Risk in Focus:

Business Continuity Management

Business Interruption, ISO 22301,
Supply Chain Management

2014 Political Risk Map

Cyber Exposures & Solutions in Asia

Rail Risk —Stay on Track
Over the past two years, the Taitung Hot Air Balloon festival has successfully brought the hot air balloon trend to Taiwan. While hot air balloons have been instrumental in promoting the local tourism industry, in early of June, local news reported data privacy violations stemming from this activity. A hot air balloon company accidentally leaked the personal data of around 300 people to a tourist, along with his confirmation for registering to take a hot air balloon ride. According to the news, the consequences of this serious data leak were minor, with only the data management leader fired and victims receiving a little gift from the sponsor. Obviously, risks emerging from data management are all too often ignored.

For the operation of an organization, all possible operational risks must be included in the planning. An organization with an effective risk management culture will include the risk agenda into board meetings, as well as risk processes and compliance standards. Companies need to identify the factors that make an organization’s culture strong from a risk standpoint, plan risk management processes, follow standards, and identify risk factors. Then, the challenge is how companies can go about improving their risk culture and measuring progress over time.

There are 3 stages of continuous improvement of an organization’s risk culture: Stage 1: building cultural awareness; stage 2: changing an organization’s culture; stage 3: refining the organizational culture. For these efforts to be effective, education and training must be continuous, with timely and transparent communication throughout the process. In this way, organizations can cultivate a risk management culture.

Globalization and a changing environment are increasing the challenges and complexity of risks, with newly emergent risks relentlessly jumping onto the balance sheet. An effective risk culture should play the role urging colleagues to be highly aware of risk, and regularly practice effective strategies for risk management.

In this issue, we pick up the latest Aon global reports for railroad and cyber risks. The railroad risk report utilizes European and American examples to obtain learnings to be applied to the Asia rail industry. According to the cyber risk report, Asian countries are facing an increasingly serious threat, but cyber risk management in Asia has yet to catch up. Additionally, Risk in Focus specializes in business continuity management, including introducing the new standard ISO 22301, business interruption and supply chain management. All these topics we present here in this issue are closely related to organizational culture and practices that should be rooted in every organization.

No one has a crystal ball that can predict with exactitude where and when risk will come; we can, however, provide the professional knowledge and risk management consulting and practice that can turn your risks into opportunities.
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Aon CEO Identifies Lloyd’s and London as the Epicenter of Global Risk Management Industry

Case Emphasizes Critical Importance of London and Lloyd’s at Insurance Institute of London

Apr 10, 2014

LONDON, April 10, 2014 - - In a speech delivered today at Lloyd’s to the Insurance Institute of London, Greg Case, president and CEO of Aon plc (NYSE:AON), highlighted the critical importance of Lloyd’s and London to the global risk management industry and the increasing value provided by global brokers. Case also reaffirmed Aon’s commitment to the first-ever insurance and risk management industry apprenticeship program.

In his remarks, Case said, “There is no doubt in the mind of Aon and our clients that Lloyd’s and London is the epicenter of the global risk management industry and a major reason why Aon moved its headquarters here. It is important that we be here in London, closer to this leading insurance market and closer to our clients in EMEA and Asia, key areas where we are experiencing substantial client growth.”

He added, “Lloyd’s and the London market are more important than ever with a resilience and strength that comes from its deep history, its unparalleled level of expertise, and the connectivity that exists between brokers, underwriters and clients. The vibrancy of the city, the diversity of its economy, and the capability of talent are all strong qualities that made our decision to be here very clear.

“London simply has no equal as a city when it comes to the highest concentration of insurance market partners. Where can you go when you need to help a client that is creating a wave technology machine that absorbs the energy of ocean waves and converts it into electricity? Where can you go when you need to help a client facilitate insurance for an acquisition of over 30 oil rigs? And where can you go when your client needs help getting property casualty directly following a devastating earthquake? The answer is the same to all three questions – Lloyd’s and London!”

Case welcomed the strong partnerships Aon has created in the London market to create the first ever industry-wide apprenticeship program. The scheme will provide training and career fulfillment for young people in the U.K. and build a talent pipeline for the insurance and risk management industry for the next generation. “The Aon apprenticeship program will team with our industry partners in an effort led by Dominic Christian and his team and will in fact offer apprentices the opportunity to earn while they learn and a concentrated approach to marketing our industry to schools and would-be apprentices,” he said. “Our goal is to produce talented world-class professionals ready to take on some of the world’s most exciting issues on the topic of risk and people. But most importantly, success in the program will come from industry collaboration and the strong partnerships between brokers and markets. Together we can make it a great time to be an apprentice in London and in our industry.”

Addressing the future role of risk advisors, Case said, “At Aon we believe the opportunity for risk advisors, for brokers and our partners is bright. Our services and expertise are needed more than ever. But we cannot afford to become complacent.”

Case cited the need for risk advisors to remain focused on their clients, to provide clients with a long-term perspective, and to continue to invest in innovation. He said: “As risk advisors, if we do not provide value to clients, we won’t succeed and we won’t survive. However, by contrast, when we do succeed for clients, when we are competitive in London, we bring with our success clients and premiums from all over the world. We hope that you see working with Aon, working side by side to bring innovation and new solutions to the industry as an opportunity to tap more deeply into our $100 billion plus of client need. Collectively, our challenge, and our opportunity, is to become even more valuable advisers, because the world requires our expertise to manage the difficult challenges before us.”

Aon
At Aon, our mission is to empower economic and human possibility for clients, colleagues and communities around the world. Our strategy is quite clear: to provide distinctive client value through unmatched talent and operational efficiency. This approach has served Aon well for over ten years, as we continue to bring the world’s leading risk and people platforms to bear on behalf of our clients.

On June 11, 2014, we celebrated Empower Results Day at Aon, with Greg Case, our Group President and CEO, leading over 66,000 Aon colleagues in a celebration. It was a great opportunity for us to take stock of progress against our mission, and I am pleased to report that we are making substantial strides within Greater China.

One aspect of Empowering Results is to contribute to the communities in which we operate. Recently I participated with seven Aon colleagues and an additional eleven senior representatives from the insurance industry in the Aon Tour de Formosa. This cycling event, which traversed nearly 300 kilometers through Taiwan’s stunning Central Mountains, culminated in a climb up Mt. Wuling, one of Taiwan’s tallest peaks. In total we climbed well over 5,000 meters, including 3,600 meters on our second day as we ascended Mt. Wuling. You might ask why a group of otherwise sensible people would embark upon such a challenge, which would be a fair question. Our purpose was to raise funds for two very worthy causes: The Taiwan Fund for Children and Families and The Children’s Cancer Foundation (CCF) in Singapore. We successfully raised well over US$100,000 for these two charities, allowing us to give back to two of the communities in which we are privileged to operate.

The Tour de Formosa was only one example of how Aon colleagues contribute to their communities. On June 12th, we celebrated Global Service Day, where our 66,000 colleagues devoted thousands of hours to charitable causes across the globe. In Greater China, we held ten charitable events across our three markets in honor of Global Service Day.

Businesses today face an expanding range of risks, including, but not limited to, cyber, environmental, supply chain, and global health (pandemic). Our passion for empowering results drives us to innovate for our clients across the globe. The investments Aon is making in its innovation centers in Dublin and Singapore are helping clients find new solutions to manage these risks and their associated costs. Examples include private healthcare exchanges in the U.S., which help clients adopt a defined contribution approach to managing healthcare expenses while providing carrier and coverage choices to employees; Aon’s Global Risk Insight Platform (GRIP), which gives clients unmatched access to market benchmarking data; Aon’s catastrophe modeling and alternative capital solutions, which allow insurers to sharpen their underwriting decisions and manage premium growth; and Aon’s Sidecar arrangement with Berkshire Hathaway, which provides additional, high quality coverage to Aon’s clients globally.

At Aon, our mission is to Empower Results. It gives us great joy to do so each and every day globally and within Greater China.
According to FM Global survey, reputation risk is a growing threat. Aon’s Global Risk Management Survey shows that reputational risk is ranked 4th among issues of concern, but there’s no consensus on its gravity. Although 83% of respondents agree that reputation is a company’s most important asset, 92% of risk managers don’t rate loss of reputation as the biggest threat to their organization.

81% understand reputational risk as consequential, the result of another identifiable risk. The Japanese tsunami in 2011 is a good example of how reputational risk is a subset of another risk. An unforeseen disaster can halt the supply of a multitude of products, resulting in significant aggregate economic loss along with reputation damage for many companies. Yet decision-makers are not always focused on branding issues or threats. When tragedy and misfortune strikes, some of the largest and otherwise well-equipped organizations have realized that they overlooked reputation as a performance indicator.

In a world filled with intentional and accidental brand saboteurs, companies need to aggressively play defense as well as offense. Brands are under constant attack, and brand stewards must systematically understand the risks that their brands face, the potential impacts and the options for managing these risks.

Managing risk to reputation is about fundamental perceptions of the company’s contributions, value and strategic direction. For many companies, the first step involves reevaluating their current risk management program. Traditional enterprise risk management approaches have focused boards and C-suite executives on avoiding risks and protecting assets.

This need and the steps that senior executives can take to develop a program to manage risk to reputation are discussed.

A Call to Action

Although overseeing brand risks may not seem to fit into the traditional roles—protecting assets, making sure the organization runs efficiently from a cost standpoint and serving as change agents—modern CFOs, CROs and other C-suite executives are ideally situated to help oversee efforts to manage brand risk.

The following are three key steps companies can take to shape and implement a strategy around defending their brands:

1. Integrate Brand Risk into Risk Planning

A new study by FM Global indicates an overwhelming 57% of those questioned put responsibility squarely on the chief executive, while 37% said it was a board-level issue. Senior executives and boards will need to determine what their risk appetite is and create a brand risk program that will address it, communicate activities throughout their organizations and establish an open culture that tracks and reports...
Taiwan

risks associated with their brand. Companies must take a joint-management approach to reputational risk.

2. Establish Value and Effectiveness Measures Around the Brand Value

Historically finance departments have only measured performance based on financial information. What we’re seeing now is companies need to go beyond that, having key performance indicators (KPIs) and metrics that actually tell them the condition of their market and the condition of their brand.”

Embedding a focus on brand value into a company’s culture is vital. It recommends as a starting point looking at the market and the brand and identifying the five or six essential attributes that contribute most to the value of the brand. Those should be the basis of the KPIs. They should also be included in the incentive system, so the whole organization is aligned to measuring the brand value and being acutely aware of what’s happening with it.

Fully understanding your risk portfolio by conducting a thorough risk assessment, and prioritizing them, will help organizations build a robust strategy for mitigating reputational damage.

3. Invest in Brand Resilience

Careful attention to valuing a brand will indicate what risk management steps are appropriate to minimize the risk to the brand, the share price and the overall organization. The size and seriousness of the risk should help indicate the amount of spending that should be allocated.

Great brand marketers know what it takes to build great brands. However, for the risk intelligent enterprise, investing in brand-building is no longer enough. In a world filled with intentional and accidental brand saboteurs, companies need to aggressively play defense as well as offense. Companies need to build flexibility into their planning. Reputational risk can’t be ignored and compromised in your risk management program.
Brief Discussion on Weather Insurance

Philip Rong
Deputy GM, ARS
Management, Aon-COFCO

Recently, high temperature insurance launched by Zhong’an has received wide attention as temperature in North China is keeping ascending, even rising to 40°C in some regions.

The transaction volume of this new product has amounted to 33,484 policies as of 30 May 9 am. As described by Zhong’an, from 21 June to 23 August, (from Xiazi to Chushu in Chinese lunar calendar), when days of high temperature (37°C) in a city where an insured lives have exceed the deductible days agreed in an policy, Zhong’an will pay RMB 5 per day per policy, accumulative up to RMB 100 per policy; one insured is allowed to buy 99 policies maximum, with a premium of RMB 10 per policy.

