

EUROPEAN AIRPORTS 2014 AVIATION RISK SURVEY RESULTS

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INTRODUCTION

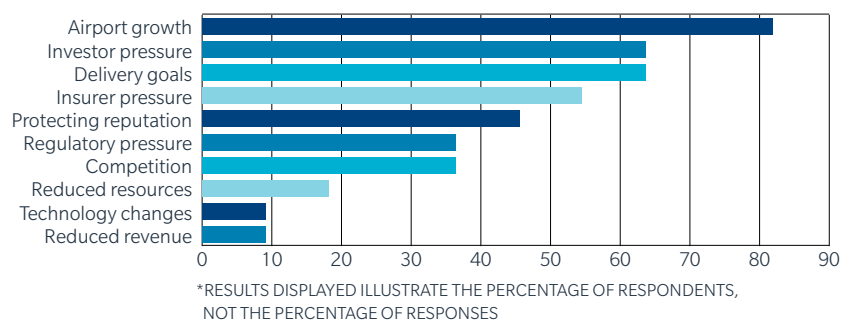
Using its knowledge and experience of working with commercial airports around the world, Marsh has undertaken an in-depth study in conjunction with a number of European airports. The purpose of this paper is to explore European airports' approach to risk and risk management, by focusing on the risk processes, risk cultures, and risk strategies they have in place.

The benchmarking data contained within this report has been informed by senior directors and risk and insurance managers representing 90 commercial airports across Europe.

Anonymised comments from senior airport risk and insurance managers are provided throughout this paper.

EXTERNAL PRESSURES – THE MAIN DRIVERS OF RISK MANAGEMENT STRATEGIES

FIGURE 1: THE TOP BUSINESS DRIVERS INFORMING RISK MANAGEMENT FOCUS

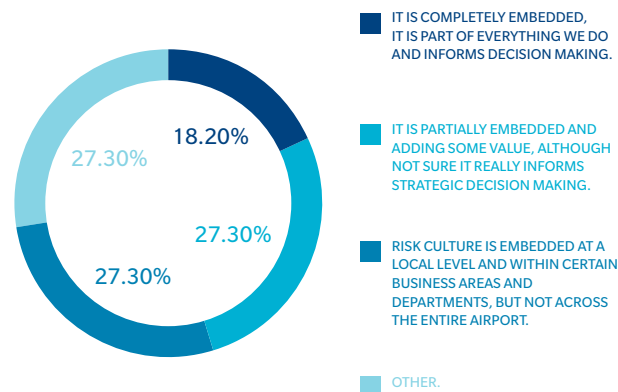


“Airport growth”, “investor pressure”, and “delivery goals” were chosen as the foremost drivers informing risk management focus by the respondents surveyed. This result is reflective of the competitive nature of the airport business, which leads to the constant requirement to improve airport services through the economic cycle and to ensure both airlines’ and passengers’ continued satisfaction. Given the nature of the environment in which airports operate, growth is set within the context of managing the expectations of investors and regulators alike.

It is therefore unsurprising that three of the top four drivers listed in FIGURE 1 relate to external pressures. This further demonstrates that good practice and due diligence to external parties are key to the undertaking of risk management activities.

RISK CULTURES ARE BEING ESTABLISHED, BUT WORK IS STILL TO BE DONE

FIGURE 2: TO WHAT EXTENT IS A RISK MANAGEMENT CULTURE EMBEDDED WITHIN YOUR ORGANISATION?



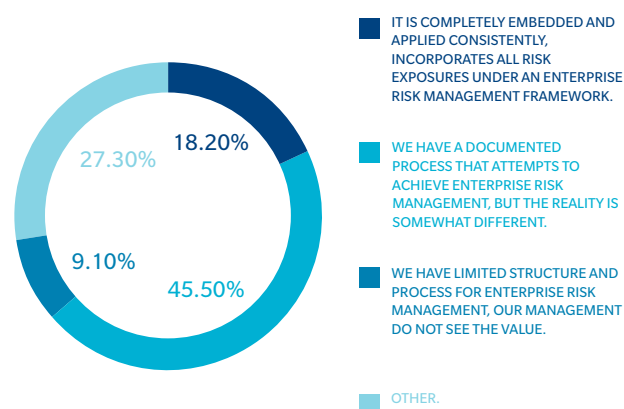
“Generally, the level of maturity of risk management at our airport is good and we have formalised risk practices in place. Nevertheless, there are some organisational challenges: Maturity is good in the airside environment as it is fundamental to operational success; however, elsewhere it is a little less embedded, due partly to organisational changes that have resulted in role/process changes”.

Perhaps unique to the airport business is the requirement to ensure long-term shareholder value while delivering superior services to passengers and airlines, all while working with the large number of stakeholders within the airport environment. Success to one party is dependent on the success and performance of others, and enterprise risk management (ERM) is the cornerstone of this.

