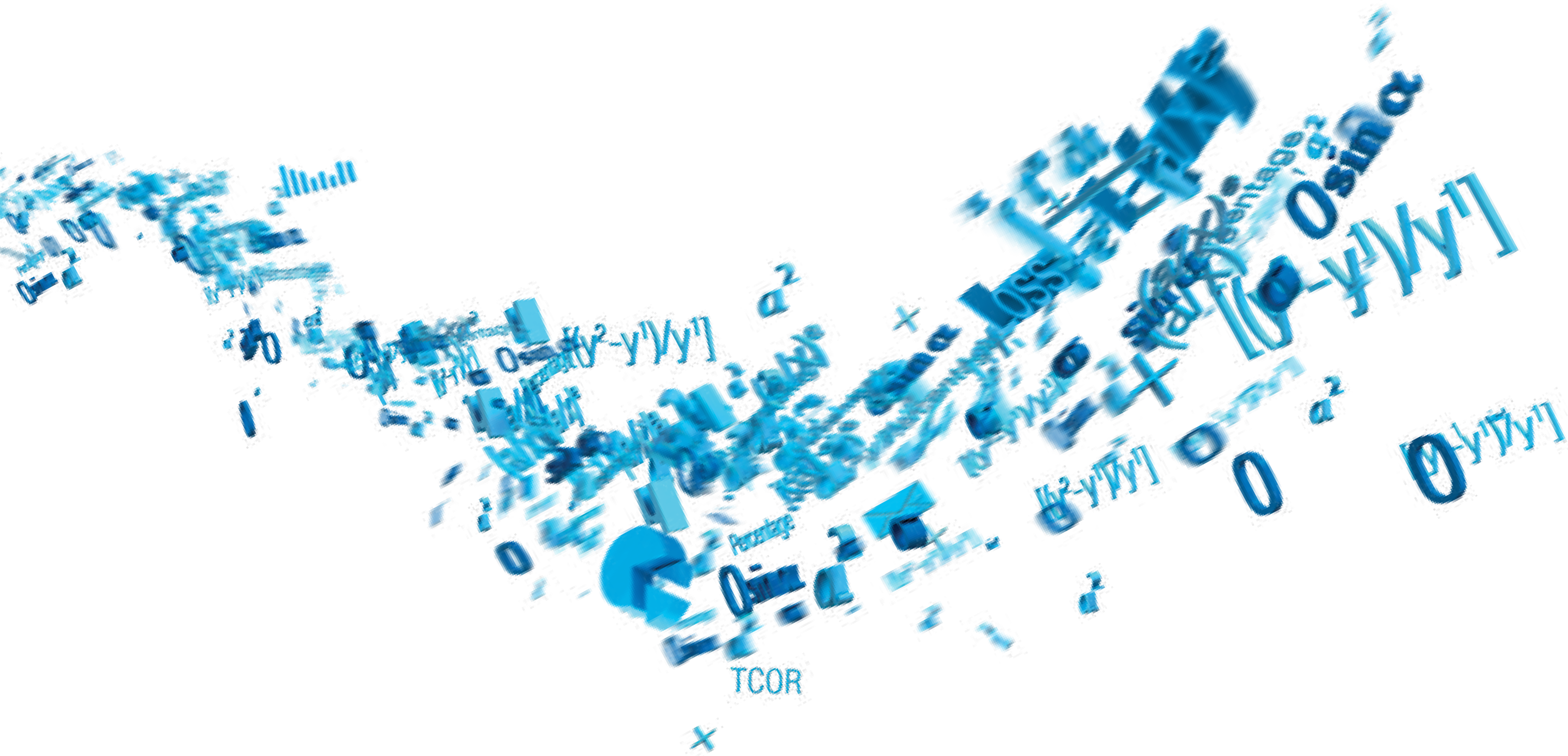
Aon Risk Solutions
Aon Centre for Innovation and Analytics

2014 EMEA Financial Institutions Industry Report

Powered by the Aon Global Risk Management Survey and Aon GRIP™, December 2014



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Introduction

The risk environment for financial institutions continues to evolve rapidly as the magnitude, scope and complexity of risk increase globally.

The disruption to financial markets has demonstrated that managing risk is key to achieving, or maintaining, growth and profitability in an environment with more regulation, unprecedented economic downturn, sustained low interest rates and tightening capital requirements.

Understanding and managing risk is increasingly a critical success factor for financial institutions. Aon's goal is to help clients recognize risks associated with the current environment, regulatory requirements and insurance implications, and to leverage their understanding of these risks to drive better business decisions.

It is our hope that this report helps you in risk identification and management, and enables you to succeed in the increasingly complex environment in which we operate.

As a leading global provider of risk management services, insurance and reinsurance brokerage, and human capital consulting, Aon is proud to provide clients with award-winning innovative solutions and informative risk insights.

Aon's 2014 EMEA Financial Institutions Industry Report provides comprehensive, industry specific research and data on key issues and concerns. These findings allow organisations to benchmark their risk management and risk financing practices against their peers and help identify practices or approaches that may improve the effectiveness of their own risk management strategies.

If you have any comments or questions about this report, or wish to discuss the findings further, please contact me or your Aon account executive.

Best regards,

Enrico Nanni
Chief Commercial Officer
Aon Risk Solutions
Global Broking Centre
Financial and Professional Services

Executive Summary

The insights in this report are mainly informed by the Aon Global Risk Management (GRM) Survey 2013 and Aon GRIP™. Aon GRM data has been collated to compare responses between financial institutions in the EMEA region against their global counterparts, while GRIP provides a clear picture of insurance purchasing trends.

Key findings

Both the EMEA and global financial institutions surveyed agree that regulatory/legislative changes followed by economic slowdown, increased competition and brand protection were the top four risk factors facing their industry today.

However, that is where the agreement ends. EMEA respondents revealed that they are more concerned than their global counterparts with risks including technology or system failure, cash flow and liquidity risk, crime, theft, fraud or dishonesty of employees and business interruption.

A majority of EMEA financial institutions have experienced losses as a result of the top 4 risk factors. Around one third of these companies have also experienced financial loss in relation to the remaining risks in the top 10, as set out on page 7 of this report. This particularly highlights the increased importance of operational risks when compared to financial institutions' credit and market risks.