Although weather insurance is still new in China, it has occupied an important position in mature market. Nowadays, the premium scale of weather insurance is about $15 billion globally, with annual growth rate of 10%.

Weather Insurance for Japan & South Korea World Cup

The World Cup will commence on June 12, 2014, and is expected to be the most exciting sporting event of this summer. Thousands of fans will descend upon Brazil to experience the event. In case of heavy rains, the number of fans going to the games is expected to be greatly reduced, while business of hotels, restaurants and shops nearby will also be affected.

Two Japanese insurance companies launched weather insurance before the opening of Japan & South Korea World Cup in 2002 and its main target is shops, hotels and restaurants near the stadiums. The coverage of insurance is that during the World Cup, in case the raining days of stadiums for matches of top 32 teams exceeded 3 days and the maximum rainfall reached 10 mm, the insured could receive compensation of 5 million Yen.

Rainfall Insurance in UK

As the birthplace of insurance, weather insurance was initiated in UK in 1970s, and the earliest product is rainfall insurance. The insurance companies cooperated with Meteorological Department and analyzed rainfall history across the UK to develop annual and monthly average rainfall contour graphs as the basis for insurance rates. The UK was divided into 2,000 rate zones with different rate levels. Generally, there are two types of rainfall insurance. One is Conditional Weather Insurance; if the actual rainfall volume reaches or exceeds the one that the insured and insurer has agreed, the insured will

Source:
be compensated. The other is Weather Cancellation Insurance; the insured will get compensation when outdoor events are forced to be cancelled or rescheduled due to heavy rains.

**Sunlight Insurance in Spain**

A Spanish insurer used to promote Sunlight Insurance for a coast famous for beautiful sunshine. During 21 days stay in the coast, if it rains on 4 days, insured tourists will be compensated half of their traveling expenses, and if rainy days reach 7, then they are compensated for their total costs.

**Weather Insurance in the Era of Big Data**

Actuarial data is the cornerstone of insurance product development and weather insurance has a higher demand in data accuracy and application capabilities. Take the Moon Insurance by Allianz last year for example. Their actuarial team collected Mid-autumn Day meteorological data from dozens of cities in the past 20 years in China and then built a risk model. In May 2014, CMA Public Weather Service Center and Ali Cloud reached a strategic cooperation and shaped “data warehouse” for weather insurance development. Taking advantage of historical and forecast data provided by Ali Cloud, their actuarial department is able to assess feasibility, pricing and limits more accurately. Weather data based on real-time monitoring can be used as claim settlement guide.

It is known that several insurance companies intend to follow this trend, hoping to connect with meteorological data. It is expected that weather insurance represents a future growth potential for the insurance industry. Development of these innovative insurance products also demonstrates the maturing progress of domestic insurance markets.
Every broker will emphasize their international network. It is important to understand the difference between dots on the map and a true international network, and why the latter is important.

Size and equity position alone do not guarantee the delivery of quality risk management services. To be effective, each international network must have dedicated global account servicing teams, staffed with professionals who are familiar with the intricacies of servicing a multinational client. In addition, there must be a common set of service standards that provide a guideline for how a global account is to be managed and common IT systems.

To respond to these needs, the individuals in the network must understand the balance between local culture or market practices and global risk management objectives, as well as the importance of emerging issues such as compliance and overall program performance.

A broker’s network is created either by engaging third party corresponding offices, or by having their owned offices around the world. Utilizing an owned network, as opposed to engaging third party correspondents, allows a broker to make strategic investments. Two major strategic investments include:

### Global Infrastructure

By having its owned offices around the work, the broker can maintain a full time communications department which is devoted to managing international data and delivering timely, relevant information to colleagues worldwide. This helps to create a platform for efficient, effective global account management. A common, global infrastructure also allows constant interaction between the network members through work on accounts, training programs and meetings.

Regardless of location, each network office should be measured against the same set of Key Performance Indicators. A Network Scorecard, covering issues such as responsiveness, quality of communications and adherence to account handling protocols, should be used to evaluate performance at both the Parent and Subsidiary levels. The Network Scorecard helps senior management understand how colleagues rate performance and identify where additional investment (training/development, staffing, etc.) is warranted to improve performance results.

This will result in a common culture supporting communication and teamwork. This enables building up a community of international professionals who know and respect each other. The sense of community can be reflected in the network employee retention rate.

### Information Technology

Two key elements in successfully managing a global account are communications and access to international data. There should be a multi-national consolidation tool which captures all pertinent account information at the parent and local levels, including account
The Aon Network – Aon Global Client Network (AGCN)

The foundation for Aon’s ability to deliver consistent risk management services worldwide is the Aon Global Client Network (AGCN). Aon has spent over US$6B over the last 25 years in developing its international facilities. Wherever possible, and to the greatest extent possible, Aon has pursued an equity philosophy in building the network. The result is that Aon holds an equity position in virtually all overseas offices giving Aon the most extensive owner controlled network of any insurance broker.

By providing a worldwide approach, Aon gives clients a powerful tool to deliver a coherent risk management message worldwide and the confidence that, when needed, the international program will perform as intended.

LEADER’S CORNER

Hong Kong

handling instructions, global program summaries as well as policy digest summaries for all local placements on a consistent format. The tool helps users better understand and manage a company’s total cost of risk by providing a standard methodology and format for the collection of policy information. The consolidation also assists in the creation of financial and management reports for the benefit of both the client and the broker.

The benefits to clients of an owned network in a broker include:

- **Accountability**: the controlling office at the broker’s head quarter level oversees the network activities and is directly accountable to clients for network performance. As the network members share a common operating platform with clear lines of escalation to senior management, potential problems in the network can be addressed swiftly with minimal program impact.

- **Leveraging the collective experience of the group**: the network members have developed extensive knowledge of markets, regulations, industry developments and common situations. Through the owned network, team members can readily identify resources to assist with virtually any account situation.

- **Efficiency through adherence to best practices and communications protocols**: the network members work together to identify opportunities for improvement in processes that support efficiency and effectiveness in account placement and handling.

- **Access to international data on a consistent format**: A multinational consolidation tool provides the vehicle for collection of local policy information on a common platform across disparate territories. Through this tool, clients have a clear understanding of what insurance is being purchased worldwide, and also the rationale for such insurance arrangements. Using the information from this tool, clients can identify their Total Cost of Risk on a global basis as well as areas for program improvement.

- **Flexible Service Platform**: A common foundation allows the broker’s network the flexibility to build the local scope of service around those activities that support international business needs and deliver services as specified by the client, including use of a hub or regional service structure.

- **Transparency & Disclosure**: the network should be committed to worldwide transparency on remuneration. Through the multinational consolidation tool and other management reporting, clients have a clear line of sight on the broker’s remuneration.

- **Global resources accessible through a single point of contact**: Clients have access to any of the broker’s global resources through the network contact at the controlling office level.

- **Consistency in service teams**: a high retention rate across the network is important in minimizing the potential for employee turnover and program disruption. Aon
Aon unveiled its 2014 Political Risk Map, which identifies an increased risk rating for all five emerging market BRICS countries. As a result, countries representing a large share of global output experienced a broad-based increase in political risk, including political violence, government interference, and sovereign non-payment risk.

- Brazil’s rating was downgraded; political risks have been increasing from moderate levels as economic weakness has increased the role of the government in the economy. This is of particular concern given this year’s World Cup and the 2016 Olympics.

- Russia’s rating was downgraded largely due to recent developments with the Ukraine and the annexation of Crimea. Political strains and focus on geopolitical issues have exacerbated an already weak operating environment for business and exchange transfer risks have increased following the risk of new capital controls. Russia’s economy continues to be dominated by the government, so economic policy deadlock has brought growth to a standstill and with it an increase in the risk of political violence.

- India’s rating was downgraded with legal and regulatory risks elevated by ongoing corruption and moderately high levels of political interference. Territorial disputes, terrorism, and regional and ethnic conflicts also contribute to elevated risks of political violence.

- China’s rating was downgraded to moderately high. This deterioration in political risk, including an increase in political violence, has occurred at a time of slowing economic growth, which suggests that the economic policy deadlock and economic sluggishness are mutually reinforcing.

- South Africa’s rating was downgraded; despite having strong political institutions, South Africa is struggling from recurrent strikes, which have become the major means of wage setting, and which weaken the outlook for business and raise financing costs.

Matthew Shires, Head of Political Risk, Aon Risk Solutions, said “By using the latest data and analysis capabilities, Aon’s interactive online map provides clients with unprecedented clarity when assessing their emerging markets political risks. By way of an example, the volatile situation in the Ukraine began to be highlighted in our quarterly updates in mid 2013. These quarterly updates assist our clients in their strategic and financial decision-making. The degree of risk and exposures vary considerably in the emerging markets and this highlights the need for institutions to be able to generate their own high level overview of political risk and how it affects them; for this they need access to a sophisticated risk tool such as the online map.”
Map Overview

Deterioration in Commonwealth of Independent States:
In early 2013, we identified some improvements in the Caucasus, Armenia and Azerbaijan, which have continued. The rest of the region has weakened. Russia’s rating was downgraded largely due to recent developments with Ukraine. This volatility is also affecting other former soviet states including Armenia, Belarus, Georgia and Moldova.

Ukraine’s position deteriorated throughout 2013, which culminated in a downgrade to High risk in Q3 from Medium High. The annexation of Crimea by Russia, and government collapse was already consistent with a country with a high political risk, but the implications of these developments warranted a further downgrade in political risk – Ukraine is now a Very High risk country. Exchange transfer risks, which are already very high will be further increased by restrictions in the financial system. Further, the willingness and ability of the country to settle its debts may be affected. Meanwhile the weakening of global demand for base metals has hit government revenues and weakened its ability to stimulate the economy. In addition to uncertainty regarding the status of Crimea, Russia’s desire for federalization in Ukraine, will provide flashpoints. RGE’s baseline assumes that there will be some de-escalation of tensions short of war, but Russia will be likely to continue to de-stabilize eastern Ukraine. The upcoming presidential election will present a source of economic and political uncertainty.

Energy supply disruptions would be the most important transmission channel to the global economy. Russia supplies a third of EU’s natural gas, and about half of these supplies are still transported through Ukraine, down from 80% in 2011. Eastern European countries are most exposed to Russian gas supplies. Germany and Italy are some of the largest consumers of Russian gas in terms of volumes. Additionally, Ukraine accounts for 3% of the world’s output of grains and cereals, being among the top five wheat and corn exporters. If political unrest and uncertainty continue into the harvest season, Markets can experience some delays in collection and exports of grains. It may continue to weigh on prices for the rest of the year.

Divergence Widening within Middle East and North and West Africa:
Developments in 2013 have reinforced the relative strength of the richer oil exporting MENA countries of the Gulf Cooperation Council (GCC). Compare this to their North African peers, all of whom have fewer financial resources with which to manage any shocks, they all continue to have higher risk scores across all elements of political risk tracked by Aon. The three countries upgraded in 2013’s risk map (Bahrain, Oman and UAE), maintained their more resilient and lower risk outlook, while Jordan, where Syrian refugees have exacerbated domestic shocks, was downgraded.

Sub-Saharan Africa Divergence: There are some improvements in Sub-Saharan Africa, notably in Ghana and Uganda which offset deterioration in South Africa and Swaziland, which were both downgraded. Although Ghana has fiscal overspending and rising inflation, which is weakening its macroeconomic stability, increases in revenues and investment reinforced its already strong political institutions. Uganda continues to suffer from an overly centralized government and significant human rights issues, the stabilization of donor finance improved its ability and willingness to pay debts and reduced political interference.

By contrast political conditions deteriorated, particularly in Swaziland, which is being supported by its neighbours financially, and suffered a broad-based increase in political risk and economic strain which added to expropriation risk. South Africa, despite having strong political institutions is struggling from recurrent strikes, which have become the major means of wage setting, and which weaken the outlook for business.