For this reason, it is interesting to find that just 18.2% of respondents believe a risk management culture is completely embedded in their airport and informs strategic decision-making. One possible explanation for this may be that while airport executives acknowledge the need to embed risk management, in some cases they struggle to achieve this across all functions due to the often siloed nature of airport departments.

It is, however, encouraging to discover that a further 27.3% of participants feel that a risk management process culture is partially embedded in their place of work. There are two possible reasons for this. Firstly, risk management is not considered to be adding maximum value nor informing strategic decision-making. Secondly, risk management is considered to be embedded only at a local level and not across the airport as a whole. This alludes to an inconsistency in the internal communication of the benefits that can be achieved through pragmatic risk management activities.

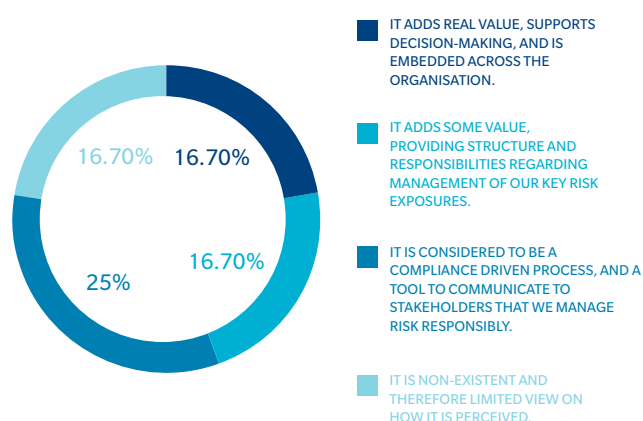
FIGURE 3: HOW WOULD YOU DESCRIBE THE RISK MANAGEMENT PROCESS AT YOUR AIRPORT?



Just 18.2% of survey participants believe that risk management is applied consistently across their organisation and incorporates all risk exposures under an ERM framework – the same proportion who say that risk management process culture is completely embedded in their airports and informs strategic decision-making.

The majority of respondents (45.5%), meanwhile, describe their airport as having a documented process that attempts to achieve ERM. Again, there seems to be a correlation between having limited documentation and the existence of an effective risk management framework that defines the risk culture at respondents' airports; the more mature the framework and processes, the better the risk culture and the perceived value of risk management and its alignment to the strategic decision-making process

FIGURE 4: HOW IS RISK MANAGEMENT PERCEIVED IN YOUR ORGANISATION?



“There are pockets of good practice at our airport; however, we are a large and complex organisation with a risk culture that is still maturing. The size of the organisation, in addition to the nature of the aviation business, makes achieving a higher level of maturity difficult.”

“We monitor the risk management process and ensure that our people are aware of the risks we face by sending out a questionnaire to learn more about the risk perception of staff. However, while we have a formalised risk management culture in place, it is still in the process of being embedded throughout the entire organisation”.

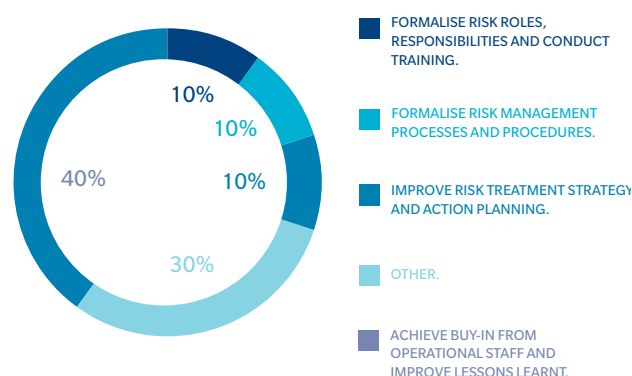
“We make every attempt to place ‘known’ risks on the risk register and assess them, although there are obviously risks out there that can’t be foreseen. Whether we know about them or not, general preparedness is key, as is the way we respond operationally. The importance of organisational resilience cannot be underestimated.”

Given that airport growth is considered by respondents to be the key driver for risk management (see FIGURE 1), it should be expected that the majority would subsequently perceive risk management to deliver a positive benefit to their organisation. It was therefore somewhat surprising to find that just 25% (see FIGURE 2) of participants believe that it “adds real value and supports decision-making”.

This figure becomes a lot clearer, however, when we consider that three of the top four drivers informing risk management focus are centered on external pressures: investor, regulatory, and insurer. It is unsurprising then that 25% of respondents feel risk management is perceived in their organisation as a compliance-driven process and a tool for communicating risk responsibilities to external stakeholders. Airport executives must work to change perceptions such as these, and show that ERM, when successfully implemented and executed, is primarily a tool to support the achievement of objectives through threat minimisation and opportunity maximisation.

