

# Measuring risk: a key priority for business

Key findings from an independent  
programme of research

**October 2014**

## Executive summary

Although the economic climate in the UK continues to show steady signs of progress, there are clear dangers for businesses that assume that the overall level of risk they face will necessarily follow a similar trajectory. Indeed, it is clear that the scope, focus and pace of further recovery will itself be shaped by the evolution of perceptions of risk within the business community – perceptions of strategic risk, market risk, operational risk and financial risk.

Many businesses have already recognised the need to place an increasing focus on their approach for managing the multitude of risks they face; as well as the benefits from so doing. However, it is apparent that there is still a significant level of opportunity for businesses to further improve their approach to managing risk. One particular area where an enhanced approach is likely to be beneficial is the 'measurement' of risk, which itself encompasses a broad spectrum of activities ranging from identifying what can be measured and how relevant data might best be captured and recorded, to using that information to identify specific actions to improve a company's overall approach for managing risk.

In order to explore current areas of risk management focus, priorities for change and perceptions of the key issues and challenges still to be overcome, business insurance specialist, QBE, commissioned an independent programme of research among businesses in the UK. Interviews with 400 key 'risk' decision-makers from small, medium sized and larger businesses were conducted in the final quarter of 2013, and a second wave of interviews was completed in the second quarter of 2014.

The overriding conclusion from the latest survey is that businesses have taken on a range of 'completely new' risk exposures over the last few years. Our report confirms that many decision-makers acknowledge a need to strengthen, enhance and support their approach to managing risk – and that they recognise particular scope for improvement in the area of risk measurement. With the findings of the research in mind, this report highlights our thoughts on how businesses can best focus their investment in the risk management process.

### Key research findings

- 54% of businesses have gained exposure to 'completely new' risks in the last two years.
- Despite the improving economic indicators for the UK, nearly three in ten (29%) businesses feel that the overall level of risk they are facing has increased over the last six months.
- Perceptions of heightened competitor activity and market pricing risk continue to drive business perceptions of the overall level of risk. However, concerns about cyber crime and data security risk have increased significantly over the last six months.
- 87% of companies expect to increase their business investment in the next 12 months. Notably, two thirds plan to recruit additional skilled staff.
- Around one in four (24%) 'risk' decision-makers are 'less than satisfied' with their company's current ability to measure and quantify specific risks faced by their business.
- 68% of decision-makers can identify at least one aspect of their company's approach to measuring risk that, they feel, is in need of improvement.