Key Flashpoint Risks and Trends to Watch for 2014

The combination of Aon’s focus on data and analytics, and RGE’s unique Country Insights methodology, has highlighted the following key points to watch in 2014:

- Exchange transfer: Economic recovery in developed markets and the beginning of interest rate normalization has the effect of drawing capital back from emerging markets. This adds pressure to countries with weak external balances. The increase in political risk in some of the larger emerging market countries has weakened long-term capital (FDI) increasing the risk of measures being introduced to retain capital that will impede transfers of funds/repatriation of assets.
- **Sovereign Non-Payment**: As fiscal balances weaken and default risks rise, in countries like Ukraine, along with foreign exchange pressure, corporations will see a change in certain sovereigns’ willingness and ability to pay. Aon’s Political Risk Map tracks both and highlights this weakness early.

- **The heavy global election cycle in 2014 could exacerbate** political violence, government intervention and policy implementation risk.

### 2014 Upgrades and Downgrades in Country Ratings

- **6 upgrades**
  - Six countries experienced a reduction in political risk: Ghana, Haiti, Laos, Philippines, Suriname, Uganda

- **16 downgrades**
  - Sixteen countries experienced an increase in risk: Brazil, China, Eritrea, India, Jordan, Kiribati, Micronesia, Moldova, Russia, Samoa, South Africa, Swaziland, Tonga, Tuvalu, Ukraine and Vanuatu

- **22 country rating changes**
  - Overall, twenty-two country rating changes were recorded in 2013 compared to 25 score changes in 2012

### Asia & Oceania

Upgrades in Laos and Philippines are examples of a broader improvement in institutions and balance sheet in South East Asia. All countries aside from Thailand have experienced some improvements which has added to their resilience.

Thailand, has experienced a sharp rise in political violence, commensurate with its score, moving in the opposite direction from

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the region as political stability and economic potential weakened at the same time. We have not yet downgraded the country rating but persistent political strife which further delays investment, would pose broad-based deterioration to a variety of risks. Despite bouts of political violence, Thailand’s government effectiveness suggests it should in time be able to cope with such shocks and its economy is resilient.

Meanwhile, several of Asia’s largest economies including India and China have experienced increased political risk, after years of stable scores. The main problem remains government intervention in the economy and moderate increases in political violence. As with their large emerging markets counterparts, the deterioration in political risk has occurred at the same time that economic growth has slowed, suggesting that political deadlock and economic sluggishness are mutually reinforcing relatively high levels of corruption and low levels of government effectiveness.

#### Greater China Area

- **Taiwan**: Medium-low risk, none risk
- **Hong Kong**: Medium-low risk, Banking sector vulnerability
- **China**: Medium-high risk, Exchange transfer; Political interference; Legal & regulatory risk; Political violence; Risk of doing business; Banking sector vulnerability.

### Trends

This year’s 22 Country Rating changes compared to 25 in 2013. RGE’s Country Insight scores capture a series of small changes on a quarterly basis, which can give an early warning of changes. Any changes in grade are delivered quarterly and allow the Political Risk Map to highlight deterioration in countries, such as with the Ukraine several quarters in advance.
Risk Icons

Each country on the map is rated according to the different types of risks it faces. These risks are indicated by the individual icons, with the first six icons driving the overall country rating, and the three new icons included for additional information.

Brief Descriptions of Each Risk Icon

Country ratings on the map derive from six core Risk Icons, which represent insurable risk and these are:

Exchange Transfer: The risk of being unable to make hard currency payments as a result of the imposition of local currency controls. This risk looks at various economic factors, including measures of capital account restrictions, the country’s de-facto exchange rate regime and foreign exchange reserves. This Risk Icon has been added to 25 countries and territories, including Namibia, Nepal, and South Africa. This Risk Icon has been removed from 5 countries including Bangladesh, Mongolia, and Uganda. 107 countries have this Icon.

Sovereign Non-Payment: The risk of failure of a foreign government or government entity to honour its obligations in connection with loans or other financial commitments. This risk looks at measures of both ability and willingness to pay, including fiscal policy, political risk and rule of law. This Risk Icon has been added to 22 countries and territories including Gabon, Moldova and South Africa. This Risk Icon has been removed from 4 countries, including Belarus, Malawi and Montenegro. 108 countries have this Icon.

Political Interference: The risk of host government intervention in the economy or other policy areas that adversely affect overseas business interests; e.g., nationalization and expropriation. This risk is composed of various measures of social, institutional and regulatory risks. This Risk Icon has been added to 6 countries and territories including India, Mozambique, and Cape Verde. This Risk Icon has been removed from 2 countries: Bangladesh and Benin. 85 countries have this Icon.

Supply Chain Disruption: The risk of disruption to the flow of goods and/or services into or out of a country as a result of political, social, economic or environmental instability. From 2013, this includes an assessment of domestic supply chain risk. This Risk Icon has been added to 20 countries and territories, including Bahrain, Macedonia, and Rwanda. This Risk Icon has been removed from 4 countries including Jamaica, Montenegro, and Saudi Arabia. 116 countries have this Icon.

Legal and Regulatory: The risk of financial or reputational loss as a result of difficulties in complying with a host country’s laws, regulations or codes. This risk comprises measures of government effectiveness, rule of law, wider property rights and regulatory quality. This Risk Icon has been added to 17 countries and territories including Colombia, Morocco, and Peru. This Risk Icon has been removed from 2 countries: Thailand and Zambia. 110 countries have this Icon.

Political Violence: The risk of strikes, riots, civil commotions, sabotage, terrorism, malicious damage, war, civil war, rebellion, revolution, insurrection, a hostile act by a belligerent power, mutiny or a coup d’etat. Political violence is quantified using measures of political stability, peacefulness and specific acts of violence. This Risk Icon has been added to 19 countries and territories, including Belize, Indonesia, and Ukraine. This Risk Icon has been removed from 5 countries, including Armenia, Serbia, and Timor Leste. 104 countries have this Icon.

Risks to Doing Business: The regulatory obstacles to setting up and operating business in the country, such as excessive procedures, the time and cost of registering a new business, dealing with building permits, trading across borders and getting bank credit with sound business plans. This Risk Icon has been added to 8 countries and territories, including Botswana, Pakistan, and Senegal. This Risk Icon has been removed from 8 countries, including El Salvador, Seychelles, and Zambia. 97 countries have this Icon.

Banking Sector Vulnerability: The risk of a country’s domestic banking sector going into crisis or it not being able to support economic growth with adequate credit. This risk comprises measures of the capitalization and strength of the banking sector, and macro-financial linkages such as total indebtedness, trade performance and labor market rigidity. This Risk Icon has been added to 13 countries and territories, including Botswana, Pakistan, and Senegal. This Risk Icon has been removed from 13 countries, including Barbados, Dominican Republic, and Ghana. 108 countries have this Icon.

Risks to Fiscal Stimulus: The risk of the government not being able to stimulate the economy due to lack of fiscal credibility, declining reserves, high debt burden or government inefficiency. This Risk Icon has been added to 12 countries and territories, including Afghanistan, Iran, and Panama. This Risk Icon has been removed from 11 countries, including Burkina Faso, Iraq, and Vietnam. 97 countries have this Icon.

About the 2014 Aon Political Risk Map

Aon measures political risk in 163 countries and territories to assess the risks associated with exchange transfer, sovereign non-payment, political interference, supply chain disruption, legal and regulatory regimes, political violence, ease of doing business, banking sector vulnerability and governments’ capability to provide fiscal stimulus. In each specific risk category, as well as the overall rating, each country is rated as Low, Medium-Low, Medium, Medium-High, High or Very High. Member countries of the European Union and the Organisation for Economic Co-operation and Development are not rated in the 2014 map.

Country ratings reflect a combination of analysis by Aon Risk Solutions, Roubini Global Economics – a global analysis and advisory firm – and the opinions of 26 Lloyd’s syndicates and corporate insurers actively writing political risk insurance.
Cyber Exposures and Solutions in Asia

Evolving technologies such as cloud computing, mobile devices, social media and “big data” analytics have helped companies become more competitive in the global economy. Meanwhile, the array of threats to cyber security continues to grow and evolve, and Asian companies are considered by many to be the most likely targets in the world. Cyber Theft, fraud, sabotage, espionage, and hacking (including from governments) are more frequent in the social media age, and the associated costs of information security breaches are increasing for entities in every industry sector—from retail, finance, healthcare, hospitality, media communications, technology, consulting and professional services to manufacturing, government/public sector, energy/utilities, critical infrastructure and transportation. The legal exposure, reputational harm and business interruptions that may result can wreak havoc on a company’s bottom line.
What is Cyber Risk?

The number of Asian countries with data protection laws is growing. Companies doing business within Asia will need to demonstrate that they are capable of meeting the requirements of these new laws, which can increase commerce and protect personal privacy. Therefore, risk managers of Asian-based companies have to ensure compliance with directives/guidelines pertaining to breaches of Network Security, in addition, they should focus on how to assess and limit risks that are related to data security and other IT related risks.

Risk managers work with their company’s leadership to implement a cyber risk management plan and educate employees on how to reduce cyber risks. Responsible corporate leaders will focus on and devote resources to effective programs to manage information security matters. They will mitigate their risk, usually by engaging experts to place specialized cyber insurance coverage, with language tailored to address their specific needs and exposures.

New Technologies and Emerging Threats

Asian countries are now seen as the most likely targets of cyber-attacks in the world. Recent research by FireEye Labs identified the ten most targeted Asian countries during 2013.
1. South Korea
2. Japan
3. Taiwan
4. Thailand
5. Hong Kong
6. Philippines
7. India
8. Australia
9. Pakistan
10. Singapore

Indeed, recent history reveals a wide array of incidents, from various causes, throughout all the countries of Asia. Within Asia, FireEyes Labs identified the following industries as having experienced advanced persistent cyber-attacks during 2013, in order:
1. Financial Services
2. Government
3. High-Tech
4. Chemicals/Manufacturing/Mining
5. Services/Consulting
6. Higher Education
7. Telecom(Internet, Phone and Cable)
8. Energy/Utilities/Petroleum
9. Entertainment/Media
10. State and Local Government

Asian corporate leaders must recognize their businesses’ vulnerabilities to intentional attacks and take appropriate steps to prepare, prevent and mitigate the damage from such crimes. While cybercrime, hacktivism and espionage are growing threats, companies must
deal with the risk of security breaches that are inherent in the use of evolving technology. As companies are seeking new technological tools, they also encounter novel risks. Technological developments in recent years, such as increased reliance on cloud computing, mobile devices, and social networking have contributed to the dramatic increase in security risks, with the costs for security breach surging both globally and regionally. In 2013, Asian companies averaged 2,938 security incidents, up from 2,444 in 2012. The financial losses stemming from these incidents averaged, per company, US$1.6 million, up from US$1.25 million in 2012. But only 46% CEOs in Asia believe that they have effective data protection security in place. New technological devices will bring new risks that can significantly impact a corporate's financial condition, so corporate leaders have an obligation to protect their company’s assets and stock prices by taking steps to minimize their exposure.

Asian companies seem to realize that investment in information security is important of those surveyed, as 60% intend to increase their security budgets over the next 12 months. Most companies have a senior level executive who communicated the importance of security (69%) and have a management process for responding to security incidents (66%). However, only 37% have a policy for security risk assessment and only 29% have a policy for end-user security awareness training.

Asian countries have highest penetration of mobile phone usage in the world. Mobile tools were in widespread use before employers focused on the security implications that accompany them. Often devices are purchased by employees themselves and used for both personal and work related matters. The security implications are endless, because of the infinite choice of brands, models, and applications available. These factors bring corporate IT departments further challenges in controlling the related associated security risks.

Asian corporates also like to outsource computer services to third parties, such as cloud providers, as a cost-effective approach for centralized computing and meeting growing data storage demands. Users are generally geographically separated from computing, which leads to more risk exposure. The sharing of private data with cloud providers and customers is also creating risk exposures. Another key consideration with cloud providers is the potential aggregation of risk from data breaches due to the high number of customers.

