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2008 Global Communications, Media and Technology (CMT) Conference

The Mayfair Hotel, London 13-14 May 2008

Conference Introduction

The Marsh Global Communications, Media and Technology Practice hosted the 12th Marsh Communications, Media and Technology Conference in London, UK, on 13th and 14th May 2008.

The theme of the event was 'Global Risk Strategies and Key Issues for Today's Communications, Media and Technology Companies – Capturing the Upside'.

Fredrik Motzfeldt, Marsh EMEA CMT Practice Leader, set the scene, emphasising that the ongoing theme of CMT convergence stands out as the most important element of value creation as the array of converged products and services continues to widen. Traditional business models are rapidly transforming, driving merger and acquisition (M&A) activity and culminating in a new profile and dimension of strategic, operational, financial and hazard type risks. The need for a current dynamic and effective global risk strategy is more apparent than ever.

Global expansion is the preferred method for most players to get out of the doldrums of the mature domestic market. If you are a fast growing operator, you are trying to reach beyond your traditional borders in order to make that happen. There have been a series of potential marriages of strategic convenience and acquisitions in new areas – all intended to make sure that CMT companies achieve the next level of growth.

However, every day brings new risks for global CMT companies, whether in the form of financial or operational challenges, market volatility, fluctuating demand for products and services, increased pressure of regulation, corporate governance – all of these can impact your strategy and negatively impact your results if you don't get them right.

The MMC Marsh professional offering is fundamentally all about risk and predicated on helping companies identify, quantify and mitigate specifically these clearly defined pillars of corporate risk.

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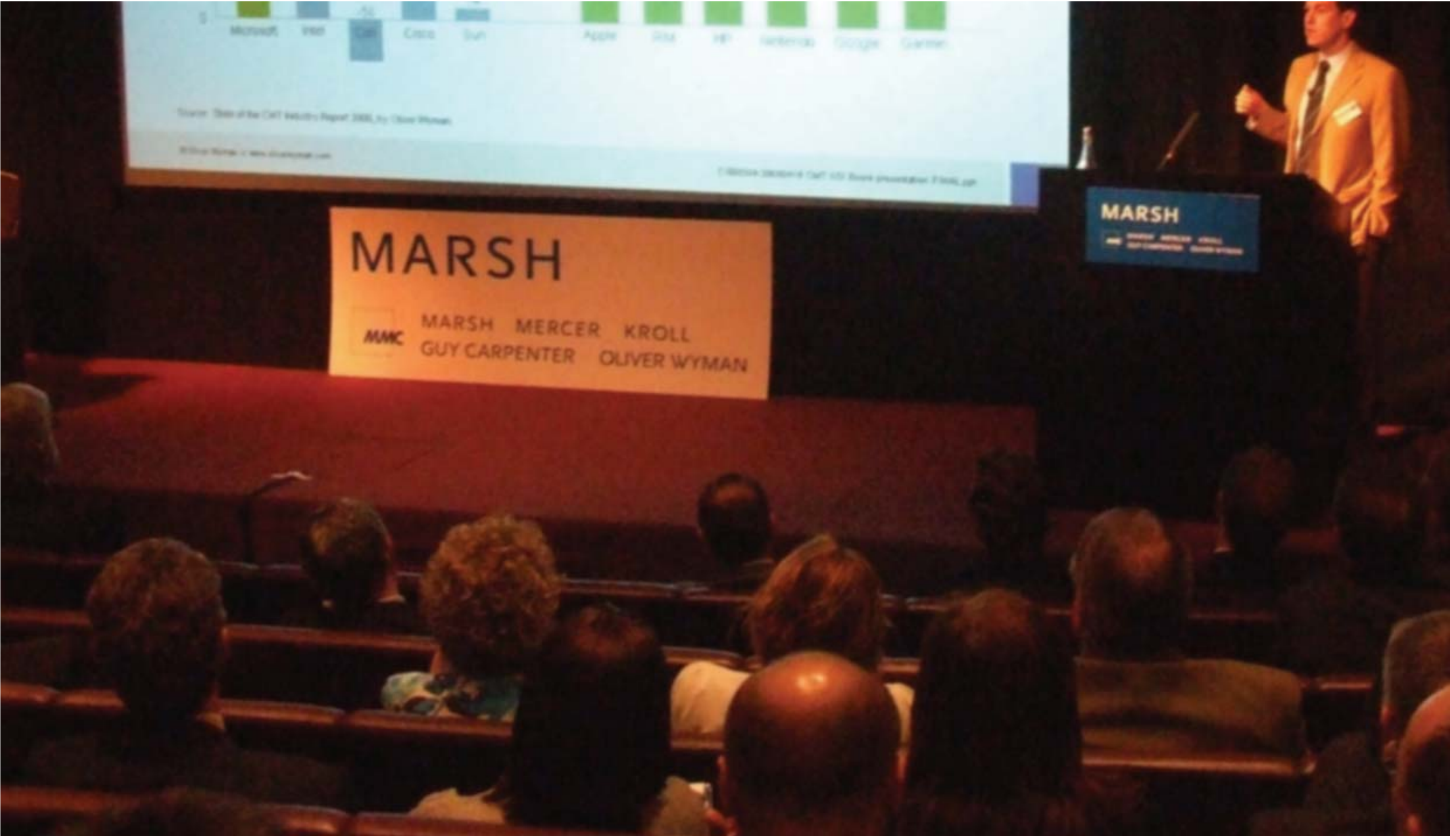