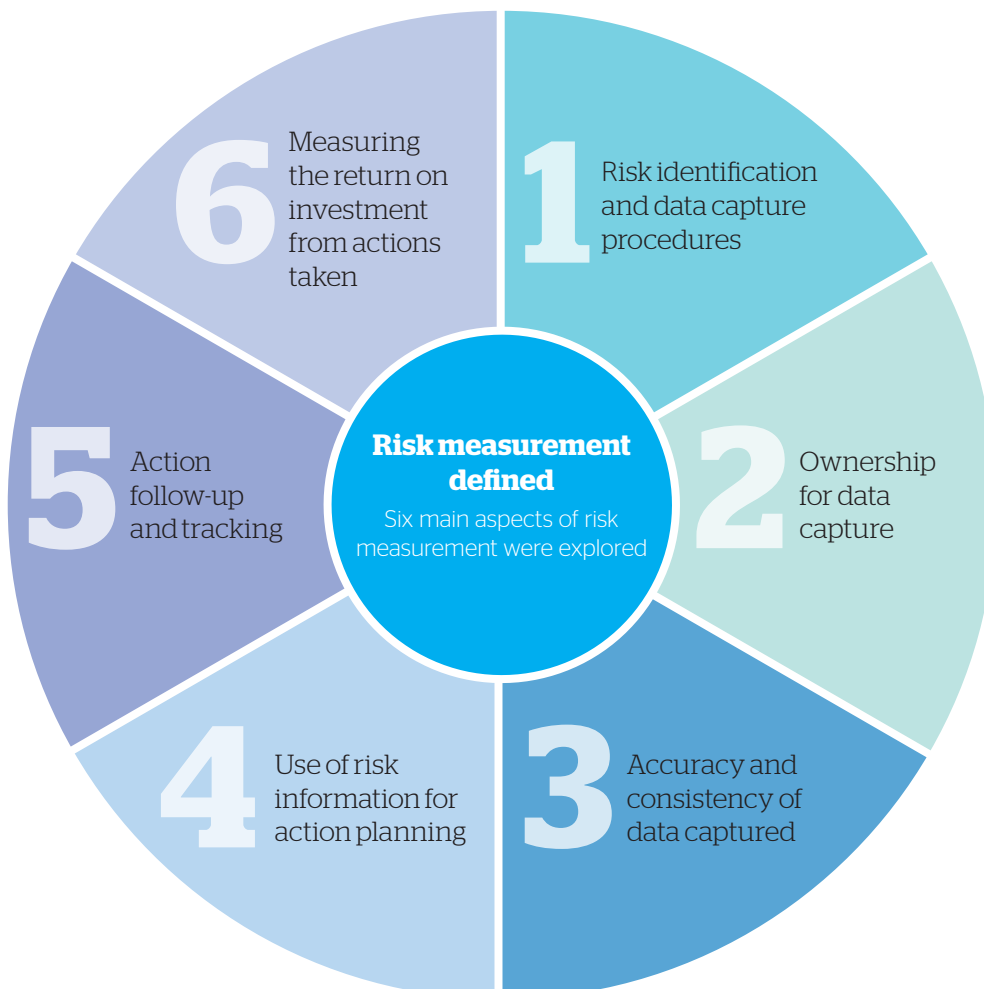


## Focus: Risk measurement

In this latest round of research, the area of risk measurement (including the capture and utilisation of data about risk incidents) was explored in more detail.

The findings suggest that around one in four (24%) businesses are 'less than satisfied' with their company's current ability to measure and quantify specific risks faced by the business. Similarly, one in four (25%) are 'less than satisfied' with their company's current systems and processes for capturing data about specific risk incidents that occur.

### Business satisfaction with aspects of the approach to managing risk





## A continuous process of improvement

Nearly seven in ten businesses can identify an area of 'risk measurement' that they feel could be improved. In reality, the key areas requiring further focus vary significantly from business to business, but in most instances there is perceived to be more than one area of potential improvement. Improving the company's ability to measure and quantify the return on investment achieved from specific actions (50%) is the single most frequently cited area of improvement (from the list of possibilities put to respondents). However, each individual area - ranging from identifying what to measure, to ensuring that specific actions identified are allocated an appropriate level of responsibility and actions tracked - is cited by over four in ten respondents.

“The processes were there before, but the way in which issues are recorded, reported and followed up, such as near miss reporting, are more focused now. Nevertheless, there needs to be an even more 'joined up' approach within the business; and staff need to be more involved than is currently the case.

”

“Although our overall approach to managing risk is pretty good, you can never sit back and say ‘we have done it’, because business is dynamic, issues are changing all the time and technology is changing... and, as a result of this, the risks are changing.”

### Aspects of measuring risk perceived to be in need of improvement





# Considerations for business leaders

Our research suggests that there is a significant degree of 'catching-up' to be done in relation to best practice management of the more traditional business risks. While it is essential that this improvement happens, business leaders must also be wary of new and emerging risks. Risk management must be approached as a continuous process of improvement.

As a business insurer, QBE works with many organisations to help them assess, manage and mitigate their insurable risks. In many cases, our support and guidance enables clients to reduce insured losses, leading to operational cost savings and business efficiencies. Our insight highlights what business leaders should be questioning:

- Am I effectively exploiting the resource and expertise of my insurer to help me assess, manage and mitigate risk in my business? Forward thinking insurance companies will actively seek to work with their clients to improve their risk profiles and can bring, and help apply, a wealth of best practice experience from a multitude of sectors.
- Is the business as protected as it could be? How often do we review our insurance covers to ensure that emerging threats are contained? As your business context changes so too do your insurance needs. External factors such as cyber crime and data security pose an increasingly significant threat to businesses. Consider your environment in the context of your business plans, identify problem areas, take remedial action and review regularly.
- To what extent is the culture of my organisation inhibiting a best practice approach to risk management? Where are the blocks and why do they exist. How can I instil a culture to embed rigour and robustness into assessment and management of risk?
- Am I owning the problem and putting risk management high up on the corporate agenda? Best practice companies are those whose leaders facilitate and pro-actively engage in the processes of risk management.
- Do I have the processes in place to understand the return on investment of best practice risk management procedures? Better productivity, operational cost savings, informed decision making.

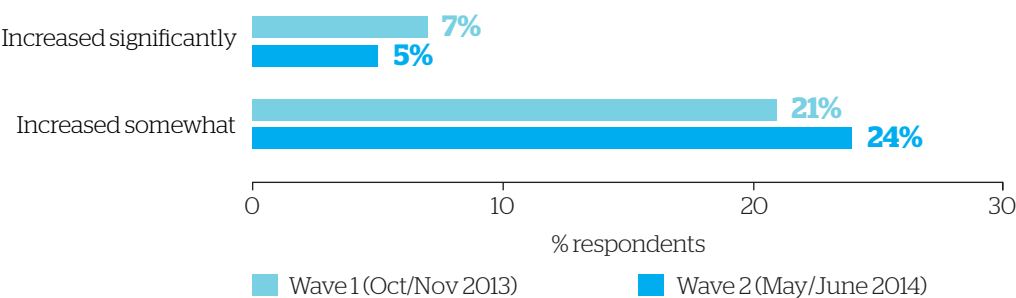


# Perceptions of risk

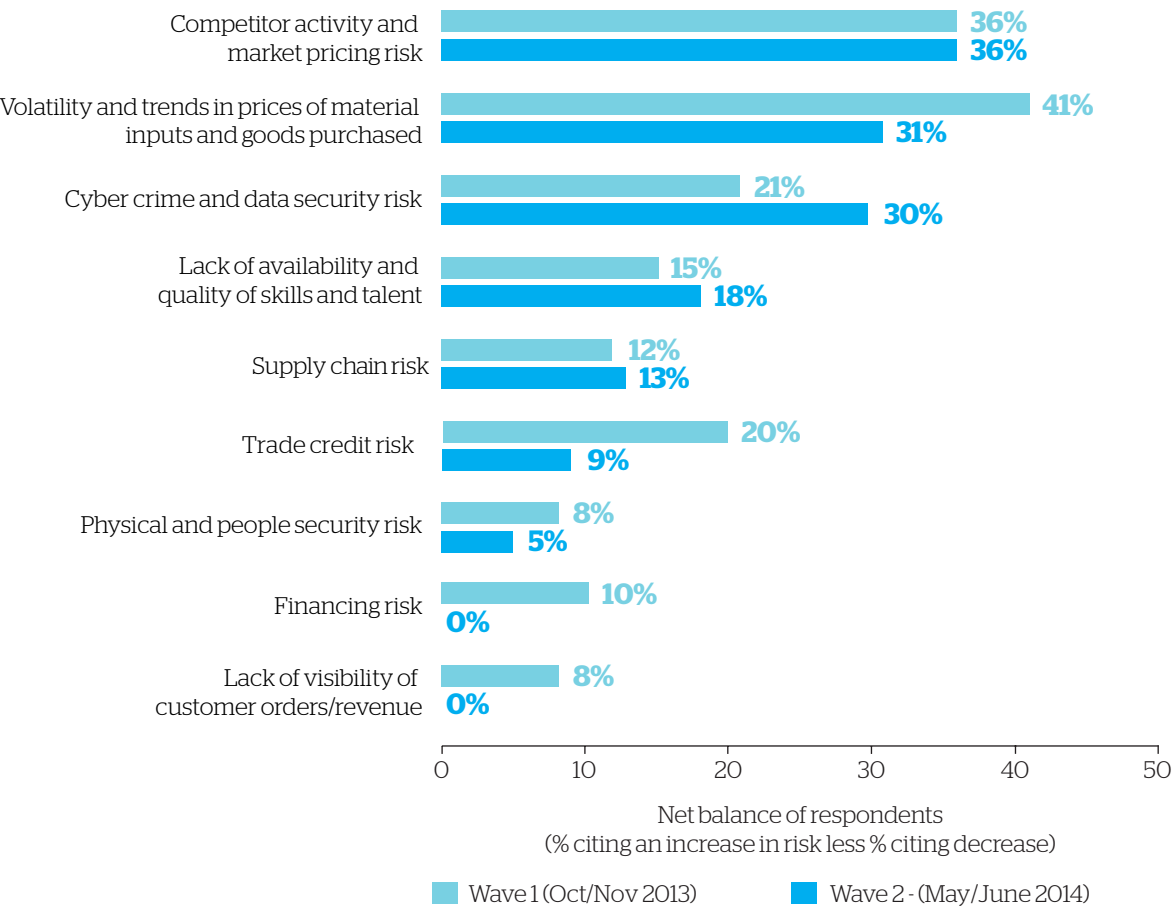
## The level of perceived risk is steadily increasing

