

MARSH



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Industry research report
Executive highlights

A blurred photograph of a crowd of people walking, showing their lower legs and feet in motion. The image is split into several vertical panels by thin white lines.

New insights into risk management in public entities



The current downturn in the global economy has been swift and severe. It raises important questions about how organisations conduct their business – and particularly about how they assess and manage risk.

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, 101 were public entities, and their most notable reactions are summarised below.

The impact of the downturn

Every single public entity, especially local authorities, has been affected by the downturn. But when asked if they will be affected less than other sectors, 53% of participants in our survey agree, as Figure 1 shows.

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	84	60	74	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 liquidity 12	Credit 15	Credit 43	Credit 36	Credit 26
Most significant risk	Credit 69	Business Continuity 58	Cash flow 78	Environmental 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

But while they may not be impacted as directly as some other sectors, the demands made on them will increase as the downturn continues – residents unable to keep up with their mortgage payments may need public housing, for example. Meanwhile revenues are likely to decrease as business rates bring in less, tourism declines and more people default on local taxes.

Senior people now see that risk is important

Over half the participants (56%) say that, because of the downturn, risk management is now seen as more important at senior levels in their organisation. A similar proportion say that the downturn has prompted their organisation to review its approach to risk management. And 22% say their Board's appetite for risk has grown. The proportion saying appetite has diminished (25%) is the smallest in any of the seven sectors in our survey. In order to increase and control retention, organisations need to incorporate risk management in their organisation.

Public entities are realising they have to evaluate their risk management

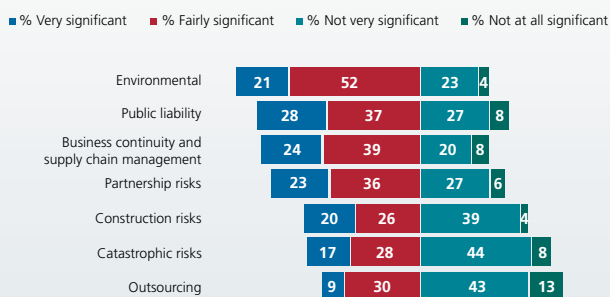
Almost three-quarters (71%) of participants say that a sector-wide standard for risk management either would, or already does benefit their organisation. Of those already covered by a sector-wide standard, 89% say they benefit from it. Currently, however, only 40% of participants say they have initiatives for evaluating their risk management practices against those of their peers. This tells us that there is a need for a European public risk management standard. This standard should enable the organisation to undertake health checks and to benchmark their risk management organisation against their peers.

Long-term liabilities, including environmental and pandemic risks, are key

Asked to rate various risks, participants say the four most significant over the next 18 months will be environmental risk (73%), public liability (65%), business continuity (63%) and partnership risks (59%). In addition, almost as many participants are concerned about PPP and PFI associates or contractors (51%) as are concerned about citizens (54%). These two results illustrate how the downturn – combined with court rulings and regulations such as the EU Environmental Liability Directive¹ – are adding to public entities' long-term liabilities and making it increasingly difficult for them to genuinely share risks with the private sector.

Public entities need to be aware of their risks at all time in order to be able to mitigate the liability risks. Risks and issues need to be identified and analysed on a constant basis. An overall risk management framework is therefore needed to ensure the continuity of this risk identification process.

Figure 2: How significant will each of the risks mentioned below be for your organisation in the next 18 months?



Recommendations and action

Building upon these executive highlights, the full Marsh industry research report entitled *Public Entities European Risk Management Survey* analyses in full the impact of the downturn, the changing risk attitudes of the sector and examines how the industry is responding. It also outlines Marsh's recommendations on evaluating and understanding risk priorities and best practice risk management.

For further information or to obtain a full copy of the report, please contact Philippe Auzimour (Public Entities Practice Leader for Europe, the Middle East and Africa), Sabrina Boshuizen (Public Entities, Industry Development Coordinator for Europe, the Middle East and Africa) or your local Marsh representative.

About Marsh's Public Entity Practice

The Public Entities Practice in Europe comprises a network of professionals across the continent with experience in identifying and advising on the risk management challenges facing organisations and individuals within the public sector. Our client base consists of over 2,000 municipalities, local and regional authorities, blue light services and other public sector and not-for-profit organisations.

The public sector faces numerous challenges from emerging risks such as avian and other flu pandemics, terrorism, and environmental compliance, to recurrent issues such as employment disputes, procurement compliance, and corporate governance. We help several types of public entities address these and many other issues.

Our clients include:

- Municipalities
- Local and regional authorities
- Government agencies and departments
- Education authorities
- Schools, colleges, and universities
- Emergency services
- Not-for-profit organisations.

At Marsh, we endorse a risk based approach to the management of strategic priorities and challenges and believe it helps organisations at every stage, from conception of a project, program or initiative, through to final evaluation. Change will always bring challenges but, if these are met successfully, it can also deliver considerable benefits to communities.

Marsh is a leading strategic risk adviser, with a dedicated and experienced public sector team that is ready to assist you.

¹ Directive 2004/35/CE of the European Parliament and of the Council of 21 April 2004 on environmental liability with regard to the prevention and remedying of environmental damage.

Philippe Auzimour, EMEA Public Entities Practice Leader,
+33 14 639 8044, philippe.auzimour@marsh.com

Sabrina Boshuizen, EMEA Public Entities Industry Development Coordinator
+31 10 40 60407, sabrina.boshuizen@marsh.com

Country	Contact	Telephone Number	E-mail
Belgium	Philippe Melaerts	+32 2 674 91 19	philippe.melaerts@marsh.com
Denmark	Henrik Larsen	+45 4 595 9550	henrik.larsen@marsh.com
Finland	Seppo Saari	+358 9 8677 4240	Seppo.saari@marsh.com
France	Pierre-Antoine Auburtin	+33 14 639 8024	Pierre-antoine.auburtin@marsh.com
Germany	Marc Paasch	+49 696 6760	Marc.paasch@marsh.com
Greece	Maro Markoulaki	+30 210 817 6048	Maro.markoulaki@marsh.com
Ireland	Michael Johnston	+35 31 6048364	Michael.johnston@marsh.com
Italy	Andrea Gennari	+39 02 48538 820	andrea.gennari@marsh.com
Latvia	Kaspars Ummers	+371 7 095 095	kaspars.ummers@marsh.com
Poland	Krzysztof Kukulski	+48 58 321 7350	Krzysztof.kukulski@marsh.com
Portugal	Miguel de Pape	+35 121 311 3897	miguelde.pape@marsh.com
Romania	Antoaneta Geala	+40 21 232 1874	antoaneta.geala@marsh.com
Sweden	Oscar Sohl	+46 8 412 4304	Oscar.sohl@marsh.com
Spain	Santiago Villarrubiade Francisco	+34 91 514 4319	Santiago.villarrubiadefrancisco@marsh.com
The Netherlands	Wilco de Haan	+31 10 40 60222	Wilco.dehaan@marsh.com
UK	Brian Shaw	+44 148 375 1018	Brian.shaw@marsh.com

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