Presentations

The changing geography of the CMT industry – shift of resources, production and sales, current trends and future predictions

Oliver Harman, Partner, Kohlberg Kravis Roberts (KKR)
Seamus Keating, CFO, Logica
Martin Kon, Director, Oliver Wyman

KKR, founded in 1976, is the world's largest private equity firm in terms of the amount of capital managed and the number of companies bought. Giving a private equity perspective, Oliver described KKR's approach to investments and the trends affecting the different CMT sectors.

He said that the challenges of trying to project future cash flow in telecoms include assessing the effects of some of the macro-themes in the industry, fixed / mobile substitution, broadband growth, mobile voice and data growth / pricing, and regulatory changes. Given the uncertainty of these themes, it is not surprising that telecom share prices have declined. Infrastructure separation and sharing are also significant investment opportunities.

Oliver considered convergence both an opportunity and a threat, with other major threats being continued price and regulatory pressures.

Seamus described Logica's consolidation and globalisation policy in Europe, a key driver being that customers want to rationalise the number of suppliers they have to ensure consistency to a global standard as well as reduce costs.

To meet its large European customers' needs, Logica has developed a system combining local insight and skills with its global delivery capability. Services are sold and managed locally but increasingly delivered globally from service centres in India, the Philippines, Morocco and the Ukraine. Where a service is lower risk and more transaction based, it can be done more remotely from the customer.

CMT is a very clear focus for Oliver Wyman, explained Martin. The consultancy recently completed its first State of the Industry Report, looking at where value has been created in the last five years and why. The study includes a market value map of the top CMT companies broken down into the six sectors and geographically.

Martin highlighted the reasons why some companies have been more successful than others, saying that it is the business design and operations that determine how well a company does and how much value it creates.

The session concluded with a panel discussion on aspects including increased risks and the need for having the right information at the right time to enable better informed decisions.

The importance of an optimised business strategy when moving into new territories and new business areas

Martin Kon, Director, Head of Global Media & Entertainment Practice, Oliver Wyman

Martin gave a detailed appraisal of the reasons why some companies have out-performed their peers in creating shareholder value. Successful strategies included recognising early on that value growth would be in emerging markets, reintegration of the value chain driven by customer experience requirements, rethinking customer segmentation, brand warfare, advertising economics and redefining operational excellence.

He suggested issues that companies should be considering in order to turn their strategic risks into opportunities. For example, taking advantage of transition risk may mean double-betting – not giving up what you have now because it is very profitable but making investments in new areas to get ahead of the curve. Another example is the move from accelerated commoditisation to a 'no profit zone'. There can be an opportunity in giving away something in order to prop up or create high margins for something else.