Whilst there are now a broad range of indicators painting an increasingly positive picture of the UK economic backdrop, it is clear from the feedback of risk decision-makers that businesses continue to operate within an environment characterised by a multitude of risks. Nearly three in ten respondents indicate that the overall level of risk they are exposed to has *increased* over the last six months.

### Perceptions of the overall level of risk faced by companies (in last 6 months)

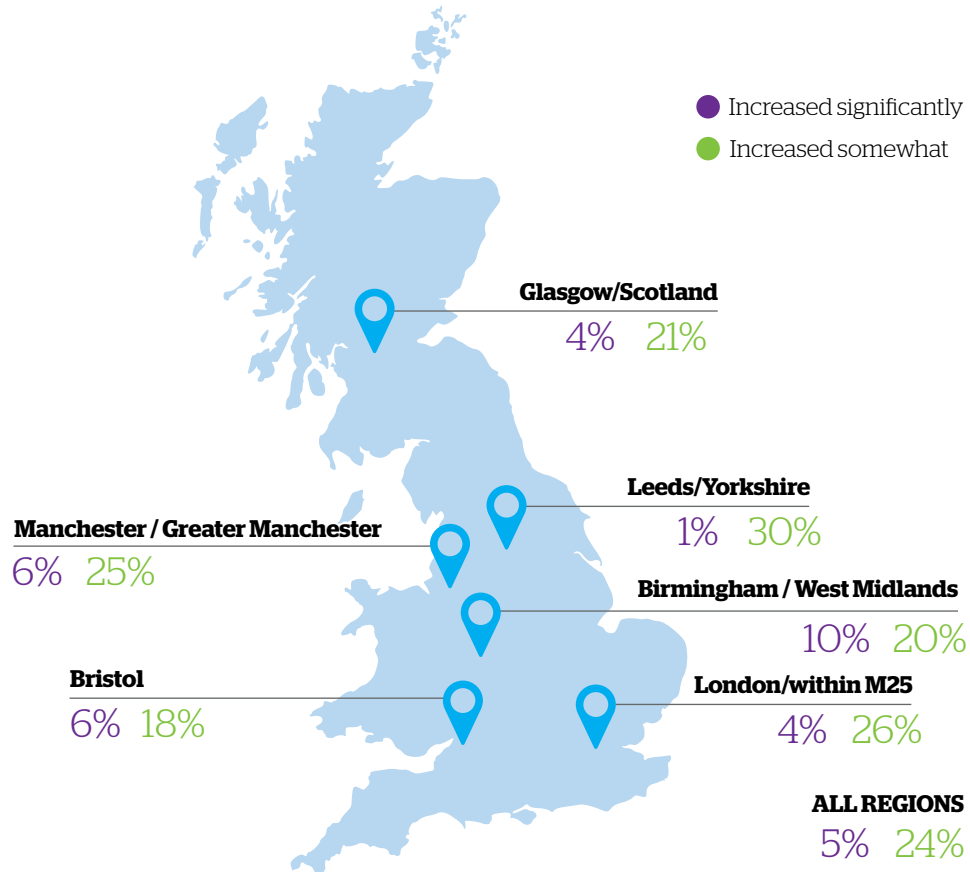


Intensifying competitor activity and market pricing risk, alongside unfavourable trends in input prices continue to be cited as key areas where risk has increased in recent months. A net balance of 36% of respondents see competitor activity and market pricing risk as having increased over the last six months, an unchanged picture from that six months ago. Notably, however, perceptions of cyber crime and data security risk have increased significantly, possibly influenced by the highly publicised 'Heartbleed' scare.



## Regional spread

Across the UK, perceptions of overall risk have increased in all six regions covered by the survey, particularly so in the West Midlands and Greater Manchester.



## Sector split

Similarly, perceptions of overall risk have increased in all industry sectors, most notably Financial Services.