Big data is another technological trend that carries additional risk due to the potential severity of a breach. The enormous accumulations of unstructured data often hosted outside a company’s IT department, are potentially less secure because they are not under internal control. The outsourcing contract should ideally include an indemnity clause triggered by the negligence, privacy breach or security incident of the outsourced provider and specifically request evidence of insurance from the outsourced provider to back the indemnity. An added benefit of obtaining evidence of insurance from an outsourced provider is that provider would have been scrutinized by an insurance underwriter expert in order to obtain insurance.

Incidents in Asia

In addition to the famous example of massive Sony PlayStation Network data breach, in which 77 million people’s private data was leaked, there are a couple of more recent incidents which we include here for your reference.

- May 2013- Yahoo! Japan detected unauthorized access to its web portal resulting in the theft of up to 22 million user IDs.
- June 2013- Hong Kong found two private computer servers spreading the Citadel Botnets computer virus, used by cybercriminals to infect computers, monitor keystrokes and relay customer account information.
- Dec. 2013- Personal information of about 130,000 customers of Citibank- Seoul, South Korea and Standard Chartered- Seoul, South Korea was recently discovered to have been leaked by insiders, triggering alarm over inadequate security systems at financial institutions. The leaked information included names, addresses, phone numbers, account numbers and loan interest rates.
- Jan. 2014 – A computer contractor working for Korea Credit Bureau stole 105.8 million customer information files personal data for over 20 million customers (more than 40% of South Korea’s population) from three Korean credit companies and sold it to
marketing firms. Each of three companies was fined US$6 million and banned from issuing new cards for three months.

February 2014 – Bitcoin’s leading exchange, Japan based Mt. Gox, suffered another security breach and file for bankruptcy in February 2014, partially due to lack/inadequate insurance (previous breaches caused, among other things, account data including username, email addresses and an encrypted passwords to be publicly available). There have already been class action lawsuits filed against Mt. Gox alleging lack of adequate security.

**Cost of Security Breaches Continue to Increase**

According to studies, the average cost of a single data breach is estimated to be US$136 per record in 2012, (up from US$130 in 2011). In US and Europe, settlements and expenses reach into the millions in several serious breaches, and some Asian countries may impose fines as well as provide for private right of action— including class action lawsuits for a range of damages. Research indicates that the cost of cybercrime continues to be a growing concern. The average cost per victim is US$298. In Singapore the cost per victim is SG$1,448, up from SG$826 in 2012. The overall cost of cybercrime during 2013 was estimated to be SG$1.25 billion in Singapore, US$1 billion in Japan and US$37 billion in China.

At least 52% of US companies and 12% European companies purchase cyber insurance coverage and that proportion is steadily increasing. Evidence suggests that Asian countries lag behind their counterparts abroad in obtaining coverage for these risks.

**Solution of Cyber Risks**

Risk managers advise companies regarding potential risks to the organization. They identify and assess threats, develop policies and strategies for risk management, and decide how to avoid, reduce, allocate and transfer risks.

The risk manager should take the following action for cyber risk.

1. Identify, classify and quantify the use of information assets and electronic methodologies, including third party outsourced service providers.
2. Implement risk management, including IT security, corporate policies and procedures.
3. Evaluate contracts with customers, outsourced service providers and other relevant parties to ensure compliance with regulations.
4. Train and monitor employees, subcontractors, their party outsourced service providers and other partners.
5. Model the range of potential frequency and severity of losses from network security and privacy incidents for your unique industry and entity specific circumstances.
6. Determine the entity’s risk appetite to retain, mitigate and transfer network security and privacy exposures, compared to the entity’s overall enterprise risk management strategy.
7. Analyze existing insurance policies for possible partial network security and privacy coverage.
8. Consider customized network security and privacy insurance to stabilize an entity’s financial statement and mitigate the risks of breach of fiduciary duty of management and the board of directors.
Nowadays, it is essential that corporations develop a comprehensive program. A team consisting of IT, legal, risk management, chief information officer, human resources, product development, sales, marketing and other pertinent personnel should be involved in developing and executing the program. Risk managers here should be responsible better communication. Furthermore, detailed documentation is also essential, and needs to be executed by risk managers.

Why are standard insurance policies not enough? While existing forms sometimes carry a level of coverage, they were not intended to cover many risks associated with an increasingly digital world, as they are not designed for them. Typical insurance forms respond as follows:

- General Liability: covers bodily injury and property damage, not economic loss.
- Errors & Omissions: covers economic damages resulting from a failure of defined services only, and may contain exclusions for data and privacy breaches.
- Property Insurance: covers tangible property, in which data is not part of. Loss must be caused by a physical peril, while dangers to data are viruses and hackers.
- Crime: covers employees and generally only money, securities and tangible property. No coverage for third party property, such as customer/client data.

Aon Thereby Suggest the Following Action to Transfer Cyber Risk.

- Some exposures can be transferred contractually, if outsourcing services. Insurance solutions exist if vendors will not take responsibility.
- Marketplace evolving to provide services solution, including loss control resources, data breach coaches, dedicated claims resources, pre-approved panels of vendors and service providers to address each element of breach response.
- Many insurers provide cyber coverage on a primary basis. Breach response coverage offering varies based on insurer and policy structure.
- Numerous additional insurers are available for consideration of excess limit.

Aon Approach

- Strategic Meetings/Discussions- Aon takes a collaborative approach with our clients to identify and analyze exposures, risk and potential insurance, including proposed structures, or alternative solutions.
- Submission Development – Aon works with our clients to obtain relevant, necessary and favorable underwriting information to present to markets.
- Marketplace leverage – Aon puts our vast knowledge of market conditions and trends to work on behalf of each client, negotiating favorable terms and conditions with top tier carriers.
- Strategic Negotiations and Placement – Aon utilizes proven and sophisticated negotiation strategies to finalize placements that meet collaboratively establish goals.

Throughout the whole risk management process and best practice Aon advises, it will provide frequent thought leadership and guidance on emerging exposures and coverage issues.
In recent years high fuel prices, congested airports and highways and tightening airport security rules have coalesced to make rail a much more attractive option for passengers and cargo.

The international railway industry is enjoying a period of significant growth across the world and examples of grand infrastructure schemes are not difficult to find. Of course, China is virtually peerless, through its development of a country-wide network connecting the major cities and remotest regions of this vast nation with thousands of kilometers of track.

Meanwhile, Europe’s trans-continental mixture of state-owned and franchise operated networks; carriers and infrastructure continues its steady march towards the introduction of newer, faster trains and tracks, supported by increasingly sophisticated signaling and safety systems. By contrast, the railroad systems of China and Taiwan are owned by government without exception. And despite the efficiency of Taiwanese and Chinese railroad systems and infrastructure, there remains lots of room for improvement.

Unfortunately, while rail travel remains second only to aviation in terms of safety, 2013 has witnessed some serious accidents, resulting in tragic loss of life and in some cases significant financial impact—even bankruptcy—for those involved.

Those occurrences show that rail industry firms’ operational risk mitigation measures can’t exclude the possibility of large incidents causing injuries, fatalities, damage to property or punitive business interruption losses. The stresses on equipment, infrastructure and personnel are rising exponentially.

Aon Global Risk Consulting has also carried out extensive studies into the elements of rail companies’ total cost of risk and we are frequently engaged by companies to provide liability risk quantification studies. Aon has accessed a range of significant data sources, revealing trends and that provide insight and data for policy arrangements that match individual needs. We believe that with more information at their fingertips, risk managers within the railway industries can support
Risk in the Railway Industry

2013 has in some ways been a difficult year for the international rail industry. Several incidents have made the headlines, with graphic images in the media that reminded the public just how devastating the consequences of a rail accident can be.

Seven major incidents occurred within the space of three months, the causes and consequences of which differed substantially. A widely publicized tragedy in Switzerland was attributed to human error, while another accident in France was blamed on failing rail buckles. The Santiago de Compostella derailment caused the deaths of 74 people. Human error was the major cause, and with the repercussions continuing, it reminds the industry that potential losses and liabilities following an incident can accumulate far beyond damage to first party property or equipment.

The crash in Lac-Mégantic, Canada on July 6th, provides a timely example of the aggregation of consequences, with a scenario involving fire and explosions in a populated area, volatile cargo, and allegations of poor maintenance.

An unattended 74 car freight train carrying crude oil travelled 11 km down a descending grade from Nantes to Lac-Mégantic and derailed, resulting in the fire and explosion of multiple tank cars. According to the court documents, the resulting oil spill could cost more than US$200m to clean up. Other evidence suggests that liability insurers may choose within the limits of their liability coverage to prioritize claims from victims, including the families of more than 40 people killed and many more injured.

The tragic case of Lac-Mégantic illustrates the importance of risk analysis for operators and providers of infrastructure. Insurers typically focus their underwriting attention on worst case scenarios, using 1/100 year, 1/50 year or other event timescales in order to ascertain how much capital they need to remain solvent should a catastrophic incident occur.

Precursors-Managing the Causes of Incidents

Precursors is a catch-all phrase for factors which may or may not be identified as the primary causes of accidents. In the EU all precursors, whether they independently result in an accident or not, are required to be reported. Of course, in most cases identified precursors don’t lead to major incidents. The two main precursors in US are human error and track failures. The top five predetermined precursors in EU are broken rails, track buckle, wrong side signal failures, broken wheels and axis.

A Proactive Risk Management Strategy

The Role of Risk Finance and Insurance

With passengers, freight and third parties all requiring protection, questions around coverage are complex and multi-faceted.

In Europe, differences exist with regards to which liabilities national legislation identifies and requires to be covered, with self-insurance a practice which is encouraged and discouraged in almost equal measure depending upon which country the company is in. The actual coverage taken out by rail industry companies can differ according to the liability limits set by the national authorities of EU member States.
Besides national legislation, access agreements between railway infrastructure providers and railway operators often include requirements regarding insured limits. Often these agreements include an obligation for railway operators to insure themselves for a certain amount, unless a risk analysis proves that a lower limit is sufficient. Lease companies (of trains and/or wagons) also make similar requirements.

The most important considerations when ensuring appropriate levels of coverage are principally around the contractual framework of policy. The insured party must set adequate limits on liability, clearly understand the cost of an accident involving multiple fatalities, severe injuries and other property damage. The assessment of typical awards for bodily injury claims and the price of legal expenses are factored within this calculation.

Insurers’ Valuation of Railway Risk

Companies are encouraged to provide as much relevant information on their risk as they can. If, for example, they have incurred major losses, it will be their responsibility to explain the underlying cause and what is being done to prevent further occurrences. If national or state regulators have conducted investigations, this can act in the railway company’s favor. For example, the roll out of the safety system TPWS(Train Protection and Warning System) on the UK network following the train crash at Ladbroke Grove, in 1999, has had a significant impact on accident numbers. Another important safety system, initiated by the European Union, is the European Rail Traffic Management System(ERTMS), which has had an enormous impact on train accidents.

Recently, in the US Rail Safety Improvement Act 2008 and Federal rule of 2012 involving the implementation of control technology had a positive effect on the insurance market for rail operators. Due to these legislative packages, an additional, excess insurance facility has been created by Aon, backed by the Lloyd’s of London and other commercial markets. The development shows that improving risk management measures can convince insurers of good insurable risk profiles among rail operators.

Evaluate and Quantify Liability Risks

Railway companies are facing an increasing need to identify the appropriate limits of liability and coverage tailored to their specific risk profile. Is the current limit sufficient, and in line with the real exposure, and does the coverage match? Aon answers these questions by providing railway companies with the necessary analytical and quantitative tools; Liability Risk Quantification(LRQ).

Its objective is to identify, assess and quantify the impact of major liability risk scenarios. The detailed risk scenarios are also used in reviewing current liability policies, and identifying coverage gaps or sub-optimal program construction.

The LRQ methodology includes the following steps:

<table>
<thead>
<tr>
<th>Identify risk areas</th>
<th>Identify risk scenarios</th>
<th>Scenario analysis</th>
<th>Quantification scenarios</th>
<th>Decision risk finance</th>
</tr>
</thead>
</table>

After identifying the most critical risk areas, specific scenarios are developed. These scenarios must be quantified. With this quantification, the following loss components can be distinguished.