He concluded that CMT companies would benefit from focusing on anticipating future value migration drivers and innovative business models, and managing strategic risks.

Supply chain management – what are the major risks and impacts in the CMT industry?

John Boyne, Marsh Risk Consulting

Optimised financial performance demands an ongoing analysis of the key risks spanning the increasingly complex supply network that connects suppliers, manufacturers, distributors, retailers and customers, emphasised John. He stressed the need to look end-to-end when assessing your supply chain - from raw materials sourcing through to consumption and recycling.

Analysing supply chains with the perspective of risk results in a better understanding of the potential sources and, most importantly, the potential costs of a disruption. The key risk drivers are the global supply chain, new product introduction, technology convergence and intellectual property (IP) protection.

The CMT company representatives in the audience were also asked a number of questions and surveyed using an interactive, real-time system. John's first question, "Since 2005, how has your company's overall supply chain risk level changed?", led to 78% saying it had increased, with only 6% noting a decrease. From a second question, the three top supply chain risks of concern were 1. Customer-facing risks (demand, volatility etc), 2. Pricing risks, and 3. Logistics delays and disruptions. This was closely followed by Brand Reputation risks and then IP theft and Counterfeiting. Surprisingly, Natural Disasters was the least chosen.

On a further question, the biggest risk to managing supply chain risks was deemed to be cross-functional supply chain processes. Finally, when asked to assess the current effectiveness of their company's end to end supply chain risk management process, only 5% thought it was highly effective, with 40% saying moderately effective needing improvement and 30% stating that there was low effectiveness. 23% said they had no formal process for supply chain risk.

Operations are often moving outside core competencies. External risks include increasing competition, emerging and rapidly maturing technologies and vulnerable digital products and services.

While the risk manager's domain is expanding, the supply chain group is also stepping forward and assuming those responsibilities so that the risk manager's and the supply group's priorities can conflict. In order to get agreement, you need to elevate the issue to the level of the good of the corporation.

As risks continually change, you need to work to keep your organisation proactive rather than reactive. The cost of supply chain glitches can be high in terms of deflated shareholder value.

Next generation outsourcing models: optimising risk management

Peter Brudenall, Partner, Hunton and Williams
Matthew Elkington, Marsh Risk Consulting

Some companies have been disappointed with the performance and costs savings achieved by traditional outsourcing approaches. As a result, new types of models and approaches have emerged. Underpinning and complementing that is a need to address and manage risk better.

Peter and Matthew described the characteristics of a next generation model which include more of a partnership approach with greater collaboration, improved transparency, better communication, aligned goals and incentives, and shared risk/reward. There is also greater flexibility in contracts, making it possible to exploit technological developments and react quickly to changes, and more outsourcing of functions higher up the value chain.

The complexity coming into outsourcing arrangements emphasises the need to assess the risk in these deals at the pre-contract stage. Considerations include dependencies and the quality of the vendor's risk management. Risk management techniques can comprise a mixture of avoidance, mitigation, transfer and insurance. Risk associated with termination and exit management must also be factored in and evaluated before the contract starts.

The next generation outsourcing models offer better opportunities for success but the need to assess risk at all stages of the outsourcing lifecycle is far more fundamental in these types of transactions because of the complexities.

The continuing importance of managing risk – implications for your risk transfer solutions

Jonathan Poole, European Zone Manager, Technology Insurance Specialty, Chubb Insurance

Jonathan recommended that companies look at their insurance premium spend and decide on the optimum level of risk retention so that they get maximum return on their capital employed.

With new risks emerging all the time, it is essential to have an identification process in place with assessment, prioritisation, mitigation and control procedures. Companies also need to look at the balance between strategic management versus regulatory requirements, and should regularly consider alternative risk transfer as a means of offsetting any investment in risk control.