52% of EMEA financial institutions said that damage to their reputation or brand had caused them financial loss in the last twelve months.

Specifically:

- 67 % of EMEA financial institutions say they have experienced a loss of income in the past 12 months due to regulatory/legislative changes, with 63% suffering as the economy slowed or stalled and 57% citing increased competition.
- 52% of EMEA financial institutions said that damage to their reputation or brand had caused them financial loss in the last twelve months, an almost identical result to respondents from global financial institutions (51%).

Buyers value price, financial stability and claims service

A number of themes have emerged, not least the influence that relationships with insurers are having on buying decisions. Among EMEA financial institutions in the past year, this has fallen to almost negligible levels in favour of price. Our analysis reveals that for 88% of financial institutions in Q3 2014, price was the deciding factor in their buying decision. In the same quarter last year, this figure was only 62%.

Other key factors considered critical by financial institutions in the region are financial rating/stability and claims service.

For 88% of financial institutions, price is the deciding factor in their buying decision. Last year, 36% were wedded to long-term partners – now the figure is just 10%.

Terms and conditions stable as premiums fall

The majority of respondents to the GRM Survey indicate that the terms and conditions they are being offered for their typical insurance programmes broadly remain unchanged. However Directors and Officers insurance has experienced some change and volatility. Indeed, 24% of respondents said that their Directors and Officers' coverage terms had become 'somewhat more restricted' while 29% have witnessed improvements in terms and conditions.

Whilst we saw London and global Directors and Officers liability markets impose some rate increases up until 2013, the trend in 2014 has been one of rate declines, largely driven by increased market capacity and appetite. Aon GRIP™ data also reveals that Fidelity/Crime premiums have been rising steadily since Q2 2013, with a 2.7% increase in Q3 2014. Professional Indemnity premiums fell as far as 3.3% in Q4 2013, but rose by 1.7% in the following three month period.

Risk Insights

In today's global environment, financial institutions face increasingly complex challenges including: regulatory scrutiny of risk and capital ratios, examination of business practices that impact consumers or corporate clients, sustained economic pressure and rising litigation. Meanwhile, technology failures and the constant threat of data breach from cyber-attacks are of increasing concern.

The stakes for organisations are high. It has never been more critical for businesses to access accurate and up-to-date intelligence, and proactively address business risk at every level of the organisation.

Top ten risks

As the comparison of top 10 risks identified for EMEA financial institutions vs global financial institutions shows, the three key risk areas (regulatory/legislative change, economic slowdown and increasing competition) are very much part and parcel of doing business in a mature industry comprising of more than 5000 banks, 3200 asset management companies and 5300 insurers.

Since the financial crisis, a considerable amount of attention has been placed on the creation of a more tightly regulated, less distressed, financial system and it is unsurprising that this risk factor resides comfortably at the top of the list.

There has been a palpable change in attitudes towards financial institutions by regulators in recent years, with punitive actions, court cases and fines an increasingly common sight. These actions are reflective of a greater scrutiny and severity by regulators, not least the fact that US supervisors are pursuing non-US companies on a wide range of charges.

While regulators are guaranteed to generate headlines from enforcement actions it is the rules which place a squeeze on financial institutions' capital position that arguably have the greatest cost to the industry. Risk transfer can have, and is having, an influence predominantly on the banking sector. Some central banks and Financial Markets Regulatory authorities have accepted insurance policies with comprehensive miscellaneous wordings and substantial limits as a means of releasing capital or as a way to reduce the overall requirement mandated by the supervisory entity.

Key regulatory trends for EMEA Asset Management

- Regulators are concentrating on client protection and industry sustainability. Also suitability of products and client risk assessments, raising the bar in terms of the quality of advice to clients.
- Capital and sustainability regulations covering Basel III - Capital Requirements Directive as well as the 'Too Big To Fail' recovery issues for larger financial institutions are leading to reorganizations and resolution plans in larger companies.
- Product management regulations include: Alternative Investment Fund Managers Directive (AIFMD), Undertakings for Collective Investment in Transferable Securities (UCITS) IV, V and VI, and Markets in Financial Instruments Directive (MIFID) II.

Top 10 industry risks among Financial Institutions

Industry Top 10 Risks	EMEA FI Rank	Global FI Rank
Regulatory/legislative changes	1	1
Economic slowdown/slow recovery	2	2
Increasing competition	3	3
Damage to reputation / brand	4	4
Technology failure / system failure	5	10
Cash flow / liquidity risk	6	Not in top 10
Crime / theft / fraud / employee dishonesty	7	Not in top 10
Capital availability / credit risk	8	6
Failure to attract or retain top talent	9	7
Interest rate fluctuation	10	10

Source: 2013 Aon Global Risk Management Survey. Where ranking for a risk was tied, the Global FI ranking was utilized to determine what risk would be ranked higher.

Beyond the concerns that EMEA financial institutions have with their regulators, the state of the economy continues to worry. The global stock market wobbles of mid-October 2014 were prompted by concerns that the Eurozone may fall back into negative growth and if EMEA financial institutions' performance falters, the associated risks can rise.

The European Banking Authority (EBA) recently published the results of the 2014 EU-wide stress test of 123 banks with the aim to assess the resilience of banks to adverse economic developments, understand remaining vulnerabilities, complete the repair of the EU banking sector and enhance market discipline.

The results show that, on average, EU banks' common equity ratio (CET1) drops by 260 basis points, from 11.1% at the start of the exercise, after the asset quality reviews' (AQRs) adjustment, to 8.5% after the stress.

Economic slowdown means potentially worse results for financial institutions; this can manifest itself in many ways and might include a rising amount of identified fraudulent activity with an impact on the frequency and severity of Crime Insurance claims. Moreover, litigation risk from customers, liquidators or Supervisory Bodies is higher and will affect cost and availability of Professional Indemnity and Directors & Officers Insurance.

Key regulatory trends for EMEA Banking

- **Basel III** – Rules covering capital, liquidity, consumer protection, anti-money laundering (AML), and risk management topics.

