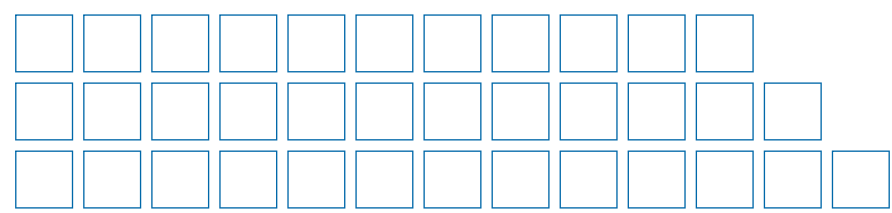


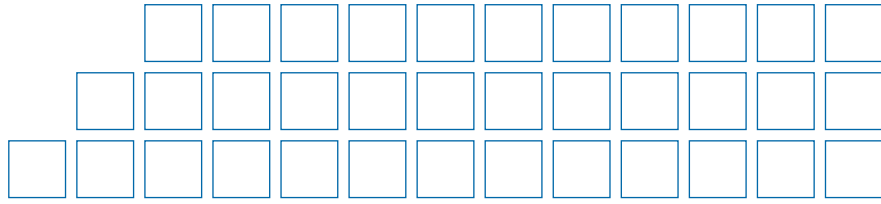
Survey of Risk 2006



**Risk Management:
Opportunities for competitive edge
in Central and Eastern Europe**







Foreword

THIS REPORT provides a summary of results from our second and most extensive survey of risk ever conducted within the Central and Eastern European (CEE) region. It highlights how increased competition and wider dynamics within the CEE market are significantly impacting our local business community.

We live in a fast growing business environment with significant changes to regulatory requirements, foreign investment levels and international scrutiny, all of which are factors that challenge the historic approach to risk management within the region. Our survey identifies the areas where CEE businesses recognise they need to significantly improve upon their anticipation and management of risk. The results also illustrate how many are still failing to secure competitive advantage because of an inability to identify and respond to changes in what is an increasingly dynamic business environment.

Marsh surveyed the risk management perceptions of 1200 senior executives of organisations with a turnover of more than €5million, from 12 countries across the CEE (Figure 1), and across all industry sectors and areas of operation (Figure 2). We asked questions about attitudes to risk, structures to manage risk, and the concerns and behaviours of business leaders and public sector executives in the area of insurance and risk management.

The largest sector within the sample is manufacturing, mining and quarrying, which accounts for 35% of the companies, followed by wholesale and retail trade with 28%.

I would like to thank all the executives who took the time to participate in this research. Without their support and commitment, this report would not have been possible.

Neil Irwin
*Managing Director
 Client Development
 Europe, Middle East & Africa*

Map of the CEE region

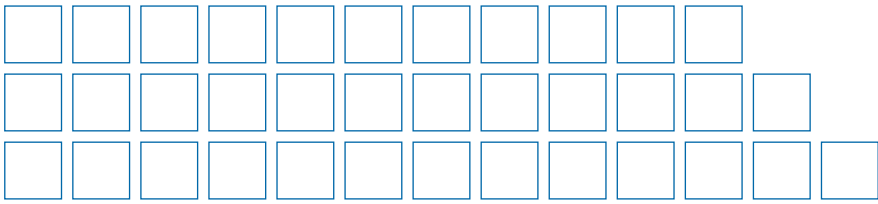


Figure 1

Sample structure by industry

Agriculture, hunting and forestry & fishing	52
Manufacturing & mining and quarrying	422
Electricity, gas and water supply	45
Construction	104
Wholesale and retail trade; repair of goods	333
Transport, storage and communications	72
Fin. intermed. & real est., renting and business	74
Public, social security & education & health	14
Hotels and restaurants & other service activities	84

Figure 2



THE EUROPEAN BUSINESS landscape is as unpredictable as ever: the impact of climate change, and the uncompromising environmental requirements imposed on businesses to counter that threat; avian flu and the real risk of a pandemic; aggressive competition from the Far East, and the ever-present spectre of terrorism. Today's business leaders in the CEE must be able to manage a great deal of uncertainty to maintain growth.

