

## **FEDERATION OF EUROPEAN RISK MANAGEMENT ASSOCIATIONS ( FERMA)**

### **PRESS RELEASE**

**23 March 2007**

#### **Core risks are the essence of global responsibility and sustainability**

European risk managers see the breakdown of critical information infrastructure, crime and corruption, liability regimes, terrorism and catastrophic flood as the most significant risks they face out of a list of core global risks. This is the result of an informal survey conducted by the Federation of European Risk Management Associations (FERMA) following the publication of the Global Risks Report 2007 by the World Economic Forum (WEF).

A total of 38 risk professionals from 12 countries responded to the questions from FERMA about selected core global risks set out by WEF, including climate change, and the idea that countries themselves should have risk managers. The survey took place in the run-up to the biennial FERMA Risk Forum, which takes place in Geneva from 30 September to 4 October.

“The core risks highlighted by the WEF are the essence of global responsibility and sustainability, and this is what we have chosen as the theme of the 2007 FERMA Risk Forum,” says Franck Baron, the chairman of the event.

According to the FERMA members, the second most important group of core risks was energy price and supply shocks, catastrophic windstorm and earthquake, and pandemics. A third group of risks, named by fewer than half the responses covered climate change, war, loss of freshwater services and nanotechnology.

It may be surprising that only 17 of the responses said climate change is a significant risk for their organisation, but Franck Baron comments, “It is not that risk managers are not concerned about climate change, but we do not yet know how it will affect individual companies operationally, and this is the province of the risk manager.”

He also points out, as does the WEF report, that many of these risks are inter-dependent. “This is why we need a holistic approach to risk management to create sustainability for the business. We need to identify and manage not just individual risks but the way they interact.”

Jesse Fahnstock, global leadership fellow for the WEF global risks programme, commented, “The FERMA survey really shows how the relationship between global risks and corporate risk management is evolving. Risk managers are clearly looking hard at the exogenous, interconnected, non-business issues that define the global risk landscape. But translating understanding of these issues into the world of operational, financial and regulatory risk management remains a big challenge. Priority is still being given to well understood, insurable risks, but managing exposure to complex, currently uninsurable global risks will be a key competitive advantage in the coming years.”

In relation to freshwater services and nanotechnology, it was possible to see concern from specific industries, such as the British company which owns paper mills and the multi-national food and drink company for whom continuity of supply of fresh water is important.

Asked what other risks they consider significant now or likely to grow in importance over the next five years, supply chain and business interruption risks were the most frequently mentioned. Others were regulation and compliance, political risks, availability of a choice of insurers and capacity, a shortage of people skills and age discrimination.

More than half the organisations in the sample are multi-nationals, while ten said they operate purely in their home market. By turnover, the largest group in the sample are companies with turnover between €1 and €10 billion a year, although an almost equal number have an annual turnover of more than €10 billion. Seven responses came from organisations with less than €250,000 million turnover a year.

Geographically, the largest block of responses came from the Swiss Risk Management Association, SIRM, with 10, followed by the Belgian association BELRIM, then the associations from Russia, Bulgaria, Italy and the United Kingdom with three each.

## Climate change

Restrictions on carbon dioxide (CO<sub>2</sub>) emissions and more extremes of weather were the most commonly mentioned corporate concerns in response to a changing climate. One company that does say climate change is now a concern is a multi-national working in the infrastructure, environment and energy sectors. The risk manager says that it is doing an inventory of its CO<sub>2</sub> emissions and has created a position for a company specialist to keep management updated continuously about the consequences in general and for the business.

The risk manager for a multi-national food and drink group commented, "Climate change does not affect us now, but we are monitoring effects." His company's concern is that higher temperatures could create pressures on water resources and lead to civil conflicts.

An airport and shopping mall operator believes government action on CO<sub>2</sub> emissions might lead to decreased demand from passengers and airlines for airport services.

A multi-national retail company said climate change is not having an impact on its business yet, but it can foresee pressures from restrictions on CO<sub>2</sub> emissions from transport, water and energy consumption and the associated price changes.

More severe and less predictable weather is another possible consequence of global warming, which came up in the responses of two risk managers from multi-national companies in the construction sector. Said one, "We see much more frequent extreme weather phenomena, such as heavy snow in one of our Chinese plants where there had been no snow for more than 50 years. This has important consequence for construction planning."

An airport operator and a logistics and stevedoring company both mention the risk of more severe weather conditions. The airport operator says it might lead to more flight cancellations and an increase in the number of interruptions to the revenue stream, albeit short. "But that's an industry wide risk that cannot be diversified away." The logistics company says more frequent and severe windstorms could increase property losses.