- **Basel IV** - A new focus on regulatory simplicity and comparability of banks across jurisdictions potentially increasing the level of Regulatory Capital.

- **Bank Recovery Resolution Directive (BRRD)** - Comes into force in 2016, banks must have contingency and recovery plans, cooperating with resolution authorities and making necessary changes to capital holdings, business activities, legal and operating structures.

As the fourth most significant perceived risk by European and global financial institutions, fear of damaging brand or reputation reflects a growing body of evidence pointing to a tangible value held within companies' brands. According to a 2010 report by the World Economic Forum, 60% of CEOs believed their corporate brand and reputation represented more than 40% of their company's market capitalisation. In this context, the initial response from the insurance market appears to have been relatively slow and could be an area of opportunity for risk transfer solutions.

There are some insurance products that have been developed in recent years to help protect brand and reputation. Unfortunately these are typically perceived by clients as costly and seem to provide relatively narrow coverage. As a result they have yet to generate the kind of interest seen amongst financial institutions for other emerging risk transfer options such as Cyber Liability and Network Security Insurance, which is slowly building a claims history and some evidence of its value after major data breach incidents in the US.

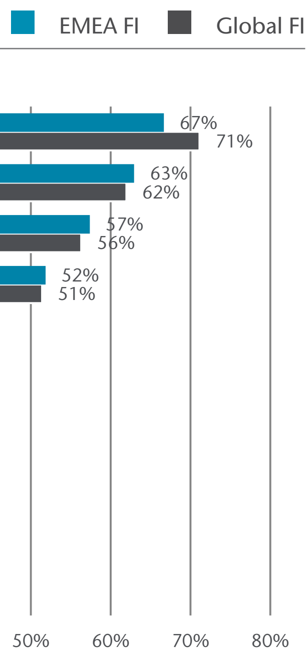
Losses associated with top ten risks

For each risk in the top 10, the survey has also revealed the extent that financial institutions have suffered financial losses as a result.

For EMEA financial institutions, 67% say they have experienced a loss of income in the past 12 months due to regulatory/legislative changes.

Losses related to crime/theft/fraud/employee dishonesty reveal the greatest difference (11%) between the EMEA and global financial institutions survey groups, which may have contributed to the higher overall risk ranking in the European region.

Frequency of top 10 risks resulting in loss of income in the past 12 months



Source: 2013 Aon Global Risk Management Survey. Where ranking for a risk was tied, the Global FI ranking was utilized to determine what risk would be ranked higher.

Top five risks projected for 2016

When asked to predict their top 5 risks for 2016, EMEA financial institutions maintained their stance that regulatory/legislative changes, economic slowdown/slow recovery and increasing competition would be the top three, while their global counterparts reversed the table, citing increased competition as their number one concern. Brand and reputation remained in the top five risks for EMEA financial institutions, but is expected to drop out of the charts for global firms by 2016.

Interestingly, failure to attract or retain top talent is expected to move up from current 9th to 4th on the list of key risks for EMEA financial institutions. Considering the importance for organisations to keep attracting and retaining talent as a key business strategy, this rise in ranking is unsurprising. Talent is a scarce commodity, and with the economic recovery under way, competition for good people can become fiercer still. Potential candidates will be looking for companies that will emerge as market leaders and where their expertise will be valued.

Key regulatory trends for EMEA Insurance

- Markets in Financial Instruments Directive (MIFID II), Packaged Retail Investment Products (PRIPs) and Insurance Mediation Directive (IMD and forthcoming IMD 2) continue to have an important strategic and operational impact on insurers.
- Insurers have to analyse their product portfolios to identify the products affected by PRIPs and prepare for necessary operational changes.
- The EC has proposed revising the existing IMD, to improve transparency and establish a level playing field for insurance sales by intermediaries and insurance companies.

Projected top 5 risks in 2016

Risk	EMEA FI Projected Rank 2016	Current EMEA FI Rank	Global FI Projected Rank 2016
Regulatory/legislative changes	1	1	3
Economic slowdown/slow recovery	2	2	2
Increasing competition	3	3	1
Failure to attract or retain top talent	4	Not in Top 5	5
Damage to reputation / brand	5	4	Not in Top 5

Source: 2013 Aon Global Risk Management Survey

Insurance Market Insights

Insights on coverage, premium and carrier trends allow financial institutions to make faster and more accurate decisions while seeking to obtain the best coverage and rates. Aon has invested considerable resources to develop industry leading platforms and ensure our clients have access to the data they need when they need it.

Aon's Global Risk Insight Platform® (Aon GRIP℠) is an award-winning electronic platform, tracking insurance placements globally and delivering critical marketplace intelligence to Aon associates and, ultimately, our clients.

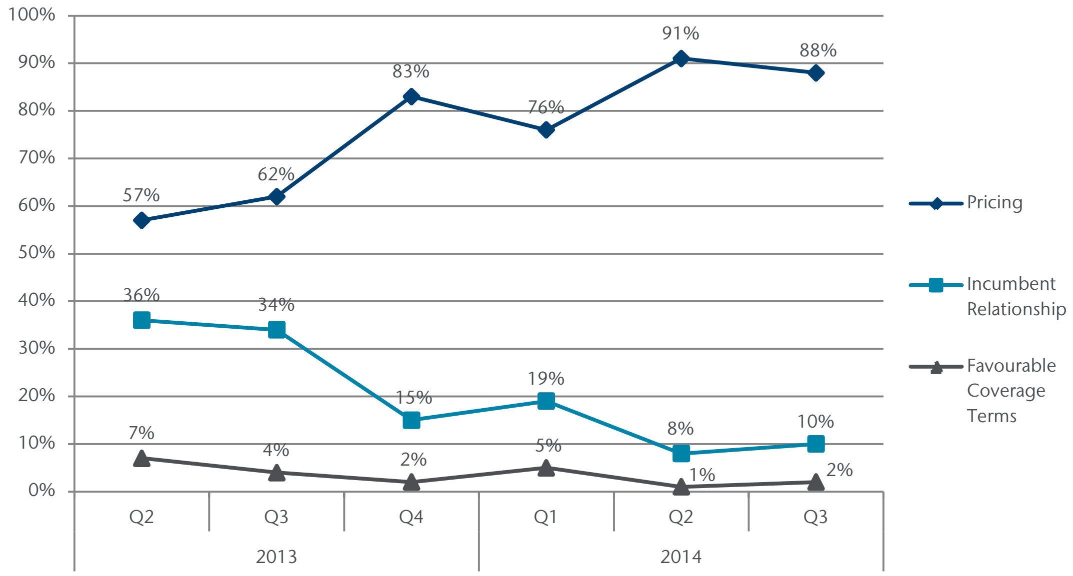
Buyer priorities in choice of insurer

When analysing the relative importance of three factors considered as key drivers of client buying decisions (pricing, long term relationship, terms and conditions), our Aon GRIP data, shown in the chart below, reveals how priorities have evolved over the last fifteen months.

