

Risk Management in a Time of Global Uncertainty

Zurich and Harvard Business Review Analytic Services find businesses need to proactively manage risks

Zurich, January 17, 2012 – Zurich Financial Services Group (Zurich) today announced the results of a new survey “[Risk Management in a Time of Global Uncertainty](#)” conducted in collaboration with Harvard Business Review Analytic Services (HBRAS). While global companies are intensifying their focus on enterprise-wide risk management (ERM) in the wake of the 2008 financial crisis and recession, most corporate leaders believe their companies have a long way to go in building an effective, risk-aware culture.

Over two-thirds of 1,419 business executives surveyed in the new research sponsored by Zurich said the topic of risk management has increased in importance over the past three years. Yet, only one in ten said their executive management is “highly effective” in creating a strong risk-management culture.

And while the need to link risk information to strategic decision making was identified as extremely important, only 14% felt their organization did that extremely well. Among the top barriers to better risk management are the following:

- Over-focusing on compliance rather than fundamental processes (42%)
- Lack of strong management support (41%)
- Reluctance to de-silo related information (35%)

A proactive approach to manage risks

A majority of the companies said their approach to ERM continues to be basic or reactive. However, about 40% of executives surveyed considered their approach to ERM to be “proactive”, involving the board as well as business and functional leaders at all levels of the organization. This “best practice” group included financial services, health care and energy companies and those with 10,000-plus employees. But many other industries have either instituted ERM processes for the first time or ramped up more rudimentary structures to a higher standard.



“There is no doubt that in today's challenging environment customers, shareholders and employees expect clear commitment to comprehensive and forward looking risk management from top management and board. Supporting the findings of the survey that it is extremely important to link risk information to strategic decision making, 41% of the companies said they are deepening and extending the ties between risk management and strategic planning,” said Axel Lehmann, Chief Risk Officer at Zurich.

Determination of the most serious risks in the long run

Two series of events - natural disasters and financial and economic crises - have risen to the top of companies' risk lists. “The disasters of the past three years have prompted companies to ramp up their ERM processes and work harder at installing a risk management culture. Some companies have also made more basic changes designed to forestall similar occurrences or enable executives to respond to them more effectively,” comments Axel Lehmann. “And at the same time, however, the threat of unanticipated “black swan” events has encouraged many companies to broaden their search for potential risks,” he added.

A striking finding of the study, however, is that beyond the “headline” risk events of natural disaster and economic slump, the other most-often-cited risks are largely operational matters that underpin the companies' ability to deliver on their strategic goals and maintain a viable, competitive organization going forward. More than half of companies mentioned risk related to talent retention and acquisition as having risen significantly. Corporate and/or brand reputation has become a more significant concern at half of the companies, while business planning and continuity as well as legal risks were mentioned by nearly half.

Integrating risk management into corporate goals as well as clear ownership

Executives in companies taking a proactive approach said that integrating risk management into corporate goals are key to gaining a competitive advantage. The study made clear that risk management needs to have a clear owner to be effective – executives reported that dedicated Chief Risk Officers (CROs) are far more likely to oversee risk management now



than three years ago, although the Chief Executive Officer (CEO) bears ultimate responsibility.

The study also found that at companies with strong ERM processes, “ownership” of risk stays in the hands of business and functional leaders. The CRO’s role is to establish an enterprise risk management framework, to align and control group wide risk taking, to advise and to communicate regularly as well as to provide them with resources to better manage risk themselves. The result is what executives interviewed for the study call a “collaborative culture” that integrates risk awareness into the company’s strategic planning.

“Ownership of risk cannot be understated, inasmuch as the survey indicates that companies that employ a CRO, who works in tandem with the CEO and executive leadership, score higher in proactively managing risk in the organization,” said Alex Clemente, managing director of HBRAS.

Breakup of silos and bottlenecks

Some of the top benefits of ERM that respondents cited were not directly related to risk management. Instead, respondents described the integrated risk management approach as helping their companies achieve better operational performance by removing siloed communication and by fostering:

- Improved strategic decision making (39%)
- Improved governance (34%)
- Increased management accountability (31%)

Executives in the survey stressed that their goal was not to create a risk-averse environment but one in which better measurement and understanding of risk gives them more confidence about making strategic decisions to build the business.

Note to Editors:

The full report “Risk Management in a Time of Global Uncertainty” (only available in English) can be downloaded [here](#).



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Harvard Business Review Analytic Services

Harvard Business Review Analytic Services is an independent sponsored research unit within Harvard Business Review Group, which conducts research and comparative analysis on management challenges and emerging business opportunities. HBR Analytic Services has been recognized for its "Face-to-Face" research report, sponsored by British Airways, as a finalist in the 2010 M&M Awards in the category of "Best Contribution to a Media Campaign by a Media Owner." Research from Harvard Business Review Analytic Services has appeared in The New York Times, Economist.com, USA Today, the Times of London, and other major media.

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