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ACE EUROPEAN RISK BRIEFING 2012

- Risk management
- Terrorism and political violence

RESPONDENT PROFILES

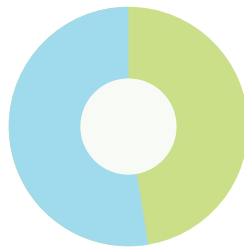
The research was carried out between 13 April and 3 May 2012. The sample was 606 European risk managers, CROs, CFOs, COOs and those responsible for buying insurance.

Respondents by job title



■ Chief risk officer	27%
■ Chief financial officer	25%
■ Chief operating officer	24%
■ European risk manager	23%

Respondents by size

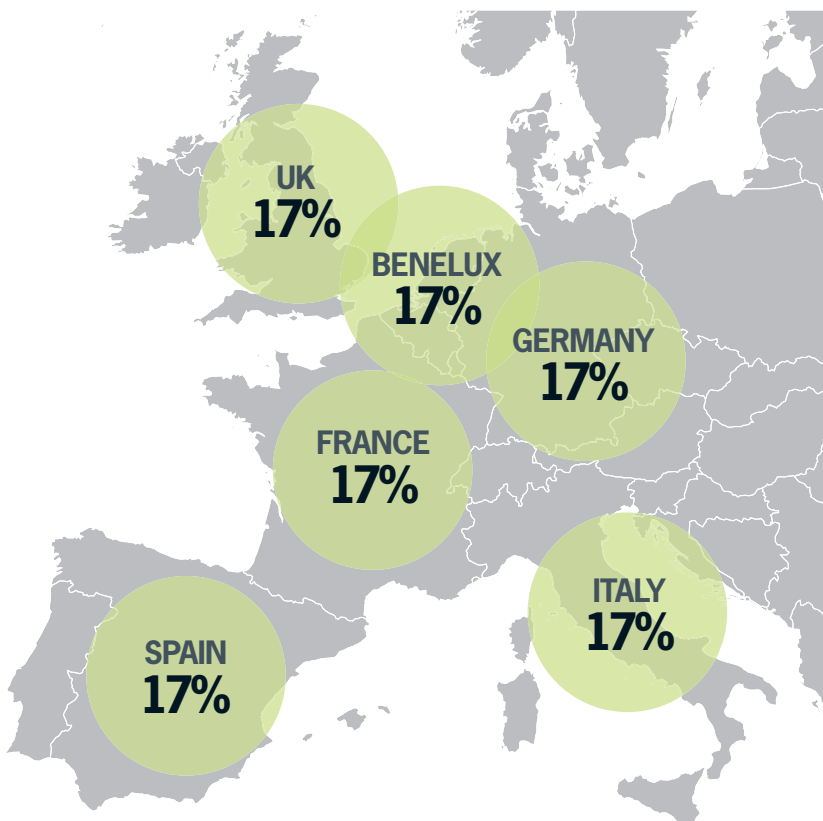


■ £500-700m turnover	51%
■ Over £700m turnover	49%

Respondents by company sector

Legal	7%
HR	10%
IT & telecoms	9%
Finance	12%
Sales, media and marketing	6%
Retail, catering and leisure	5%
Healthcare	9%
Manufacturing and utilities	6%
Architecture, engineering and building	5%
Travel	8%
Education	7%
Professional services	7%
Arts and culture	9%

