

MENA Risk Management and Insurance Perception Survey

An analysis of the role risk management plays in influencing an organisation's business functions, corporate structure, and decision making process in the Middle East and North Africa.



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Foreword

Risk Management has quickly emerged as a key trending business function. While in the past it has been viewed as a company's safety net, now with the support of data and analytics it can be used as a foundational tool to help firms transition toward sustainability and growth. Indeed, risk management is in the early stages of true strategic influence.

In the survey, respondents were keenly aware of the importance of developing a more strategic approach to risk management in order to benefit their organisations — the survey showed that respondents ranked 'quantifying specific risk', 'exploring emerging issues', and 'optimising insurance programmes' as their top three motivations for improving risk management data and analytics within their organisations. This willingness to move in a more strategic direction is a significant indicator of positive change within the region.

A clear thread ran throughout the responses in the MENA Risk Management and Insurance Perception Survey 2019: Specific groups of respondents had different perceptions of their organisations' risk management activities and capabilities. In other words, there is an inconsistency that highlights a lack of communication within organisations. It is a fundamental misunderstanding of what embedded risk management looks like in regard to key decision making. This is unfortunate because a strategic approach to risk management — particularly with regard to insurance decision making — leads to not just resilience, but also growth.

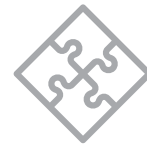
According to the survey, respondents were also keen to enhance capabilities and formalise their risk management provision. To this end, organisations made 'risk management training and education' their number one priority.

So how do we evolve the conversation taking place at the strategic level into action on the ground? In this report, we explore the key risk management activity of insurance purchasing through the eyes of the region's organisations. This allows for the opportunity to gain some insight into this essential area of risk transfer.

We hope this report is a useful resource that not only stimulates discussion among your colleagues and peers, but also inspires action at all levels within your organisation.



Christos Adamantiadis
Marsh Middle East & Africa CEO



'Risk management training and education' ranked higher than the number two area of focus — 'improving their organisations' risk governance structure'.

What Worked Well?

According to the survey, structures are being created within the region's organisations to support risk management. Efforts are notably being made to formalise, professionalise, and add structure to the decision making process for insurance purchasing. **Currently, 76% of respondents have either a formalised risk framework, or a dedicated insurance team for informed decision making.**

The survey also shows that risk management functions within these organisations are formally participating in all key activities — including Compliance, Safety, and IT/Cyber — with Business Continuity Management as an area of particular focus.

To add to this, 75% of respondents say their organisations have formalised governance structures and put processes in place for managing risks.

Unfortunately, the difference between those making strides towards more stringent risk management and its use in insurance decision making (75%), and those without a standardised approach remains broad.

With 14% of respondents admitting to using a scattergun approach to risk management across different parts of the business and 9% stating there is no formal approach developed for risk management.



Which of the below best characterizes the risk management capabilities within your organization?

