

MANAGING

Marsh Ireland's Risk & Insurance Bulletin

Risk

Planning for the

Unexpected

The recent major factory fire in Ireland and massive explosion and fire at Buncefield in the UK has illustrated just how disruptive disasters can be — not only to the companies and staff who suffer the initial damage, but also to those companies who depend on the businesses for their own revenue streams.

The effects of events such as these can be crippling; what is clear, however, is that businesses that have adequate, regularly tested business continuity plans in place as well as properly thought out business interruption insurance will be able to recover more quickly and with less disruption than those that don't.

The main issues that organisations should consider in order to ensure they are best prepared in the event of major unforeseen events are Business Continuity Management (BCM) and Business Interruption Insurance (BII).

Business interruptions can lead to substantial adverse financial impacts.

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Business Continuity Management

At its simplest level, Business Continuity Management (BCM) involves three key areas:

- Identifying critical risks in a systematic and comprehensive way;
- Quantifying their impacts;
- Implementing mitigation, recovery and restoration strategies to protect enterprise value.

Essentially, BCM is the detailed identification and management of the risks facing your business and preparation for the uninterrupted continuation of your business should a significant crisis occur.

Many organisations are currently operating within heavily integrated supply-chains, relying on minimal levels of resilience and critical dependencies upon individual suppliers and/or customers. Short-term interruptions in these supply-chains can result in production shutdowns within days, if not hours.

Business interruptions can lead to substantial adverse financial impacts such as loss of market share, future negative customer perceptions and concerns over corporate viability and integrity. Independent research has shown that 80% of organisations who suffer a loss never recover. ▶

BCM - Key Considerations

When looking at business continuity issues, the key elements to consider are:

- How does your organisation define, quantify, prioritise and measure risks?
- Are alternative supplier policies and procedures in place to meet your product / ingredient / transport / location / IT requirements?
- Do you require your trading partners to have business continuity management plans in place?
- Does the business identify/measure the impact and risk of inventory management policies?
- Is demand forecasting effectively integrated into your supply chains?
- Does your plan include safeguards for employees / visitors and neighbours?
- Does your plan consider implementation of a crisis management and communication plan?

- ▶ Loss of critical functions such as custom manufacturing equipment, management information systems, e-commerce or telecommunication links can be crippling events for many businesses.

In a recent survey, 59 per cent of disaster recovery executives in the US said that a 7 day power outage would put their businesses in financial jeopardy or cause financial ruin.

Without an effective Business Continuity Management system, companies are putting themselves unnecessarily at risk. Yet only 38 per cent of Fortune 1000 companies responding to a US National Association of Manufacturers (NAM) survey indicated that their organisation had a formal crisis management unit or team. Furthermore, a three year analysis of losses by a US insurer showed that 40 per cent of the total number of losses could be attributed to a lack of adequate emergency plans.

Business Interruption Insurance

To limit loss of earnings due to a business interruption most companies obtain insurance cover to compensate for the financial consequences of a major incident. Typically, a Business Interruption policy will provide cover for continuing business expenses and contribution to gross profit post-loss.

Property insurance will enable a business to rebuild its premises, equip it with new machinery and restock. However, this all takes time, and many months can pass before trading returns to normal. In the meantime, the business may face reduced sales or revenue, continuing overheads like wages and salaries

and extra costs such as taking over temporary premises or outsourcing work to other firms.

Depending on the provisions of the policy, Business Interruption Insurance will pay for a firm's lost profits, payroll, rent, taxes and other overhead expenses. It may even cover extra costs such as relocating or obtaining new suppliers. Most policies include payroll cover up to the full policy indemnity period, however companies need to ensure that they carefully consider the extent of cover they require to ensure it adequately meets their needs in the event of a claim occurring.

Some policies will also cover these expenses even if the business does not sustain direct physical damage but suffers lost earnings as a result of property damage to associated businesses, or even nearby perils that reduce the firm's revenues.

Importance of Adequate Protection

Over the past decade in Ireland we have witnessed the ever-increasing use of new technologies and methods to drive down business costs. The advantage of consolidating production or storage facilities into major locations is obvious. The downside is the scenario of having 'all your eggs in one basket.'