Respondents by country



RISK MANAGEMENT

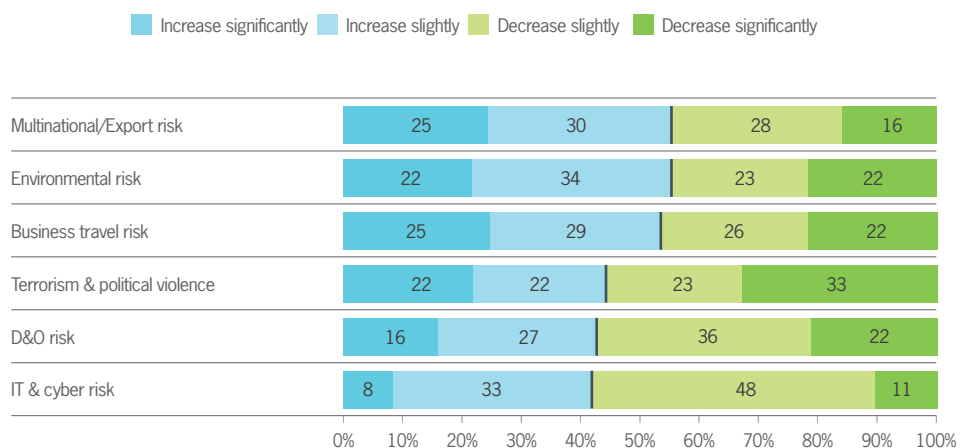
The changing risk environment

Risk management continues to climb the corporate agenda. A combination of the financial crisis, a series of devastating natural disasters and man-made events such as Deepwater Horizon have reminded senior executives that neglecting risk management could have severe implications for their business and for their own careers. Stakeholders are also becoming less tolerant of mistakes, which means that companies must demonstrate a responsible approach to managing risk in their business.

Perhaps the biggest driver of a changing risk environment is globalisation. As companies look further afield in search of growth opportunities, they are becoming more international in scope. Managing across borders means that executives must get to grips with a wide variety of different business, regulatory and political risks. They must also manage currency and other financial exposures at a time of considerable economic volatility.

More than half of respondents think that their company will face an increase in the level of multinational or export risks to which it is exposed. A greater focus on international markets also changes the role and responsibilities of many executives. With overseas markets becoming more important, it is no surprise that the majority of respondents also expect business travel risk to become more severe.

How do you expect the level of business risk to change over the next five years?



More than half of respondents point to environmental risk as another area of growing concern. Evidence continues to mount that anthropogenic climate change will lead to a rise in extreme weather events around the world. This can cause severe damage to corporate assets, risk the lives of personnel and, if not managed appropriately, lead to reputational damage. Companies also face growing pressure from almost every stakeholder community to provide evidence that they take their environmental responsibilities seriously.

Although terrorism and political violence tops the list of threats that respondents consider important for their business, only

44% expect this risk to increase over the next five years. This may reflect a view that the response to heightened risk levels has been effective in recent years, and that the death of Osama Bin Laden has reduced the threat from Al-Qaeda and other affiliated groups. But few security experts expect the danger from Islamic extremism to recede. Moreover, companies face a set of new terrorism and political violence threats, including violence triggered by protests against economic austerity measures in Europe, popular uprisings in the Middle East and North Africa, and a resurgence in far-right and far-left political extremism.

“PERHAPS THE BIGGEST DRIVER OF A CHANGING RISK ENVIRONMENT IS GLOBALISATION”

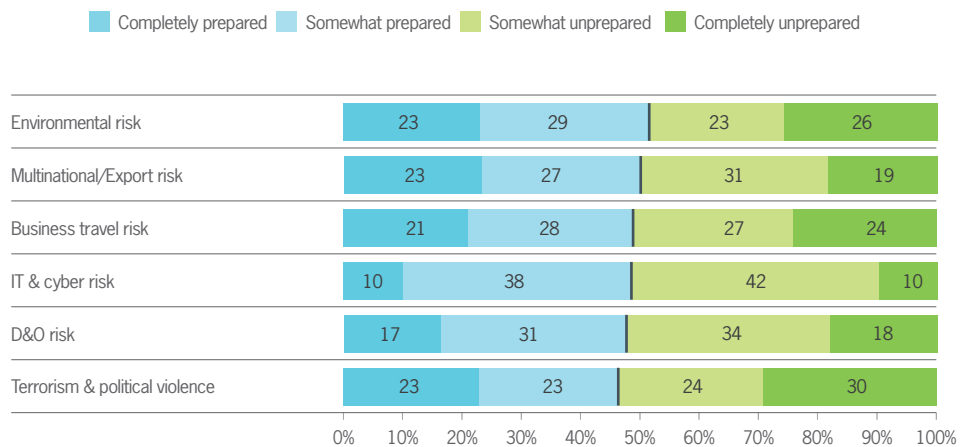
“MANY COMPANIES MAY HAVE CONSIDERABLE WORK TO DO TO PROVIDE ADEQUATE PROTECTION”

How prepared are European companies?

