MARSH

NEW ZEALAND SURVEY OF RISK 2014

THE SIXTH MARSH BIENNIAL REPORT

SOLUTIONS…DEFINED, DESIGNED, AND DELIVERED.

MARSH & McLENNAN COMPANIES

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FOREWORD

It gives me great pleasure to present our sixth biennial Survey of Risk.

As a thought leader within risk and insurance in New Zealand, Marsh takes great pride in delivering to you the latest insights in risk and insurance from both locally and overseas. We believe that this not only sets us apart from our competitors but helps you, our clients and business associates, to keep abreast of the key issues impacting your organisation.

Risk is an area that is always evolving. The Marsh Survey of Risk is always a good barometer not only of people's concerns but also what is trending in the current business environment.

In 2012 the survey results were centred heavily around natural disaster risk, given that the survey period encompassed the aftermath of the Canterbury earthquakes along with other large scale events across the Asia Pacific region.

Whilst concerns about natural disasters are still prevalent two years down the track, the landscape is evolving yet again with IT, data and cyber risks coming to the fore.

We have all seen the media reports about commercial entities, government and even people's personal smartphones being impacted by cyber attacks.

These days, it is very hard to run any organisation without a reliance on IT. Protecting your systems and your client data is therefore not only a necessary business task but also a large matter of protecting your market reputation.

As with any new and emerging risks it is important to work with your insurance broker and risk advisor to understand how these may impact your business – whether it is large or small and irrespective of what industry you are in. 60% of you told us that you are reviewing risk more than two years ago. Our team are here to help you so please don't hesitate to contact us.

Finally, I would like to thank all of the executives across New Zealand who took the time to participate in this survey. We would be unable to run it without your input so really appreciate the time that was taken away from your busy schedules to give us your thoughts.

Grant Milne
Country Head
Marsh Limited, New Zealand

TOP RISK ISSUES 2014

Natural disaster risks are still the number one risk for businesses across New Zealand.

For the third consecutive survey report, disruption to your business following a major incident, such as fire, earthquake, flood, act of terrorism was rated the risk issue of most concern to New Zealand businesses.

Since the 2012 Survey of Risk, New Zealand has continued to be impacted by a series of natural disasters including the Cook Strait earthquakes in 2013 plus storms and flooding across the country. According to the Insurance Council of New Zealand, 2014 is shaping up to be one of the most expensive years for insured losses, with their September report taking the cost of weather-related damage so far this year to over $135.4 million.

IT risks have become a lot more prevalent in this survey with disruption to your business following a major IT disruption eg server overheating, software failure etc with loss of data, data corruption or failure of systems security or website security ("hackers" etc) coming in at number two and three respectively.

All New Zealand businesses are reliant on technology in some way, shape or form. Not having access to these systems or having client databases attacked can be crippling. There are more and more cases of cyber attacks both locally and globally so it is something for all organisations to put on their risk radar.

A new entrant to the top five risks for 2014 is changes in demographics and customer trends. This concern has not appeared in the top five risks since the first Marsh survey began in 2004. The business environment is always dynamic and changing, however in the last two years there have been some major shifts in the makeup of our population and consumer buying behaviour. Online purchasing, for example, continues to increase with the latest Nielson Online Retail Report showing that nearly half a million Kiwis each made 11 or more purchases on the internet last year, an increase of 58% in the last two years. This trend in particular correlates with business concerns around IT and loss of data risks.

TOP FIVE RISKS 2014

1. Disruption to your business following a major incident, such as fire, earthquake, flood, act of terrorism
2. Disruption to your business following a major IT disruption eg server overheating, software failure etc
3. Loss of data, data corruption or failure of systems security or website security ("hackers" etc)
4. Changes in demographics and customer trends
5. Drop off in demand

TOP FIVE RISKS 2012

1. Disruption to your business following a major incident, such as fire, earthquake, flood, act of terrorism
2. Non compliance with legal and contractual obligations
3. Destruction of assets by fire, flood or some other natural disaster
4. Lost productivity and reduced efficiency due to staff absenteeism, stress, low morale and staff turnover
5. Loss of data, data corruption or failure of systems security or website security ("hackers" etc)

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

Drop off in demand is also related to customer trends. Whilst consumer and business confidence is up, clearly some organisations are still concerned about the future demand for their goods and services.

HOW ARE THESE RISKS BEING MANAGED?

It would appear that the majority of organisations surveyed have plans in place to manage their natural disaster and IT risks. When it comes to managing changes in demographic and customer trends and drop off in demand it is a slightly different story. 61% did not have a procedure in place to manage customer trends nor 58% a drop off in demand.

Business planning plays a huge role in dealing with these particular types of risks. Retailers, for example, are having to evolve their models from traditional bricks and mortar to a "bricks and clicks" model where they are integrating their online and offline presence. All industries should be looking at how their business models may need to change in line with such customer trends.

