin, Marketing Manager

Email: stephanie.augustin@axa-cs.com



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For more information, please contact our experienced risk professionals.

Ernst & Young - 92037 Paris - La Défense cedex - France / Phone: + 33 1 46 93 60 91

Dominique Pageaud, Partner - Fralux Risk Advisory Leader

Email: dominique.pageaud@fr.ey.com

Jean-Michel Paris, Senior Manager, Risk Advisory

Email: jean-michel.paris@ch.ey.com

Sébastien Rimbart, Senior Manager, Risk Advisory

Email: sebastien.rimbart@fr.ey.com

Matthieu Leroy, Manager, Risk Advisory

Email: matthieu.leroy@fr.ey.com

Stéphanie Persyn, Marketing team

Email: stephanie.persyn@fr.ey.com

Methodology

The Federation of European Risk Management Associations (FERMA) in collaboration with AXA Corporate Solutions and Ernst & Young conducted a risk management benchmarking survey of European companies between March and May 2010. This is the fifth such survey, which has taken place every other year since 2002.

To promote the involvement of its national associations and widen participation, FERMA this year made the questions available in German, French, Italian, Polish and Spanish in addition to English. For a rounded perspective on risk management in European organisations, FERMA also encouraged replies not just from risk and insurance managers but also from people in a wide range of business positions with an interest in risk.

The result is a record response: 597 completed replies from 19 countries, compared to 439 for the previous survey in 2008. The total response rate was 18% of 3,373 invited to participate. Earlier surveys produced 460 completed responses in 2006, 269 in 2004 and 49 in 2002.

The widening catchment meant that in addition to risk and insurance managers, 63% of the respondents, seven percent of the responses came

from chief risk officers and five percent from heads of internal audit.

The results are broadly representative of organisation and industry sectors across Europe.

Respondents work mainly in large or very large companies most with significant international operations. Two-thirds have a turnover of at least €1bn per year; 13% have more than €25bn. Just under half employ over 10,000 people; 19% have more than 50,000 employees. More than half – 52% – are stock exchange listed.

FERMA has 20 national risk management association members in 18 European countries. The highest number of responses came from the two largest associations: UK's Airmic with 21% followed by France's AMRAE with 16%. The highest response rates were from Italy's ANRA with 40% and Germany's Bfv/DVS with 39%, while the smallest associations such as Bulgaria's BRIMA, Turkey's ERMA and the Czech Republic's ASPAR each had over 40%.

An independent consulting organisation was responsible for managing the survey and analysing the results.