In Q2 2013, buyers were still supportive of their long term insurer relationships, with this being the main reason for selecting a particular carrier in 36% of transactions, despite many lines of financial institutions insurance experiencing softening rates. Fast-forward to Q3 2014 and this figure dropped to only 10%, while price is now the dominant factor for 88% of placements.

This change in purchasing attitude presents a clear challenge to the insurance market. When engaged in strategic planning and reviewing their value proposition, insurers should consider whether to continue competing (mainly) on price for insurance products that no longer fulfil entirely the needs of ever evolving financial institutions or, alternatively, propose risk transfer solutions for some of the new and emerging risks.

EMEA financial institutions - Insurer selection reasons (in % of placements)



Source: Aon Global Risk Insight Platform, 2014

By looking at the full spectrum of priorities considered by financial institutions, beyond this specific trend analysis, we find that EMEA respondents to the 2013 Aon GRM Survey indicated financial stability/rating as being the first required attribute when choosing an insurer. This was followed by claims service and settlement, and value for money/price. The same factors were also identified as the top criteria among global financial institutions.

This also suggests that whilst financial institutions value competitive pricing, they equally rely on brokers to perform an insurance markets selection that will assess both the financial strength of prospective counterparties as well as their willingness to make claims payments.

Priorities in choice of insurer

Rank	Factors
1	Financial stability/rating
2	Claims service & settlement
3	Value for money / price
4	Capacity
5	Industry experience
6	Long-term relationship
7	Speed and quality of documentation
8	Flexibility/innovation/creativity
9	Ability to deliver a global programme
10	Risk control and engineering

Source: 2013 Aon Global Risk Management Survey

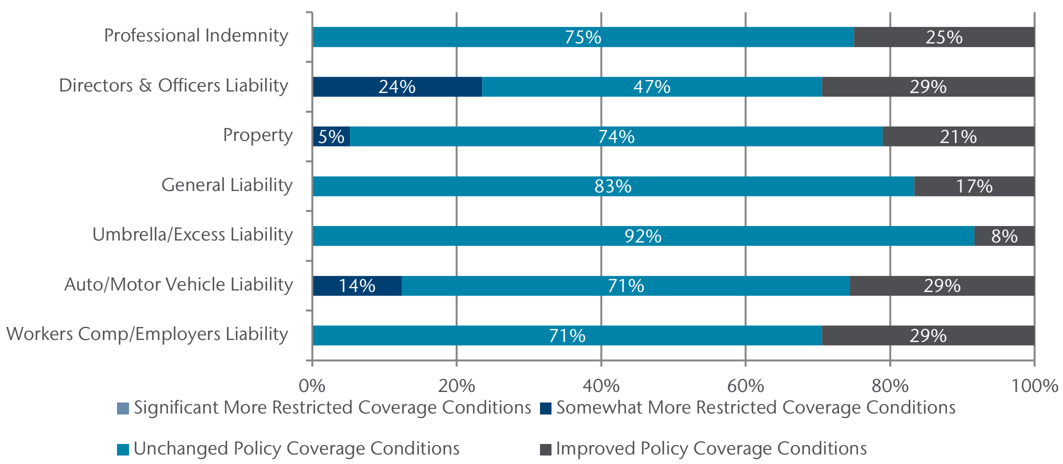
Coverage, terms and conditions

In comparison with their prior year's programmes, the majority of respondents to the GRM Survey indicate that the terms and conditions for all surveyed lines of coverage remain unchanged. However, the coverage lines that have experienced the most change include Directors and Officers Liability; 24% of respondents said that their Directors and Officers' coverage terms had become 'somewhat more restricted' while 29% have witnessed improvements in terms and conditions.

Employers' Liability on the other hand has shown a broadening of coverage terms for just under 30% of respondents; the same figure as D&O, suggesting that financial institutions are getting a mixed reception from underwriters depending on the line of insurance.

Broad coverage terms continue to be available in the marketplace, but must be intensively negotiated. In general, there continues to be abundant 'potential' capacity in the market, and as insurers compete for market share, coverage enhancements are often available.