### IT / Telecoms / Media



**9%** Increased significantly  
**22%** Increased somewhat

### Manufacturing / Engineering



**2%** Increased significantly  
**24%** Increased somewhat

### Leisure / Catering / Entertainment



**2%** Increased significantly  
**19%** Increased somewhat

### Building / Construction



**5%** Increased significantly  
**32%** Increased somewhat

### Financial Services



**7%** Increased significantly  
**32%** Increased somewhat

### ALL SECTORS

**5%** Increased significantly  
**24%** Increased somewhat

### Business / Professional Services



**6%** Increased significantly  
**14%** Increased somewhat

### Retail / Wholesale

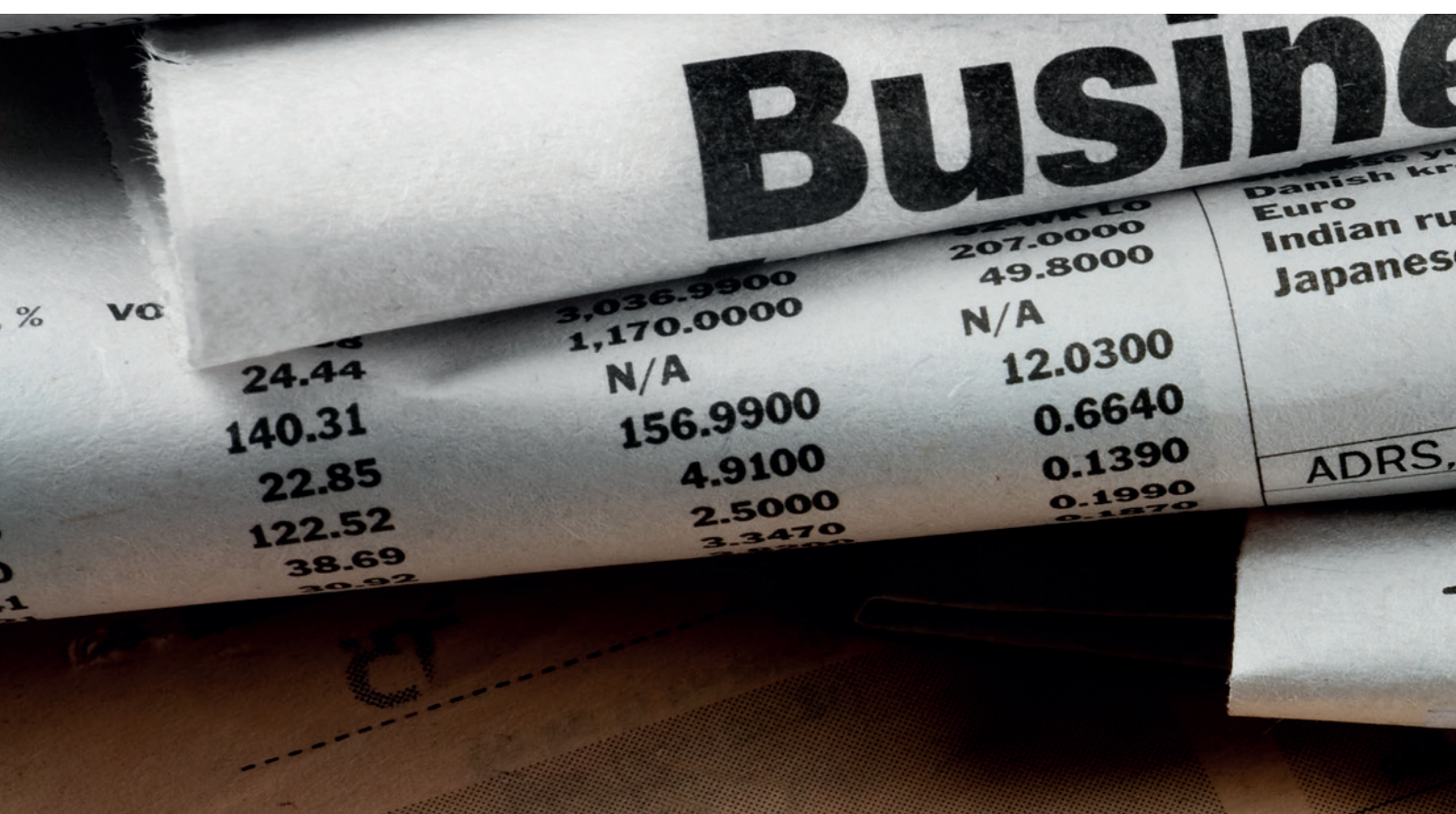