ACHIEVING BUY IN FROM OPERATIONAL STAFF IS KEY GOING FORWARD

FIGURE 5: WHAT ARE YOUR TOP RISK MANAGEMENT PRIORITIES OVER THE NEXT 12 MONTHS?



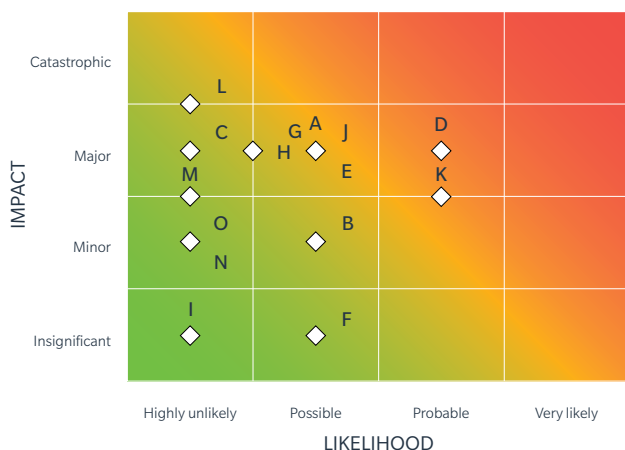
It seems surprising that although 54.6% of respondents admitted the maturity level of risk management adopted at their airports was low [see FIGURE 3], only 10% listed the formulation of an enterprise risk management framework as a top priority over the next 12 months. When we remember that this survey was completed exclusively by those in risk management and leadership, it is perhaps understandable that the main priority respondents identified was gaining buy-in from operational staff.

FIGURE 5 shows that 40% of respondents feel the key risk management priorities over the next 12 months are to achieve buy-in from operational staff and improve lessons learnt. Airport managers are seemingly aware of the need to embed learning within their organisations, focusing on risk and resilience perspectives from passengers, stakeholders, and staff alike.

STRATEGIC AND OPERATIONAL RISKS

i) STRATEGIC RISK

FIGURE 6: AIRPORT STRATEGIC RISKS



- A. Loss of market position due to competition.
- B. Change in passenger mix.
- C. Reduction in aeronautical charges.
- D. Reduction in non-aeronautical revenue.
- E. Inability to execute airport expansion due to planning restrictions/objections.
- F. Change of airline alliances.
- G. Airline collapse (bankruptcy, liquidation).
- H. Insufficient capacity.
- I. Excess capacity.
- J. Change in government policy.
- K. Staff-related issues (loss of key staff, inability to recruit suitable staff).
- L. Lack of finance, liquidity issues.
- M. Inability to improve passenger experience.
- N. Inability to deliver risk-based security projects due to stakeholder complexities and interdependencies.
- O. Inability to deliver liquids, aerosols, and gases screening.

“We have made several senior IT appointments to ensure we understand the cyber threats and have measures in place to mitigate the risk. As a risk theme, I believe there is still some general confusion in the industry around cyber. IT security is key; particularly since our airport suffers from a considerable number of low-level cyber attacks. If flight information systems go down, there would be serious implications for the airport. A significant attack such as this also has the potential to cause direct and indirect reputational damage. We have held joint sessions with airlines and other airports to discuss this.”

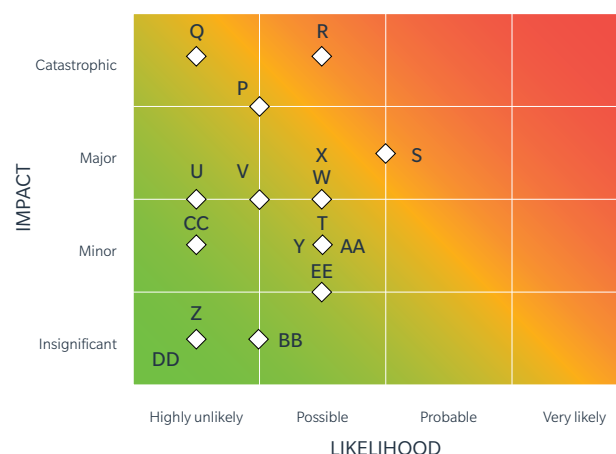
Asked to score the potential impact and likelihood of strategic risks – that is, the uncertainties and untapped opportunities embedded in an airport’s strategic objectives – facing airports, the “reduction in non-aeronautical revenue” came out on top.