Levels of preparedness for key risk categories vary widely among European companies. What is striking at one level is that there are only two risk categories for which more than half of respondents say that they are prepared. Even then, the majority is extremely slim – just 51% of respondents say that they are prepared to deal with environmental risk and 50% for multinational or export risk.

At the other end of the scale, many respondents admit that they have not made appropriate mitigation efforts. Almost 30%, for example, say that they are completely unprepared to deal with terrorism and political violence, and more than one-quarter are in the same position with environmental risk. This is a worrying finding, and suggests that many companies have considerable work to do to provide adequate protection for their company.

How would you rate your company's level of preparedness for each of the following risk areas?



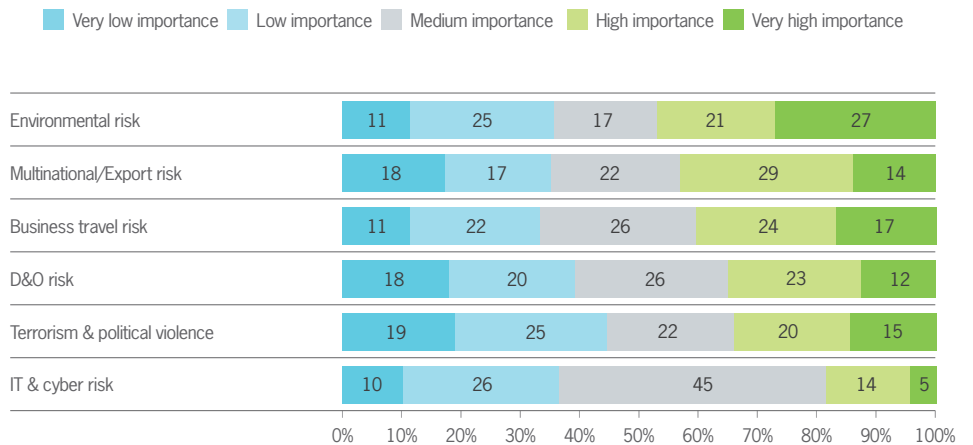
“THERE IS A STRIKING CORRELATION BETWEEN HOW PREPARED COMPANIES FEEL AND THE EXTENT TO WHICH THEY USE INSURANCE”

The role of insurance

Insurance is an important aspect of any company's risk management. The extent to which respondents apply insurance to protect themselves varies across categories, but there is a striking correlation between how prepared companies feel, and the extent to which they use insurance as part of the company's risk management strategy. On both lists, the top three risks are exactly the same, which suggests that insurance helps to drive the level of preparedness that companies enjoy.

Although insurance can play an important role in ensuring that a company is well prepared, it is just one part of the puzzle – the company's overall approach to risk management is ultimately more valuable. With the right corporate governance, culture and processes in place to identify, assess and mitigate risk, companies will be much more aware of their exposure and can take steps to ensure that they have the right protection in place.

How important is insurance to your risk management strategy for each of the following risk areas?



“ DESPITE THE ELEVATION OF RISK ON THE CORPORATE AGENDA, THERE IS LITTLE CONSISTENCY IN THE WAY THAT COMPANIES MANAGE RISK ”