Changes in coverage



Source: 2013 Aon Global Risk Management Survey

Financial lines premium rate trends

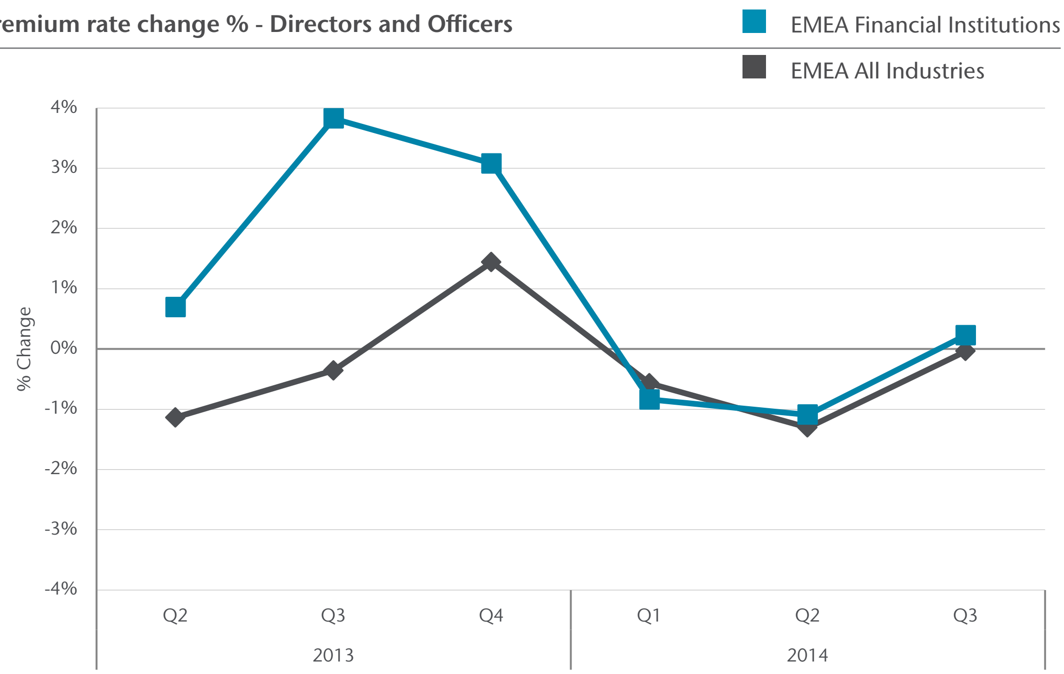
Understanding current pricing trends for risk transfer and what is expected to occur in the future is critical to managing an effective insurance strategy. The charts below show the average rate trends in EMEA for Directors and Officers Liability, Professional Indemnity and Fidelity/Crime for financial institutions compared with all other industries. It is important to note that financial institutions tend to experience more volatile premium rates than all other industries.

Despite increased claims activity, it is expected that financial institutions will continue to benefit from the increase in available insurance capital; however capacity provision remains cyclical and uncertain, particularly for large risks.

Directors and Officers

Insurers initially reacted to exposure trends, including the continued oversight and enforcement actions against the industry by regulators, with nine consecutive months of premium increases. However this trend has fallen back in 2014, with price of coverage falling in both Q1 and Q2, and remaining unchanged in Q3.

Premium rate change % - Directors and Officers



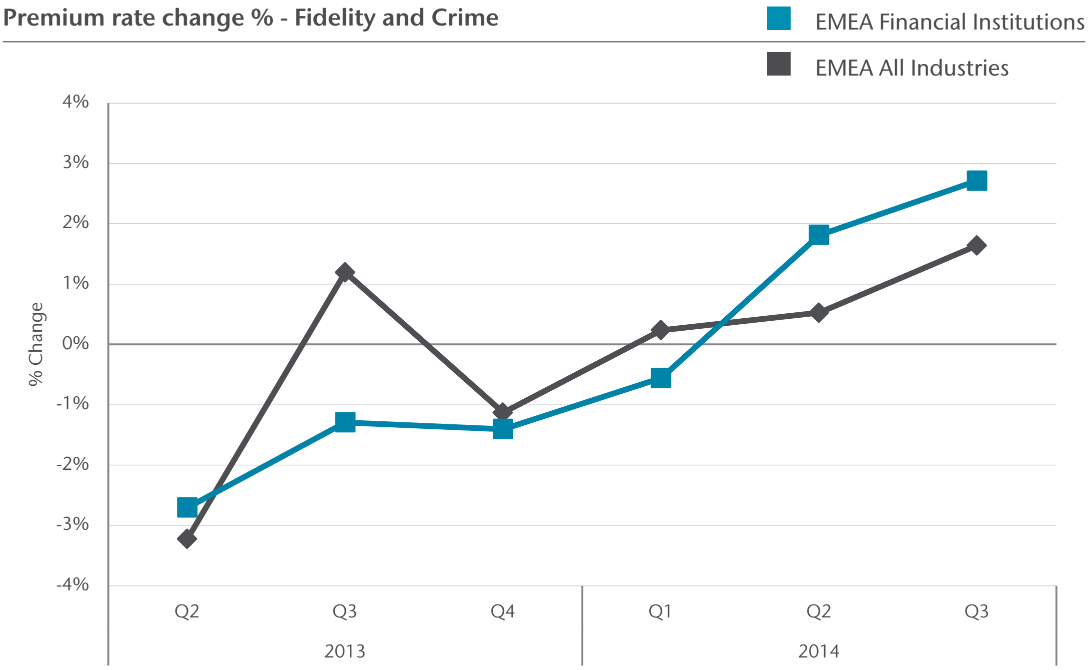
Source: Aon Global Risk Insight Platform, 2014

Fidelity/Crime

Following four consecutive quarters of premium rate falls, the market for Fidelity and Crime coverage has taken a rather sharp turn upward, with first a 2% then 2.7% increase respectively in the second and third quarters of 2014. Again, the market is attempting to apply corrections amidst a competitive environment where new capacity is abundant.

On the whole, Aon GRIP^{SM} data reflects what financial institutions perceive as their biggest risk factors today. Correlations can be identified between general economic performance and the amount of crime perpetuated against financial institutions, both from internal and external sources. In addition, banks and other organisations tend to investigate potential fraud more aggressively when liquidity and results are under pressure, hence more frauds are discovered and and claims affecting Crime and Fidelity insurance begin to rise.