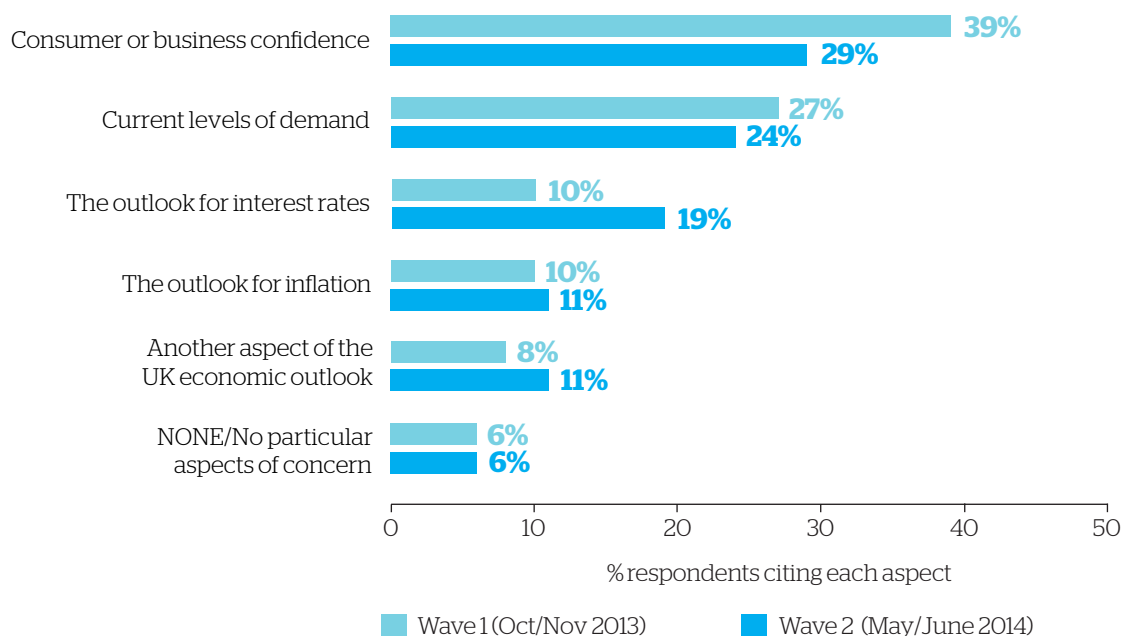


**6%** Increased significantly  
**22%** Increased somewhat

## Business outlook

As the evidence grows about the spread and sustainability of economic recovery in the UK, concern about the level of consumer or business confidence, and current levels of orders, appears to be fading somewhat. However, unease about the outlook for interest rates has grown substantially over the last six months. For nearly one in five (19%) businesses, it is the outlook for interest rates that is currently the aspect of the economic outlook that is of most concern.