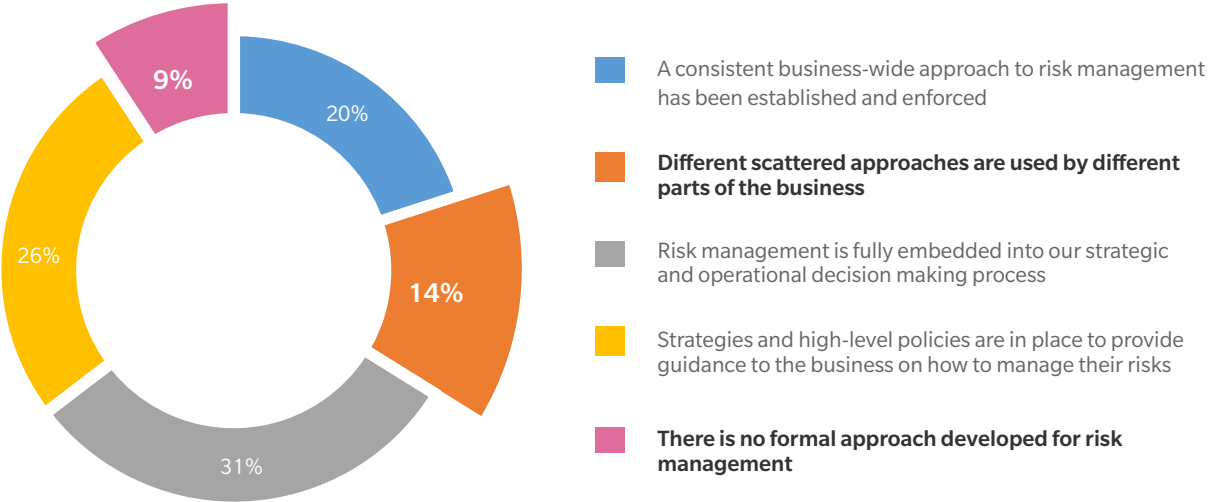


Figure 1

The Disconnect

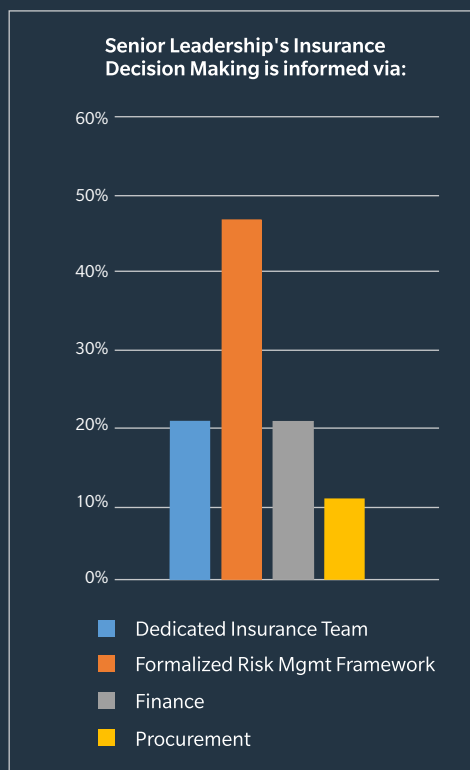


Figure 2

There is no doubt in the minds of executives in businesses across the region that a risk management framework is a key requirement for effective insurance decision making. The disconnect, however, lies in the effective implementation of a formal framework.

According to the survey, both senior leadership and insurance teams within businesses in the Middle East believe that a formalized risk management framework is at the heart of insurance decision making – 47% and 44% respectively (see **Figures 2 and 3**). This is in line with a growing understanding of the need for a strategic approach to risk management.

However, the risk teams within these companies did not share the same optimism. Only 9% believed that a formalized management framework was being utilized (see **Figure 4**).

This disparity flags two potential issues that could prove harmful to efforts to strengthen a strategic approach to risk management:

- There is a lack of an integrated approach to risk management across the core leadership teams.
- There is no common language for risk management within the companies surveyed.

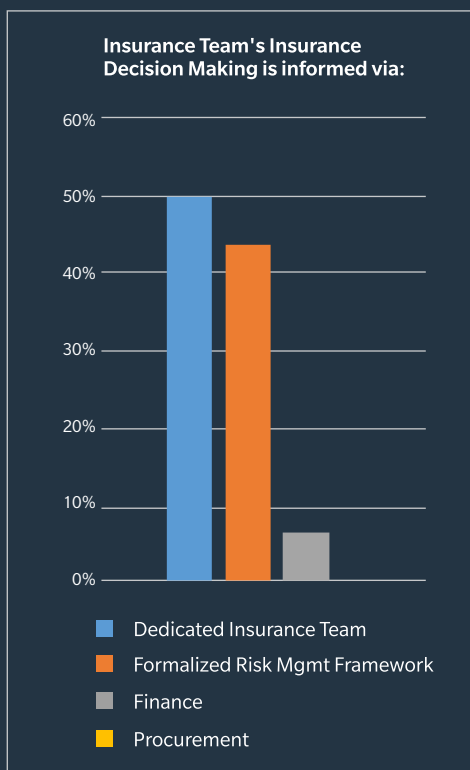


Figure 3

This indicates the ineffective implementation of Enterprise Risk Management. Senior leadership views formalized risk management as the key influencing factor for insurance decision making, while the insurance teams perceive a more collaborative approach between dedicated insurance teams and the use of the formalized risk management framework. It speaks to the need for better communication among leadership teams within the region, and the need for the risk management discussion to be ongoing.

The lack of common language for risk management leads to different interpretations of how it is being approached. For instance, a mixed view of what constitutes a formalized risk management framework may have led to senior leadership within these companies believing that it is the guiding force behind their insurance decisions. This can occur despite the fact that their risk team thinks otherwise and expresses a contradictory reality in the survey.

Furthermore, when asked to express their perception on risk management capabilities within their firms, the senior leadership group again displayed the difference in their understanding of risk management and their misrepresentation of the label '**risk management**'. This group offered the highest capability scores for their firms with

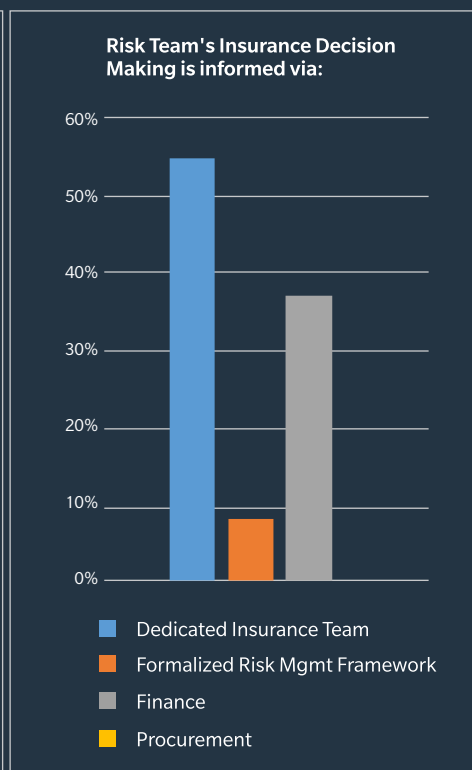


Figure 4

respect to risk management capabilities, with the majority believing that their companies either had "**strategies and high-level policies in place to provide guidance to the business on how to manage their risk**" or that "**risk management is fully embedded into their strategic and operational decision making process**".