Disasters are never easy to deal with, but the value of Business Continuity Planning and adequate risk transfer in the form of properly thought-out Business Interruption Insurance cannot be overestimated.

It is those companies who have sound and regularly exercised Business Continuity Plans plus adequate Business Interruption Insurance in place that will respond best in the event of disaster occurring. Those who don't can face an uphill struggle to get back to normal profitability and in worst case scenarios may never recover.



BII - Property Coverage

Business Interruption Insurance is typically arranged in conjunction with the business's property insurance programme. As such, what's covered under the main property policy will determine what's covered for business interruption. For example, property policies typically cover fire, but not always subsidence, so if subsidence damages the business, business interruption coverage won't provide the cover unless your Property/Business Interruption policy has been suitably extended.

Companies are advised to thoroughly review their policy wordings to ensure that they are adequately protected.



Further Information

Kevin McCann

01 604 8262

kevin.mccann@marsh.com

Credit Insurance **In Focus**

Can You Afford Not To?

Most Irish exporters offer credit facilities to their customers and, according to recent research, the majority experience difficulties with payments with almost half having suffered non-payment of debt.

Credit Insurance is a business to business solution that provides protection against non-payment of trade debts. Cover is provided against the insolvency of an insured customer or against a customer's payment default. Cover can also be obtained against political risks associated with exporting—for example, action by the buyer's Government which impacts on a sale contract.

Myths

Companies know that insurance is an important component of their efforts to protect themselves against losses to people and property, but many companies do not seem to view their trade credit risk in the same light.

There are a number of myths about credit insurance, the most prevalent being that it is expensive, diminishes control and that is difficult to administer. In fact, quite the opposite is true. Credit Insurance is reasonably priced, easy to administer and it strengthens a company's control over its accounts receivable position.

Credit Insurance is not a standard product and there are numerous options available to customise a policy to take account of the particular needs and budgets of individual companies. Credit Insurers generally like a spread of risk, but will consider protecting insureds against loss from a key customer or smaller numbers of critical customers rather than insisting on the whole portfolio approach.

To help determine whether your company has a credit risk issue and should, therefore consider Credit Insurance, ask yourself the following questions:

- Are my company's sales dependent on a few large customers?
- Does my company have an opportunity to sell more

Bad, Bad Debts

As an example of the effect a Bad Debt can have on your company, consider that if you have a bad debt for €50,000 and you are operating on a five per cent profit margin, you will have to find additional sales of €1million to recoup that loss.

...added protection for any company, allowing it to grow without fear...

to its customers if it can come up with greater trade-credit capacity?


- Can my company withstand the insolvency of one of its key customers?

Although it may not be the right solution in all instances, Credit Insurance can also assist companies in other ways beyond protection against insolvency or non-payment by providing benefits long before a claim is paid. It can, for example:

- Help upgrade the value of a company's accounts receivable by improving its quality as collateral for financing.
- Help reduce a company's exposure to a concentrated customer base.
- Enable a company to offer more competitive credit terms and credit limits to customers in new markets.
- Help protect a company's cash flow against unforeseen bad-debt losses from one or more debtors.
- Help protect a company against foreign bankruptcy laws, the potential inconvertibility of foreign currency, and other transfer issues that could result in non payment.

Credit Insurance can provide added protection to any company, enabling it to grow without fear of customers' insolvencies, protracted defaults and unforeseen political risks.

Further Information

To find out how Credit Insurance can protect your business, contact one of our specialist Credit team. 

Further Information	
Liz Keoghan	01 604 8121 liz.a.keoghan@marsh.com
Henry Collier	01 604 8119 henry.a.collier@marsh.com

Environmental Risk

Protecting Your Organisation From Past and Present Liability



With the pace & breadth of legislative and regulatory change in the EU increasing, businesses are becoming more aware of the environmental liabilities they may face, both retrospectively and in the future. Businesses may find themselves exposed to environmental liability due either to operational activities, or from activities which took place on their property in years past, regardless of whether they occupied the premises at that time.

Environmental risk is the potential for an organisation to suffer financial loss as a result of environmental issues, and may arise from a wide variety of sources, including:

- Acquisition of environmental liabilities through purchase of potentially polluting companies and properties;
- Involvement in urban regeneration and brownfield redevelopment projects (including as a lender);
- Giving of Environmental Warranties and Indemnities in business or property acquisitions and divestitures.