- Freight
- Infrastructure
- Locomotives and wagons
- Personal injury
- Environmental damage
- Business interruption
- Damage to other railway operators
- Damage to third parties(nearby industrial or residential areas)
- Legal expenses

The loss components are aggregated into an estimate per scenario. Combined with the organization’s risk appetite and risk bearing capacity, decisions can be made on:

- Financing liability scenarios
- Limits of liability insurance
- Strategic risk management decisions
Cementing Partnerships with Insurers

Aon Global Risk Consulting has been able to make sure of best practices around the world. A generally improving picture for railway safety over recent decades offers numerous case studies on what process and risk management tools have worked, in order to make those networks a success. The authorities and government occupy a deciding position not only through subsidy and infrastructure investment, but also in developing nationwide or global standards for safety and risk management. These can then be replicated to ensure rail operators do business in an environment with fewer variables to mitigate.

It has been illustrated well by the actions of various countries to promote safety management through analysis of accident precursors, rather than inspecting only the problem’s aftermath.

Nevertheless, the industry can still be confronted by accidents that lead to significant claims. To ensure business continuity in the long term it is essential to analyze which risks the railway company is facing, and what kind of impact is associated with them. Only then can the consequences of an incident and the potential financial impact be properly understood. The current risk bearing capacity and risk appetite of the organization, as well as the interests of the shareholders, and increasingly the tax payer, all need to be included within the decision making process. Only with certainty can confidence be maintained. So, by partnering with expert risk advisors and brokers, rail industry companies can build a sustainable future, managing the risks of this complex and dynamic industry.

Aon

Risk-related decisions are never black and white, but a comprehensive set of facts, backed by the industry largest data set make the shades of grey a lot less interesting.

Let the world’s most powerful analytics empower results for your organization.

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The annual BCI Horizon Scan survey is designed to assess the short term threats that businesses continuity practitioners are most concerned about. It is by developing a better understanding of these threats that business continuity practitioners can learn how to protect their organizations against them should they materialize, thus increasing the likelihood of the organization functioning as normal and reducing the potential for operational and reputational damage.

Top Threats in 2014

In Aon Global Risk Management Survey of 2013, business interruption is ranked at 7th of the top 10 risks, and Supply chain is ranked around 20. Extreme weather and weather change are all listed in the top. In this BCI survey, the top three threats for organizations remain the same as previous years. Unplanned IT and telecom outages had 77% of respondents extremely concerned, along with being concerned about data breach (73%), and cyber-attack (73%). The percentage of people showing concern for all three of these threats has increased considerably during the year. It is clear from this survey that the threat to information systems is considered much more of an issue than the threat to anything else.

The next three threats are adverse weather (57%), interruption to utility supply (56%) and security incident (53%). There was some movement within the top ten as cyber-attack (3->2), adverse weather (5->4), fire (7->6) and health and safety incident (10->8) all moved up. Going the other way, data breach (2->3), interruption to utility supply (4->5) and security incident (6->7) all moved down. New laws or regulations entered the top ten in tenth place (11->10) while the biggest change from the previous year was supply chain disruption plunging in the ranks (8->16).

Outside of the top ten, other incidents gaining prominence include transportation network disruption (15->12), environmental incident (17->14), social unrest (20->17) and key customer insolvency (24->19).
There were some geographic variations that stood out. Earthquake/tsunami, for example, is considered a threat by respondents from both Japan (83%) and New Zealand (71%) and this is clearly a result of recent experience. Respondents from Japan also considered human illness (61%) as a threat and this can again be attributed to the sheer scale of the natural disaster the country suffered from in 2011. the aftermath of the interruption to utility supplies is considered the number one threat by respondents from Sub Saharan Africa (70%).

The above chart provides a breakdown against each of the 29 threats offered in the survey. They are ranked by level of concern, indicated by colors.

**Top Trends**

71% of respondents confirmed that their organizations did perform trend analysis while 22% stated their organization didn’t. The survey asked whether any of the 17 identified trends, emerging trends or uncertainties were on the respondent’s radar for evaluation in terms of business continuity implications.

1. Use of internet for malicious attacks (73%)
2. Influenced by social media (63%)
3. New regulations and increased regulatory scrutiny (55%).
4. Prevalence and high adoption of internet dependent services (48%)
5. Potential emergence of a global pandemic (45%)
6. Increasing supply chain complexity (45%)

**Investment in Business Continuity**

The survey reveals a greater percentage of respondents expressing concern or extreme concern with the top threats than in previous years, so with these threats seemingly on the rise, it might be expected that the investment required to combat them would also increase. However, the overall picture is that investment is being maintained at current levels for the vast majority of organizations.

This suggests that for the majority of organizations, little has changed in the perceived threat levels to justify any change in expenditure.

**ISO 22301 as a Framework for BCM Program**

It was noted that less than a half respondent (44%) currently use ISO 22301 as a framework for their business continuity management program, although about a quarter (24%) claimed they were planning to adopt it as a framework during 2014. Additionally, those in the manufacturing sector were less likely to use ISO 22301, while those within the information and communications and public administration and defense sectors were more likely to use ISO 22301. Please see chart below.

**Conclusions**

The survey results clearly show that the threats of greatest concern to business continuity professionals are those related to IT and communications, the two areas that are often considered the cornerstone and origins of their business. The fall of supply chain disruption as a perceived major threat comes as a surprise, given the potential for natural disasters causing disruption.

The prominence of the IT related threat, whether it is by way of accident or more malicious intent, is something that business continuity professionals and organizations need to take on board. Organizations need to invest in
the development of technologies that can help counter these threats. A professional advisor should be helpful to evaluate the immediate return on investment of a business continuity program. A professional BCM advisor can also assist the organization with its lack of resources, staff and plan to structure the BCM.

No company is immune to business disruption, no matter the specific threats, so it’s important that your organization is well-equipped to effectively minimize disruption to your business. The following are top tips on how you can prepare and respond to disruptions to your business and supply chain using ISO 22301.

1. Identify critical business functions
2. Produce a plan
3. Document your plan
4. Communication
5. Test your plans
6. Your suppliers need BCM too
7. Ensure continual improvement
8. Align to organizational objectives
9. Insure your organization
10. Have an incident communication plan

Natural disaster, environmental accidents, technology mishaps and man-made crises have demonstrated that severe incidents can and will happen that impact both public and private sectors. Organizations of all sizes and types should now engage in a comprehensive and systematic process of preventions, protection, preparedness, and mitigation response for business continuity and recovery.

Studies show that two out of five businesses that experience a disaster will go out of business within five years of the event. Therefore, the ability of an organization to recover from disaster is directly related to the degree of business continuity planning that has taken place before the disaster.

Business Continuity Management has become a vital discipline; bringing benefits that go far beyond organizations recovering well from unexpected disruptions. However, the obvious significance and benefit of BCM doesn’t always convince the C-suite. Even though they can see the dangers of a flood, cyber-attack or terrorism, but they may not think it’s likely to happen to the them, nor see BCM as a cost effective measure.

The idea I would like to state today is that investments in BCM can more than pay for themselves even without occurrence of a major disaster. As matter of fact, BCM process offers many advantages, from lower insurance premiums, lower interest rates on loans, process improvements for business expansion and brand enhancement. Implementing BCM gets organizations to examine the whole lifecycle of the business and look at themselves with a fresh pair of eyes. It forces leaders to create process maps, to identify areas of confusion and priority. Customers can be satisfied and their faith in your organization can be inspired by having your BCM in place. In sum, BCM can win you a trusted brand.

Beyond Recovery & ISO 22301

Bruce Lee
Aon Taiwan Senior Executive Director

Education
B.A. Mechanical Engineering major, National Taiwan Institute of Technology

Professional Qualification:
- Consultant for ITRI (Industrial Technology and Research Institute), ROC.
- Coach for license of National Fire Protection Technicians, ROC.
- Member of Boiler of TBA (Taiwan)
- Member of Technical Committee of NFPA
- Member of Educational Committee of NFPA
- Affiliate Member of Industrial Committee of NFPA
- Associate Member of Fire Marshal Association in U.S.A
- Membership of BCI, MBCI
- Registration Technical Expert (TE) of BCM for BSI

Overall (599 respondents)
Education (20 respondents)
Financial and Insurance Services (177 respondents)
Health and Social Care (21 respondents)
Information and Communication (96 respondents)
Manufacturing (46 respondents)
Professional Services (71 respondents)
Public Administration (40 respondents)
Utilities (23 respondents)
Additionally, at a strategic level BCM has grown in stature and sophistication, playing a key part in organizations’ risk management process, answering to the demands of today’s onerous regulatory and corporate governance requirements. Therefore, the board must ensure that company’s major risks are identified and build appropriate resilience into its business model and operational processes. In essence, carrots are more effective than sticks in pushing BCM prospectives.

The Standard ISO 22301

ISO 22301, the world’s first international standard for business continuity management (BCM), has been developed to help organizations minimize the risk of such disruption. ISO 22301 provides a framework for continual improvement and the ability to demonstrate to stakeholders that a BCM program meets international best practice.

ISO 22301 was announced in May, 2012 replacing BS25999, which was withdrawn in November 2012. Many organizations have already implemented ISO 22301, harnessing the benefits of operating a robust BCM system. The requirements of the standard are fully scalable, making it just as easy for SME’s as for large organizations, to implement a BCM system. Organizations can maximize the benefits of BCM by achieving independent third party certification to ISO 22301. There are couple of institutes are assisting this “badge on the wall” as demonstration to internal and external audiences. It assures corporates that they operate according to the highest BCM standards, constantly monitoring and reviewing procedures, and being independently audited.

ISO 22301 System Framework

ISO 22301 is based on PDCA cycle divided into four phases: Plan, Do, Check and Act as following chart.
ISO 22301 contains 10 clauses, the following main clauses I pick are the new structure of ISO Guide 83 that corporates need to pay attention to.

**Clause 6: Planning**

This is a critical stage as it relates to establishing strategic objectives and guiding principles for the BCM as a whole. The objectives of a BCM are the expression of the intent of the organization to treat the risks identified and/or to comply with requirements of organizational needs. The business continuity objectives must:
- Be consistent with the business continuity policy;
- Take into account the minimum level of products and services that is acceptable to the organization to achieve its objectives;
- Be measurable;
- Take into account applicable requirements;
- Be monitored and updated as appropriate.

**Clause 7: Support**

The day to day implementation of an effective business continuity management system relies on using the appropriate resources for each task. These include competent staff with relevant (and demonstrable) training and supporting services, awareness and communication. This must be supported by properly managed documented information.

Both internal and external communication must be considered in this area, including the format, content and proper timing. The requirements on the creation, update, and control of documented information are also specified in this clause.

**Clause 8: Operation**

The operation clause includes:
- Business Impact Analysis (BIA): This activity enables an organization to identify the critical processes that support its key products and services, the interdependencies between processes and the resources required to operate the processes at a minimally-acceptable level.
- Risk assessment: ISO 22301 process is mainly based on ISO 31000 standard to implement. The goal of this requirement is to establish, implement, and maintain a formal documented risk assessment process that systematically identifies, analyzes, and evaluates the risk of disruptive incidents to the organization.
- Business continuity strategy: After requirements have been established through the BIA and the risk assessment, strategies can be developed to identify arrangements that will enable the organization to protect and recover critical activities based on organizational risk tolerance and within defined recovery time objectives. Experience and good practice clearly indicate that the early provision of an overall organizational BCM strategy will ensure BCM activities are aligned with and support the organization’s overall business strategy.
- Business continuity procedures: The organization shall document procedures (including necessary arrangements) to ensure continuity of activities and management of a disruptive incident. The procedures have to:
  - Establish the protocol of an appropriate internal and external communications;
  - Be specific regarding the immediate steps during the disruption;
  - Be flexible to respond to unanticipated threats and changing internal and external conditions;
  - Focus on the impact of events that could potentially disrupt operations;
  - Be developed based on assumption and analysis
  - Be effective in minimizing consequences through implementation of appropriate mitigation strategies.
- Exercising and testing: to ensure the business continuity procedures are on the same page with the business continuity objectives, regular tests are definitely necessary. Exercising and testing are the processes of validating business continuity plans and procedures, in order to make sure the strategies are capable of providing response and recovery result expected by corporate management.
Clause 9: Performance Evaluation

Once the BCMS is implemented, ISO 22301 requires permanent monitoring of the system as well as periodic reviews to improve its operation:

- Monitoring the extent to which the business continuity policy, objectives and targets are met;
- Measuring the performance of the processes, procedures and functions that protect its prioritized activities;
- Monitoring compliance with this standard and the business continuity objectives;
- Monitoring historical evidence of deficient BCMS performance, conducting internal audits and planned intervals;
- Evaluating all this in the management review at planned intervals.