A fragmented approach

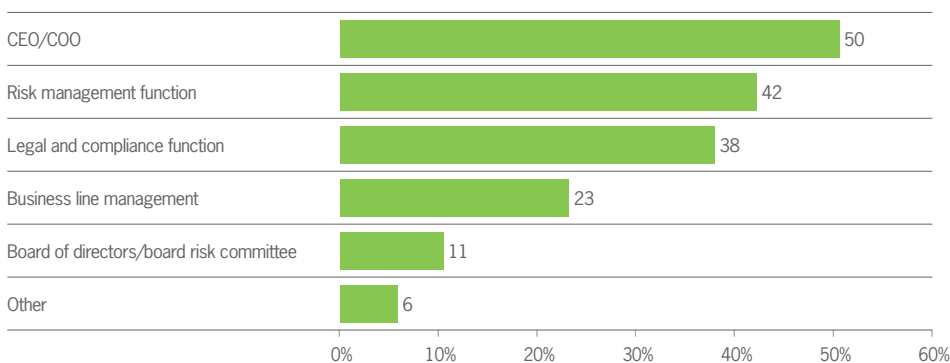
Many companies continue to struggle with finding the right risk management model. Despite the elevation of risk on the corporate agenda, there is little consistency in the way in which companies manage risk. Just over half of respondents say that their chief executive or chief operations officer has formal role and responsibility for managing risk. This seems surprisingly low. Although the top echelons of the company may not be involved in the day-do-day intricacies of managing risk, it is essential for them to have the oversight of where risks lies in the organisation, the company's appetite for risk and the steps that it is putting in place to mitigate risks to which it is exposed.

Just over four in ten respondents say that their risk management function has responsibility for risk. At first glance, this

may seem like a tautologous finding. Yet it probably reflects the overall development of corporate risk management in European businesses. Many companies, particularly smaller ones, do not have a risk management function, and responsibility for this activity rests with the finance director, a compliance team or internal audit.

Fewer than one-quarter of respondents say that the business line management has formal risk management responsibilities. Again, this is surprising. As the 'first line of defence' in the company, business managers play an absolutely crucial role in identifying, assessing and mitigating risks. But to do so, they must have the tools and frameworks within which to perform this role. This requires tone from the top, and a robust risk function that can put in place the right controls frameworks to guide behaviour and enable concerns to be escalated.

Which areas of your organisation have formal roles and responsibilities for risk management?



TERRORISM AND POLITICAL VIOLENCE

Europe's number one concern

The menace of terrorism and political violence loom large for European companies, topping the list of the risk areas that are most relevant or important to their company.

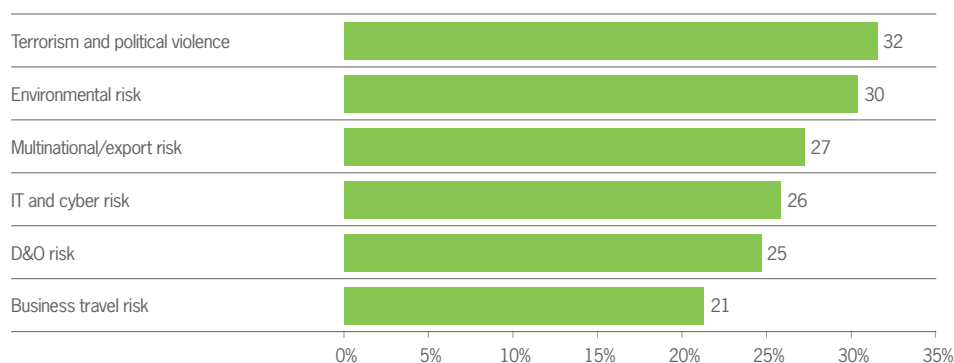
Evolving risk, impacted by the global financial crisis

The nature of the threat from terrorism and political violence continues to evolve. In the first half of the previous decade, concerns about Islamic extremism topped the agenda. High-profile atrocities such as the 11 September 2001 attacks in New York, the 2004 train bombings in Madrid and the July 2005 events in London were front of mind for many executives. These threats have not gone away, but they are by no means the only sources of concern today.

There has been a rise in home-grown political extremism from far-left and far-right groups, most disturbingly in the case of the mass murder committed by Anders Brevik in Norway.

Perhaps most interestingly, the financial crisis seems to have caused a shift in the nature of the perceived threat from terrorism to political violence. When asked what has caused their company to become more concerned about these risk factors, respondents rank the negative economic outlook equal first with terrorism events as a key area for concern.

Which of the following risk areas are most relevant / important to your company today?



“THERE HAS BEEN A RISE IN HOME-GROWN POLITICAL EXTREMISM FROM FAR-LEFT AND FAR-RIGHT GROUPS”

In the past few years, political unrest has become more commonplace in developed markets, particularly those that have been forced to adopt austerity measures in response to the financial crisis. The past few months have seen riots in Greece, Italy and Spain, while the August 2011 riots in England have, in part, been attributed to the current economic situation.