This report sheds light on how businesses in this region are confronting that challenge and questions whether the perception of risk among this business community is in line with risk reality.

Key findings: maximising success through effective risk management

TO INCREASE RELEVANCE we have split our findings into four distinct business challenges (Figure 3) where we believe organisations and leaders must have a good understanding of risk to be able to plot the right course to success in the future.

„We have two more countries entering the EU next year, and I am sure firms in those countries will be very aggressive in attracting Western European trade.“

Czech company

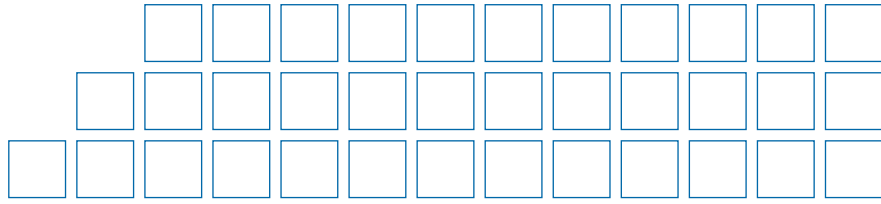
EU membership in 2004 opened the door to Western European and US management standards and regulations for eight countries in our region. In this context, we wanted to understand the risks that were of most concern to business leaders, and how those leaders were managing those risks. What are the actions taken and behaviours exhibited by businesses addressing and managing risk? What, if at all, are the 'big risk' trends? How confident businesses are to respond to them?

Business Challenges

Growth	Risks or issues that could significantly limit or enhance your ability to deliver planned growth. Failure to meet business objectives resulting from a lack of accurate information to allow you to respond to the competitive environment, market volatility, globalisation, meeting new customers, attracting/retaining staff or securing new investment or customers.
Efficiency	Risks or opportunities arising from your site and equipment maintenance programmes, new technology, improving business processes, reducing administration, raising cost effective capital/ finance, or improving profitability.
Compliance	Risks that relate to failure to meet EU or local directives covering consumer protection, worker's health and safety, environmental protection, corporate governance, financial reporting compliance, etc.
Protection	Risks that are associated with natural disasters, damage to assets and business continuity interruption, with an adverse effect on performance: avian flu, climate change, tough economic conditions, terrorism, stress, crisis planning and response, fire, flood, etc.

Figure 3

* For the purposes of this report we have put these risks in one of the four quadrants, but in the real world they are heavily interconnected



Lack of management know-how

THIS SURVEY IDENTIFIES a significant mismatch between the risks that are of the greatest concern to respondents, and their ability to mitigate those risks. According to our survey results, respondents believe compliance risks are generally well managed with smaller firms outperforming most other firms.

But having worked with businesses in the region for over 20 years, our experience tells us this is not the case. The survey results indicate a lack of awareness and clarity of reporting on these critical business areas, leading to a false sense of security among executives.

The Top 5 risks of most concern

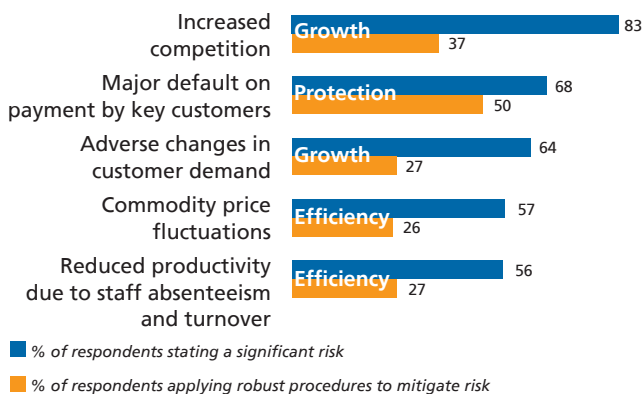


Figure 4

The top five risks identified in our survey (Figure 4) cover three of the four risk areas, with increased competition not only being the most frequently stated response, but also one with the strongest divergence between the significance of the risk, and the ability to manage it. The role of the customer features prominently too, indicating a degree of insecurity around customer behaviour and economic uncertainty.