Clause 10: Improvement

Continual improvement can be defined as all the actions taken throughout the organization to increase effectiveness and efficiency, including reaching objectives, optimal cost/benefit ration, to bring increased benefits to the companies and stakeholders. Organizations can continuously improve the management effectiveness by implementing the business continuity policy, objectives, audit results, analysis of monitored events, indicators, corrective and preventive actions and management review.

Business Continuity Management at Aon

At Aon we understand the importance of human capital and reputation, as well as infrastructure to your business. Aon’s approach to Business Continuity Management will:

- Enhance understanding of your organisation, using formalised methods when appropriate.
- Evaluate the effectiveness of existing Business Continuity Management programs.
- Support your organisation in implementing business continuity options that are aligned to your business strategy.
- Provide Business Continuity Management program reassurance through audit and testing.

Aon is able to assist organisations through a systematic approach to Business Continuity Management based on best practice from global standards (including APRA LPS 232, BS 25999 and HB 292). Our approach is collaborative, taking existing knowledge and capability and building towards a holistic business continuity solution. We can support your organisation through:

- Developing of an effective business continuity framework tailored specifically for your organisation and drawing on best practice from national and international standards.
- Training and awareness programs on business continuity tailored to your organisation.
- Assisting you in better understanding your current risk environment from a business continuity perspective.
- Reviewing critical business processes and quantifying the impact that loss of these can have on your business.
- Identifying both upstream and downstream service dependencies.
- Developing mitigation strategies and identifying key activities, resources and infrastructure that can be called upon in response to an incident.
- Developing incident management and business continuity plans with roll-out training to ensure effective implementation.
- Audit, testing and evolution of existing business continuity plans on a periodic basis or as part of your change management process.
Supply Chain Dependency: How Resilient is Yours?

For the sake of clarity, let’s start by defining what a supply chain is:

“An entire network of entities, directly or indirectly interlinked and interdependent in serving the same consumer or customer. It comprises suppliers of that supply raw materials, producers who convert the material into products, distribution centres that deliver to retail warehouses, and retail outlets which bring the product to the ultimate consumer”.

Source: businessdictionary.com

The globalization of business, together with the search for cost reductions and shareholder value have resulted in increased complexity and sensitivity in supply chains. This creates the potential for a relatively small event to result in a significant disruption and loss to the business. Even a well-established Business Continuity Management Plan may not be enough if it doesn’t recognize threats beyond Tier 1 suppliers, or concentrated risks in the distribution side of the supply chain. A theoretical supply chain might look as follows:

David Sedgwick
Director of Strategic Risk Management & Technical Services, Aon Risk Solutions, Aon Hong Kong

Education
Master of Business Administration (MBA) from Henley Business School, University of Reading, UK

Professional Qualification
- Member of the Institute of Risk Management (IRM), UK
- Associate of the Institution of Occupational Safety & Health (AIOSH), UK
- Associate of the Chartered Insurance Institute (ACII), UK
- Chartered Insurance Broker (CIB) of the Chartered Insurance Institute, UK

Business Continuity Management Checklist

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<th>YES</th>
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<td>Business Continuity Management is implemented as a component of the organisation-wide risk framework</td>
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<td>Strategic business recovery objectives have been defined and endorsed by the Board of Directors</td>
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<td>A recognised Business Continuity Management standard has been adopted</td>
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<tr>
<td>Impact of potential events to the organisation is understood (for example by using Business Impact Analysis) for all key processes</td>
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<tr>
<td>Current tested and verified plans are in place for Incident Management, Emergency Response, Business Continuity and Business Recovery</td>
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<td>Business Continuity Management has been formally reviewed by specialists with the Board in last 12 months</td>
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<tr>
<td>Business Continuity Management is integrated with the corporate culture through implementation of formal processes and education</td>
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If you answered “No” to any of the above, are unsure in your responses or uncertain of the nature of the Business Continuity Management framework within your organisation then perhaps its time to talk to us. AON

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David Sedgwick
Director of Strategic Risk
Management & Technical
Services, Aon Risk
Solutions, Aon Hong Kong

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The globalization of business, together with the search for cost reductions and shareholder value have resulted in increased complexity and sensitivity in supply chains. This creates the potential for a relatively small event to result in a significant disruption and loss to the business. Even a well-established Business Continuity Management Plan may not be enough if it doesn’t recognize threats beyond Tier 1 suppliers, or concentrated risks in the distribution side of the supply chain. A theoretical supply chain might look as follows:
So, let’s ask the big question:

When you initially developed your supply chain, with its upside outcomes of efficiency and cost savings, did you take into account the potential downside outcomes of cost and quality?

In answering this question, it is important first to recognize the symptoms of a potentially overly-sensitive supply chain where a structured and systematic risk assessment is necessary:

- Over-reliance on products, services or capital equipment to fulfill demand for high-revenue, high-margin customers
- Focused production, services or centralised distribution
- High dependency on key suppliers for raw materials, products or services
- “Lean” practices – efficiency at the expense of resilience
- Reduction/consolidation of supplier base
- Outsourcing of key business functions

It is particularly pertinent to review the rise of China as a global supply market, and examine how the drivers, benefits and risks have changed:

**Upside Opportunities**

- The world’s fastest-growing economy
- Cheap labour, materials and components
- Cheap power and transportation
- The largest untapped market for products and services
- Political stability
- Easy access to regional and international markets

N.B. how many of these criteria still apply?

**Downside Threats**

- Urbanisation (population movement, concentration/gridlock)
- Employment (large workforces, education/training, cultural differences)
- Natural Catastrophe (earthquake, mudslides, flood)
- Man-made Catastrophe (fire/explosion, safety, pollution, corruption)
- Legislative framework (ministries vs bureaux, national vs local interpretation, variable enforcement regimes)
- Timing (rate of change too quick?)
- Infrastructure capacity

Risks within supply chains can manifest themselves in a number of ways:

- Marketing (missed opportunities, delayed product launches, reduced agility)
- Sales (“padded” delivery times)
- Procurement (inaccurate forecasting)
- Inventory (over-stocking)
- Operations (inaccurate forecasting, over-production)
- Management Decisions (wrong/ineffective decisions, non-optimal production scheduling, unnecessary interventions)

In determining whether your supply chain is at risk, there are a number of key questions which need to be critically and honestly answered:

- Do we understand the dependencies in the supply chain?
- Have we identified the weaknesses?
- Do we understand the levels of risk introduced?
- How flexible/agile is our supply chain?
Have we identified the Key Risk Indicators upstream and downstream?

Does our Business Continuity Management Plan fully reflect supply chain risks?

If the answers to all or any of these are “No”, then a formal process of Supply Chain Risk Management (SCRM) needs to be established and embedded into general management activities and, crucially, into decision-making processes. SCRM is defined as:

A systematic process of managing unwanted events or unwanted change in the supply chain

The process of SCRM is as follows:

- Map the supply chain – end-to-end!
- Identify the sensitivities along the supply chain
- Determine Risk Tolerances ("pain" levels)
- Assess the risks (Likelihood and Impact) to:
  - Costs (direct and indirect)
  - Quality (performance-based or perceived)
  - Schedule (ability to deliver on time)
  - Brand (image/reputation, presence)
- For intolerable risks, develop mitigation strategies:
  - Node/link-specific Business Continuity Management Plans
  - In-sourcing vs. out-sourcing
  - Single vs. dual/multiple sourcing
  - Contract design
  - Demand management
  - Logistics enhancement

A further issue to be taken into account is the distinction between a “leader” and a “lagger” in SCRM? The characteristics of each are as follows:

### Supply Chain Leader

- Address customers/suppliers as well as own business functions
- Increasing level of scrutiny of suppliers resilience
- Partnership approach with exchanges of critical information
- Risk management affects the design of the supply chain
- Diverse approach to Business Continuity Management – 8+ strategies to ensure flexibility and resilience of supply chain
- Periodic testing of Business Continuity Management Plans
- Broad view of threats form a variety of sources
- Understanding of performance via appropriate KPIs
- Application of continuous improvement processes

### Supply Chain Lagger

- More reactive than proactive
- Risk management has little impact on design of supply chain
- Perception of exposure is low
- Risk horizon narrow, with focus on own business functions
- Business Continuity Management has <3 techniques
- Little or no testing of Business Continuity Management Plan
- Little environmental scanning – unable to see trends until too late
- No KPIs for performance measurement

The benefits of this approach are both obvious and immediate:

- A better appreciation of the threats to achieving business objectives
- A consistent approach to the management of risks to the supply chain
- Support for rational allocation of risk management resources
- Support for compliance with developing Codes of Corporate Governance and Control and Risk Self-Assessment processes
- Increases the potential for “no surprises”

Finally, is your organization an SCRM “lagger” or “leader”, and are you happy with that position?
Being a specialized insurance product, business interruption insurance coverage and claims are considered one of the most complex challenges in the world. In recent years, lean production tactics and complex supply chains have resulted in large corporations suffering heavy losses from business interruptions stemming from catastrophe-linked supply chains disruptions. The unprecedented scale of these losses has caught the attention of not only the business community but also the insurance industry, who are now paying particular attention to BI insurance applications and prudent claim settlement strategies.

As professional insurance brokers, we are committed to our role as off-staff risk consultant, helping our clients address business interruption risks. Our goal is to provide acumen and resources to stabilize assets, so prospective profits can still be realized in case disaster strikes without warning. Further, as deteriorating economic conditions have forced companies to downsize or restructure, we can assist them to adjust their risk management profiles and revalue sum insured/limit or enhance coverage in order to meet their evolving needs.

Although business interruption insurance (hereafter referred to as BI) is intended to provide protection for anticipated profits of a business in the event of a loss, according to our experiences, insured are often disappointed with the size of the claim. With claims often failing to meet expectations, insured will often question the coverage of BI and integrity of insurers, and explanations by insurance brokers just seem to feed mistrust. And in fact, many policies aren’t well planned out or well defined and fail to address many issues arising from such losses, which only confuses the issue further, leading to insured and insurance broker unclear on how to proceed with BI claims, and more reasons for insured to feel dissatisfied with insurers and loss adjusters alike.

The following text outlines some practical suggestions to help insurance brokers establish a solid BI program from claims prospective.

Before the Loss

Risk managers and insurance brokers need evaluate business interruption risks before the loss, and take valid measures to make good preparations for anticipated losses. General focuses are as follows:

Arrange Appropriate Business Interruption Coverage

The purpose of business interruption coverage is to protect the cash flow of a company following a loss. In other words, the income statement should, effectively, be returned to a state where it reflects the same results that would have been reported had no business interruption occurred. Business interruption insurance is rather intricate, so close attention should be paid to the following when arranging BI:

- Obtain Proper Coverage
  This includes assuring the underlying property form contains essential coverage for natural disasters such as flood, earthquake, etc. And we also need to match the right insurance for each different business sector, such as manufacturing or services, and seal an interface between property insurance and BI.

- Establish Adequate Limits
  Assure the exposure limit is adequate: blanket is preferred.
Obtain Special Endorsements
Expand necessary extension clauses, such as contingent business interruption, service interruption and claim preparation clause, etc., as per the risks that insured faces.