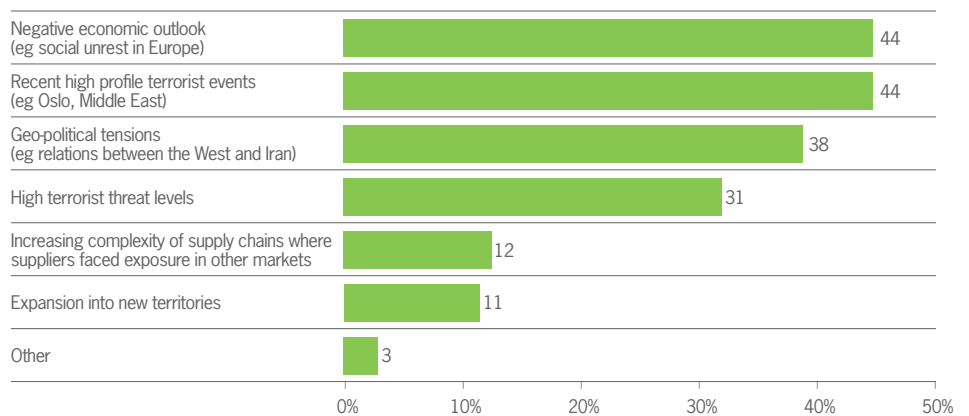
Looking ahead, almost half of companies agree that continued economic and political volatility is likely to further increase the exposures their company faces around the world.

Changing exposures in the globalised business environment

At the same time, last year’s Arab Spring demonstrated that political stability cannot be taken for granted in many countries in which companies operate. The revolutions in Tunisia, Egypt and Libya showed the speed with which political unrest can flare up, causing violence, damage to property and abrupt regime change.

Meanwhile, the on-going troubles in Syria have reminded companies that political unrest can also be indecisive, protracted and extremely violent. There is also an underlying concern across Europe about rising geopolitical tensions, such as the escalating crisis over Iran’s nuclear ambitions and the recent rocket tests carried out by North Korea.

What has caused your company to become more concerned about terrorism and political violence?



“ LAST YEAR’S ARAB SPRING DEMONSTRATED THAT POLITICAL STABILITY CANNOT BE TAKEN FOR GRANTED ”

“ NOT EVERY BUSINESS THINKS THAT THE THREAT FROM TERRORISM AND POLITICAL VIOLENCE HAS BECOME MORE SEVERE ”

Heightened awareness but business as usual

Almost two-thirds of respondents agree that terrorism and political violence are increasingly important issues for every 21st-century business: risk management professionals understand that terrorism or political violence can affect every aspect of a company's operations. In addition to the initial damage that may be caused to physical assets and personnel by an attack, there may also be indirect damage, including supply chain disruption, outage of IT and damage to other crucial systems.

Overall, just under half of respondents agree that their company is at risk from potential terrorism and political violence. But there are marked variations between regions. Respondents from Italy and the UK are most likely to agree with this statement, with 55% of the former and 53% of the latter believing that their company is at risk from the threat of terrorism or political violence.

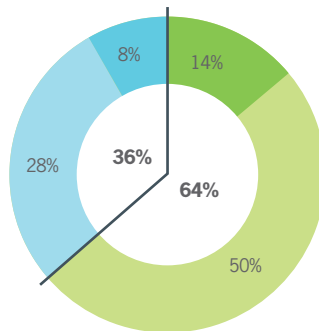
In Italy, there is rising concern that economic and instability and austerity measures could lead to further outbreaks of violence after Equitalia, the tax collection agency, became the target of a string of letter bomb and petrol bomb attacks. The UK, meanwhile, remains on high alert following the 2005 bombings on London's transport network, and security remains high on the agenda in advance of the 2012 Olympic Games.

Terrorism and political violence may top the list of concerns, but not every business thinks that the threat has actually grown more severe. Fewer than half of respondents say that their company has become more concerned about these issues over the past five years. This suggests that these risks factors are now a permanent feature of the business landscape. While the underlying threats may be evolving, they must simply be managed at every stage of the business cycle.