Premium rate change % - Fidelity and Crime



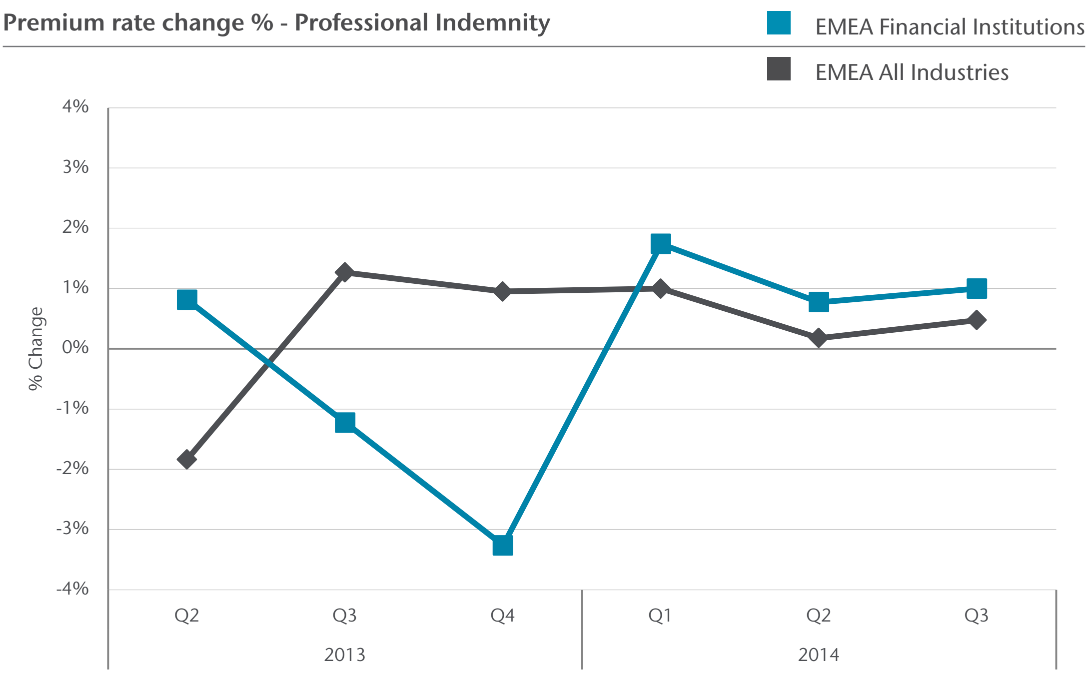
Source: Aon Global Risk Insight Platform, 2014

Professional Indemnity

Often a volatile line of business, Professional Indemnity underwriters across most regulated and unregulated industries have been trying for some time to impose both price corrections and coverage amendments. Perhaps unexpectedly, financial institutions in the GRM Survey reported that Professional Indemnity coverage terms had remained broadly the same at their most recent renewal, however the figure below indicates that they are to find much predictability in the premiums on offer. Between Q4 2013 and the first three months of this year, a negative 3.3% switched to a 1.7% rise then premium levels remained unchanged in Q2 and Q3.

Increased regulator-driven settlements are changing the nature of claims, and are also encouraging a need for amended policy language that will respond not only to traditional customer claims but also to certain regulatory obligations.

Premium rate change % - Professional Indemnity



Source: Aon Global Risk Insight Platform, 2014

Global programmes

Globalization continues to be a consistent theme for companies pursuing improved strategic growth and operational results. It is no surprise that an insurer's ability to deliver global programmes remains in the list of top ten priorities for EMEA financial institutions.

Global programmes typically include packages of 'master' and local policies which respond across a range of languages, cultures, regulatory regimes and legal systems.

In this section we review how financial institutions' buying habits differ between EMEA financial institutions and global organisations, with the latter showing a clear preference for centralised control.

How do organisations purchase and control global programmes?

When financial institutions with operations in more than one country were asked how they purchase and control their insurance programmes, 7% indicated their corporate headquarters controlled procurement of all of their global and local insurance programmes while 71% said their corporate headquarters purchased some lines of insurance and delegated the procurement of others to local offices.

While there are many reasons to use global programmes, when respondents were asked to rank their drive to purchase multinational insurance programmes from a defined list of options, the desire for coverage certainty is the primary reason for this method of purchase. This answer was consistent among EMEA financial institutions, global financial institutions and all industry respondents.

The most frequently purchased programmes, including a global/master policy issued to the parent with local policies issued to some or all the international subsidiaries are Directors and Officers Liability, General/Public Liability, and Property Damage/Business Interruption.

Global insurance purchasing habits

Global Insurance Purchasing Habits	EMEA FI	Global FI
Corporate headquarters controls procurement of ALL insurance programmes (global/local)	7%	29%
Corporate headquarters controls some lines and leaves local office to purchase other lines	71%	54%
Each operation buys its own insurance with no coordination from corporate headquarters	21%	17%

Source: 2013 Aon Global Risk Management Survey. Data represents respondents operating in more than one country.

What are the key factors influencing the use of global programmes?

Importance to Global Programme Purchase Decision	EMEA FI
Certainty of Coverage – knowledge of what coverage is included in the programme	1
Statutory Compliance – access to local admitted coverage where non-admitted is prohibited	2
Cost – this approach is more economical	3
Programme Performance – access to local claims and/or other services from local insurer/policy provider	4
Fiscal Compliance – ability to pay insurance premium and related taxes	5
Accounting – ability to allocate risk transfer costs to local operations vs. pay from corporate	6

Source: 2013 Aon Global Risk Management Survey. Data represents respondents operating in more than one country.

What products are purchased most frequently through Global Programmes?

Types of Global Insurance Coverages Purchased	EMEA FI	Global FI
Directors & Officers Liability	82%	63%
General Liability / Public Liability	73%	67%
Property (Property Damage and Business Interruption)	73%	67%
Fidelity/Crime	55%	41%
Workers Compensation / Employers Liability	27%	37%
Professional Indemnity	18%	22%
Auto / Motor Vehicle Liability	18%	26%

Source: 2013 Aon Global Risk Management Survey. Data represents respondents operating in more than one country.

Use of captives

EMEA financial institutions are greater proponents than their global counterparts in the use of captive insurance companies and as the figures in the table below show, there has been a substantial growth in those running a captive or protected cell company (PCC) since 2011. Almost one quarter of EMEA financial institutions have a captive or PCC in operation, a rise of 11% in two years.

Level of use of captive

Level of Use of Captive	EMEA FI 2013	EMEA FI 2011	Global FI 2013
Currently have an active captive or PCC	21%	10%	17%
Plan to create a new or additional captive or PCC in the next 3 years	4%	9%	12%
Have a captive that is dormant / run-off	0%	5%	2%
Plan to close a captive in the next 3 years	0%	5%	2%

Source: 2013 Aon Global Risk Management Survey

Of the EMEA financial institutions that reported having a captive, the typical coverages underwritten through this vehicle are:

- Fidelity/crime
- Property (property damage and business interruption)
- Property catastrophe
- Directors & officers liability
- Professional indemnity/liability

Financial institutions are also by far the largest user of captives by premiums written, with almost twice the volumes of energy companies or professional services firms.