The risk teams, however, offered the lowest scores for risk management capabilities, with three times as many from this group, compared to the senior leadership group, highlighting that their firms have "no formal approach developed for risk management".

With the risk teams offering a realistic view, these scores indicate that the senior leadership teams may not be aware of what 'good' or 'outstanding' looks like for risk management. Senior Leadership teams are often unable to recognize what embedded risk management looks like, particularly with regard to key decision making.

It is essential that an educational piece is explored at the highest levels of these companies. This will ensure that there is a common understanding of what a strong risk management framework looks like and how it can be effectively utilized to enhance performance.

A View on Insurance Purchasing

The approach to Enterprise Risk Management and the risk management framework by organisations in the region can be described as ambitious. The implementation of proactive risk management initiatives, like opportunity management, will depend on how these firms value activities like insurance purchasing.

When the organisations surveyed are segmented by size, in line with revenue, it's easy to identify how the view of insurance purchasing changes in line with a firm's size.

The top three reasons for purchasing insurance for firms with revenue less than \$20 million, and those ranging from \$20.1 million to \$99 million, are:

- minimizing impact of threats
- regulatory
- contractual/peace of mind

What are your top 3 reasons for purchasing insurance? - Less than \$20 million in revenue per annum

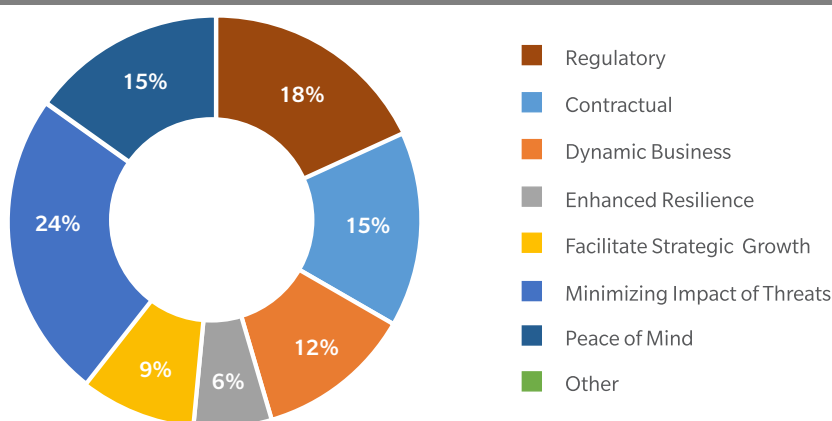


Figure 5

We see a change when we look at organisations with revenue of \$100 million to \$250 million, their top three are:

- contractual
- minimizing impact of threats/peace of mind
- dynamic business/regulatory

What are your top 3 reasons for purchasing insurance? - \$100 to \$250 million in revenue per annum

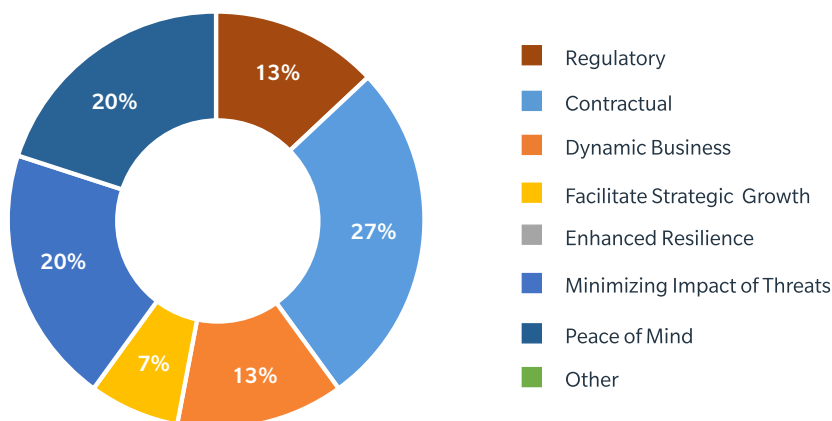


Figure 6

It is at this point that we start to see hints of a strategic approach forming.

Firms with revenue ranging from \$250 million to \$500 million demonstrated an alternative approach to insurance purchasing. Their top three are spread across nearly all of the options, with “Contractual” taking the top spot, both “minimizing impact of threats” and “peace of mind” ranking second, and three of the remaining five options – “dynamic business environment”, “Enhanced business resilience”, and “regulatory” — all sharing the third position.