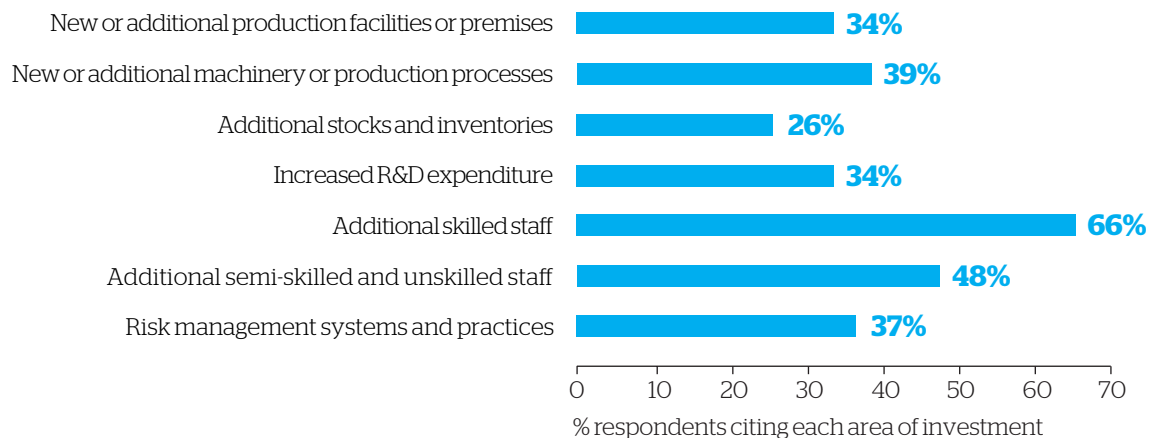
### Aspects of the economic outlook of most concern to businesses



## Planned investment

Despite the concerns that risk decision-makers have of the immediate economic outlook, the research results suggest that nearly nine in ten businesses expect to be increasing their investment (in one or more of the seven areas we put to them) in the next 12 months. Most notably within this overall picture, two in every three (66%) businesses expect to be increasing their investment in skilled staff. Indeed, all six regions covered by the survey recorded a strong result in this particular area.

### Expected areas of business investment (in next 12 months)



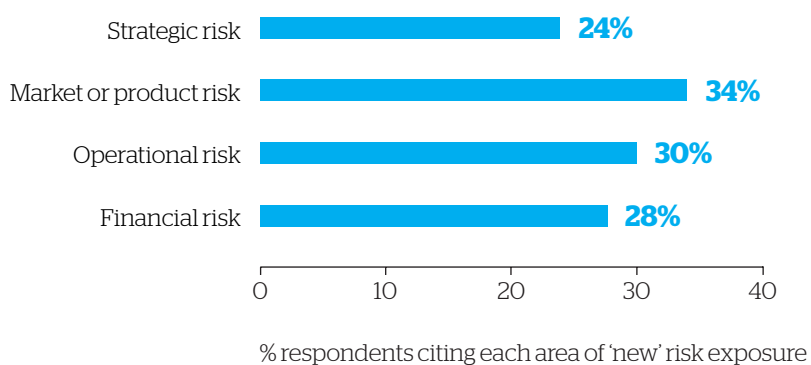


## Growing exposure to new types of risk

While the perceived increase in risk levels might, at first sight, seem somewhat at odds with the improving economic backdrop, closer inspection of the specific risks that are causing concern for individual businesses provides insight into why this is the case.

Over half (54%) of the businesses we surveyed indicate that they have gained exposure, over the last couple of years, to 'completely new' areas of business risk.