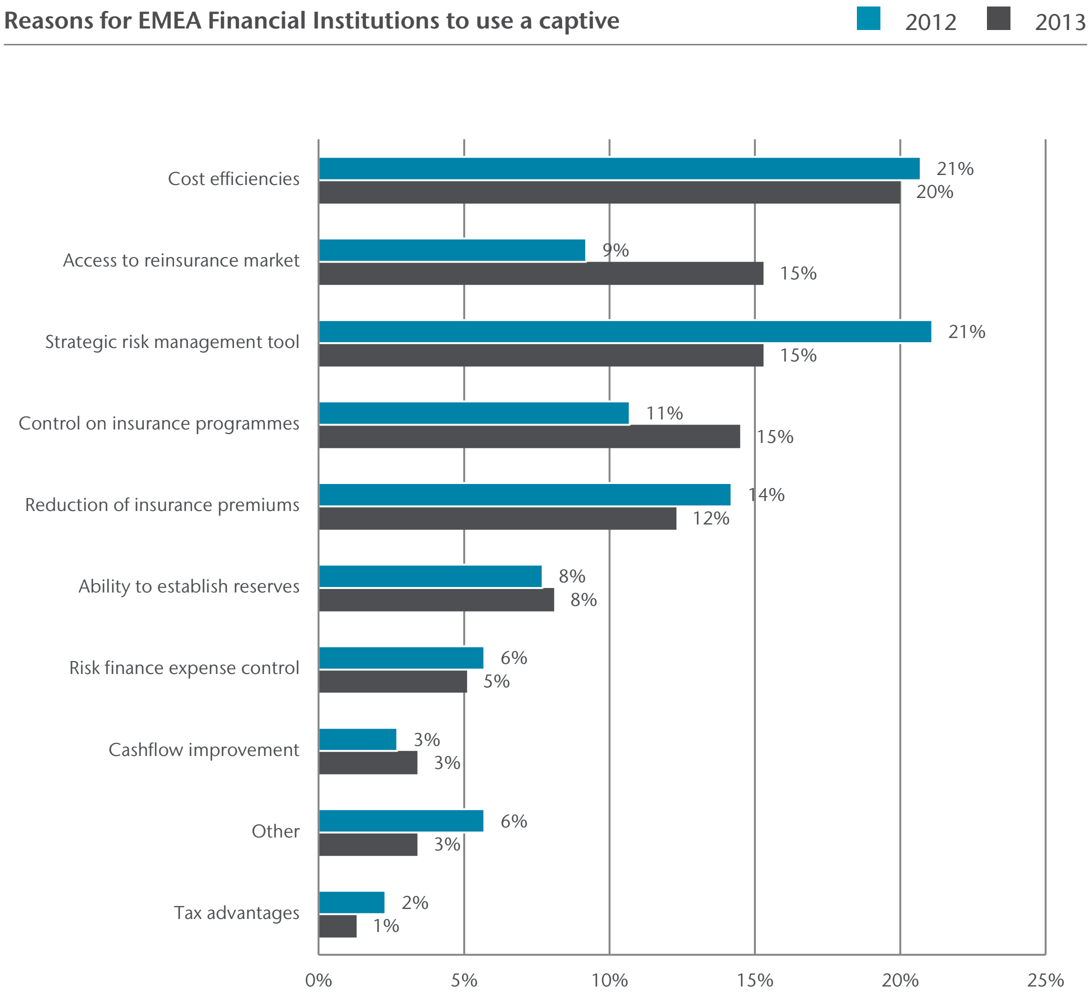
Also, captives are established for a multitude of reasons. Within EMEA, our data shows that overall cost efficiencies and access to reinsurance market are the most important factors for financial institutions.

Top 5 industries using captives by gross written premium

Top 5 Industries Using Captives by Gross Written Premium	2013 €M	2012 €M
Financial Institutions	4,406	4,251
Energy	2,574	1,637
Business and professional services	1,963	1,870
Food system, agribusiness and beverage	1,704	1,516
Manufacturing	1,622	2,099

Source: 2013 Aon Captive Survey

Reasons for EMEA Financial Institutions to use a captive



Source: ACIA Captive Survey EMEA FI

Risk Management Insights

In this section we discuss some of the approaches and data insights that prudent risk managers would consider when addressing their companies' risk management issues.

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and these have been analysed in detail earlier in this report. This definition includes legal risk, but excludes strategic and reputational risk.

Losses related to conduct risk and regulatory fines are having the most relevant impact on operational risk. There is general consensus that during the course of 2013, for the first time, the amount of operational risk losses suffered by financial institutions globally was greater than their credit risk losses.

Since the application of Basel II, banks have had three methods for calculating operational risk capital charges in a continuum of increasing sophistication and risk sensitivity: Basic, Standard and Advanced Measurement Approach (AMA).

The Basic and Standard formulae calculate capital requirements based on gross income, while the AMA capital requirement is calculated using an internal statistical model that takes into account four data elements: internal loss data, external loss data, business and controls assessment and scenario analysis. The capital charge imposed by Basel II is strictly related to historical losses and is severely affected by the largest recorded losses.

It is worth noting that the Basic and Standard methods are going to be replaced (in 2015) with a new simplified approach that will take into account the size of the financial institution and will lead to increased regulatory operational risk capital for larger firms.

Challenges in implementing an Advanced Measurement Approach

Implementing an AMA model allows better identification and assessment of the operational risk profile of a financial institution. This permits the implementation of better controls (both efficacy and efficiency) and drives the strategy for cost reduction by mitigating expected losses. It also permits P&L volatility management by transferring part of the risk.

Unfortunately, during the last five years, the banking system recorded operational risk losses of a magnitude that was unexpected both for banks and regulators. Metrics like the 99.9% Value at Risk, calibrated by the Basel Committee on losses recorded in the 2000-2006 period, forced banks to review AMA models, generating unsustainable capital charges, well above those calculated by standard or basic models.

Banks are increasingly challenged in their operational risk frameworks, as many large institutions experience operational risk losses that overcome losses in credit risk. Some of the challenges are discussed below:

- There is an increased regulatory pressure on financial institutions regarding the amount of capital to be held against operational risk: many US banks now have operational risk RWAs (Risk Weighted Assets) in the 30-40% range of total RWAs.
- Domestic regulators realised that the capital allocated by group could be insufficient to cover large losses in their jurisdiction. As a result, they require financial institutions to increase the level of locally held capital.