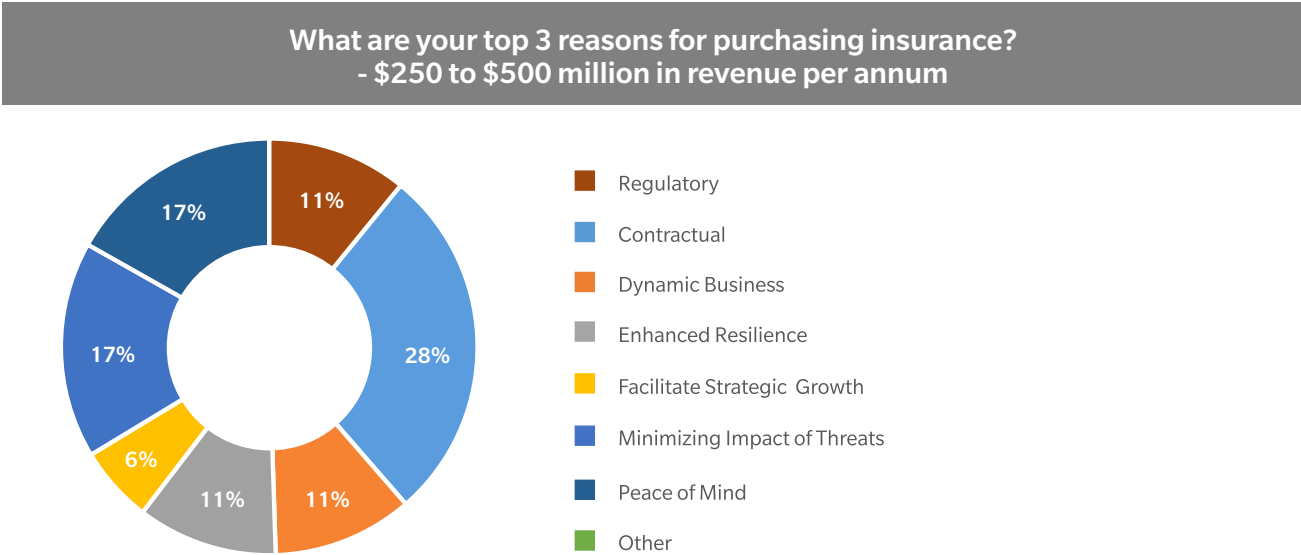


Figure 7

The purchasing reasons of “contractual”, “regulatory”, and “peace of mind” appear in all top three lists. Despite a higher value being placed on the purchasing of insurance by larger companies, who had less of a narrow view of the activity, these three reasons still reference a region that hasn’t quite stepped away from the view that risk transfer is an obligation. The realities of this view are in sync with risk managers conveying that Enterprise Risk Management is still a reactive practice in the region.

With senior leaders making it very clear that they understand where they should be with ERM and their risk management frameworks, **the question is what is the barrier to their success that is causing them to purchase insurance for non-strategic reasons?**

Focusing on Opportunity Risk



Figure 8

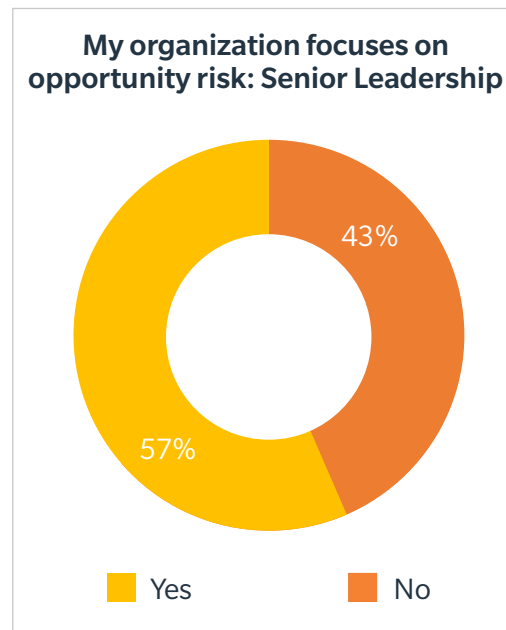


Figure 9

Enterprise risk management (ERM) as a whole has matured, and represents more than a tactical, and solely protective, response to risk. Now, ERM and risk management is more of a proactive strategic play. Increasingly, businesses around the world are exploring how ERM can add value to opportunity management and decision making.

According to the survey, members of senior leadership teams within the region are also moving in this direction. Nearly **57% believe their organisations focus on opportunity risk** (see Figure 9). As key decision makers, this is a promising assertion.

This strategic approach, however, is not necessarily trickling down to teams on the ground. Some **64% of risk management teams within these organisations expressed that there was not a focus on opportunity risk** (see Figure 8).

It could be inferred that while strategic plays are being made at the top levels, risk teams are left to take a more transactional approach to ERM and risk mitigation. In order for senior-level strategic decisions concerning opportunity risk to be actionable, better lines of communication need to be built between senior leadership and risk teams.

A consistent company-wide risk management framework could act as the bridge between the various teams. Establishing company-wide processes and procedures can help different parts of the business identify and manage risks; this will ensure that they are operating in-line with the organisation's agreed risk appetite.

What is Opportunity Risk?

It is the likelihood that a loss will take place when chasing one opportunity, preventing the pursuit of better opportunities in the future. A prepared business can plan in advance by having the right people, systems and contingency plans in place. Perceive opportunity risk as an chance to become better at taking more calculated risks instead of simply avoiding them altogether.



When looking at risk management capabilities within smaller organisations, **with revenue less than \$20 million, nearly 42% described strategies and high-level policies being in place**, but without the correct mechanisms this will not be trickled down to more functional teams or the teams on the ground (see Figure 10).

At the other end of the scale, **25% of organisations with this level of revenue outlined that they had “no formal approach developed for risk management”**. Only 8% believe they have a **“consistent business-wide approach to risk management”** that has been established and enforced.