Successful organisations embracing risk management use it as a differentiator by demonstrating that good risk management equals good business management. Furthermore, external events, such as a flu pandemic, tend to have negative effects on industry. Organisations which can rely on robust risk management will recover more quickly than their competitors, ensuring a more effective response to customer demands.

Towards a formalised process

THE MANAGING DIRECTOR is most often the person responsible for risk management (33%), with owners, CEOs and CFOs coming second in our survey (25%). The overall incidence of specialist risk and insurance professionals is low (14% insurance, 6% risk), although this figure rose to 25% in financial institutions and the transport sector, and 31% in utilities, reflecting the complexity of these organisations and the probable significant consequences of an unmanaged risk.

Effects of a financial loss

OUR SURVEY RECORDED that one in five companies have suffered a significant financial loss during the last three years (Figure 5). The reaction of 75% of them was to develop a crisis management plan to minimise the impact of a future event (Figure 6). However, of those companies that have not yet experienced a significant financial loss, less than one in five have developed a crisis management plan. The evidence shows that it will take a significant financial loss before these companies have put in place a crisis management plan, despite the perceived value of having one as evidenced by those who have already suffered a loss.

Financial Loss Experience?

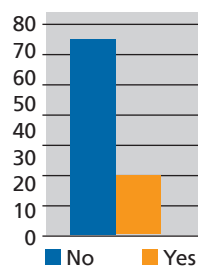


Figure 5

Crisis Management Plan?

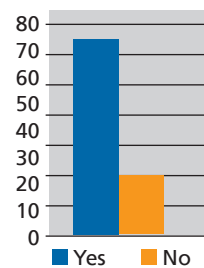
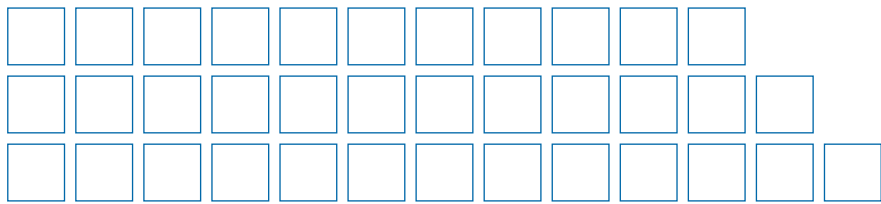


Figure 6

„When you have suffered a financial loss, you become absolutely clear on the value of a business interruption plan.“
Hungarian company



Implementing risk management

OVER 60% of the respondents say that establishing a match between risk exposure and appropriate insurance policies is the most frequent action related to risk management. It is therefore surprising that fewer than 30% of the respondents maintain a formal register of assessed risks. Countries where a risk register is least likely are Slovenia and Estonia (14%); it is most likely in Hungary (40%). Only 15% of the respondents have established a risk assessment committee to help identify and evaluate risks.

Frequency of board meetings to review risks

WE WERE also interested in measuring the frequency of formal executive participation in the risk management process. Overall, 60% of the respondents claim that they review risks more frequently than two years ago. Figure 7 shows that almost half of the respondents review risks at least quarterly, which is considered best practice world-wide. But because risk is dynamic, it is worrying that almost a fifth of the respondents only review risk once a year, and a similar number review it on an 'as needed' basis.

„Our new business tenders today require at least twice as much information about our business as they did in the past. If we didn't have regular risk management meetings, the new business process would be terrible.”

Latvian company

Frequency of plan reviews

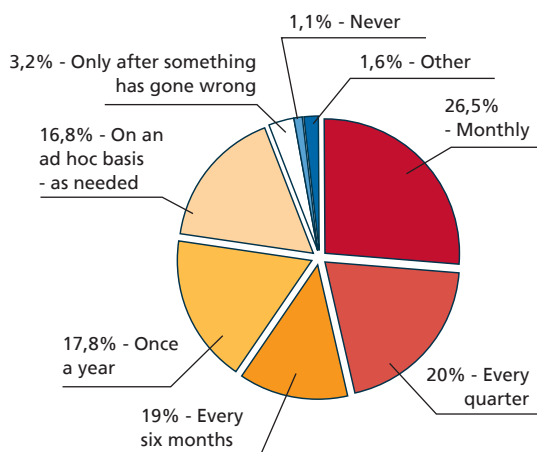


Figure 7

A diverse region; an uneven approach

RESULTS FROM this CEE survey and Marsh's earlier Survey of Risk for Western European countries illustrate considerable variances in the approach to risk management by country and industry.

