



MEDIA RELEASE

Total cost of risk set to increase for the first time in five years

Aon research reveals businesses set to face increasing cost of insurable risk

Aon's 2008/09 Australasian Risk Management Benchmarking Survey highlights:

- The global financial crisis will see the total cost of insurable risk rise for the first time in five years.
 - Australian risk managers are more concerned about all risk categories than they were in the previous year, with brand image and corporate reputation remaining top priorities.
 - Risk managers are much more concerned about liquidity than they were 12 months ago, while lack of innovation has plummeted down the ranks of management concern.
 - Large Australian businesses have become concerned about their insurers' financial viability.
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SYDNEY, 20 April 2009:

Australian businesses can identify the risks that threaten their business, but have been slow to assess them in the lead-up to the global financial crisis, according to Aon's seventh annual *Australasian Risk Management Benchmarking Survey* released today.

The 2008/09 edition of the report once again sees businesses identify factors like damage to corporate reputation as the most severe risks they face. However the report suggests businesses did not mitigate those risks in the lead-up to the global financial crisis.

"Many risks were identified leading into the current financial crisis, but not adequately assessed or addressed due to the attractiveness of making short-term profits," says Aon CEO Steve Neve. "With the benefit of hindsight it would appear that the culture of risk management in organisations needs to improve."

Mr Neve said the global financial crisis has increased risk managers' concern about all areas of risk, with risk to brand image and corporate reputation remaining the leading concern in the business community. "No-one in business wants to experience the kind of brand fallout that has been suffered globally by failed banks," Neve says. "So it is hardly surprising that risk to brand image remains the top priority for Australian businesses in this year's survey."

"We are also seeing the current economic climate expressed in concerns about liquidity, which have climbed from a low-priority concern at 13th place in 2007/08, to seventh place in this year's study. At the same time, businesses are clearly focused on the status quo, rather than growth, with innovation dropping in importance," said Mr Nevett.

Total cost of insurable risk set to rise

These changes in business' attitude to risk will be further complicated by a change in "Total Cost of Insurable Risk" (TCOIR), a key metric used by Aon to benchmark risk management spend.

TCOIR, which has been falling steadily for the past five years, offsets revenue against the cost of insurance premiums, risk retained within the organisation, salaries for risk managers and brokerage fees.

Median TCOIR costs plunged to \$4.52 per \$1,000 of revenue in 2008/09, from a five year high of \$11.97 per \$1,000 of revenue in 2003/04, prompted by both a soft insurance market and strong revenue growth.

The global financial crisis seems likely to reverse that five-year trend, with Aon now tipping the median total cost of insurable risk to rise in 2009.

"Insurance premiums remain the dominant risk cost overall, making up 60% of the risk spend, showing that the TCOIR figure is heavily driven by the insurance market and follows a similar cycle," said Paul Venning, National General Manager of Corporate Risk Services at Aon.

"With insurance premiums rising and revenues for many companies falling, TCOIR is also likely to rise over the next twelve months," said Mr Venning.

Businesses jittery about insurers' viability

Insurers' financial viability, is another concern identified in the survey, with respondents fearing that liquidity problems will impact on their risk exposure as insurers struggle to pay out on policies.

The quality and breadth of insurance cover remains the most important consideration when selecting preferred suppliers, although credit rating is particularly important to larger companies, ranking second for companies with revenues greater than \$1 billion.

The overall ranking of factors remained consistent since 2007/08.

Ends

To view a digital TV broadcast featuring Steve Nevett and Paul Venning visit www.aondigitaltv.com.au or for images and further information contact:

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About the 2008/09 Australasian Risk Management Benchmarking Survey

Aon's 2008/09 Australasian Risk Management Benchmarking Survey is now in its seventh year.

Aon Australia developed this survey to help professionals working in risk management assess how their organisation manages risk compared to others and to help them measure the costs incurred in the delivery of a risk management strategy. It can also help executives identify practices and approaches that may improve the effectiveness of their own strategies.

Participant and readership feedback suggests that it is an invaluable reference tool for senior level decision makers such as CEO's and CFO's and Risk Managers. Business leaders are recognising the value in calculating their total cost of insurable risk (TCOIR) and the cost benefits of a structured risk management approach.

About Aon

Aon Corporation (NYSE: AOC) is the leading global provider of risk management services, insurance and reinsurance brokerage, and human capital consulting. Through its more than 36,000 colleagues worldwide, Aon readily delivers distinctive client value via innovative and effective risk management and workforce productivity solutions. Our industry-leading global resources, technical expertise and industry knowledge are delivered locally through more than 500 offices in more than 120 countries. Aon was named the world's best broker by *Euromoney* magazine's 2008 Insurance Survey. In 2008, Aon ranked highest on the *Business Insurance* ranking of the world's largest insurance brokers based on commercial retail, wholesale, reinsurance and personal lines brokerage revenues. Aon also was ranked by A.M. Best as the number one insurance broker based on brokerage revenues in 2007 and 2008, and was voted best insurance intermediary, best reinsurance intermediary, and best employee benefits consulting firm in 2007 and 2008 by the readers of *Business Insurance*. Sign up to receive Aon news alerts by email or RSS feed at: <http://aon.mediaroom.com/index.php?s=58>.

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