At the other extreme, with organisations with revenues ranging from \$250 million – \$500 million, there are no firms that are operating without a formal approach developed for risk management. **Some 50%, however, also felt that their risk management capabilities were reserved for their most senior leaders, with strategies and high-level policies best describing their risk management capabilities** (see Figure 11).

This further highlights the gap between well-intentioned strategy and action on the ground with regard to risk management and the use of a risk management framework.

Which of the below best characterizes the risk management capabilities within your organization? - Less than \$20 million in revenue per annum



Figure 10

Which of the below best characterizes the risk management capabilities within your organization? - \$250 to \$500 million in revenue per annum

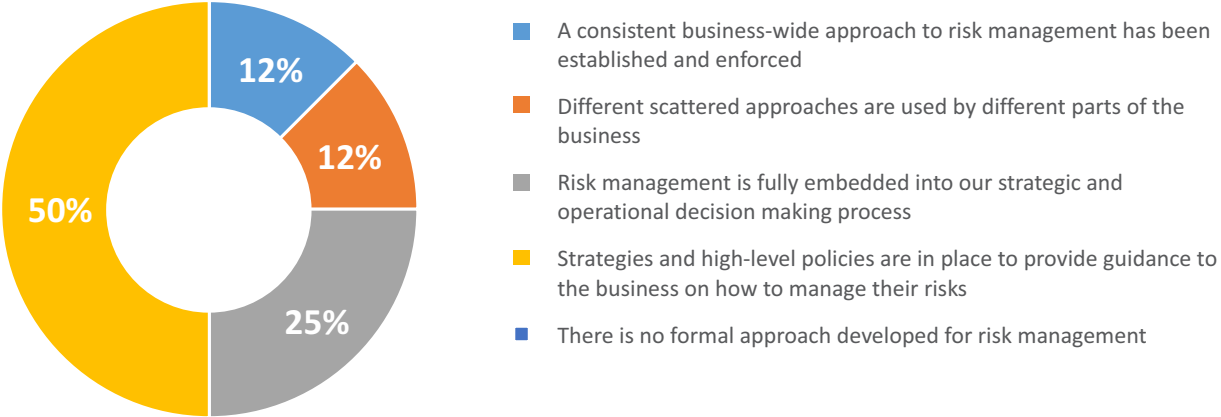


Figure 11

Barriers to Success

Breaking down the barriers between the senior leadership teams' best intentions for the strategic use of ERM and their tactical approach to activities like the purchasing of insurance will ultimately build resilience and facilitate sustainable growth.

There are a number of challenges that stand in the way of effective risk management functions for organisations within the region. According to the survey, over a third of organisations do not:

- understand risk across multiple global geographies
- offer high-quality risk analytics to stakeholders
- have the right resources to an effective level

Despite a third of the organisations not having the necessary elements for a strategic approach to their risk management functions, **over 83% believe they are providing their board with relevant risk information.** This may be true from a tactical standpoint, but more strategic thought is needed for the risk management functions to be true value drivers.



Ultimately, with risk management being viewed as an obligation and being approached tactically, opportunities for it to be used as a value driver by organisations in the region are being missed. This is acknowledged by respondents, with nearly half (47%) not exploring opportunity risk in any way (see figure 12).

Without the connection between risk management and strategic planning, organisations limit their perspectives on risk management and its role within insurance decision making. Organisations will continue to rate their current efforts highly if their approach is limited to tactical activities.

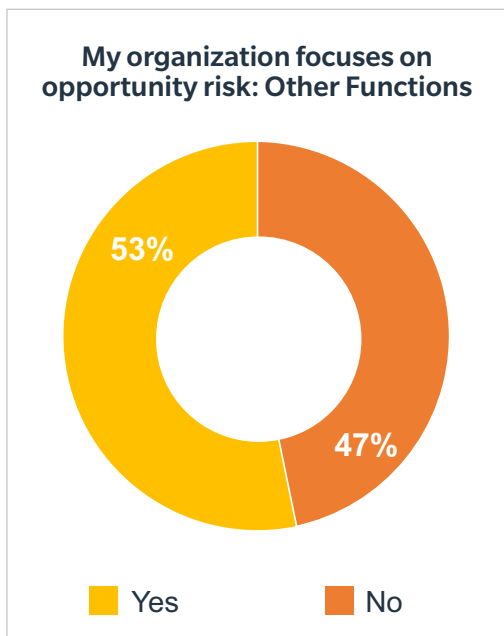


Figure 12



Looking to the Future

Key Risk Concerns

The number one short-term risk concern in the region was 'cyber attacks', followed closely by 'Regulation'; the two concerns have risen 27 and 26 points respectively (see Figure 13). Both 'regulation' and the number three risk concern, 'Competitors', feature in the top five long-term risk concerns, with Competitors taking the number one spot and 'regulation' the second. 'Cyber Attacks' on the other hand does not appear in the top five long-term risk concerns. There is a distinct shift away from the technology related risk concerns of the short-term to the people/political related risk concerns of the long-term. This may be short-sighted, as cyber in all forms has been deemed one of the fastest evolving risks of our time, and should very well be a key long-term concern.

