

MARSH



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Industry research report  
Executive highlights

# Attitudes to risk management in the life science industry



The wider economy has experienced significant turmoil and upheaval during the past 18 months which in turn has introduced more risk and uncertainty into the management of volatility. No industry sector is immune although some can be anticipated to weather the difficult economic climate better than others. It can also be expected that across industry there will be different concerns and perceptions of how the difficulties in the wider economy are affecting a particular industry.

Government intervention and the international regulatory response will significantly influence the future look and feel of the economic climate and how business will conduct itself in the future. However, what is industry's own response – how can it repair reputations which have been battered and restore stakeholder confidence? In the face of such fundamental change, it appears that a re-evaluation of risk and a renewed commitment to strengthen risk management practices are among the chosen ways forward.

The danger is that less investment (instead of more) will be made available in an economic downturn and there will be continued pressure to reduce costs whilst maintaining and improving the risk management environment.

To find out how organisations have responded to the downturn, 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, 86 were in the life science industry.

The result is one of the most comprehensive risk management studies to have been undertaken among European life science organisations this year. This research report highlights the key risk management issues of concern to the industry, the level of confidence shown in managing these issues and the direction that risk management utilisation appears to be taking.

## The industry is taking action as a result of the downturn

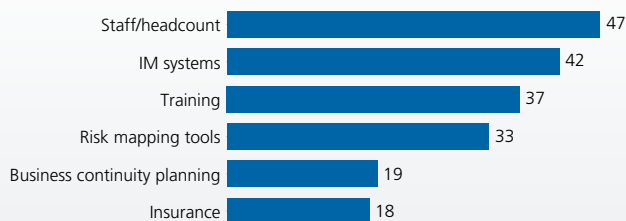
Although the downturn will have relatively little direct effect on this industry, life sciences companies are looking again at their risk management and taking prudent steps to improve it. Only 14% of participants say that life science will be more affected than other industries. But 60% have reviewed their approach to risk, 65% say risk management is now more important at senior levels, and 38% – the second highest proportion in the survey – expect risk management budgets to increase. This proportion is even higher among C-level participants, at 50%. The top areas for extra spending are training and information management systems.

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

	CMT	FI	PE	LS	P & U	RCB	T
Impact of the downturn perceived to be the greatest	51	64	35	14	21	30	54
Reviewed approach to risk	71	83	54	60	66	67	73
RM at senior levels is now more important	85	88	56	65	73	66	77
Decreased appetite for risk among board	36	52	25	33	45	36	40
Retaining more risk	18	13	22	13	16	23	22
Very confident in RM processes	25	20	22	26	36	34	32
Increasing budget for RM	36	47	25	38	36	29	30
Group causing most concern	Customers 69	Customers 68	Citizens/stkholders 54	Customers 43	Customers 48	Customers 55	Customers 62
Priority risk – free choice	Credit risk 36	Credit risk 41	Credit risk 10	Credit/risk 26	Credit risk 43	Credit risk 36	Credit risk 26
Most significant risk – of seven options	Credit 69	Business continuity 59	Environmental 73	Cash flow 78	Power price 66	Cash flow 76	Cash retention 75

\*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

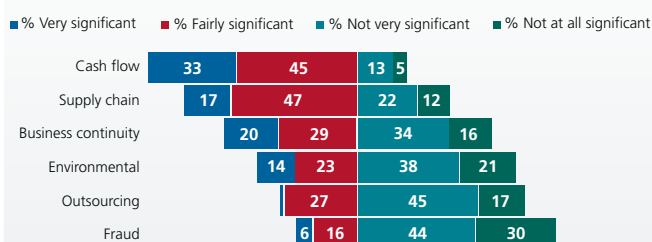
**Figure 2: In what areas do you expect the budget for risk management to increase in the next 18 months?**



### Cash flow is under pressure

Despite being less directly affected by the downturn than some other industries, life sciences companies aren't immune to its effects. Many companies are finding that their suppliers are being stricter while their customers are asking for longer credit. Cash flow is seen as a significant risk by 78% of participants, the highest percentage across all seven industries who participated in the research. As a result, supply chains are tightening up as payment terms are shortened and made less generous. Just under half (43%) of participants are concerned about their customers and 34% are concerned about suppliers. In addition, participants are being more careful in credit-checking their customers (32%) and analysing suppliers' financial health (28%).

**Figure 3: How significant will each of the risks mentioned below be for your organisation in the next 18 months?**



### Supply chain and business continuity are significant risks

The downturn has also increased two of the industry's long-standing risks: supply chain management and business continuity. Regulation of the supply chain is increasing, and the influence of the downturn – to which this industry is not immune – can make these complex supply chains more fragile. This will increase the risk of suppliers failing either as a result of economic pressure or of external forces influencing the supply chain.

New regulations add to the fragility of complex supply chains, increasing the risk that suppliers will be shut down or compliance will falter. Both suppliers and customers are more likely to go bankrupt, and healthcare providers are trying even harder to reduce costs. Any problems in supply chains automatically create business continuity risks. Thus it is no surprise that supply chain risk is judged to be significant by 67% of participants, while business continuity is seen as significant by 53%. Of those who expect budgets to rise, 32% plan to increase spending on business continuity planning.

The consensus view is that the global financial crises has exacerbated existing risk issues, such as in the area of the supply chain and business continuity planning, and introduced additional pressure on liquidity and cash flow. In recognition of these developments organisations are looking to improve their risk management and devote additional financial resources to enhance existing procedures and practices.

### Further information

For further information, or to get a copy of the full report "Attitudes to risk management in the Life Science industry" please contact:

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Our Europe, Middle East and Africa Life Science Industry Practice is part of a global network providing risk management solutions to the Life Science industry. Our clients include 37 of the global top 50 pharmaceutical companies, 35 of the global top 50 biotechnology companies and 23 of the global top 40 medical device firms.

Marsh's Life Science Practice provides risk management services and solutions for companies engaged not only in pharmaceuticals, biotechnology and medical device manufacturing, but also in healthcare, the provision of specialist services such as contract research, analytical laboratories and educational institutions engaged in clinical research.

The Practice includes both retail and wholesale business segments, including centres of excellence in London, Frankfurt, Milan, Paris, New York, Boston and San Diego where a depth of industry knowledge exists on services and solutions unique to the Life Science industry plus a range of operational risk consulting services that recognize the risk characteristics of the Life Science industry.

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