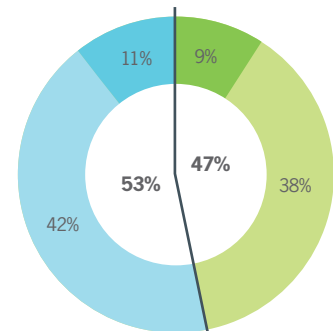
Do you agree with the following statements?

Strongly agree Somewhat agree Somewhat disagree Strongly disagree

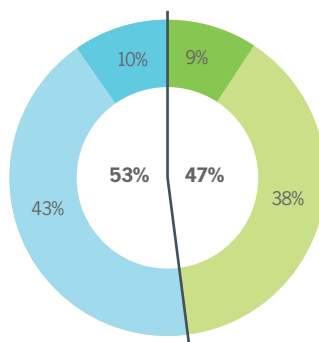
Terrorism and political violence is an increasingly important issue for every 21st century business



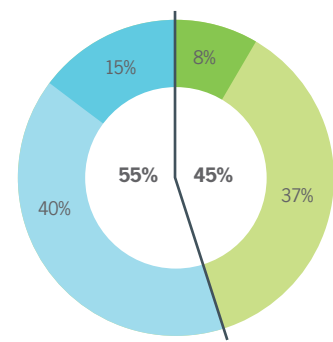
Continued economic and political volatility is likely to increase the exposures my company faces around the world



My company is at risk of potential terrorism and political violence



Over the last five years, my company has become more concerned about terrorism and political violence risk



“ DESPITE CONCERN ABOUT TERRORISM AND POLITICAL VIOLENCE, ONLY A TINY MINORITY HAVE COVER FOR BOTH ”

Insurance buying behaviour lags awareness

Despite their concerns about the risk from terrorism and political violence, only 7% of respondents companies have insurance that covers both terrorism and political violence. A surprising large proportion – some 34% – say that they have no coverage in place for either terrorism or political violence, while around one in five say that they have cover for either one or the other, but not both.

Some sectors that might be perceived as being highly exposed to terrorist attack are surprisingly likely to have no cover in place. For example, 43% of retailers say that they have neither political risk nor terrorism insurance. Yet, this is a sector likely to have significant presence in city centres subject to terrorism risk and locations more likely to fall victim to arson, vandalism or theft in the event of political unrest, such as the demonstrations in Greece or the August 2011 riots in England.

Different national policies may be driving variation – and confusion

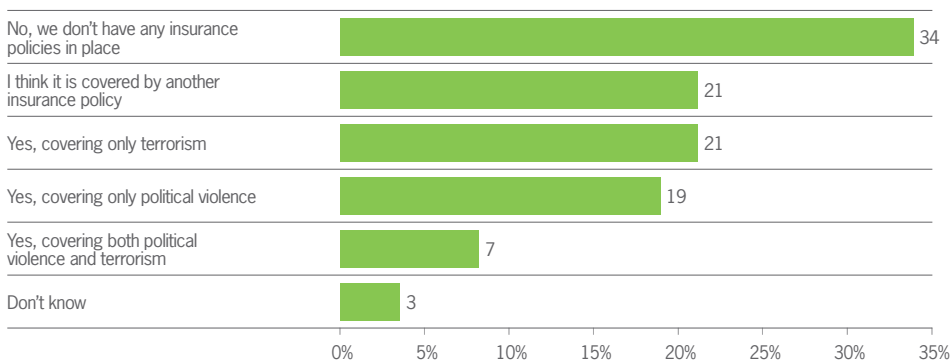
Growing concerns about terrorism and political violence have fuelled the development of a range of insurance products designed to protect companies from attack. In some countries, banks expect insurance to be in place before they will be willing to fund projects, while it is also increasingly seen as good corporate governance practice for companies to put adequate cover in place.

The proportion of companies that have insurance cover varies between countries. Companies from France and Spain are most likely to have both terrorism and political violence insurance in place, while those from France and Benelux are least likely to have any. These differences are often driven by regulation. The low penetration of standalone insurance in France, for example, is likely to be a result of a policy that makes it compulsory for insurers to provide terrorism cover as part of their standard business property and casualty insurance packages.