Short Term Concerns (1-2 years)

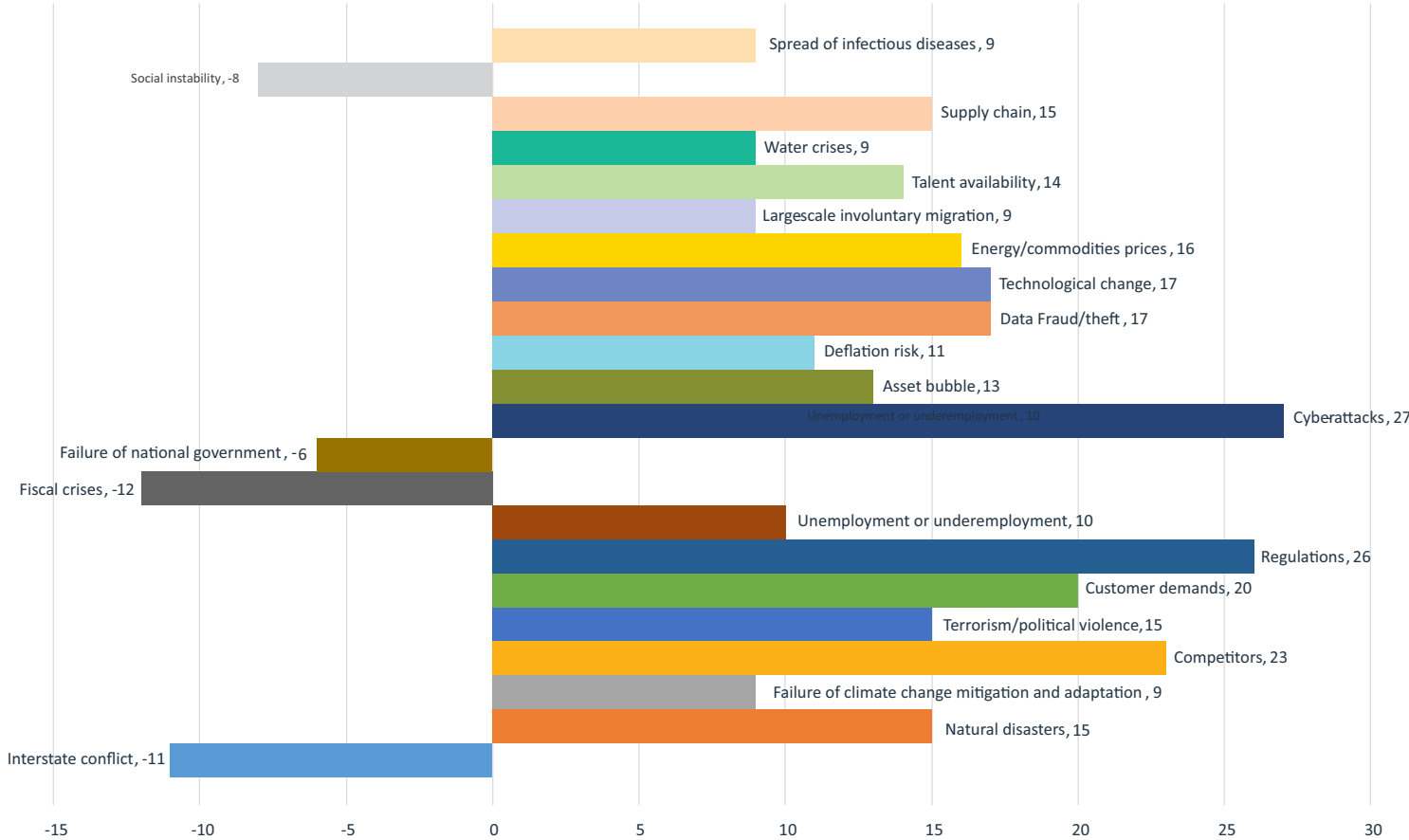


Figure 13

How easy is it to forecast your organizations top concerns today, compared to three years ago, and three years from now?