Specific drivers for the growing importance of environmental risk management and insurance in a wide variety of sectors include:

- Increasing demand from companies looking to buy properties and businesses, and from lenders providing funds for such transactions, to avoid acquisition of environmental liabilities;
- Increasing focus on environmental risks and liabilities as a result of local and European legislation;
- Increasing importance of Corporate Governance in the Private and Public Sectors and of financial reporting of environmental liabilities;

Risky Businesses

Organisations most affected by environmental risk include:

- Investors in industry and property;
- Utilities, Waste Management, Manufacturing, Energy and Chemical sectors;
- Construction companies, Property developers and Engineering Contractors;
- Local Authorities;
- EPA licensed facilities.

- EPA licensed facilities who need to show adequate financial security to deal with potential and residual liabilities;
- Increase in number of major redevelopment and urban regeneration projects;
- Increasing awareness or environmental liabilities in contractual negotiations.

Organisations cannot rely on their public liability insurance policy to provide cover for environmental liabilities. These policies exclude:

- Damage to an organisation's own site or property;
- Environmental liabilities resulting from gradually occurring pollution;
- Environmental liabilities arising from the acquisition and development of contaminated land.

In addition, specific exclusions of all pollution cover (including those arising from Sudden & Accidental events) are increasingly being applied to projects with a significant potential to cause environmental damage.

NEW PUBLICATIONS & Upcoming Events

■ Europe/ME Insurance Market Report

Published by Marsh to keep companies informed of premium and market developments in countries across Europe and the Middle East.



Access via www.marsh.ie/mrisk

|| Regional Breakfast Forums

Marsh will be hosting a series of regional breakfast forums in Galway, Limerick and Cork over the coming months. Topics to include: Management Liability and Pension Trustee Liability. For more information, please keep an eye on www.marsh.ie/events

...more than just complying with a complex set of regulations...

Environmental Impairment Liability (EIL) Insurance

EIL cover can offer not only sudden & accidental coverage, but also protection against gradual pollution and first party clean up costs. EIL insurance solutions can cover the following areas:

- Third party legal liability (on and off site)
- Own/on-site remediation
- Clean-up costs cap/stop loss
- Contractor's pollution legal liability cover
- Consultant's environmental liability
- Bespoke solutions
- Changes in legislation.

It may be possible to buy cover for known as well as unknown conditions, and for changes in regulation - particularly useful in merger and acquisition situations.

While companies may know the level of clean up required now, future regulation may impose a higher standard. Bespoke solutions can be designed, for example a 'hybrid' policy for a company where liability may arise both on its own sites and on third party sites where it is providing services.

Policy limits are usually up to Euro equivalent of stg£60m and may be written for up to 10 years for historic pollution conditions and up to three years for new conditions.

Challenge

Managing environmental risk is a challenge few organisations can avoid. Problems come in many forms and can include:

- An acquisition that stalls when the risk of remediating a polluted site can't be quantified.
- A building owner being sued over an accidental spill at a construction project that contaminates adjacent property and groundwater.
- A manufacturer facing a court order to clean up the local harbour.
- A business held liable for pollution losses arising from an asset long after it was sold.
- An organisation's damaged reputation as a result of unfavourable press coverage related to an environmental loss.

Environmental risk management is more than just complying with a complex set of regulations and controlling the likelihood and potential severity of spills, releases and related events. An effective strategy is cost efficient, addresses a broad range of issues and protects your organisation from potentially severe losses and public scrutiny.

Further Information

For more details, please contact one of our team using the details below.



Further Information	
Sean Coleman	01 604 8225 sean.coleman@marsh.com
John O'Brien	01 604 8274 john.obrien@marsh.com

Case Study

Our client, a manufacturer and distributor, had concerns regarding potential exposures with regards to the contracted handling and disposal of hazardous wastes which were the by-product of the manufacturing process.

The contracted waste handling company has a series of covers which meet local legislative requirements but do not address the full spectrum of environmental exposures.

The drivers for managing the risk included issues relating to the potential for third party claims; future regulatory actions; their reputation ; and compliance with global corporate standards.