This may be explained by the way that, over the past few decades, airports have transformed from transportation hubs to a new kind of entity, focussed heavily on retail. This conversion has witnessed the streamlining of passengers’ experiences through the formal elements of the airport, such as check-in, passport control, and security. The reasoning behind this shift is that stress-free passengers who are not bound by time constraints will increase the non-aeronautical revenue at the airport through improved retail spend. The risk that a passenger may not be able to indulge in retail is compounded when airports do not appropriately consider the passenger experience in a holistic way. There are many elements to mitigating a reduction in non-aeronautical revenue which may not be initially obvious or related to the outcome.

Staff-related issues (loss of key staff, inability to recruit suitable staff) are also considered to be a considerable strategic risk – both in terms of likelihood and impact – by the airport leaders surveyed. A direct comparison can be made between this finding and that in FIGURE 4, which showed a key risk management priority being the achievement of internal buy-in from staff. The emphasis on getting the right risk management culture embedded is clear if objectives are to be achieved.

OPERATIONAL RISK

ii) FIGURE 7: AIRPORT OPERATIONAL RISKS



- P. Failure of airport systems.
- Q. Failure of supply chain.
- R. Major incident at airport/in the vicinity of the airport.
- S. Increasing terrorist threat/attack.
- T. Cyber crime.
- U. Breach of restricted zone.
- V. Inadequate infrastructure.

- W. Airport stakeholders' staff strike action.
- X. Inadequate capital project execution/project overruns/benefits not delivered as anticipated.
- Y. Occurrence of natural hazard/extreme weather.
- Z. Runway incursion/excursion.
- AA. Environmental incident.
- AB. Passenger assault/abuse towards staff.
- AC. Inadequate stakeholder management.
- AD. Minor airside incident.
- AE. Utilities failure.

In terms of the operational risks – that is, the risk of a change in value caused by a loss incurred as a result of inadequate or failed internal processes, people, and systems, or from external events outside of an airport's control – facing airports, respondents highlighted a "major incident at an airport or within the vicinity of the airport" and the "increasing terrorist threat/attack" as the two greatest concerns.

The terrorist threat to the global commercial aviation sector has evolved since the tragic events of 9/11, and today the industry has a high stake in ensuring the threat is managed and passenger numbers continue to increase.

However, the security measures currently in place in airports are challenging the efficiency of passenger flow which, in turn, could significantly impact an airport's ability to maximise opportunities for non-aeronautical revenue. Given that the sector has invested so heavily in improving passenger services and experience, the importance of managing airport security both adequately and proportionately cannot be overstated.

This further emphasises the way that risk is, by its very nature, multi-faceted and interconnected. Risk management approaches, if mature, focus on the connected nature of risk to minimise the potential for a domino effect. A collective risk management approach should be utilised, taking into account safety, enterprise risk, business continuity management, and supply chain risk. The consequences of risk can impact financial stability, stakeholder confidence, and airport growth. However, a cohesive and collective management approach can reduce surprises through the sharing of experience and lessons learnt.

"Like most major airports, our airport has experienced significant operational disruption in the past and this has prompted us to place greater focus on resiliency and set up a special board within the company to make sure that it is driven forward. One upcoming activity to be undertaken as a consequence of this is a business interruption study, which we shall be conducting in the near-future."

CONCLUSION

At present, the airport sector is yet to fully consider risk management as a process that can support business processes and the achievement of objectives, with only 25% of respondents defining it as adding real value and supporting decision-making. However, there is considerable belief that the processes that do exist are well documented and embedded to an extent that they provide positive benefits to the airports surveyed.

It is concerning, however, that respondents cited three of the top four drivers informing risk management focus as those centered on external pressures; investor, regulatory, and insurer. Ensuring risk management is not seen as simply a compliance-driven undertaking therefore requires further efforts on behalf of airport risk managers and senior management alike.

In order for airports to achieve this, they will need to better invigorate staff and provide support and training where appropriate. Thankfully, airports appear aware of this problem, with the majority (40%) of respondents indicating that key risk management priorities over the next 12 months are to achieve buy-in from operational staff and improve lessons learnt.

Risk management should not be considered a bureaucratic, cumbersome, or administrative activity; moreover it should be a core enabler in the strategic decision-making process, providing a sound foundation for growth. An effective ERM framework equips an airport with management information, enabling risk-aware decisions to be made with more confidence and the ability to efficiently respond to uncertainties, while taking advantage of opportunities to improve performance.

ABOUT MARSH

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ABOUT MARSH RISK CONSULTING

Marsh Risk Consulting (MRC) is the dedicated risk management consulting division of Marsh, which provides risk advice and consulting services globally through 50 UK-based full-time consultants.

Enterprise Risk and Resilience (ERR) is a specialised practice within MRC, which assists company boards and senior management to meet their business objectives by helping them understand how risk might impact performance, how to reduce the cost of risk, how to monitor and manage risk effectively, and how to ensure organisational resilience to withstand unexpected incidents.

MARSH RISK CONSULTING

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