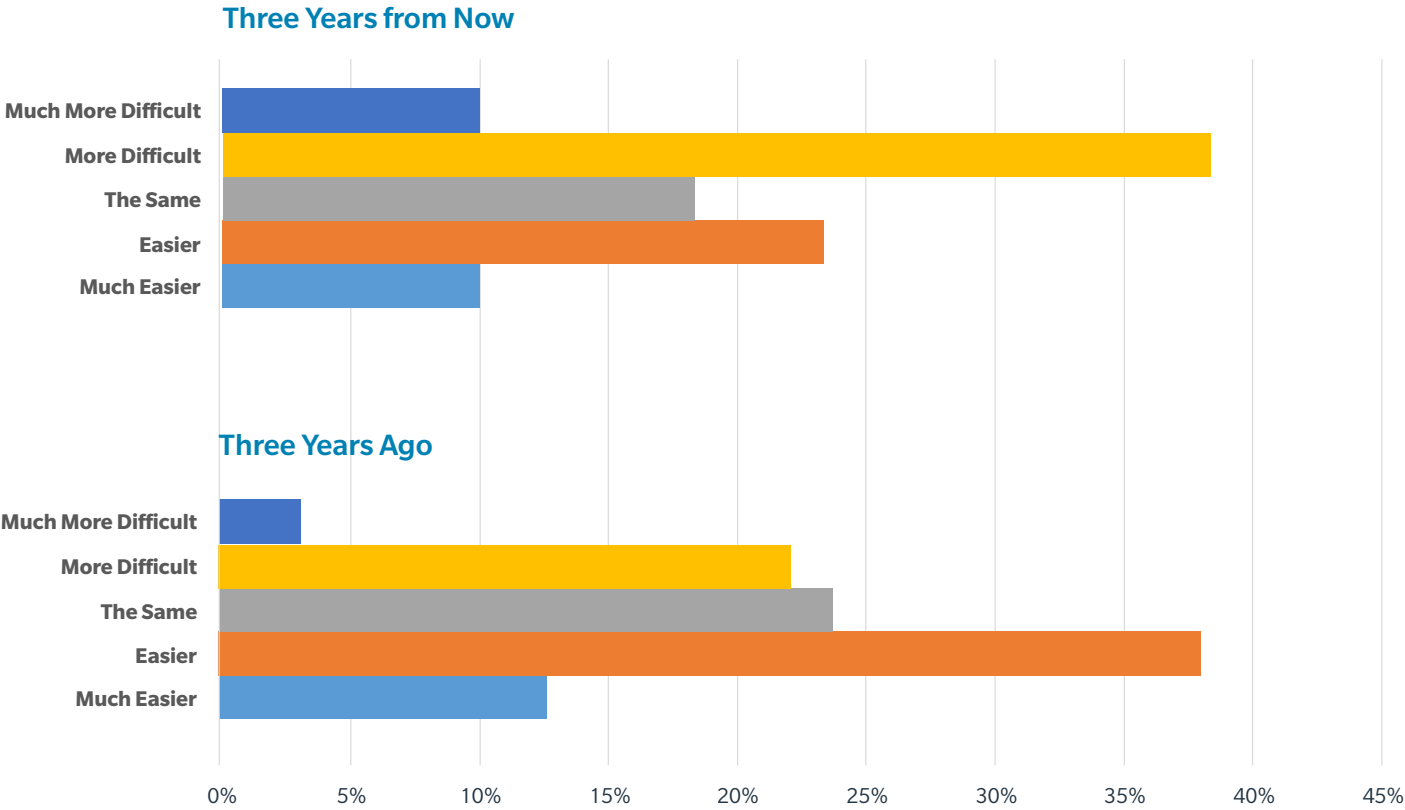


Figure 14

Respondents highlighted that their ability to forecast concerns has reduced considerably compared to three years ago, and the majority feel it will be even more difficult three years from now. This is likely due to the changing risk landscape, which is growing in complexity.

Risk Transfer Solutions

Undertake a comprehensive review of risk management effectiveness in meeting the strategic and operational needs of the business

Having a clear line of sight of what risk management activities are taking place within your organisation and the actual value they are generating is vital in order to support the decision making effectiveness of senior executives.

Increase risk management capabilities and knowledge at all levels within the organization to drive continual improvement and effectiveness across all levels within the organization.

Upskilling teams across your organisation is essential for putting strategy into action.

Encourage and promote ownership around risk management and highlight the positive implications that effective risk management will have to the day-to-day effectiveness of the organization.

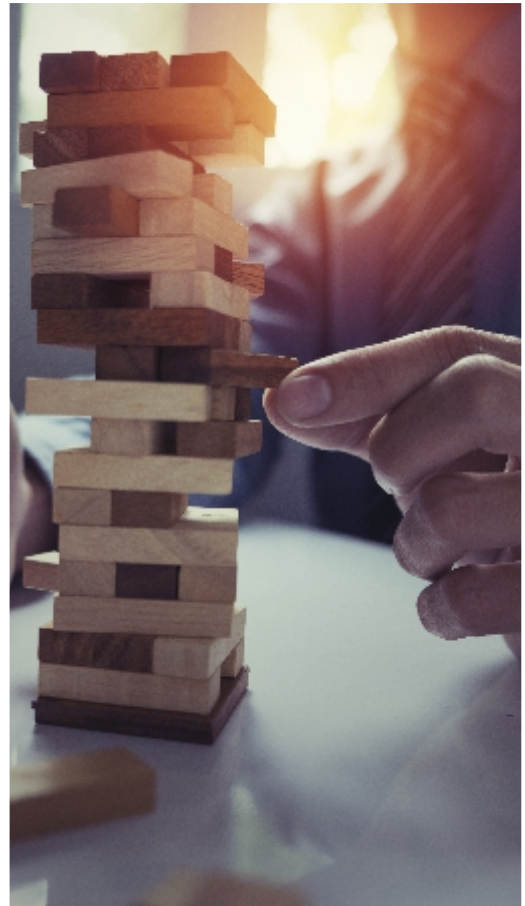
Every member of an organisation should be an ambassador for risk management – achieving this may require a culture shift for organisations within the Middle East.

Establish a strong risk management framework that is specifically tailored to the requirements of the business; an off-the-shelf solution will never achieve value to its full potential

This should be at the core of all key strategic decisions that are impacted by your organisation's risk profile – particularly insurance purchasing and opportunity management.