A Russian risk professional says a warmer climate could reduce demand for the oil and gas industry in his country and much of the country's economy depends on the sector. He believes that greater extremes of weather and more variability will increase demands on risk management. A multi-national energy company is concerned about possible increased volatility in supply and demand for power "since electricity cannot be stored," while a company that produces energy from renewable and natural sources is also concerned about future demand.

According to a Polish risk manager, there will be contractual risks for travel companies that depend on a cold climate in winter, such as those offering skiing holidays.

The UK company with paper mills says climate change could affect the water supply, while a food and drink company believes demand for drinks may be affected and a manufacturer says that if the composition of sea water changes as a result of higher temperatures, it might affect the formula for paint for vessels.

From Bulgaria comes the comment, that a warmer climate has so far reduced heating costs, but could lead to greater demand for air conditioning in future. CO2 restrictions may make it more expensive for the company to maintain its large car fleet. "Other regulatory action may adversely affect business processes, but because we are not a pollutant type of business we do not expect core activities to be changes, only to become more expensive to provide."

### **Country risk managers**

An idea proposed by the WEF is that countries should appoint risk managers and map their national exposures. The large majority of survey respondents think this would be a good idea. One Bulgarian risk manager says that since the risks facing a country are so diverse, it would be very useful to create a unified set of criteria by which the level of certain key risks could be measured and compared across countries.

Some are sceptical and several question how practical it would be. "Very impractical," was the response from a Polish risk manager. "It's going to be driven by politics and politicians. "It should be practical. That's why it's not going to happen," is a Swiss response. "High political control may result in unreliable output," comments an Italian who nevertheless thinks country risk managers are a good idea.

Another Polish member points out it would depend on their ability to use collected information, while an Italian risk manager commented, "I think the state system is not ready today to make a correct risk assessment."

One Swiss risk manager says the approach should be less parochial. "They should rather look at the global perspective and start a co-ordinated international effort on risk mitigation in respect of the mega trends and risks such as global warming, ageing society, water shortage and distribution, as well as alternative energy resources."

Another Swiss risk manager said he would like to see the government creating a clear definition of competences, structures, organisation and resource allocation ahead of a crisis situation like earthquake, terrorism, pandemic or civil commotion. A similar view came from Portugal which said it would like the government to pay more attention to managing public risks

like pandemics, natural catastrophe, terrorism and crime and corruption, while the Polish would like the government to manage the crime risk better.

A number of responses ask for governments to give clear and stricter requirements for risk management in listed companies, and suggested that some regulations for unlisted companies could also be considered. A Swiss risk manager comments that the risk reporting requirements of corporate governance frameworks like Germany's Kontrag do not exist in many countries. From Bulgaria comes the comment that it would be good if essential risk management standards were adopted and widely publicised, and a Russian risk professional would like to see the government build up national standards of risk management.

"It would be very practical to map risks," says a UK risk manager. "It could be useful in managing the population's perception of risk. It should educate the population to understand risks and take responsibility to manage them instead of the state making legislation."

### **Government relationships**

Most of the associations appear to have formal links with their government which enable them to contribute to discussions of risk related issues. In the United Kingdom, AIRMIC has regular contact with the Financial Services Authority (FSA), which is the regulatory body, and parts of the government, for example on terrorism.

The Belgian association BELRIM also has regular contact with the country's insurance regulator and comments on proposed insurance legislation and tax issue. It is also involved on contingency planning.

In Germany, risk management associations discuss regulatory and legal issues with government bodies, and the Swiss Risk Management Association, SIRM, discusses mainly insurance related topics such as compulsory covers and tax. The French association AMRAE discusses insurance and risk related issues with the government.

In Russia and Poland, members of the local risk management associations RusRisk and PolRisk teach risk management at government level. The Bulgarian association, BRIMA does not really have much contact with the government yet, but there is a desire for more involvement on relevant issues.

### **(Survey – LONG VERSION)**

#### **Notes to journalists:**

The WEF Global Risks 2007 report is available at [www.weforum.org/en/initiatives/globalrisk](http://www.weforum.org/en/initiatives/globalrisk)

*The national risk management associations of 13 countries form the Federation of European Risk Management Associations – FERMA. It represents over 5,000 individual members and a wide range of business sectors from manufacturing to financial services, charities and health organisations as well as local government organisations. Member associations are from the following countries: Belgium (BELRIM), Bulgaria (BRIMA), Denmark (DARIM), France (AMRAE), Germany (Bfv & DVS), Italy (ANRA), Netherlands (NARIM), Portugal (APOGERIS), Russia (RussRisk), Spain (AGERS), Sweden (SWERMA), Switzerland (SIRM) and United Kingdom (AIRMIC).*



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For more information about the FERMA Forum 2007, see the FERMA website at [www.ferma.eu](http://www.ferma.eu) .

**Please note new telephone number for FERMA**

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