In regards to drop off in demand, changes in financial position are something that should be factored into your business continuity planning, which will help you to be better prepared to deal with economic changes as they arise.

MANAGING LOSSES

Survey respondents were asked if they had suffered a high impact financial loss in the last three years. 21% said that they had, which compares to 25.5% in the 2012 survey.

53% of those suffering a loss said that their insurance policy did not provide cover and 18% didn't know. New Zealanders have a bit of a reputation for being under insured. It is said that it is part of the "she'll be right" mentality.

Making sure there is sufficient cover is critical so that organisations don't end up having to fork out the balance out of their own back pocket. An insurance broker and risk advisor should guide you through this as part of the annual renewal process.

In line with this, organisations also need to review their indemnity period. 25% of this group of respondents said that 12 months was not long enough for their business to return to the same level of gross profit they enjoyed prior to the loss. Most felt that 24 months would be a more appropriate timeframe.

57% of those impacted had at least created a plan to ensure that the impact of any future losses could be reduced in the future.

21%

of our survey participants had suffered a high impact financial loss in the last three years.

HOW NEW ZEALAND COMPANIES MANAGE RISK

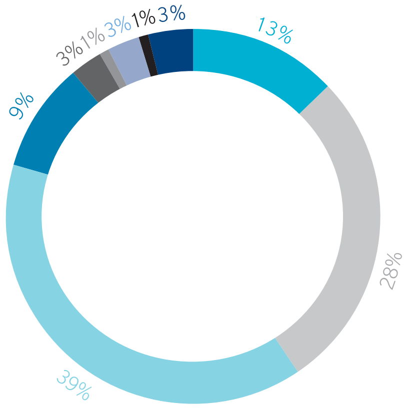
CEOs and business owners shoulder the greatest responsibility.

Business owners and CEOs carry the ultimate responsibility when it comes to implementing, managing and reporting risk management procedures.

In regards to being accountable from a governance perspective however, in ensuring that risk management is in place and an appropriate investment in mitigation is undertaken, boards play a greater role.

The responsibility for both falls greater on SMEs as they do not of course have the same resources and infrastructure as larger corporates.

WHO HAS THE ULTIMATE RESPONSIBILITY FOR IMPLEMENTING, MANAGING AND REPORTING RISK MANAGEMENT PROCEDURES IN NEW ZEALAND COMPANIES?



39%	CEO / Managing director / General manager
28%	Owner / Proprietor
13%	Board of Directors
9%	CFO / Financial director
3%	Chief risk officer / Head of risk management
3%	Responsibility for risk is shared across different directors
3%	Other
1%	COO / Chief operating officer / Director of operations
1%	Don't know

THE ROLE OF BOARDS IN RISK

41% of the organisations surveyed said that their board's involvement in insurance / managing risk had increased in the last 12 months.

33% of people felt that this was because of greater perceived risks in the current business environment and 23% due to concerns over the insurance cover the organisation has.

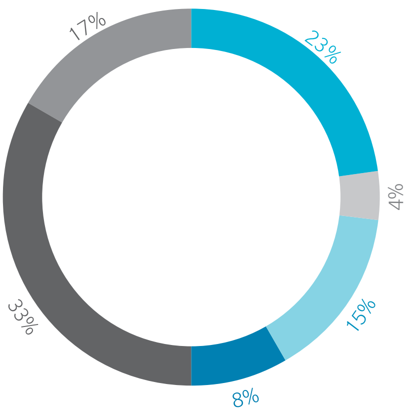
In comparing this response to the 2012 survey, it can be seen that concerns over insurance have dropped from 27.3% while greater perceived risks in the current business environment has increased from 26.6%.

17% of the participants stated that it was other factors, with specific comments being made around the greater focus on good governance and the changing perceptions of directors' duty of care in managing business risks.

The majority of boards meet monthly or quarterly to review their risks with others at varying intervals from bi-monthly to six monthly. 17% only meet on an ad hoc / as needed basis.

The findings around boards' role in risk are fairly consistent with the results of Marsh's first Directors' Risk Survey Report, which was run in conjunction with the Institute of Directors and launched in January 2014. The Directors' survey was of course completed by directors, while the Marsh Survey of Risk had a wide range of participants – with directors only representing 7% of the overall survey respondents.

WHY BOARD INVOLVEMENT IN INSURANCE / MANAGING RISK HAS INCREASED



■	33%	Because of greater perceived risks in the current business environment
■	23%	Concerns over what insurance cover the organisation has
■	17%	Other
■	15%	Due to current issues such as the Bridgecorp case having a greater impact on Directors & Officers liability
■	8%	Due to a major loss and the impact it has had on the balance sheet / cashflow
■	4%	For cost control reasons

IS RISK REVIEWED MORE REGULARLY?