In traditional risk transfer, companies retain standard deductibles or excesses and then transfer all their risk, exposing themselves to the significant volatility associated with the insurance market cycle. Chubb sometimes uses an alternative model where a client retains a substantial deductible for each loss. Unbundling the service element and charging separately for that protects this cost from the volatility and pricing associated with the traditional market cycle.

This challenges the traditional model for total cost of risk, with insurance seen an alternative source of capital to debt and equity. And ultimately, superior risk management provides the best approach to effective use of capital.

Risk financing optimisation

John Davies, Marsh Risk Management Practice
Emma Whiteman, Marsh Risk Management Practice

John and Emma outlined their approach to helping companies develop and manage their risk financing strategies. Purchasing insurance is one of a number of tactics deployed as part of a broader, longer-term risk management strategy. Insurance and risk financing spend are considered as a form of capital allocation with the potential to work harder and deliver a higher return.

Marsh has developed a sophisticated process that measures group risk tolerance, provides comprehensive claims analyses and simulations, and includes programme design, technical coverage mapping and captive optimisation. The aim is to design the optimal insurance programme evaluated against your business objectives.

Firms taking this approach demonstrate a significant shift from qualitative risk pricing to quantitative risk pricing, benchmarking and capital allocation. They want to move to client led programme design, for example choosing deductibles to reflect their risk appetite and what is optimal for them rather than accepting what is available. And, rather than having short-term risk transfer planning, they have a strategy and want to implement a consistent longer-term vision.

Enterprise Risk Analysis in Standard & Poor's Corporate Ratings

Raam Ratnam, TMT Sector Analyst, Corporate Ratings; Standard & Poor's Ratings Services (S&P)

Since 2005, Standard & Poor's has included Enterprise Risk Management (ERM) in rating evaluations for financial institutions and insurance companies. Raam explained how S&P plans to extend this to non-financial companies.

While S&P already reviews many aspects closely related to ERM such as management quality, and governance in the ratings process, the more structured ERM evaluation should provide greater analytical rigour for evaluating management's ability to anticipate and manage risks, and enable more forward-looking ratings, clearer external communications and better differentiation.

The framework for analysing ERM will incorporate a strategic view, and a strong view on risk management culture and governance, with not too much emphasis on detailed control processes for specific risks. Industry risk will be an important factor so there will not be a 'one size fits all' approach.

Raam did not envisage any immediate rating changes to result from incorporating ERM in the corporate ratings analysis. Credit ratings and rating outlooks for companies would be affected only if Standard & Poor’s observes extraordinary conditions that change its existing perception of a company's business profile. Standard & Poor's will defer formal scoring of companies' ERM capabilities (e.g., "strong," "adequate," "weak," etc.) until they have conducted a sufficient number of reviews to permit reliable benchmarking and published evaluation criteria, which is unlikely to occur before 2009.

Navigating cross-jurisdictional intellectual property risks: laws, regimes and new challenges

Tim Harris, Associate, Bird & Bird
Matthew Hogg, Marsh CMT Practice
Tom Allen, Marsh Finpro

Intellectual property (IP) risks are a core issue for CMT companies who should register those rights such as patents that are important to their business. Legislation differs in various jurisdictions with implications for the type of protection, its length, and evidential issues if you need to go to court.

In some blocs, such as the EU, there are increasingly more harmonised rules but local courts may interpret those rules in different ways. There may also be cultural issues and political considerations that affect your ability to defend certain rights.

You have to consider early on how you will enforce a judgement if you receive a decision in your favour. That will affect your strategy when dealing with a dispute.

After conducting an IP audit - identifying your key IP and how it is currently protected, bearing in mind jurisdictional limitations – you also need to consider what jurisdictions you may be moving into in the near, medium and even long-term future and think defensively.

A lot of companies are still getting to grips with incorporating risk management for their intangible assets. In some cases risk transfer may be appropriate and for some types of IP, such as patent infringement protection, there is a fairly robust insurance market.

