



Media release

Contacts:

Jason Groves

020 7357 1455

jason.groves@marsh.com

Eileen Mercer

07990 802 830

eileen.mercer@marsh.com

Risk management budgets have not increased at most financial institutions across Europe, survey finds

London, 11 June 2009

Almost all European financial institutions have reviewed their approach to risk since the onset of the global financial crisis but less than half have increased their spending on risk management, according to new research by Marsh, the world's leading insurance broker and risk adviser, and leading independent research group Ipsos.

While 87% felt that senior management now perceive risk management as more important, only 47% said that budgets for risk management expenditure were growing. In addition, only 20% expressed high levels of confidence in their existing risk management processes. Of the seven industry sectors surveyed by Marsh, 64% percent of European financial institutions felt that their industry has been worst affected by the recession.

Carrick Lambert, Industry Practice Leader for the Financial Institutions Practice in Europe, the Middle East and Africa at Marsh, commented: "The global financial crisis revealed a breakdown of certain risk management controls in financial institutions. The results of our research demonstrate just how little confidence European financial institutions have in their current risk management procedures.

"Despite over four-fifths of respondents stating that their organisations are now reviewing their approach to risk, it is disappointing to note that 'new thinking' is not being backed up by financial investment in over half of the organisations surveyed. More money needs to be invested in risk management as business practices are fundamentally overhauled, which is crucial in terms of strengthening the overall risk management function and restoring stakeholder confidence."

One of the most comprehensive risk management studies to have been undertaken among European financial institutions since the financial crisis began, Marsh's paper, *New Risk Management Insights for Financial Institutions*, is the first in a series of industry sector reports to be published over the coming weeks. Risk and insurance professionals employed in over 120 financial institutions across Europe were interviewed to examine their attitudes towards risk management in the current economic downturn, risk priorities, risk strategy and management and risk solutions.



Among the key challenges facing financial institutions, 68% of respondents expressed concern about the level of risk associated with their customers. Among the steps being taken to manage this risk are rigorous credit checks (33%), better communication (31%), stricter payment terms and conditions (25%).

Other key operational risks identified for the next 18 months include:

- Business continuity (58%)
- Management liability (52%)
- Legal risk (52%)
- Fraud (44%)
- Mergers and acquisitions (39%)
- Outsourcing (37%)
- Environmental risk (20%)

Charles Beresford-Davies, a Head of Marsh's UK Financial Institutions Practice, said: "While most respondents were concerned about business continuity issues over the next 18 months, management liability and legal risks were also seen as priorities. In a downturn, legal action against directors and officers increases as people try to hold someone accountable for the chain of company failures, financial underperformance and lost jobs.

"In addition, nearly 45% of respondents rated fraud a significant concern over the next 18 months, both in relation to the global financial crisis and the fact that such activity is historically shown to increase during any period of economic downturn.

"This correlates with the recent experience of many of our own clients who are showing increased incidence of claims in areas such as mortgage fraud, breach of mandate allegations, mis-selling, Madoff-type events, shareholder disquiet and regulatory investigations. With all this evidence, it is our strong recommendation that all financial institutions review and update their risk management infrastructure."

Over half of the financial institutions surveyed (58%) confirmed that they only use insurance techniques for external risk transfer and that other mechanisms such as contractual guarantees (7%) and outsourcing (6%) have only limited applications. While insurers might be expected to be a greater cause of concern from a counterparty risk perspective, only 33% of participants were concerned about the risk associated with them.

Recommended actions:

- *Align the procurement of risk transfer solutions with business objectives and the associated risks.* Many financial institutions have not made an explicit link between the purchase of insurance and risk management. Financial institutions must develop closer working relationships that allow co-development of risk models and integration of risk management efforts.
- *Make the risk function more visible.* Risk managers now have the opportunity to take a more active role in improving company performance. Financial institutions can strengthen their risk management in key areas by allowing the risk function to be more involved in strategic decision-making.
- *Drive cost savings and reduce the total cost of risk.* Financial institutions need to be more definite about what risks are transferable and then allocate insurance spending or implement controls in the most cost effective way. This is achieved through due diligence and performing additional analysis of risk trend data.

MARSH



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

About Marsh

Marsh, the world's leading insurance broker and risk advisor, has over 23,000 employees and provides advice and transactional capabilities to clients in over 100 countries. Marsh is a unit of Marsh & McLennan Companies (MMC), a global professional services firm with approximately 54,000 employees and annual revenue exceeding \$11 billion. MMC also is the parent company of Guy Carpenter, the risk and reinsurance specialist; Kroll, the risk consulting firm; Mercer, the provider of HR and related financial advice and services; and Oliver Wyman, the management consultancy. MMC's stock (ticker symbol: MMC) is listed on the New York, Chicago and London stock exchanges. MMC's Web Site is www.mmc.com. Marsh's Web site is www.marsh.com.

You are subscribed to receive Marsh press releases. However, should you no longer wish to receive these, please e-mail Eileen Mercer on eileen.mercer@marsh.com.