Risk is being reviewed more regularly across the spectrum compared to two years ago with 60% believing that this is the case. This has incrementally increased from 55.9% in 2012 and 48.6% in 2010.

EXTERNAL ADVICE

More organisations are using external advisors to help them identify, manage and understand risks.

73% have engaged with external advisors in 2014 compared to 62.2% in 2012. This ties in to the fact that people are reviewing their risks more than ever before.

As in previous surveys, insurance brokers are used the most in this regard followed by auditors / accountants and legal counsel.

WHO DO COMPANIES GO TO FOR ADVICE?

1 Insurance broker

2 Auditor / Accountant

3 Legal counsel

4 Risk management consultant

5 IT vendor

ISSUES OF CONCERN TO SMEs

As a nation of SMEs, Marsh takes a particular look at the risk issues affecting this segment of New Zealand business.

In the 2014 survey, 59.5% of our respondents were from a business of less than 50 employees.

Typically these surveys highlight a slightly different set of risks for SME businesses. This year however the results were relatively consistent with the overall survey results.

The top five risks were the same with the order slightly changing between the 4th and 5th ranked risks. ie SMEs rated drop off in demand slightly higher than changes in demographics and customer trends. SMEs feel a much harder hit in the pocket when consumer demand is down which makes it more of a risk to their business.

HOW ARE THESE RISKS BEING MANAGED?

SMEs do not tend to have plans in place to manage their risks unlike their corporate counterparts. This is probably because larger organisations are more likely to have the resources and the skill base to be able to focus attention in this area, while SME owners are more tied up in the day-to-day running of their business.

As an example, 23% of SMEs do not have procedures in place to manage IT disruption to their business while only 7% of organisations overall did not have a procedure in place.

Interestingly enough, SMEs did not use external advisors as much as their corporate counterparts. There was a lot less reliance on legal counsel and other external parties to help manage their risks.

23%

of SMEs do not have procedures in place to manage IT disruption

TOP FIVE RISKS SMEs 2014

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

2 Disruption to your business following a major IT disruption eg server overheating, software failure etc

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

4 Drop off in demand

5 Changes in demographics and customer trends

TOP FIVE RISKS SMEs 2012

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

2 Non compliance with legal and contractual obligations

3 Losing key staff to competitors

4 Destruction of assets by fire, flood or some other natural disaster

5 Lost productivity and reduced efficiency due to staff absenteeism, stress, low morale and staff turnover

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

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

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

3 Drop off in demand

EMERGING RISKS

New risks emerging.

Reflective of the overall survey results, there is an emerging trend around IT and data risks.

Cyber risk has leapt to number two on the emerging risk rankings with identity theft / fraud moving up to number four.

The Insurance Council of New Zealand stated at the end of May 2014 that cyber-related crimes are believed to have cost New Zealand businesses over $625 million in 2011 and "that's probably a conservative figure because some businesses are reluctant to disclose a cyber-breach of their systems."

Increasing corporate governance requirements has also moved up the emerging risk ranks into first place. Organisations are further under the spotlight to comply with existing and new legislation such as the Health & Safety at Work Act.

For the first time since the survey began, oil spike / price rises did not feature in the top five emerging risks.

EMERGING RISKS FOR SMES

When asked what risk would have the most potential impact to their business in the next 24 months, over 54% of SMEs told us it was cyber risk.

This was followed by increasing corporate governance requirements, business continuity, identity fraud / theft and environmental issues.

PREPAREDNESS FOR THESE EMERGING RISKS

Whilst organisations are clearly concerned about corporate governance requirements, 37% did not have a plan in place to help manage this important area of their business.

Similarly 31% of respondents did not have a procedure in place to manage cyber risks. The concern around cyber risk is that traditional liability policies do not cover cyber risks. It is therefore essential that this is discussed with an insurance broker and risk advisor to ensure the organisation is not left exposed.

Environmental risk is another area that needs to be reviewed – in particular by the 67% of the survey respondents who do not have a procedure in place to manage this risk. The "polluter pays principle" under current legislation could impact many businesses engaging in manufacturing or development activities.

TOP 5 EMERGING RISKS 2014	
1	Increasing corporate governance requirements
2	Cyber risks
3	Business continuity
4	Identity fraud / theft
5	Environmental issues

TOP 5 EMERGING RISKS 2012	
1	Business continuity
2	Increasing corporate governance requirements
3	Environmental issues
4	Oil spike / price rise
5	Identity fraud / theft

TOP 5 EMERGING RISKS 2010	
1	Business continuity
2	Increasing corporate governance requirements
3	Oil spike / price rise
4	Pandemic outbreak
5	Environmental issues

SUMMARY

SURVEY FINDINGS

Whilst natural disaster risks continued to sit at the top of the risk rankings for 2014, there is a clear pattern of IT-related risks starting to come through.