A view on risk management and insurance challenges in emerging markets with emphasis on BRICS and the Middle East

Jan P Mumenthaler, Principal Insurance Officer, International Finance Corporation

Jan highlighted countries where the business environment has improved, and the reforms that need to occur for countries to secure access to the global economy and create a business and investor friendly environment. As an example, he cited that investors are generally looking for protection through liabilities imposed on directors - but without ways to enforce them they are not particularly effective.

He also outlined some particular considerations in respect of telecoms provision in emerging markets.

Political risk remains critical in certain economies, and some emerging markets also have high exposure to natural catastrophes. Environmental and social issues frequently represent risks to a company’s reputation, and neglecting or incorrectly handling one important issue can back-fire and harm the company’s most valuable assets – its brand and reputation.

The what and why of insurance requirements in vendor contracts – a customer’s perspective

Susan L Cox, Director of Risk Management, Ericsson Inc.

Susan described some of the differences in insurance requirements between contracts negotiated with US and non-US buyers. Usually the US indemnity provisions are more specific. Ideally, insurance should be the transfer mechanism for your indemnity provision so that you have the financial backing to be able to defend, indemnify and hold harmless your US counterpart.

Typical insurance requirements depend on the type of work, product or service that you are providing, and you may not be familiar with the terminology in the way that the coverage is structured.

Frequently the US customer decides that his insurance requirements are non-negotiable, so these must be flowed down to contractors and sub-contractors who have an input in providing your products or services. Such requirements may not be common in the rest of the world and there are also differences in the way some coverages are written.

Susan strongly recommended those with US operations to buy US insurance to meet their requirements and to use the services of a broker that is familiar with US requirements and law to assist in reviewing contracts.

A testimonial: transactional risks when moving into new territories

Jonathan Gillbanks, Senior Vice President, GMT Communications Partners
Daniel Max, Marsh PEMA

Responding to questions from Daniel, Jonathan said that investments in some parts of central and eastern Europe are becoming more attractive as economies mature and stabilise. However, he warned that there are certain challenges in some jurisdictions where you should be careful about your reliance in the law and/or its enforceability.

When you're looking into a business, you need to ascertain how they view the transaction, the quality of information and the kinds of representations and warranties that they're prepared to give. In addition of course to price, representations and warranties tend to be the core of the discussion.

You also need to consider the options and scenarios further down the road. As far as exit timing is concerned, people in the industry talk about the usual three to five years horizon. But it's very much a variable, depending on the stage of the business, what opportunities come up. You have to be flexible in terms of how the business itself evolves, concluded Jonathan.

Insurance industry panel discussion

Kiln, Zurich, Swiss Re, Hiscox, Samian Underwriting, ACE

Business models and companies are changing in the CMT sector, moving into different areas or new technologies. However, the consensus of the panellists was that, as long as business interruption is indemnity based, not much will change in the way products are structured. They agreed that, in order to understand the needs of individual customers and to obtain full information, it was crucial to have face-to-face meetings with perhaps three or four different people from within the organisation.

Brokers and insurers need to keep in touch with developments such as geographic changes in sourcing and suggest ways that the programme can reflect these so that the business interruption policy is customer driven.

Insurers also need to know that the disaster recovery plan is in tune with the business.

Panellists recognised that late pay out of losses can be a problem. They discussed what can be done pre-loss to prevent delays in the claim process.

As part of its product development, Marsh has looked to incorporate agreed amount payments to clients so that the client can use those funds for first or third party related issues. However, there may be problems with parametric triggers for payments, for example tax issues.

It is important that clients understand their exposure and the fundamental CMT supply chain risks. Some solutions are emerging for non-physical assets and non-physical damage business interruption, which roll all of these into one policy. However, risk managers will need to set a different expectation within their organisations about how risk will need to be assessed if they are going to tap into new risk transfer options.

Demonstrating business efficiency and financial optimisation through risk management

Tom Teixeira, Vice President Enterprise Risk Solutions, Strategic Thought Group
Olivier Moumal, Vice President Risk Management, Belgacom

Tom said that technology companies need to look at risks in terms of threats to their assets, the level of business interruption they can undertake and health and safety. You want a common mechanism for reporting and making sure you can bring that data together and really understand the threats to your business.