Marsh assessed the potential liabilities and exposures related to the waste disposal process. We then identified a risk transfer solution for these exposures and made recommendations as to risk management practice which would minimise the potential for environmental damage.

The client has gained an off-balance sheet solution to a potentially significant exposure. Provision has been made to cover the costs associated with environmental issues providing a pro-active approach to the environment which will help to protect the client's reputation in the marketplace.

White Collar Crime

Is Your Organisation at Risk?



Whilst the risks of burglaries and other thefts are well known, the risk of white collar crime is generally overlooked, although it is a growing problem internationally and a serious threat to the assets and reputation of any company.

International surveys have shown that over 80 per cent of perpetrators are on the payroll with over 50 per cent coming from the ranks of management.

In the majority of cases, fraud only comes to light by chance. For this reason you should regularly review controls and procedures and take active steps to close any gaps in your systems.

In a high percentage of cases the thefts are due to the perpetrator seeing an opportunity and taking it. Taking away the temptation in the first place is the preferred course of action as prevention will always be better than cure.

Steps to consider include:

- Make employees take vacations of at least two continuous weeks;
- Create fraud awareness throughout all business units;

- Rotate personnel and jobs;
- Conduct regular peer reviews;
- Create a senior anti-fraud position;
- Create controls and conduct regular reviews.

How Insurance Can Help

Comprehensive crime coverage has been developed to provide a broad direct financial loss cover for standard industrial and commercial organisations. Coverage is provided for direct financial loss to the insured arising from fraud including theft, embezzlement, extortion, computer fraud and dishonesty.

Coverage highlights:

- Theft including the unlawful taking of the insured's money by external persons or employees and theft of other property by employees;
- Embezzlement including the unlawful taking and possession of the insured's money/property by persons in control of the money/property;
- Extortion arising from the demand for and release of financial payment in response to threats of violence or threats to

sabotage information systems.

- Computer fraud including loss of money, property or other financial loss arising from the manipulation, deletion, dishonest inputting of data or the manipulation of software;
- Dishonesty covers the act of an employee, acting alone or in collusion with others, with intent to cause loss to the insured.

Whilst crime policies normally exclude consequential loss, extensions are available that cover some forms of indirect loss.

Insurers have specialist services and research available to assist companies in formulating procedures and implementing systems to help avoid losses or enable quicker detection when a loss occurs.

Coverage is usually written on a comprehensive basis providing cover for all employees, locations, subsidiaries and operations.

With some research suggesting that as many as 45 per cent of companies suffer white collar crime, this a major issue that needs to be considered by Employers. Companies need to put in place stringent controls in the first place to minimise the risk and should also protect themselves through adequate insurance cover where appropriate.

Further Information

For further advice on this subject, please contact one of our specialist Finpro team using the details below.

i **Further Information**
Derek Smoker 01 604 8381
derek.smoker@marsh.com



International Update

Global Risk & Insurance News from Marsh and its Sister Companies

Are You Prepared for a Pandemic?

Marsh has developed an online global survey to help organisations evaluate their preparedness for a pandemic. Created by our Risk Consulting practice in conjunction with our sister company Kroll Inc., the survey is designed to help participants evaluate the importance and status of their various preparedness issues and activities.

You can access the survey via www.marshriskconsulting.com.

After taking the survey, participants will receive an e-mail from Marsh's Risk Consulting practice that provides an initial assessment of their preparedness and preliminary recommended actions.



www.marsh.ie/mrisk

Impact of Climate Change

With global climate change likely to have a fundamental impact on business operations and financial returns for many companies, Marsh has issued a 32-page report examining this emerging global issue from a risk management perspective.

The report, 'Climate Change: Business Risks and Solutions' describes the potential impact of global warming on business risk, including the threat of volatile weather conditions; resulting impacts on commercial insurance markets, business resources, personnel, and corporate preparedness; increasing legal and regulatory pressures and mounting public and shareholder activism.