As a sole operator or a large multinational, an organisation would be hard pressed not to rely on technology to run at least one part of their business.

Typically, organisations have focussed on insuring their physical IT assets, such as servers, however one of the largest assets is client data. Cyber attacks and hacking are the emerging risks that put this under threat.

Forward planning and keeping up to date with movements such as this and changes to demographics and customer trends will help better manage business risks. Talking to an insurance broker and risk advisor and keeping them informed about what is happening in the organisation, along with any key concerns, will also assist.

Corporate governance will continue to be an important issue for everyone. Legislation continues to evolve and be introduced and, as has been seen with a couple of director prosecutions over the last 12 months, ignorance is unfortunately not an excuse.

ABOUT THE SURVEY

About the respondents

111 senior executives from a range of industries, organisational sizes and geographic locations from around New Zealand responded to the sixth Marsh biennial Survey of Risk.

29% of respondents came from a senior financial role such as CFO / finance director or finance manager while 27% were the owner / proprietor of the business.

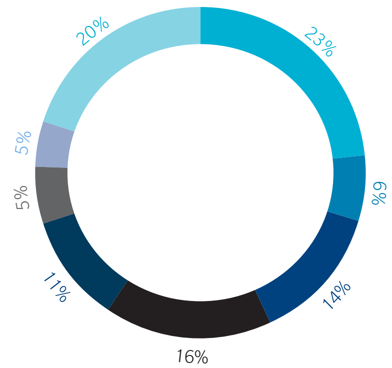
SMEs were well represented in this survey with 59.5% coming from an organisation of less than 50 employees. Large corporates with 300 plus employees were also well featured at 20% with the rest varying between 51 – 299 employees.

50% of the organisations were private or family owned, 16% a public limited company and 11% not for profits, plus a range of central and local government institutions.

There was a wide range of industries exemplified from professional services to construction, through to technology and manufacturing.

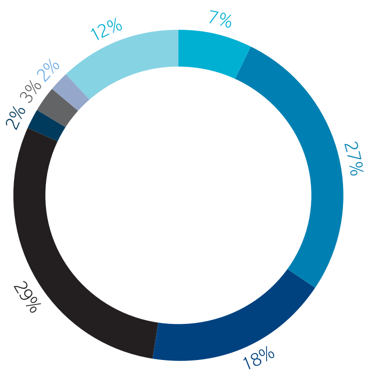
The biggest group of respondents was from Wellington (28%), followed by Auckland (23%) and Canterbury (18%).

ORGANISATION SIZE BY NUMBER OF EMPLOYEES



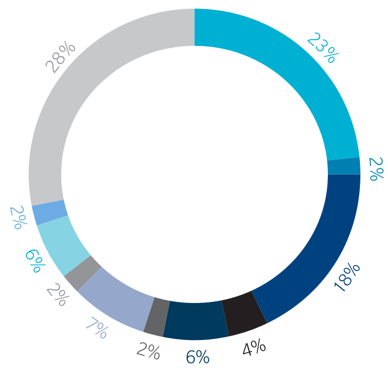
■	23%	1 – 5
■	6%	6 – 10
■	14%	11–20
■	16%	21–50
■	11%	51–100
■	5%	101–200
■	5%	201–300
■	20%	300+

RESPONDENT'S JOB TITLE



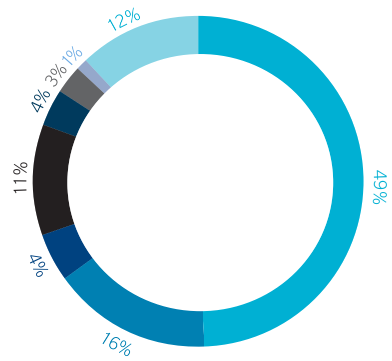
■	29%	CFO / Financial director / Finance manager
■	27%	Owner / Proprietor
■	18%	CEO / Managing director / General manager
■	12%	Other
■	7%	Board director
■	3%	COO / Director of operations
■	2%	Chief risk officer / Head of risk management
■	2%	Legal counsel / company secretary

SURVEY RESPONSES BY REGION



■	23%	Auckland
■	2%	Bay of Plenty
■	18%	Canterbury
■	4%	Hawkes Bay
■	6%	Manawatu
■	2%	Nelson & Marlborough
■	0%	Northland
■	7%	Otago
■	2%	Southland
■	6%	Taranaki
■	2%	Waikato
■	28%	Wellington

ORGANISATION TYPE



■	49%	Private or family owned
■	16%	Public limited company
■	12%	Other
■	11%	Not-for-profit organisation
■	4%	Government department
■	4%	Partnership
■	3%	State owned enterprise
■	1%	Local authority

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To find out more about the content of this report and / or talk about your own organisation's risks please contact us

0800 627 744

marsh.co.nz

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