In order to deliver integrated risk management strategy Tom proposed a framework and described the implementation process. He listed the benefits as including: better information to support decision making; clear and concise risk definitions; correct balance between risk retention and risk transfer supported by an improved understanding of risk appetite; an enhanced risk transfer programme more closely aligned with the risk profile, and improved capital allocation.

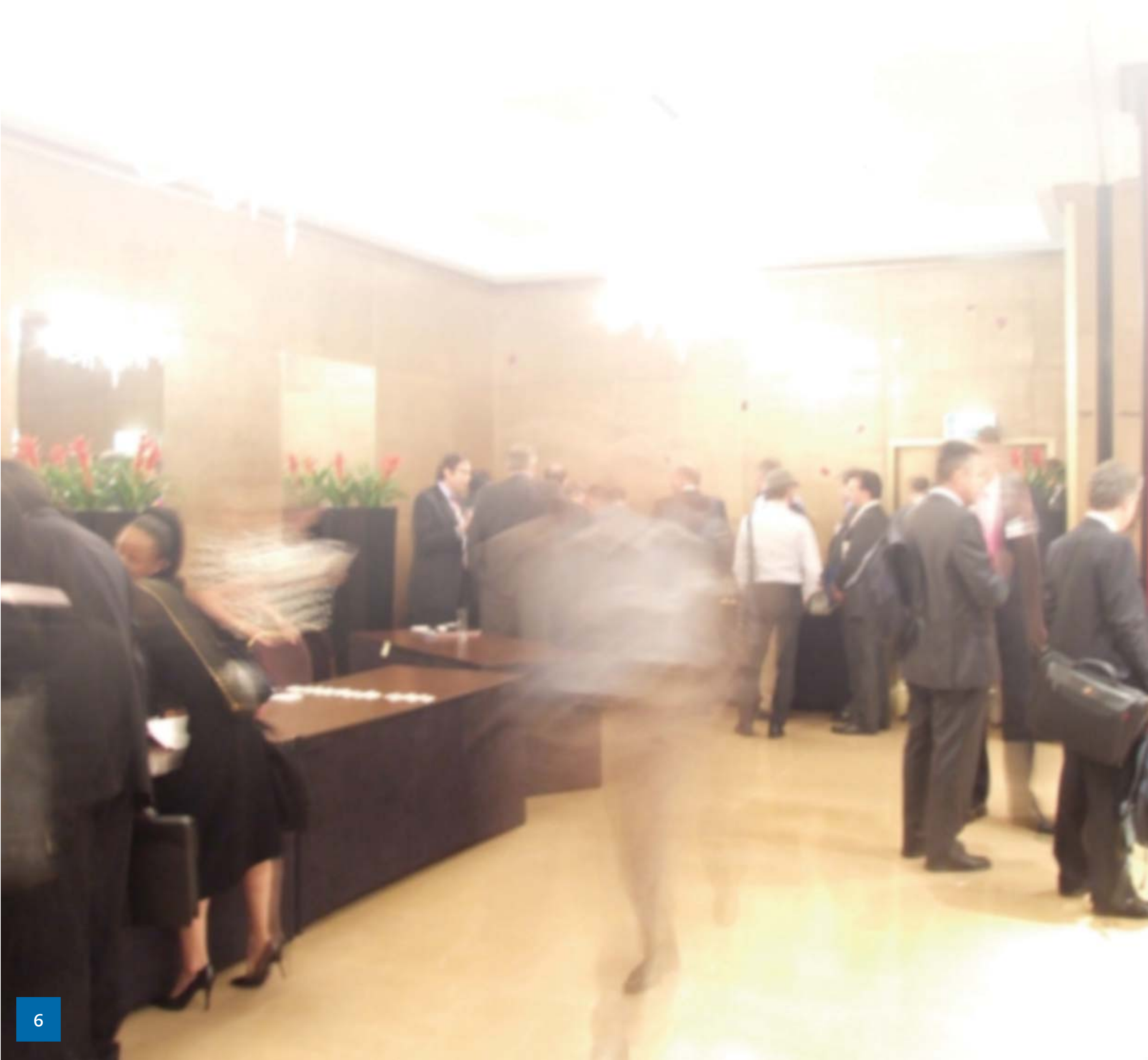
Finally, he urged risk managers to formulate a clear up-to-date risk management strategy and vision, and gain business buy-in.