„I'd say that only 20% of firms in my sector take risk management as seriously as we do.”

Bulgarian company

Clearly this is an exciting time for businesses operating in the CEE. The region is experiencing high levels of liquidity and strong economic expansion leading to unprecedented levels of new opportunities, growth and rapid change.

These conditions, combined with fast evolving risk patterns, through emerging global issues like climate change and disease pandemic, to local risks including dynamic regulatory environments and international competition, increase the need for a more effective approach to risk management within the region.

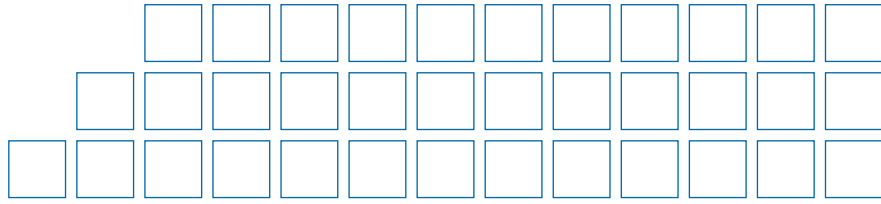
It is essential that all organisations have a clear understanding of the key risks threatening the achievement of their objectives. History and experience tell us that it is precisely at times such as these, with so much uncertainty to contend with, that prudent risk management makes the difference between success and failure.

„I have to get buy-in in the board room. That means my risk information must be extremely good, and the solutions must acknowledge and support the future path of the business.”

Estonian company

Investors are carefully differentiating between diverse types of risks and paying particular attention to underlying economic fundamentals. And lenders have to be especially careful at a time when emerging markets are heading to face fresh challenges.

Companies planning to bring an IPO, those entering joint ventures, pitching to supply international customers or to raise additional capital will all find that scrutiny of their risks, and ability to manage their risks will inform the decisions that could influence the success or failure of the business.



Opportunities for competitive advantage

OUR SURVEY SHOWS that as the operating environment for organisations becomes increasingly volatile, attitudes to risk are changing. Risks, such as changes in customer demand and increasing competition, are now of far greater concern to executives than traditional risks, like hazards and accidents.

„We see new competitors eat into our market share every month. You have to be proactive and protect your business by understanding and addressing the risks.“

Polish company

The majority, however, are yet to put in place robust risk management solutions to address these risks. And while a good many have grasped the strategic importance of risk management in the ongoing battle for survival and advancement of their business, many others have yet to put in place systems that will help demonstrate the return on their investment in insurance and risk.

The 2006 Marsh survey of risk concludes that the five greatest risks perceived by senior executives in the CEE are:

- increased competition
- major default on payment by key customers
- adverse changes in customer demand
- commodity price fluctuations
- reduced productivity due to staff absenteeism and turnover

Yet in each case, less than half of those surveyed are adequately prepared to deal with them. Opportunities abound for more progressive organisations to embrace these risks, and exploit the lack of action by others.

Surprisingly less than 30% of organisations do not have a formal register of assessed risks. In the face of an increasingly risk aware customer, competitor, regulator and stakeholder, no organisation can afford not to formally address their risks.

Relying on insurance alone is not effective risk management as uninsured risk is just as likely to stop organisations from achieving their business objectives.

Growth means taking risks – and the better the understanding and management of risk within an organisation, the greater can be the return.

In Europe, Marsh has a history of working with clients in all sectors to identify and assess risk, focusing on the implementation of risk improvement programmes that contribute measurable financial gain.

Marsh is the world's leading risk and insurance service firm, with nearly 30,000 employees experienced in helping clients in over 100 countries resolve the challenges and capitalise on the opportunities discussed in this report.

Marsh can offer companies solutions to all the risks, which this survey identified as significant. For more information on how to improve your company's competitiveness and create shareholder value by better managing the risks affecting your growth, efficiency, compliance or security, please contact your local Marsh office.

If you would like to talk to Marsh about your risk and insurance challenges and needs, please contact us:

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