Risk reporting comes of age

A RECENT SURVEY OFFERS INSIGHTS INTO HOW FTSE 100 COMPANIES HAVE DEVELOPED THEIR RISK REPORTING IN THE YEARS SINCE THE COMBINED CODE APPEARED. **GRAHAM BUCK** REVIEWS ITS FINDINGS.

Next June will mark 10 years of the combined code, a landmark piece of regulation and the first for many UK-listed companies in setting out how they were identifying and managing their important business risks.

How relevant is the code? Not surprisingly there have been refinements and revisions over the years, most notably the Turnbull and Higgs guides of 1999 and 2003 respectively.

Insurance and risk management broking and advisory group Marsh recently conducted a survey of how the nature of risk and risk reporting has changed under the code. As Marsh's Managing Director, Charles Beresford-Davies, observes, it still provides a valuable framework for companies to report on risk, but the best go further. They regard regulation discussion and commentary on their risks as essential and seek to embed risk assessment in every activity.

Marsh's survey involved 41 of the FTSE 100 companies, with at least one representative from each business sector. From this, it developed a best-practice assessment of risk reporting, although it acknowledges there may be a gap between a company's risk reporting and the measures it is actually taking to manage risk.

The survey finds that companies typically report around 50% more risk issues than a decade ago. Social, ethical and environmental exposures are now a regular feature in most companies' risk reporting. Other issues that have become more prominent include supply chain exposures, competition, product safety and quality, partnerships and joint ventures, patents and outsourcing. Some sector-specific issues such as product price reimbursement in healthcare and convergence in telecoms, are also increasing.

Marsh suggests that companies have become readier to go beyond the code's basic requirements. Shareholders and stakeholders regard it as a litmus test of risk management abilities, and it can help in board decision-making. As a result, the question now asked of a company is not "Do you have risk management?" but "How do you use it?"

Box 1: Top 10 companies for risk reporting 2007

Sector	Percentage score
Bank	69%
Financial institution	59%
Bank	58%
Bank	57%
Bank	56%
Real estate company	47%
Insurance company	44%
Financial institution	44%
Consumer goods	42%
Travel & leisure	42%

Box 2: Features of risk reporting in high-scoring companies

- Quantification of financial risk exposures.
- Positioning of risk as underpinning strategic success.
- Identification of role of risk management in helping company meet its objectives.
- Allocation of key risks to members of the company.
- Organisation of committees around each of the company's principal exposures.
- Provision of detailed commentary on the cost of risk, measurement and management techniques.

WATERSHED An update of the code in 2003 marked a watershed for many companies, enhancing their risk reporting and offering details of the steps they were taking to manage exposures. However, only a minority of companies have a clear, three-tier risk management structure applied both top-down and bottom-up.

The survey authors also observe that ownership of risk as a business issue is most commonly found at the audit committee stage, although most companies report on the board's role in evaluating and mitigating group-wide risks.

One area of risk management where Marsh sees scope for further development is crisis management, described as "an important piece of the jigsaw" and where an effective policy can minimise damage to the share price should disaster strike. Another is establishing the correlation between a company's risk management performance and its financial performance.

IMPLICATIONS The survey results suggest that despite adverse publicity caused by the problems of Northern Rock and US sub-prime mortgage losses, the banking sector is the most comprehensive and transparent in its reporting of risk. Banks, financial institutions and real estate managed the best overall sector scores, and technology, media and telecoms were respectively ranked fourth, fifth and sixth.

As Marsh observes, banking is distinct from other sectors in attaching an economic value to its various types of risk since 1998, and the categories reported on have extended to include strategic risk, financial crime and terrorism.

However, the risk management agenda of companies in all sectors has expanded. As the survey concludes, companies recognise that their managing of and reporting on risk requires "an inherent set of industry/company-specific values", which go above and beyond the need to satisfy regulators.

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