Deductibles
Understand how the deductible works for all of the above coverage provisions and modify to match company needs.

Understand Exclusions
Insurance broker need to help risk managers understand exclusions, and if necessary, tailor some standard exclusions to meet the specific need from each insured’s risk management.

Basically, BI coverage should consider the insured’s unique risk nature and match the needs of the insured to subsequent risk management. In doing so, insured will be protected if losses occur.

Calculate Declared Value for BI
In applying for BI, the amount of value at risk must be assessed accurately and reported to underwriters. Most insured are asked to complete a brief worksheet, usually supplied by the insurers or insurance brokers. Generally, there is limited guidance provided to support completion of these worksheets, and the implications of the values included in that worksheet are often misunderstood, creating issues if the values are relied upon when claiming BI loss.

In actuality, accurately calculating the total sum insured is not easy, particularly when attempted by simply filling out a brief worksheet. Usually we need to consider the specific nature of each location and entity of the insured and probable risk management measures the insured could adopt. This calculation could affect the determination of premium, deductible, limit, MFL and PML, and allocation of premium. Therefore, insurance brokers and risk managers need to take each of these into serious consideration. We accordingly recommend that the calculation process involve professional consultants, who not only fully understand financial management and accounting principles, but also insurance practices. These professional consultants should also have the ability to connect calculations for designing BI programs, and help insured realize the intention of transferring risks. Meanwhile, insured can have better communication with insurer and clarify the more obscure conditions in BI coverage beforehand with the help of professional consultants to avoid discord and conflict when claiming BI loss.

Establish a Business Continuity Plan (“BCP”)
BCP is essential for reacting to the events of a loss. As organizations become more global, reducing inventories, and relying more heavily on sophisticated supply chains, it’s imperative that a comprehensive plan be in place should one link in the chain fail. Companies that have a BCP in place are able to recover more quickly from the loss event and minimize the operational impact and business interruption claim. Since standard BI policies require the policyholder to make all efforts to mitigate their loss, some level of formal, advanced business continuity planning will help expedite insurer approval and facilitate the claim process. BCP is also an effective tool when marketing insurance programs.

Set up a Stable Claim Team Beforehand
Business interruption and property claims are generally long, burdensome and time consuming efforts which demand the attention of high-level management. At the same time, these same individuals must continue to manage the business and return operations to normal.

To ensure both interests are met a successful outcome achieved, risk managers should establish who will be assigned to address the needs of the organization and the insurer in the event of a claim. This includes individuals in the following roles:

Risk Management
Usually as the central point of contact for claims.
Finance/Accounting
Provide the necessary records and information upon which the claim is based.

Sales/Operations
Determine the impact to operations and ensuring production and sales losses.

Insurances Broker
Advise on policy concerns and interface with insurer.

Claim Consultant
Accountants with specialized experience in preparing and submitting claim measurements.

Named Adjuster
There are several benefits of naming an independent adjuster in the policy prior to the loss.

After the Loss
Often when the BI loss occurs, adjusters make on-site surveys to establish causation. Sometimes following a major loss event, insurer and adjuster will engage a host of experts to identify and calculate losses, and analyze and sort through the relevant supporting documents.

Insured are often surprised by the heavy workload and amount of supporting documentation arising from claims. Detailed explanations and interpretations also need be made by the insured to link BI loss with supporting documents and then presented to the loss adjuster and insurer with a valid evidence chain.

During this process, it’s very hard for insured to sort through, submit and interpret supporting documents solely on its own capacity without any negligence or omission. And it’s also impossible to assure the adjuster’s calculation in favor of insured and fairly conform to BI policy wording.

Generally during the process we need focus on the followings:

Set up a Rational Anticipated Income Model
As we know, BI mainly covers the loss for anticipated income, which is calculated as the basis of the gross profit to be realized had no loss event occurred. So we need analyze and determine income trends.
before and after the loss and then set up a rational financial model to calculate the loss of anticipated income.

Generally this financial model will be subjective to some extent. Any party who designs this model inevitably makes assumptions in their own favor. The insured always has to accept the model presented by the loss adjuster or insurer because of asymmetric information. Although unsatisfied with the outcome calculated by the model, the insured has little power to argue with insurer and adjuster to modify the model. Sometimes, insured accordingly blames and puts pressure on their insurance brokers for a more favorable settlement.

In light of the above, claim processes could be lubricated and accomplished better if claims experts can help insured to address claims if major BI loss occurs.

**Analyze the Relevant Costs/Expenses**

There are three categories of costs/expenses relating to BI as follows:

- **Uninsured/Non-Continuing Working Expenses (UWE)**
  
  Uninsured/non-continuing working expenses will decrease in proportion to reduction of turnover in event of BI loss occurring. UWE could not be defined in the same way in consideration of different nature of insured’s business sector and model. For example, raw material cost is UWE for manufacturers, but not for commercial enterprises which regard purchases as UWE. Therefore, we need be clear about business nature of each insured before we submit a claim. UWE would not covered by BI.

- **Standing Charges/Continuing Costs**
  
  Standing Charges/Continuing costs is defined in the opposite way to UWE. It includes the costs/expenses that remain stable even when suffering income reduction due to BI loss. Standing charges/continuing costs could vary by the nature of the insured’s business. Meanwhile, some costs/expenses could be complex, which aspects that are both continuing and non-continuing. Therefore, we need make a detailed analysis of all UWE to determine which portion shows continuing and which does not. Often a professionals’ assistance is required.

- **Increased Cost of Working and Savings**

  Insured has an obligation to take any possible measures to mitigate impacts when BI loss occurs. Additional expenses could accordingly be disbursed and covered by BI policy. The expenses mentioned here needs to meet some requirements on the insurance contract terms, such as being separated from normal expenditures and passing economic limit tests, etc.

  The insured could experience savings arising from reductions in insured’s continuing expenses due to BI loss. Savings in the insured’s continuing expenses need to be deducted from the claim; otherwise the insured would be over-indemnified.

  The costs/expenses mentioned above are only based on our analysis of ideal conditions. But in fact, determining the nature of all expenses/costs for insured or insurance broker is very complicated. Nearly all expenses/costs are constantly changing, so finding a valid methodology to separate continuing expenses from non-continuing expenses requires professional knowledge and expertise. Accordingly we recommend insured turn to professional claim experts’ for help in order to be properly indemnified.

**Determine Reasonable Indemnity Period**

Indemnity period means the period during which the insured could might experience adverse impacts on business. While it might seem objective, in practice its often actually subjective. Nowadays, indemnity period are defined in most policies as the time spent on recovery to normal turnover. Therefore, it’s crucial to design a reasonable financial model to predict the anticipated turnover had no accident occurred.

We need take all related factors into account and treat indemnity period cautiously since it directly determines the amount of the final settlement.

**Other Considerations**

Other coverage considerations include:
Deductibles

It is not uncommon for deductibles to be disputed or unclear on a claim, due to ambiguity in policy wording. The deductible has critical influence on the final claims payment, so it is very important to define it clearly in the policy wording. For example, whether it’s only applicable for basic form or extending to whole coverage, or whether it covers insurance gross profit or all increased cost of working and other claim costs. Other issues that need to clarified include time; for instance, does it cover calendar days or working days when adopting the waiting period, and how to define the location or event when the deductible is adopted for location or event.

Adequacy Test

The rate of adequacy is also directly related to final claim payment. It’s complex to test adequacy since we have to take into consideration which turnover and rate of gross profit in different period could be used in favor of insured.

In conclusion, compared with other property and liability insurance, BI probably needs more professional assistance. From the angle of insurance claimer, detailed analysis could play a decisive role in settling a BI claim smoothly. We hope BI policy can start with risk management and then expend to the whole process, such as risk evaluation, insurance application and validation, and claim settlement as well, to provide high-class comprehensive service to our clients.
Aon Colleagues Cycle 300 km in Taiwan to Empower Results for Charity

Eight Aon Asia leaders, joined by 10 senior underwriting partners, embarked on a grueling, three-day cycling challenge on the legendary Central Mountain Range in Taiwan to raise funds for charity. The Aon Asia team, comprising Geoff Lambrou, Sandeep Malik, Owen Belman, Murray Wood, Paul O’Keefe, Jochem Kort, Benjamin Hancock and Jack Lai, rode over 300 km of challenging terrain as part of the Tour de Formosa journey.

Geoff, head of Specialty Broking of Asia, commented on what an amazing challenge the event was.

“Everyone that took part exceeded their personal endurance expectations and all in the name of very worthy charities. With strategic market leaders joining our team, this tour showed we have energy and edge! Thank you to all the Aon colleagues that helped make this happen and showed fantastic support,” he said.

The riders conquered the challenges of the Tour de Formosa including climbing to the highest road point in northeast Asia.

“The ride was a huge success,” Owen, CEO of ARS Greater China said. “Aon colleagues and industry partners climbed well over 5,000 meters on our bikes, and I am not sure how many would have taken the first pedal stroke had we known what lay ahead. The second day, with 3,600 meters of climbing up the legendary Wuling Peak, will not be forgotten.”
The team exceeded their original goal of S$100,000 (US$75,000) by raising more than S$160,000 (US$125,000) for two groups: the Children’s Cancer Foundation (CCF), a non-profit providing caring service for families of young children with cancer, and the Taiwan Fund for Children & Families (TFCF), an organization dedicated to providing welfare and benefits to needy children and their families.

Sandeep, CEO of ARS Asia, said the ride accomplished several goals for the team.

“Other than promoting collaboration and great wellness among colleagues, we wanted to most importantly take this time to remind ourselves that while we are serving our clients, we are also serving the communities by giving back in every way that we can,” he said.

“We would also like to use this opportunity to remember and honour our colleague, Allen Nicely, who sadly passed away this February. Allen chose The Children’s Cancer Foundation as the charity in Singapore we are supporting.”

To become more involved in your local communities, participate in Global Service Day, Aon’s annual day of volunteerism, on June 12 and improve and strengthen the communities across Aon’s global footprint. If you have any questions, please email Aon Community Affairs.

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<th>US</th>
<th>Japan</th>
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<td>2012</td>
<td>1.9</td>
<td>2.6</td>
<td>4.1</td>
<td>2.2</td>
<td>4.5</td>
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</tr>
<tr>
<td>2013</td>
<td>0.8</td>
<td>2.6</td>
<td>4.4</td>
<td>1.3</td>
<td>2.4</td>
<td>1.5</td>
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<td>4.6</td>
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<td>1.6</td>
<td>1.4</td>
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<tr>
<td>2014/02</td>
<td>0.0</td>
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<td>3.9</td>
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<td>1.5</td>
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<td>2014/03</td>
<td>1.6</td>
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<td>3.9</td>
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<td>1.6</td>
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<td>2014/04</td>
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CPI of Major Markets

<table>
<thead>
<tr>
<th>Year</th>
<th>Taiwan</th>
<th>China</th>
<th>H.K.</th>
<th>Korea</th>
<th>Singapore</th>
<th>US</th>
<th>Japan</th>
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<tbody>
<tr>
<td>2012</td>
<td>1.0</td>
<td>2.3</td>
<td>4.1</td>
<td>1.2</td>
<td>1.0</td>
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Source: IMF International Financial Statistics (IFS); Global Insight, Directorate General of Budget, Accounting and Statistics, Executive Yuan, Singapore Department of Statistics.
**Statistics of Non-Life Insurance Premium Income**  
(Unit: NTD. Million)