You can obtain a copy of the report via www.marsh.ie/mrisk

Spotlight On: Attitudes To Risk

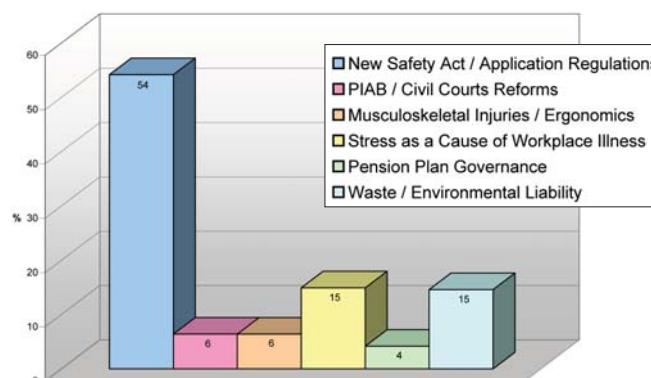
The results of our survey from last issue

Benchmarking Risk Management in Your Organisation

In the last edition of *Managing Risk*, we asked for your opinions on Risk and Transparency - from how frequently risk management features on the agenda at board meetings, to how aware your company's employees are of risk management practices. The results highlight a number of key points, including:

- Over a third (34%) of respondents stated that Risk Management either rarely or never features on the agenda at board meetings.
- Nearly half (48%) of respondents have not educated their employees about the importance of Risk Management, and the same number said that their staff were just vaguely aware or completely unaware of risk management in their organisation.
- More than half (54%) of respondents believe the new Safety Act and Applications Regulations to be the most important factor affecting the current risk environment in Ireland.
- More than a quarter (26%) of respondents have not reviewed their Crisis Management or Emergency Response plans within the last 12 months.

Thank you to all who responded. Marsh Ireland has made a monetary donation on your behalf to the Irish Red Cross' Asia Earthquake Appeal.



Above: Respondents were asked to rank, in order of perceived significance, six factors affecting the current risk environment in Ireland.

For the survey results or any queries relating to benchmarking your organisation's risk management practices, please contact our Risk Consulting team using the details below.

Further Information
 David Hamilton 01 604 8225
david.hamilton@marsh.com

Marsh Ireland - Company Profile

Marsh is the world's leading Insurance Broking and Risk Management Consulting company with nearly 30,000 employees helping clients in over 100 countries.

Marsh Ireland Limited has over 350 staff in offices throughout the country - providing cost-effective bespoke solutions for many of Ireland's leading private and public sector organisations.

Marsh is a unit of Marsh & McLennan Companies (MMC), a global professional services firm with approximately 60,000 employees and annual revenues of approximately \$12 billion. MMC is also the parent company of Guy Carpenter, Kroll, Putnam Investments, and Mercer. MMC's stock is listed on the New York, Chicago, Pacific, and London stock exchanges.

Marsh Ireland's web site address is www.marsh.ie



Marsh Ireland Contact Details

Dublin

Marsh Ireland Ltd.,
Marsh House
25-28 Adelaide Road,
Dublin 2
Tel: 01 604 8100
Fax: 01 604 8478

Galway

Spiddal,
Co. Galway
Tel: 091 596 200
Fax: 091 558 170

Limerick

Crescent House,
Upper Hartstonge Street,
Limerick
Tel: 061 319 155
Fax: 061 317 598

Cork

12 South Mall,
Cork
Tel: 021 490 7400
Fax: 021 427 2555



Belfast

Bedford House,
Upper Bedford Street,
Belfast BT2 7DX
Tel: 048 9055 6100
Fax: 048 9055 6166

Derry

Spencer House,
14-22 Spencer Road,
Derry BT47 6QA
Tel: 048 7134 3121
Fax: 048 7126 2981

Enquiries to:
sales.ie@marsh.com

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Your Input

We appreciate your feedback and comments. If there are any areas of risk and insurance you would like to see covered in future editions, please email queries.ie@marsh.com

Editorial, Design & Production

Michael Johnston

Tel: 01 604 8364

Email: michael.johnston@marsh.com

David Stroud

Tel: 01 604 8236

Email: david.stroud@marsh.com

Contact Marsh

Marsh Ireland Ltd.,
Marsh House
25-28 Adelaide Road,
Dublin 2
Tel: 01 604 8100 Fax: 01 604 8478

Further Information

For more details on Marsh Ireland's range of services, please visit our web site.

www.marsh.ie

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