Olivier said that his team's approach to ERM goes beyond compliance and the crisis management process. The goal is to generate added value which entails linking risk management to insurance cost savings, optimising the risk/return equation for contractual risks, and creating competitive advantage.

They began ERM in 2003, customising the Marsh model to meet their needs. It operates in three parts. First is determining the key risks, segmenting these into 16 risk arenas, and measuring the impact. Second, focusing on the high risk arenas, they look at which business processes are impacted. And, third, they conduct detailed scenarios analysis for the high risk arenas to determine the warning mechanisms, likelihood, financial impact, customer impact and mitigation strategies.

He said that contractual risks involve educating people to ensure, for example, that service level agreements offered to customers match those negotiated from suppliers.

Downtime is a crucial risk for banking and financial services companies, and Belgacom uses its risk management and business continuity plans as a key differentiator to create competitive advantage. The risk management department also sells customer risk management solutions, contributing directly to the value chain.



Workshops

The workshops held at the conference focused on:

- **Supply chain risk management and risk transfer** – Marsh EMEA Property Practice/Marsh Risk Consulting;
- **Multinational compliance quandaries: an E&O and D&O perspective** – Zurich/Marsh Finpro;
- **Telecoms business interruption – modelling the exposure and adjusting a claim** – Marsh Risk Consulting/Marsh Forensic and Accounting Claims Services;
- **Ready for the credit crunch? A checklist for preparedness and possible solutions to deploy** – Marsh Trade Credit Practice/Coface.

Telecoms business interruption – modeling the exposure and adjusting a claim

Presented by:

Caroline Woolley, Forensic Accounting Claims Services (FACS), Marsh
Josephine Joseph, FACS, Marsh
Hakan Kayganaci, MRC Turkey, Marsh

The telecom industry has significant financial exposure due to its fast growing and complex nature. This workshop brought Business Interruption Risk and Insurance into focus and discussed how to evaluate the risk for telecom operators. The difficulties in estimating the possible losses and adjusting the claim after actual event have been highlighted.

MRC specialists summarized their approach in determining the risk and methodology on evaluating Business Interruption exposure for telecom. They briefly examined their approach for telecom companies with the generic model and demonstrated through a detailed case assessment of mobile services interrupted due to an earthquake has been demonstrated.

FACS team drew attention to common problems in settling Business Interruption claims and shared their experiences on how they have handled a complicated BI claim in the Caribbean. They have exemplified how unforeseen issues might arise in case of an interruption claim and described the added value in conducting pre-event evaluations to reveal the exposure.

Multinational compliance quandaries: an E&O and D&O perspective

Presented by:

Nilay Ozden, Marsh Finpro

Phil Mayes, Zurich Global Corporate

Louise Dennerstahl, Zurich Global Corporate

Multinational companies operate in an environment characterised by increasing levels of international regulation and litigation. Having robust Director's and Officer's (D&O) insurance in place is of paramount importance for the management and the boards and therefore global policies need to deliver the right balance of protection and compliant solutions to both the parent company and its foreign domiciled subsidiaries.

It has been highlighted that recently, there has been more discussion around the need for local policies due to increased litigation in a wider range of jurisdictions, requests from local subsidiaries and increased focus on corporate governance and compliance.

In recognition of these needs, many companies are now re-examining the level of protection they have and working towards a solution that is more closely aligned to the potential exposures faced by the parent company as well as the subsidiary companies.

