

Successfully managing corporate risks

Protect your balance sheet the systematic way





Successfully managing corporate risks

Business activities are inevitably associated with opportunities and risks. How to deal with these challenges is a question that every company needs to address.

Businesses invariably focus on securing corporate revenues and earning an appropriate return on capital invested. Every day, however, they are at risk in various ways from major factors such as production, personnel, financing and environmental influences. Accidents can affect persons, property, the environment, or profits, whether in individual departments or in the undertaking as a whole. Yet, though safety plays a key role at every level, companies still often fail to make systematic provision for the safety issue. There is thus a need for a comprehensive and systematic approach to corporate risk management. The Zurich risk management methodology is based on an integrated consideration of the issues (see page 8). The implementation of a corporate risk management strategy should be driven by executive management and should cover all areas.

Note: Since 1.1.2008 all companies in Switzerland which are legally required to have a regular or limited audit performed must provide information on the conduct of a risk assessment in the notes to the annual financial statements. This must cover any risks which could have a significant impact on the annual financial statements.

Excerpt from the Swiss Code of Obligations:

Art. 663b CO: The notes to the annual financial statements must include information about the conduct of a risk assessment

Art. 728a/b CO: The auditors must check whether an internal control system (ICS) is in place in the company, if the company fulfills legal criteria

Art. 801 CO: Specific application of the AG auditing law provisions as per Art. 728 ff to GmbHs

The benefits of a risk management system



Insurance solutions

- risk-adjusted premiums
- participation in surpluses
- special coverages
- risk cost optimization
- ...

Compliance with legal requirements

- product safety
- safety at work
- data protection
- directors' and officers' liability
- risk assessment
- ...

Risk management:

Documentary evidence of a company's ability to deal with risks systematically and successfully

© RMS, Zurich

Raising capital

- from financial services providers
- on the market
- ...

Relationships with customers and suppliers

- promoting trust and credibility
- ...

A management and working tool

- early warning system for strategic management and planning
- transparency at all levels
- ...

Better financial results

Integrated, systematic risk management means that the 'undesirable events' (losses, inefficiencies, damage, accidents, etc.) affecting a business will be fewer in number and less severe in terms of cost. The direct and indirect financial costs associated with these events, as well as any potential loss of earnings, are reduced considerably, and their impact on the income statement is much less pronounced. An investment in risk management will thus normally pay for itself several times over. Overall risk costs are reduced over time and better financial results can be achieved.



Dealing successfully with risks

A risk management system, tailored to the specific needs of the business and actively applied, enables a company to demonstrate that it can deal with risks in a systematic and successful manner. This ability to deal with risks can be put to profitable use in a number of areas:

Better creditworthiness

Businesses with a risk management system are better able to demonstrate their 'creditworthiness' to financial services providers or the public when they are seeking to raise capital. They are thus able to raise capital more easily and on better terms.

Attractive risk financing terms

When buying insurance solutions, the documented risk management system can be presented to the insurer to clarify the specific risk situation faced by the business. This can have a positive effect on the financial terms offered (premiums, share of surplus). Where evidence of risk management measures is a precondition for taking out an insurance policy (e.g. product recall cover), this is achieved more quickly and easily with a risk management system.

Trust in relationships with contractual partners

In relationships with customers and suppliers, a documented risk management system creates and boosts trust and credibility between contractual partners.

A documented risk management system provides proof of compliance with legal requirements, in areas such as product safety and product liability (due diligence, product monitoring), safety at work (involvement of occupational safety specialists), data protection etc.

In more general terms, a risk management system helps a company's management to demonstrate its compliance with its duty of care and corporate governance obligations under company law.

Management tool

A risk management system is a useful management tool. It acts as an early warning system, providing valuable information which can be used in strategic management and planning, for instance, or in organizational development. A risk management system can provide a company's financial management with a uniform financial assessment of risks. In addition, risk management documentation is a useful working tool for employees, as it creates transparency and encourages employees to minimize risk in individual work processes.

Integrated...



A company's success in the marketplace is threatened by many different risks. As well as operational risks such as product recalls, fire and environmental damage, traditionally uninsurable business risks (strategic risks, market risks, financial risks) have also led to material and financial losses and business failures in the past.

Risk management is concerned with all the events that a business considers to be 'undesirable'.

Business risks (speculative risks)

Strategic risks

- products, services
- markets
- mergers & acquisitions
- management skills
- ...

Market risks

- interest rates
- currencies
- inflation
- market access (e.g. trade barriers)
- ...

Financial risks

- liquidity
- capital investments
- financial investments
- financing
- accounts receivable losses
- ...

