

MARSH



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Industry research report  
Executive highlights

A long-exposure photograph of a highway at night, showing vibrant light trails from cars in various colors (yellow, white, red, blue) curving into the distance. The image is divided into several vertical panels by thin white lines.

# Changing risks – Changing responses: risk management in the transportation industry



The economic downturn is by definition creating new threats but also opportunities for operators in the transportation sector. The world has become more risk averse as a result of the financial crisis, and many businesses in every sector including transportation have realised that the consequences of overlooking risks can be catastrophic.

Of course, risk must be managed, this is not only to protect against the unplanned, but also to give management the confidence to take the risks that will fuel growth and strengthen competitive advantage in the future.

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, 115 were in the Transportation sector.

This comprehensive survey of the European transportation industry analyses and highlights the key risk management issues of concern to the industry, its level of confidence shown in managing these issues and the direction that risk management appears to be taking.

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	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 liquidity 12	Credit 10	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

Transportation is one of the most affected industries

It is no surprise that the transportation sector has the second highest proportion of participants saying that the downturn will affect their industry more than others - the industry's primary function is to transport goods and people and in a downturn goods are bought and sold in a smaller quantity and people are undertaking less travel.

Renewed focus on Risk Management; companies becoming more risk averse

As with many industries there is a heightened awareness of risk. The downturn has prompted companies to refocus on risk management with almost four-fifths (77%) of participants indicating that risk management has become more important at senior levels of their company. Furthermore, nearly three-quarters (73%) have reviewed their approach to risk, again second only to financial institutions with customer/client risk and debt management key areas of focus (Figure 2).

Figure 2: In what areas has the economic downturn prompted you to review your approach to risk?



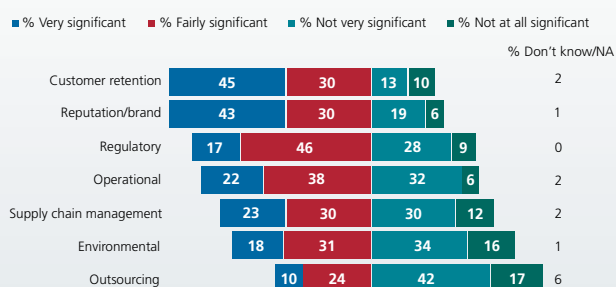
Nevertheless, 68% still express some degree of uncertainty in their current risk management processes. However, heightened risk awareness at board level is driving top-down action – almost three-quarters (72%) of participants say that their board is taking some action to improve awareness and understanding of risk – with 30% expecting an increase in risk management budget over the next 18 months.

Changing risk perceptions; customer retention and brand near-term concerns

Understandably, immediate focus continues to be financial and macroeconomic concerns - 55% of participants highlighted these as an ongoing concern over the next 18 months – traditional strategic and operational risks have not abated.

In a previous survey carried out in January 2007<sup>1</sup> participants ranked a series of risks based on their financial impact, identifying regulatory risk as most significant (56%). In our current survey, this has been leapfrogged by customer retention and reputation (Figure 3), up from 46% to 75% and from 50% to 73% respectively. Regulatory risk however remains relatively stable at 63%.

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



In an increasingly challenging market companies are realising that they cannot rely solely on finance and margins; they need to also look at customer and supplier relationships in order to remain competitive.

This goes beyond traditional supply chain management and customers' financial health monitoring. There is emerging evidence from our interviews that companies are returning to "old-fashioned" business virtues. Enforcing tighter payment terms for example arises not just from a need to better manage customer relationships but is also necessitated by less favourable terms from financial institutions.

### Changing risk perceptions; customer retention and brand are near-term concerns

Building upon these executive highlights, the full Marsh industry research report: *Changing Risks – Changing responses in risk management in the Transportation Industry* shows 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, risk financing and best practice risk management.

For further information or to obtain a full copy of the report, please contact Wendy Chalkley (European Transportation Industry) or your local Marsh representative.

### About Marsh's Transportation Industry Practice

The Transportation Practice within Marsh is the world's leading insurance broker and risk advisor. Our experts deliver proactive consultative risk management tools and techniques designed to help anticipate emerging trends and pre-empt potential risks before they become costly problems - or tomorrow's headlines. As well as understanding and mitigating risks, we help clients to better 'market' their risks to the underwriting community, helping them with pricing and stronger negotiating power at renewal.

The Practice serves over 1,000 clients worldwide, and has more than 100 specialists operating around Europe and the Middle East, collaborating with another 300 industry experts worldwide.

The Transportation Practice specialises in identifying and solving the risk issues facing the following sectors:

- Supply chain management and delivery services
- Warehousing and distribution
- Freight forwarding
- Post, parcels, couriers and home delivery
- Road haulage
- Fleet, including car hire/lease
- Ports and terminals
- Airport service providers
- Rail and passenger rail

Maintaining a bespoke and high-quality insurance regime is fundamental to the continuing operating of companies in these sectors. Marsh broking professionals specialising in designing, negotiating and maintaining innovative insurance programmes assure clients of comprehensive coverage from the best insurance companies at the best possible prices.

Our practice provides a range of risk consulting services that include:

- Environmental risk management
- Fleet risk management
- Contract due diligence
- Business impact and continuity
- Alternative risk transfer/financing
- Brand and reputation protection
- Behavioural risk improvement
- Health and safety
- Human capital risk training

1. *Keeping on the right road: Risk in the transportation sector 2007*, a Marsh European research report.

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