<table>
<thead>
<tr>
<th>Year/ Month</th>
<th>Fire</th>
<th>Marine</th>
<th>Automobile</th>
<th>Aviation</th>
<th>Engineering</th>
<th>Liability</th>
<th>Credit</th>
<th>Accident</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>21,918</td>
<td>8,910</td>
<td>57,334</td>
<td>1,529</td>
<td>8,659</td>
<td>6,768</td>
<td>1,557</td>
<td>9,271</td>
</tr>
<tr>
<td>2007</td>
<td>21,881</td>
<td>9,219</td>
<td>55,550</td>
<td>1,365</td>
<td>9,257</td>
<td>7,091</td>
<td>967</td>
<td>9,864</td>
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<tr>
<td>2008</td>
<td>21,548</td>
<td>8,937</td>
<td>52,547</td>
<td>1,077</td>
<td>9,855</td>
<td>7,414</td>
<td>922</td>
<td>10,129</td>
</tr>
<tr>
<td>2009</td>
<td>18,705</td>
<td>7,637</td>
<td>50,276</td>
<td>1,153</td>
<td>10,453</td>
<td>7,737</td>
<td>970</td>
<td>10,178</td>
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<tr>
<td>2010</td>
<td>17,365</td>
<td>8,484</td>
<td>52,658</td>
<td>1,261</td>
<td>11,051</td>
<td>8,060</td>
<td>1,221</td>
<td>11,309</td>
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<tr>
<td>2011</td>
<td>19,050</td>
<td>8,773</td>
<td>55,826</td>
<td>1,097</td>
<td>4,482</td>
<td>7,513</td>
<td>1,102</td>
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<td>2012</td>
<td>22,223</td>
<td>8,445</td>
<td>59,653</td>
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<td>7,657</td>
<td>64,454</td>
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<td>4,402</td>
<td>8,601</td>
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<td>735</td>
<td>6,934</td>
<td>151</td>
<td>369</td>
<td>1,034</td>
<td>109</td>
<td>1,411</td>
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<tr>
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<td>574</td>
<td>4,616</td>
<td>11</td>
<td>310</td>
<td>672</td>
<td>34</td>
<td>939</td>
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<tr>
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<td>2,180</td>
<td>730</td>
<td>5,881</td>
<td>7</td>
<td>527</td>
<td>876</td>
<td>74</td>
<td>1,200</td>
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<td>4,940</td>
<td>2,039</td>
<td>17,431</td>
<td>169</td>
<td>1,206</td>
<td>2,582</td>
<td>216</td>
<td>3,550</td>
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</tbody>
</table>

**Statistics of Non-Life Insurance Claims**  
(Unit: NTD. Million)

<table>
<thead>
<tr>
<th>Year/ Month</th>
<th>Fire</th>
<th>Marine</th>
<th>Automobile</th>
<th>Aviation</th>
<th>Engineering</th>
<th>Liability</th>
<th>Credit</th>
<th>Accident</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>4,767</td>
<td>5,529</td>
<td>34,215</td>
<td>-905</td>
<td>2,131</td>
<td>2,190</td>
<td>1,950</td>
<td>4,538</td>
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<tr>
<td>2007</td>
<td>3,736</td>
<td>7,413</td>
<td>31,001</td>
<td>1,229</td>
<td>1,132</td>
<td>1,715</td>
<td>528</td>
<td>4,186</td>
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<tr>
<td>2008</td>
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<td>5,158</td>
<td>29,745</td>
<td>15</td>
<td>1,381</td>
<td>2,173</td>
<td>1,114</td>
<td>4,472</td>
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<tr>
<td>2009</td>
<td>5,373</td>
<td>5,907</td>
<td>29,682</td>
<td>-84</td>
<td>3,978</td>
<td>2,930</td>
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<td>4,724</td>
</tr>
<tr>
<td>2010</td>
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<td>3,855</td>
<td>32,618</td>
<td>109</td>
<td>2,341</td>
<td>3,011</td>
<td>-161</td>
<td>4,703</td>
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<tr>
<td>2011</td>
<td>7,355</td>
<td>5,277</td>
<td>34,496</td>
<td>104</td>
<td>2,138</td>
<td>2,272</td>
<td>260</td>
<td>5,365</td>
</tr>
<tr>
<td>2012</td>
<td>7,097</td>
<td>3,508</td>
<td>38,321</td>
<td>377</td>
<td>1,965</td>
<td>2,790</td>
<td>382</td>
<td>5,604</td>
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<tr>
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<td>5,508</td>
<td>4,471</td>
<td>39,448</td>
<td>158</td>
<td>1,880</td>
<td>2,928</td>
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<td>2014/01</td>
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<td>498</td>
<td>3,711</td>
<td>0</td>
<td>141</td>
<td>226</td>
<td>49</td>
<td>465</td>
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<tr>
<td>2014/02</td>
<td>123</td>
<td>909</td>
<td>2,932</td>
<td>71</td>
<td>112</td>
<td>158</td>
<td>1</td>
<td>363</td>
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<tr>
<td>2014/03</td>
<td>214</td>
<td>401</td>
<td>3,439</td>
<td>5</td>
<td>146</td>
<td>351</td>
<td>31</td>
<td>531</td>
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<tr>
<td>1-3 in total</td>
<td>822</td>
<td>1,808</td>
<td>10,082</td>
<td>76</td>
<td>399</td>
<td>734</td>
<td>80</td>
<td>1,359</td>
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</tbody>
</table>

Source: Taiwan Insurance Institute.

**2014 Q1 China Insurance Industry Fact Sheet**

Unit: RMB. 10 thousand

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Premium of Direct Insurance</td>
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<tr>
<td>1 \ P&amp;C Insurance</td>
<td>17,570,075.88</td>
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<tr>
<td>2 \ Life Insurance</td>
<td>52,427,731.99</td>
</tr>
<tr>
<td>(1) Life</td>
<td>46,073,962.91</td>
</tr>
<tr>
<td>(2) Health</td>
<td>4,917,799.58</td>
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<tr>
<td>(3) Accident</td>
<td>1,435,969.50</td>
</tr>
<tr>
<td>Life Insurance - Investment increase</td>
<td>13,664,292.53</td>
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<tr>
<td>Life Insurance - SA increase</td>
<td>170,051.88</td>
</tr>
<tr>
<td>Pension</td>
<td>1,656,892.54</td>
</tr>
<tr>
<td>Claim of Direct Insurance</td>
<td>18,592,623.98</td>
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<tr>
<td>1 \ P&amp;C Insurance</td>
<td>8,341,461.63</td>
</tr>
<tr>
<td>2 \ Life Insurance</td>
<td>10,251,162.35</td>
</tr>
<tr>
<td>(1) Life</td>
<td>8,627,798.00</td>
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<tr>
<td>(2) Health</td>
<td>1,332,248.80</td>
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<tr>
<td>(3) Accident</td>
<td>291,115.55</td>
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<tr>
<td>Operation &amp; Management Fee</td>
<td>6,127,523.38</td>
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<tr>
<td>Bank Deposit</td>
<td>250,311,842.68</td>
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<tr>
<td>Investment</td>
<td>571,971,463.80</td>
</tr>
<tr>
<td>Total Asset</td>
<td>894,587,389.88</td>
</tr>
<tr>
<td>Entrusted AUM by Pension Companies</td>
<td>26,482,134.49</td>
</tr>
<tr>
<td>Invested AUM by Pension Companies</td>
<td>23,137,309.63</td>
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</table>
### 2014 Q1 China Non-Life Premium Income of Insurers

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accident &amp; Health</td>
<td>3,586,980</td>
<td>3,586,980</td>
<td>3,586,980</td>
<td>395,303</td>
<td>277,826</td>
<td>1,802,247</td>
<td>1,518,128</td>
<td>1,526,095</td>
<td>166,274</td>
<td>41,861</td>
<td>91,754</td>
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<tr>
<td>Motor Vehicle, Damage &amp; Liability</td>
<td>1,318,605</td>
<td>1,115,274</td>
<td>979,016</td>
<td>338,208</td>
<td>286,356</td>
<td>591,230</td>
<td>503,417</td>
<td>552,748</td>
<td>3,234</td>
<td>123,069</td>
<td>13,609</td>
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<tr>
<td>Aircraft, Damage &amp; Liability</td>
<td>3,360</td>
<td>1,153</td>
<td>1,959</td>
<td>304</td>
<td>236</td>
<td>2,363</td>
<td>256,013</td>
<td>373</td>
<td>125,034</td>
<td>901,949</td>
<td>209,945</td>
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<td>Ships, Damage &amp; Liability</td>
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<td>841,597</td>
<td>340,298</td>
<td>99,655</td>
<td>46,717</td>
<td>275,338</td>
<td>172,250</td>
<td>185,355</td>
<td>344,291</td>
<td>73,935</td>
<td>901,949</td>
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<tr>
<td>Goods in Transit</td>
<td>344,789</td>
<td>233,904</td>
<td>216,103</td>
<td>68,100</td>
<td>46,866</td>
<td>228,160</td>
<td>86,753</td>
<td>87,214</td>
<td>208</td>
<td>38,072</td>
<td>44,159</td>
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<td>Property Damage</td>
<td>2,073,112</td>
<td>798,468</td>
<td>907,686</td>
<td>386,896</td>
<td>215,599</td>
<td>463,773</td>
<td>209,189</td>
<td>243,664</td>
<td>153</td>
<td>179,752</td>
<td>284,105</td>
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<td>General Liability</td>
<td>3,000,399</td>
<td>2,311,435</td>
<td>2,040,449</td>
<td>484,212</td>
<td>369,577</td>
<td>1,076,555</td>
<td>870,959</td>
<td>1,130,960</td>
<td>1,079</td>
<td>328,888</td>
<td>209,945</td>
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<td>Pecuniary Loss</td>
<td>683,420</td>
<td>215,201</td>
<td>138,023</td>
<td>125,630</td>
<td>60,200</td>
<td>65,000</td>
<td>65,463</td>
<td>65,463</td>
<td>810</td>
<td>5,682</td>
<td>148,677</td>
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<td>Non-proportional Treaty Reinsurance</td>
<td>102,840</td>
<td>98,538</td>
<td>49,340</td>
<td>7,066</td>
<td>6,746</td>
<td>11,247</td>
<td>11,013</td>
<td>16,687</td>
<td>2,694</td>
<td>23,213</td>
<td>11,640</td>
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<tr>
<td>Proportional Treaty Reinsurance</td>
<td>102,950</td>
<td>85,701</td>
<td>76,997</td>
<td>39,315</td>
<td>37,025</td>
<td>39,295</td>
<td>41,821</td>
<td>25,761</td>
<td>11,640</td>
<td>11,640</td>
<td>11,640</td>
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<tr>
<td>Total</td>
<td>12,551,113</td>
<td>8,667,656</td>
<td>7,162,573</td>
<td>1,996,689</td>
<td>1,346,949</td>
<td>4,624,026</td>
<td>3,477,610</td>
<td>3,834,589</td>
<td>11,167</td>
<td>1,090,253</td>
<td>901,949</td>
</tr>
</tbody>
</table>

(Unit: RMB. 10 thousand)

Note: Underwriting Profit/(Loss) is calculated by subtracting “Net Commissions Payable”, “Net Claims Incurred”, “Unexpired Risks Adjustment” & “Management Expenses” from “Net Earned Premiums” as reported by insurers.

January to March 2014

Direct & Reinsurance Inward Business (Unit: HKD thousand)

<table>
<thead>
<tr>
<th>Direct &amp; Reinsurance Business</th>
<th>1st Q</th>
<th>2nd Q</th>
<th>3rd Q</th>
<th>4th Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Business</td>
<td>102,840</td>
<td>85,701</td>
<td>76,997</td>
<td>39,315</td>
</tr>
<tr>
<td>Reinsurance Business</td>
<td>102,950</td>
<td>85,701</td>
<td>76,997</td>
<td>39,315</td>
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<tr>
<td>Total</td>
<td>205,790</td>
<td>171,402</td>
<td>153,994</td>
<td>78,630</td>
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</table>

Provisional Statistics on Hong Kong General Insurance Business

- Figures Decode
- Provisional Data
- Underwriting Profit/(Loss)
- Direct & Reinsurance Inward Business
- Foreign Reinsurers
- Domestic Reinsurers
- Statistical Information
- Risk+Insurance Quarterly
- Risk Insurance Quarterly
- Summer 2014
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