### Exposures gained to 'completely new' areas of business risk (over last couple of years)





Perhaps not surprisingly, it is the larger companies (i.e. those in the 250+ employees size category) that have been the most likely to have taken on 'completely new' areas of strategic, market/product and operational risk. On an industry sector basis, however, it is the Building/Construction and Financial sectors that have been most likely to have gained 'new' risk exposures; in contrast, businesses in Leisure/Catering/Entertainment have been the least likely to have done so.

### Exposures gained to 'completely new' areas of business risk (over last couple of years)

#### IT / Telecoms / Media



**44%** Increased significantly  
**18%** Increased somewhat

#### Manufacturing / Engineering



**25%** Increased significantly  
**23%** Increased somewhat

#### Leisure / Catering / Entertainment



**19%** Increased significantly  
**15%** Increased somewhat

#### Building / Construction



**46%** Increased significantly  
**24%** Increased somewhat

#### Financial Services



**49%** Increased significantly  
**17%** Increased somewhat

#### ALL SECTORS

**34%** Increased significantly  
**20%** Increased somewhat

#### Business / Professional Services



**33%** Increased significantly  
**23%** Increased somewhat

#### Retail / Wholesale



**24%** Increased significantly  
**18%** Increased somewhat

## About QBE

QBE is a business insurance specialist. We understand the risks businesses face and support organisations from a diverse range of sectors in managing and mitigating their risk enabling them to realise their objectives.

An A+ rated insurer, we have the appetite and capacity to provide cover for businesses of all sizes.

Our extensive product range includes:

Accident and health (inc commercial PA and business travel)	Pharmaceutical and medical
After the event insurance	Political risk and terrorism
Commercial crime	Product guarantee and recall
Commercial combined	Product protection
Contractor all risks/EAR	Property
Energy, offshore and onshore	Reinsurance
Entertainment and leisure industry	Scheme underwriting facility
Environmental impairment liability	Specie
Financial and professional liability (Director's & Officer's, Professional Indemnity, Cyber Liability)	Surety
General liability (Employer's Liability, Public Liability, Tradesman)	Trade credit and bonds
Marine	Warranty and GAP
Motor Commercial (inc fleet, haulage, bus and coach, motor trade)	

### Risk management

Effective risk management is a feature of all successful organisations – and it's one of our key underwriting considerations. We work closely with businesses to improve their systems and processes; minimising their exposure to risk and helping to reduce the frequency and severity of any losses.

### We stand by our claims

Inevitably, claims do occur. That's when businesses really discover the value their insurance company delivers. We pride ourselves on our positive attitude and proactive approach to claims management. Our claims teams have a deserved reputation for the professional, efficient and sympathetic way they work with brokers and clients when losses are incurred.

### Local knowledge

UK underwriting offices: London, Belfast, Birmingham, Bristol, Chelmsford, Glasgow, Leeds, Manchester and Stafford.

### To find out more

For more information about QBE and how we can help your business, please visit our website **[www.QBEurope.com](http://www.QBEurope.com)**.

# How the research is conducted

Each wave of the research is completed through a two phase programme of telephone interviews, with an initial series of in-depth discussions being followed by a programme of 400 interviews. Both phases of research are conducted by independent research agencies.

The job titles of individual respondents contributing to the survey varies from organisation to organisation, but each of our contributors confirms that he or she is personally involved in decision-making about managing risk.

The main phase of research is focused on 7 key industry sectors (defined by SIC codes) and 6 specific UK regions (defined by post code).

INDUSTRY SECTORS COVERED	REGIONS COVERED
Business/Professional Services	Birmingham/West Midlands
Building/Construction	Bristol
IT/Telecoms/Media	Glasgow/Scotland
Retail/Wholesale	Leeds/Yorkshire
Manufacturing/Engineering	London (within M25)
Leisure/Catering/Entertainment	Manchester/Greater Manchester
Financial Services	

Companies targeted for interview in the main phase have a minimum of 5 employees, and a maximum of 1,000 employees. Within these parameters, interviews are spread across three company size categories: 5-49 employees; 50-249 employees; 250+ employees. The final results on the overall level of risk are weighted to an equal spread by company size.

The specific quotes included in the report are edited from comments made by respondents in the initial and latest waves of the survey.

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