Develop multiple risk reporting and communication models and templates tailored to the specific needs of the audience to ensure they are provided with specific information they need to support their decision making ability.

Communicating the same generic risk information to all audience's will reduce the impact of the data being provided and result in a diminishing of value that effective risk management can produce.



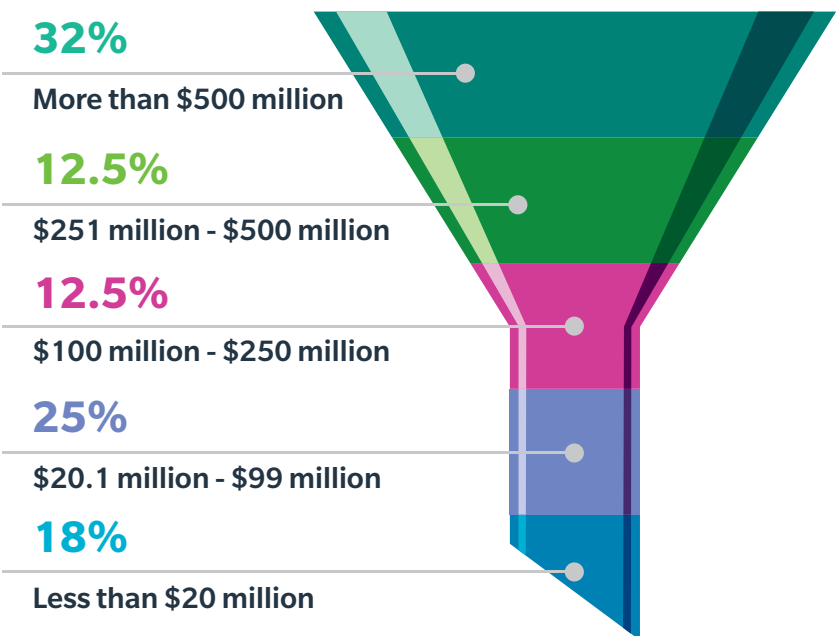
Methodology

This report is based on findings from the 2019 MENA Risk Management and Insurance Perception Survey administered between January and March 2019. The aim of the survey was to gain insight on the current state of insurance purchasing decision making and risk management provision for businesses within the region.

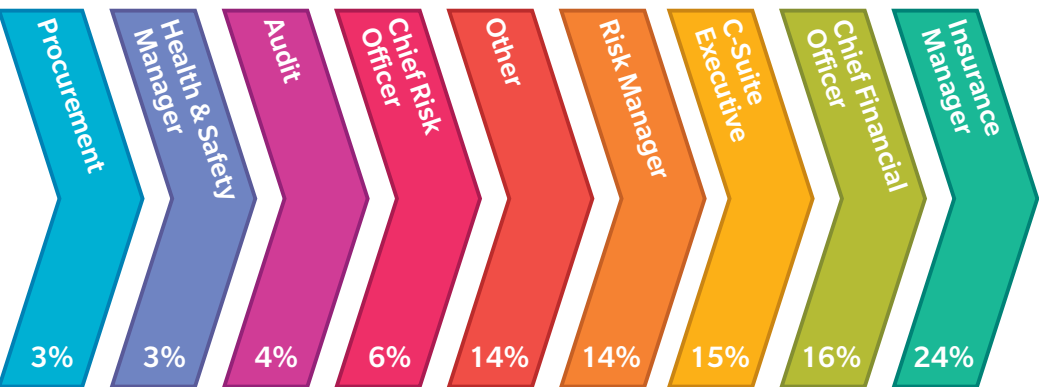
Around 170 insurance purchasing decision makers from across the region took part in this survey. They represent a range of key functions including risk management, information technology, finance, legal/compliance and C-suite executives.

Respondents were asked to base their answers on their personal experiences within their own organizations. They were questioned about their organizations' insurance decision making process, participation in risk management activities, reasons for buying insurance and more.

Revenue



Job Function





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For further information, please contact your local Marsh office or visit our website at marsh.com.

UAE

BRAD SIMPSON
Risk Management Segment Leader
+971 50 451 8426
brad.simpson@marsh.com

JACK MIKAELIAN
Enterprise Risk Management Practice Leader
+971 56 412 0650
jack.mikaelian@marsh.com

EVITA FRANCIS
Business Resilience Practice
+971 50 708 9560
evita.francis@marsh.com

TALAL DARRAS
Business and Cyber Resilience Practice
+971 56 174 0379
talal.darras@marsh.com

Saudi Arabia

MARK SNEESBY
Risk Management Practice Leader
+966 50 069 0731
mark.sneesby@marsh.com

BASSAM AL BADER
Chief Executive Officer
+966 50 629 7622
bassam.albader@marsh.com

Oman

HASAN AL LAWATI
Chief Executive Officer
+968 2 465 9001
hasan.allawati@marsh.com

Egypt

OMAR GEMEI
Chief Executive Officer
+202 24619914
omar.gemei@marsh.com

Bahrain

ABED QASSAS
Chief Executive Officer
+973 3 962 0181
abed.qassas@marsh.com

Qatar

VINOD KUMAR
Chief Executive Officer
+974 4 407 7301
vinodkumar.s@marsh.com

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