- In the US, regulators require setting up an Intermediate Holding Company (IHC) for Large Foreign Banks (US assets greater than 50 billion) by July 1st 2015. IHCs will be subject to US Basel III and full CCAR.
- In the UK, the Prudential Regulation Authority is progressively asking for an increase in Pillar 2A and 2B capital.

We also expect European Banking Supervision (EBA) regulated banks to face increasing pressure to align their models to the recently published EBA binding standards.

Data insight - The Aon Risk Maturity Index

The right knowledge at the right time can change the course of events. The financial institution industry has capitalized on timely information being available to consumers and enterprises for some time. Similarly, the value of the intellectual capital Aon offers can empower clients with relevant and timely risk insights to enable clients to make better decisions regarding risk management, risk retention and risk transfer.

The Aon Risk Maturity Index includes a variety of questions concerning risk management practices, corporate governance and management decision processes. The questions included are based upon the 10 characteristics of advanced risk maturity. It ranks organizations' risk maturity on a scale from 1 (*Initial/Lacking*) to 5 (*Advanced*).

Overall, the global average rating for financial institutions is 2.5 (which represents a *Basic to Defined* risk maturity). This is the same as the global average for all industries.

Key insights from the Aon Risk Maturity Index

The below values are based on Aon's risk maturity ratings: 1-Initial/Lacking, 2-Basic, 3-Defined, 4-Operational, 5-Advanced.

Characteristics of Advanced Risk Maturity	All Organisations Global Average	Financial Institutions Global Average
Board Understanding & Commitment to Risk Management	2.5	2.8
Risk Management Stewardship	2.8	3.1
Transparency of Risk Communication	2.9	2.9
A risk culture that encourages full engagement and accountability at all levels of the organization	2.4	2.5
Identification of existing and emerging risks using internal and external data and information	2.6	2.7
Participation of key stakeholders in risk management strategy development and policy setting	2.0	2.2
Formal collection and incorporation of operational and financial risk information into decision making and governance processes	2.5	2.3
Integration of risk management insights into human capital processes to drive sustainable business performance	2.8	2.6
Use of sophisticated quantification methods to understand risk and demonstrate added value through risk management	2.2	2.3
A move from focusing on risk avoidance and mitigation to leveraging risk and risk management options that extract value	2.5	2.5

Source: Aon Risk Maturity Index 2013

Conclusion

Looking ahead

Understanding and managing risk is a critical success factor for financial institutions and risk management: risk retention and risk transfer all play a key role in helping companies to deliver success. It is by having a thorough understanding of the sector's concerns and providing appropriate solutions that the insurance industry maintains its relevance as a valuable partner.

However as we have discussed in these pages, in an environment with more regulation, tightening capital requirements, sustained low interest rates and constant looming economic turbulence in the Eurozone and global economy, financial institutions need the right support now and in the years to come.

Demand more

Aon's goal is to help clients understand the risks associated with the current regulatory environment, assess their insurance implications, and use that knowledge to drive better business decisions.

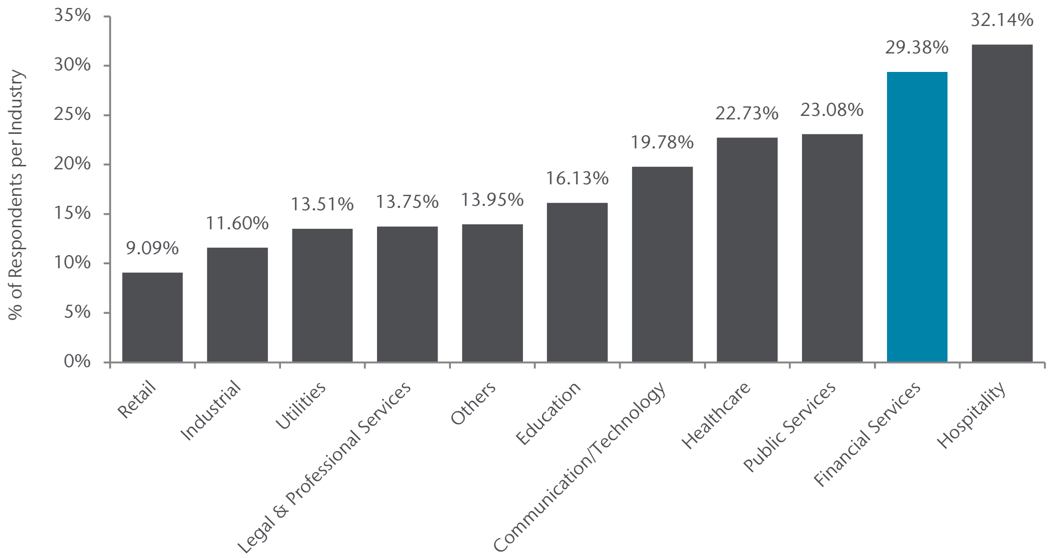
Whilst we have shown that there is stronger focus among buyers to achieve lower premiums, it is worth asking whether financial institutions should also demand more innovation to help them meet their long term risk management needs.

Cyber risks are a prime example of insurers needing to respond to the governance and coverage requirements of financial institutions with appropriate risk transfer solutions.

As evidenced by results from the Aon Cyber Risk Diagnostic Tool used worldwide to benchmark exposure to cyber and data breach incidents, financial services are now experiencing a generally higher level of oversight from the board compared to other industries, and there is no sign of downward trend.

Cyber exposures

Cyber exposures are managed via regular board updates and relevant enterprise risk management stakeholder meetings



Source: Aon Cyber Risk Diagnostic Tool

Methodology

This report is based on research and data from Aon's Global Risk Insight Platform® (Aon GRIP℠), Aon's 2013 Global Risk Management Survey, ACIA Captive Survey, Aon Risk Maturity Index and other external resources as identified in the report.

All details for individual sources are held confidential, with only consolidated data being incorporated into this report.

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About Aon

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