Operational risks (pure risks)

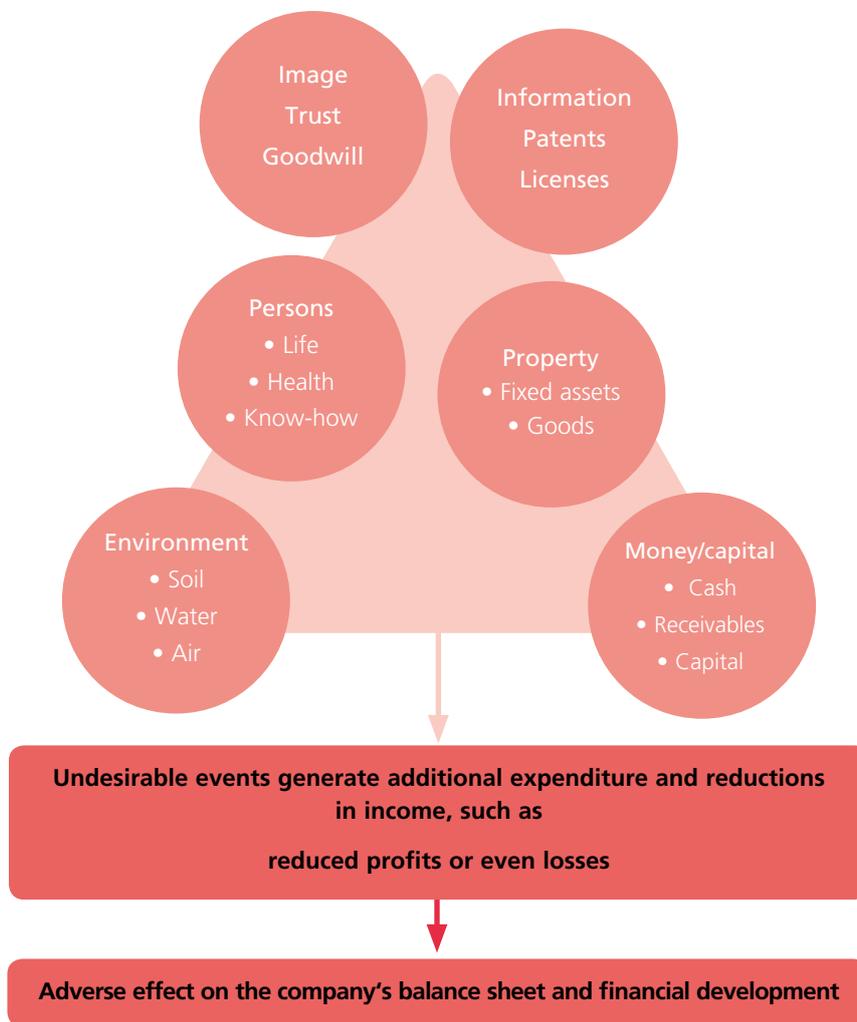
- product liability
- accident, health
- ...

- brand
- environmental damage
- ...

- business interruption
- Transport damages
- ...



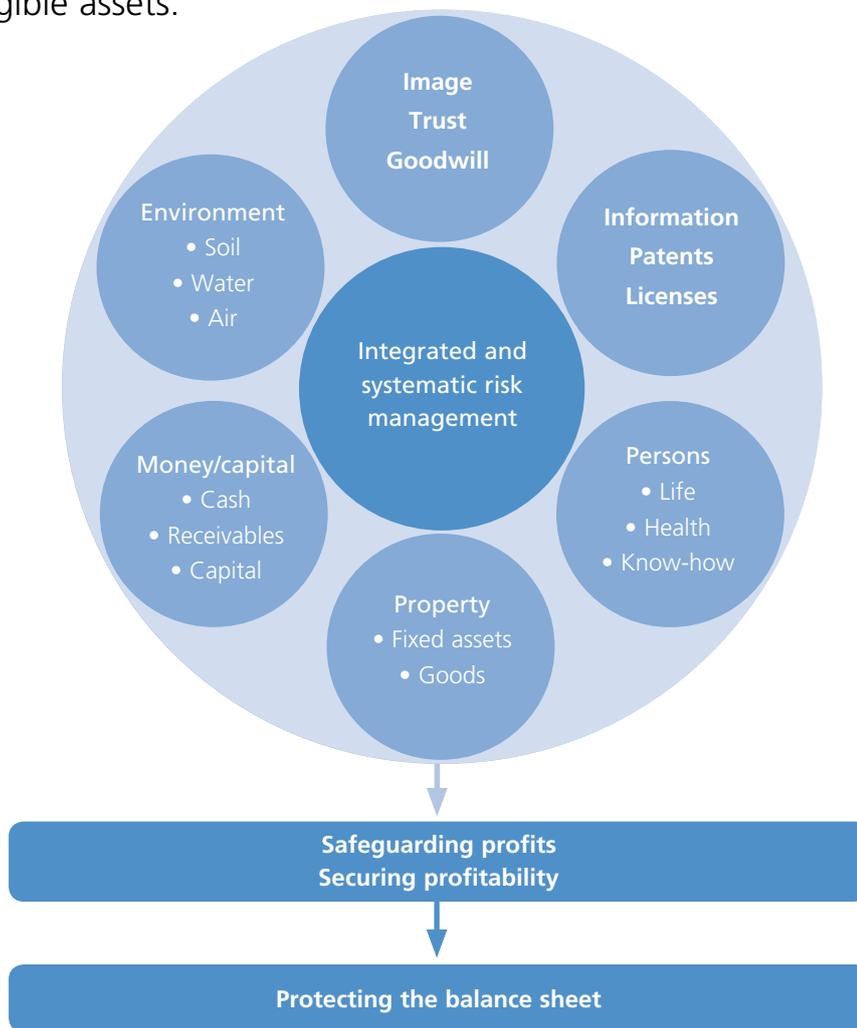
Business and operational risks pose a threat to a company's tangible and intangible assets:



Undesirable events that destroy, reduce or devalue the company's assets result in expenses and/or loss of income that impact earnings. This in turn leads to lower profits or even losses and adversely affects the company's balance sheet and financial development.



Comprehensive risk management creates a basis that enables companies to protect their tangible and intangible assets:



Risk management means thinking and acting systematically in order to limit risks, and is an explicit part of corporate management. The aim is to minimize costs resulting from undesirable events and to secure revenues. In the hands of corporate management, it is a tool that can be used to secure profits and the return on capital invested, while protecting the company's balance sheet.



... and systematic

Risk management (RM) is based on a continuous, constantly changing process of awareness and action. Corporate risk management therefore requires the introduction and application of a methodology that reflects the process-based nature of risk management. Zurich's proprietary methodology is based on five steps that need to be followed and implemented in a company's risk management system.

Risk management methodology



1 Risk awareness aims to make people aware of the risks to persons, property, the environment, assets and profits. The risk management process begins as soon as safety and security are perceived as a corporate policy issue and as a routine task in the day-to-day management of business.

2 Hazard identification is the process of recognizing the actual potential causes and consequences of risks within the company.

3 Risk analysis involves the assessment and evaluation of the identified risks.

4 Risk handling includes the planning and implementation of measures based on cause and effect that can be used to mitigate or finance the risks.

5 RM controlling/feedback is the control element which makes use of system-specific and risk-related experiences for the process itself.

This approach to risk management is explained in detail in the brochure 'Corporate Risk Management – proceed methodically' (www.zurich.ch/sme).



Dealing with risks systematically and successfully

Companies that manage their strategic, market, financial and operational risks in an integrated and systematic approach enjoy a competitive advantage in the marketplace. They are in a position to minimize costs resulting from 'undesirable events' and to secure earnings and profitability while protecting their balance sheets.

Our checklist, available at www.zurich.ch/sme, will help you make sure you've thought of everything!

For more
information
consult
www.zurich.ch



Risk assessment and risk transfer... go hand in hand

A comprehensive risk assessment will also include the analysis of your existing insurance portfolio in order to make adjustments for any changes and new requirements. This is the only way to make sure you have an optimal, tailor-made insurance solution – that will give you all-round financial security and allow you to concentrate fully on the success of your company.

With our network of over 200 offices throughout Switzerland we are close at hand wherever you are. A personal consultation with one of our 1500 customer advisors is the best way of finding optimal solutions for your insurance and pension needs. Together with you we identify your business's most important requirements in the field of risk transfer and insurance. With our wealth of experience we are able to structure a package that exactly fits the needs of your business.

Our checkup includes an in-depth analysis of your insurance portfolio, which will bring to light any requirements and gaps in your coverage. Together we will optimize your insurance portfolio and help you to cover yourself for any setbacks.

We will be happy
to provide you with
personal advice tailored to
your individual circumstances.
Simply contact your nearest
Zurich agency, call us toll-free
at 0800 80 80 80 or get in
touch with your broker directly.
www.zurich.ch

Because change happenz[®]

The information and documentation provided here may only be reproduced in unaltered form and for information purposes with full acknowledgement of sources.

© 2008 Zurich

Zurich Insurance Company
Thurgauerstrasse 80, 8050 Zurich
Phone: 0800 80 80 80, www.zurich.ch