Other governments have created pools of funds to provide additional cover beyond that which the insurance industry can provide. In the UK, for example, Pool Re exists as a mutual organisation that can provide funds to insurers that they can use to settle claims over a certain threshold.

Against this complex jigsaw of different national approaches, the research results signal that many companies remain unclear about the level of cover that they have in place. For example, one-fifth of respondents overall believe they are covered against terrorism or political violence under some other policy. In markets like France, this may be the case because of laws mandating coverage under property and casualty insurance, but in other countries there is often little coverage under standard packages. Some policies will only pay out if the provider considers that the attack is politically, religiously or ideologically motivated. This creates a substantial grey area. In Thailand, for example, there are many claims still outstanding from the 2011 red shirt riots, which some insurers have argued were not acts of terrorism.

Do you have insurance in place specifically to cover terrorism or political violence?



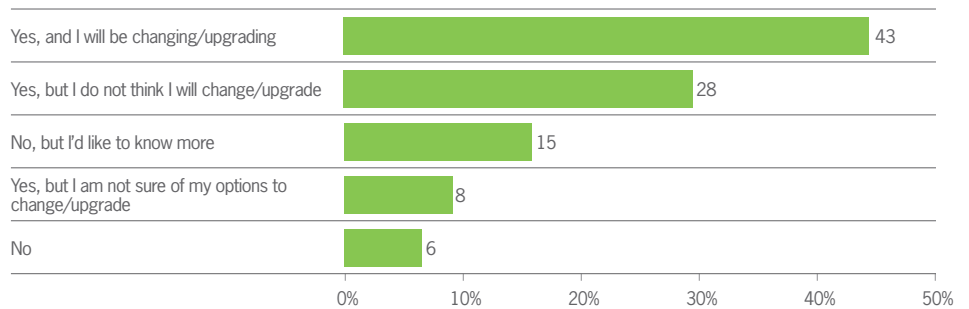
Exclusions and definitions complicate the picture

As the terrorist threat becomes more pronounced around the world, many providers have been forced to exclude terrorism and political violence from their standard property and casualty policies. There may be exclusions for certain acts that might be considered terrorism, while definitions of these terms may vary from one market or provider to another.

A large proportion of respondents are aware that there may be a gap between their standard property insurance policy and a terrorism and political violence policy. Of these, a large majority say that they plan to change or upgrade their policies, although there is also a sizeable number who say that they have no plans to change or upgrade. Some of those companies may well have the right policies in place, but it is likely that others will still have gaps in their policies that might not provide adequate coverage in the event of political violence or terrorist attack.

These complexities highlight the importance of risk managers scrutinising their policies carefully and ensuring that they have the right coverage in place. Clearly, to ensure that the company's assets are well protected in the event of an attack, it is increasingly important to consider carefully the definitions of terrorism and political violence that insurers use.

Are you aware that there may be potential gaps in coverage between your standard property policy and a terrorism and political violence policy?



“IT IS INCREASINGLY IMPORTANT TO CONSIDER CAREFULLY THE DEFINITIONS THAT INSURERS USE”

No alternative to a market-by-market approach

It seems evident that terrorism and political violence will remain a key threat for European businesses for the foreseeable future. In recent years, the threat has broadened, with the impact of the financial crisis and political unrest in the Middle East and North Africa causing additional potential problems for European multinational companies.

But despite the level of risk that companies face, there remains considerable confusion about how they should protect themselves. Many European businesses admit that they

are underprepared but do not seem to know what is required to increase their protection. Others may simply not be aware that they are underinsured and may mistakenly believe that standard property policies will give them the cover that they need.

Companies must take care to understand the level of cover given by providers, and be aware of any exclusions that may apply. This will vary not only between insurers but also across different European markets. Regulatory requirements differ widely and this means that companies must take a market-by-market approach to understanding their exposures across Europe.

“TERRORISM AND POLITICAL VIOLENCE WILL REMAIN A KEY THREAT FOR THE FORESEEABLE FUTURE”