The requirement for regulatory compliance is also a key driver for determining the programme structure of global Errors and Ommission's (E&O) policies. Traditionally placed on a 'non-admitted' basis from the host nation, multinational buyers of both D&O and E&O coverage now appreciate that locally admitted policies in the most rapidly developing territories (Brazil, Russia, India, and China) are essential.

Ready for the credit crunch? A checklist for preparedness and possible solutions to deploy

Presented by:

Phil Prunty, Coface

Niall Gatt, CMT Trade Credit Team, Marsh

Ian Watts, CMT Trade Credit Team, Marsh

The Marsh Trade Credit Practice in collaboration with Coface – a Major global credit insurer provided a chilling examination into the effects of the continuing credit crunch.

Summarizing current economic indicators it highlighted how rising oil and commodity prices together with the reduced appetite of banks to lend is already negatively impacting worldwide growth. Amongst the results are higher inflation, increased borrowing costs, a reduction in M&A activity, and a sharp rise in the level of business failures.

Participants were reminded that in the current regulatory environment there is an obligation to understand and manage the potential consequences of the current credit crisis – both on the upside and the downside.

The workshop used three case studies;

- Shared methods for improving liquidity by removing default risk from the receivables portfolio
- Explored business tools that could aid and enhance business growth in Emerging markets
- Examined techniques that could speed up payments from clients and enhance cash flow

The session encouraged participants to think of using credit insurance as a tactical business tool supporting the attainment of business critical objectives such as growth and optimal cash management rather than using simply as a bad debt reserve.

Supply Chain Risk Management & Risk Transfer

Presented by:

Marc Cerro, Marsh Supply Chain Risk Management
Katherine C. Kanaga, Marsh Property Practice Leader, EMEA

CMT companies are becoming increasingly reliant on outside suppliers, and thus have an increased risk to disruptions in the supply chain. In addition, relationships with suppliers are increasingly characterised more as 'partnerships', which often means that adversarial recourse is to be avoided.

Marsh recently conducted an internal survey of 110 Risk Managers. When asked 'what risks keep me up at night' over 40% of respondents responded 'Risks and delays with our suppliers'.

Risk managers will also find that within their own organisations, supply chain drivers will differ from risk management drivers. Supply Chain decisions will often be measured in terms of efficiency and cost reductions, while risk management decisions are often measured on risk containment. These are not always in harmony!

Most companies use various risk mitigation strategies, including contracts with penalties, dual sourcing, business continuity plans, and supplier audits. There are often limitations to these strategies particularly when there may be niche or sole suppliers. Companies will also purchase insurance for the exposure to the degree that they can within the traditional property/business interruption market place, but this has limitations in terms of available limits and coverage for losses caused by suppliers of their suppliers.

Marsh offers an integrated approach to supply chain risk closely linking our risk assessment and consulting with our development of a new risk transfer product.

Marsh has developed an innovative new product that covers the revenue impact caused by a delay or disruption of supply impacting insured's production or processes. The process begins with a supply chain assessment conducted by our risk specialists, and produces a supply chain risk report and risk transfer quote.

The deliverable includes:

- A report that allows visualization of supply chain flow and risks
- Qualification (impact & likelihood) of risks throughout the supply chain
- Quantification of key supply chain risks, including revenue loss, extra costs, and potential liabilities
- Risk transfer quote for supply chain risks, including broad non-material triggers with:
  - Deductible individually tailored to insured's business and risk tolerance
  - Pre-agreed indemnification

The Marsh Communications, Media & Technology Practice

Marsh's Communications, Media & Technology Practice (CMT) is the global leader in providing risk consulting and risk transfer solutions to organisations in this sector. Our dedicated professionals worldwide can help you identify, measure, and manage difficult risks in an increasingly complex, highly competitive, and evolving industry environment.

We deliver specialised advice and solutions designed to assist you in responding to your financial and operational risks, as well as providing practical steps and considerations to help you obtain cost-effective and secure protection against the many existing and emerging risks you face. Our open "no borders" approach enables us to bring our expertise to you regardless of location.

However and wherever you choose to grow, we are equipped to provide knowledgeable guidance along the way.

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