MARSH

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Industry research report
Executive highlights

New risk management insights in communications, media and technology

Ipsos

Introduction

The current global economic downturn will challenge CMT companies to reduce their overall cost of doing business, including minimizing their total cost of risk and the financial impact of surprises through effective insurance and risk management solutions.

While the turmoil engulfing the world's financial markets has a number of far reaching implications across all sectors of the economy, one immediate consequence of the crisis is that it has shaken confidence in the risk management practices within organizations. Companies are faced with a big challenge - how to improve the risk control environment and comply with the expected tightening of compliance and regulatory requirements in face of shrinking budgets, financial prudence and closer monitoring of ROI on expenditures.

In light of the changing risk landscape facing CMT companies, we know that many risk managers are concerned about lacking the tools or authority to do their jobs. However, the survey also gives us indications that the economic downturn has increased CMT companies focus on risk management and made them value it more highly.

In view of the above and in an attempt to move away from the anecdotal, Marsh commissioned the independent research agency Ipsos to conduct a survey of risk management in Europe. The survey examined attitudes to risk management in the current economic downturn, including risk priorities, strategy, management and solutions. Ipsos interviewed over 700 organisations, spanning twelve countries and seven industry sectors. Of these organisations, 107 were in the communications, media and technology (CMT) sector.

The result is one of the most comprehensive risk management studies to have been undertaken among European CMT companies. This research report highlights the key risk management issues of most concern to the industry, the level of confidence shown in managing these issues and the direction that risk management appears to be taking. The most notable reactions are summarised below and a number of Marsh recommendations and actions are summarized in the full report as well as case studies demonstrating what pro-active risk management can achieve.

Figure 1: Results at a glance
(Percent of respondents in respective industries)

	CMT	FI	LS	PE	P&U	RCB	T
Impact of downturn perceived to be greatest	51	64	14	35	21	30	54
Reviewed approach to risk	71	83	60	54	66	67	73
RM at senior levels is now more important	85	87	65	56	74	66	77
Risk aversity among Board	36	52	33	25	43	36	40
Retaining more risk	18	13	13	22	13	23	22
Very confident in RM processes	25	20	26	22	36	34	32
Increased budget for RM	36	47	38	25	36	29	30
Group causing most concern	Customers 69	Customers 68	Customers 43	Citizens 54	Customers 49	Customers 55	Customers 62
Priority risk – free choice	Credit 36	Credit 41	Credit and liqduity 12	Credit 10	Credit 43	Credit 36	Credit 26
Most significant risk	Credit 69	Business continuity 59	Cash flow 78	Environ–mental 73	Power price 66	Cash flow 76	Cash retention 75

Key: ■ indicates highest percent of respondents, ■ indicates lowest percent of respondents.
CMT: Communications, Media and Technology, FI: Financial Institutions, LS: Life Science, PE: Public Entities, P&U: Power and Utilities, RCB: Retail and Consumer Brands, T: Transport

The value chain is the greatest source of risk

When participants are asked which groups' risks concern them most, almost 70% name customers – the highest proportion of any industry in our survey. Suppliers are second, concerning 35%. We believe that the concern over these two groups reflects the importance and complexity of the value chain in this sector.

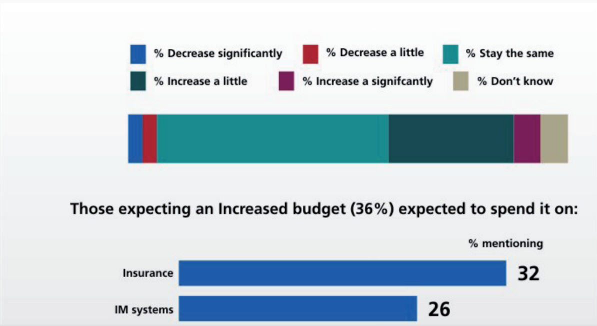
For the CMT industry, and especially for technology companies, value chains are becoming longer and more complex. The number of steps needed to process raw materials and components, turn them into products and put them in the hands of customers is increasing, and with them the interdependence of customers, suppliers and technology.

Risk management is becoming more important – and budgets are growing

Three-quarters of participants say their company has reviewed its approach to risk because of the downturn, and 85% say it has made risk management more important at the most senior levels. Over half (58%) say there has been a change in the board's appetite for risk, and – whether appetite has increased or decreased – most indicate that, as a result, they now pay more attention to risk. Over a third of participants expect spending on risk management to increase over the next 18 months.

Interestingly Only 25% of participants say they are very confident in the ability of their companies' processes to address risk and this percentage shrinks amongst companies that have a de-centralised approach to risk management. Risk Management professionals are also much less confident than the C-suite over their ability to address risk.

Figure 2: Risk management budgets

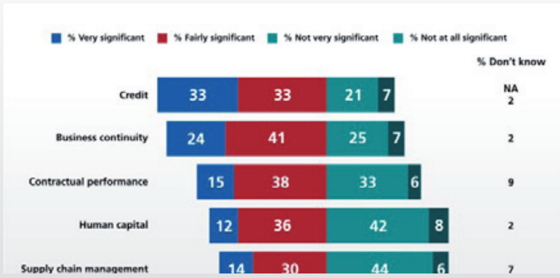


Macroeconomic risks may be distracting companies

Clearly the prevalent risks raised as having most concern in the survey are general business risks which are strongly linked to the downturn and have a macroeconomic focus. We are surprised at the absence of sector-specific risks, although they are multiplying by the day and the downturn is magnifying them.

Marsh see continual changes in business models, technologies, products and services, with companies constantly forced to acquire or develop new lines of business in order to maintain profits, exploit intellectual property and continue to grow. Each new line of business brings with it new and unmapped risks. Risks which are "off-strategy", such as directors and officers, intellectual property and errors and ommissions exposures, but that in Marsh's experience have historically shown a tendency to rise in frequency during economic downturns, also do not appear to be the radar of CMT companies as perhaps they should be.

Figure 3: How significant will the following risks be for your organisation in the next 18 months



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About Marsh's Communications, media and technology industry practice

Marsh's Global Communications, Media and Technology Practice (CMT) is staffed with over 600 full-time insurance industry professionals who dedicate their time to the CMT industry and its risk issues. We often act as the outsourced risk management department of our clients and serve the role of trusted advisor to over 2,500 CMT clients across the globe.

Marsh's Global CMT Practice offers a holistic view of the critical risks CMT companies will face as they migrate to new communication platforms and revenue models. Marsh can show our clients how to extract the fullest measure of competitive advantage from their intellectual property and provide advice on ways to optimise their business models through more effective treatment of risk.

We have the unique industry expertise and specialisation to appropriately and rapidly identify and address critical risk issues with the insurance providers.

We work with a wide array of companies across the CMT space:

- Communications: voice (including voice-over-IP), broadband (cable, wireless, BoPL, satellite), data, mobile services, wholesale, satellite-based service providers, submarine cable operators, networking, and equipment manufacturers.
- Media: publishing, radio and television broadcasting, DTH/DBS, cable television operators.
- Technology: software, hardware and peripherals, Internet and new media, data networking and infrastructure, semiconductor and capital equipment, IT services, nanotechnology, clean-tech.

Marsh is a global organisation which explores the entire world's insurance marketplace for the best possible solutions for our clients. We are not limited by geographic or local boundaries or local insurer relationships when exploring risk solutions for our CMT clients.

For further information or to obtain a full copy of the report, please contact:

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