

Marsh News Japan

News for Marsh clients in Japan



New research on Avian Flu challenges the response from business

Most businesses are doing little in the way of preparing for a pandemic. But in spite of their “pandemic fatigue”, the latest research shows they have reason to take measures for an outbreak in the near future.

A report in October by a group of Japanese and Vietnamese scientists indicates that avian flu is more likely to spread among the human population than previously thought. They found a mutation of the H5N1 virus that can grow in the upper respiratory tracts of humans.

“Although effective human-to-human transmission of this virus has not yet occurred, the potential of the virus to acquire the ability is evident,” the researchers were reported to have said by *Kyodo News*.

The nine scientific researchers, who were led by Professor Yoshihiro Kawaoka of the University of Tokyo, also found the virus can be transmitted from human to human by coughing and sneezing.

“We believe another mutation may be necessary [for the virus] to cause a pandemic,” Kawaoka said. “As more humans are infected, the greater the chance that the mutation will evolve.”

However, pandemic fatigue has kept companies from planning. A recent poll conducted on behalf of Marsh in the United States found only 4% of executives from *Fortune 1000*

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companies believe a pandemic disease is “very likely” to occur during the next 10 years, and 41% say they have taken at least some steps to prepare.

Of these same companies, 41% say a pandemic outbreak would cause a “catastrophic” or “severe” impact on their business. This would not only be due to loss of employees through absenteeism and death, but due to substantial reductions of their markets.

In Asia as of late 2006, where the perceived urgency of this risk is greatest, less than 25% of businesses had pandemic plans in place. Businesses may believe that pandemics are unlikely to strike their operations or are too unpredictable for any preparations to be worthwhile.

The average effect on the business in the year following supply chain disruption is:

107% drop in operating income	7% lower sales growth
114% drop in return on sales	11% growth in cost
93% drop in return on assets	14% growth in inventories

NOTE: These statistics reflect disruptions of any source and duration. It is expected that a pandemic disruption will have a significantly longer than average duration.

SOURCE: K. Hendrick and V. Singhal. *The Effect of Supply Chain Disruptions on Long-term Shareholder Value, Profitability, and Share Price Volatility*. June 2005.

Especially since SARS, governments and some businesses have begun to implement practical measures to protect business models, employees, and other groups, such as families and vendors from the impact of a pandemic. These practices include: the identification of alternative supply chains; stockpiling of pharmaceuticals; and planning for operations during and after a pandemic.

In extremely rare instances

“pandemic insurance” of some kind may be available. But according to the Society of Insurance Research in the US, such insurance will likely only cover individuals against sustained leaves of absence, disability or death, and possibly workers’ compensation. This type of insurance is likely to be prohibitively costly and cover only very short periods. It is also highly unlikely to be available to companies for ensuing business disruptions.

Why risk management should be a top priority

By Hirofumi Shimoyama,
Global Chairman of Japan Client
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In my 20 years at Marsh, I have had the opportunity to discuss issues related to risk with the top-level management of Japanese firms all over the world. Sadly, in my view, the risk management structures of Japanese firms have not been developed as much as their competitors in Europe and the United States.

In addition, there are numerous issues that need to be addressed concerning responses to the Companies Law, the Basel II Directive, as well as the

improvement of companies’ internal controls.

While some companies have appointed a chief risk officer (CRO) and conduct company-wide risk management, there is a wide disparity in responses to risk among Japanese firms. Some companies that practice advanced risk management have a division in charge of insurance or a subsidiary insurance agent who handles risk management. But many others are incapable of conducting company-wide risk management because of a lack of communication among different divisions.

Smart companies will acknowledge that risk management is one means of raising corporate value

in management strategies. Quantifying the massive risks of earthquakes, floods, environmental factors, political events, and so on, and carefully surveying risks when acquiring other companies are extremely commonplace in Europe and North America. These practices should be widely adopted here.

A good place for organizations to start in addressing risk is to learn the terminology that risk professionals use to discuss it. As risk professionals, we at Marsh hope to contribute to the further success of international expansion by Japanese companies through the construction of risk management structures and improving risk responses.

Speedy responses needed to protect reputations

When there is a problem with a product, its suppliers have to respond more quickly than ever before to avoid having their reputations damaged. Recent experience has shown this is not solely due to government regulations becoming tighter but also from heightened consumer activism.

The Japanese printer manufacturer Brother found this out to its cost when many owners worldwide began reporting an error with a faulty component on a series of machines first launched five years ago. An “Error 41” message would appear on a printer’s screen when there is a failure of the print head that sprays droplets of ink onto pages.

A groundswell of consumer complaints quickly built up through the internet. A Google search of “Brother Error 41” reveals hundreds of web sites and blogs that discuss the problem, how to fix it, and how Brother is dealing with it.

While Brother extended its warranty from one to two years, many believe it should have quickly recalled the products.

Manufacturers are also coming under increasing pressure from regulatory authorities and agencies to act quickly. For example, it was reported recently that United States toymaker Mattel was informed by the US Consumer Product Safety Commission it must report all claims of potentially hazardous product defects within 24 hours after the company had



two high-profile recalls of products manufactured in China this year. The next day, Mattel announced a recall for another product believed to contain unsafe levels of lead paint.

Sony is one company that understands the risk of losing its reputation if it does not act quickly to solve problems. Last year, it was forced to spend ¥51.2 billion to recall lithium-ion batteries shipped in notebook computers due to the possibility the batteries could overheat and cause fires.

The incident prompted Sony to improve its quality control systems in October 2006. If there is any accident, even when there is only a 0.1% chance of it developing into a serious problem, it will be reported to head office within eight hours from anywhere in the world, said Sony senior vice president Makoto Kogure in an interview with *The Nikkei Business Daily*.

“Quality is directly linked to Sony’s brands and corporate image,” Kogure said. “All products that bear Sony insignias influence to some degree how people see and trust Sony quality.”

Product recall insurance is one solution available to manufacturers and retailers. The costs associated with product recalls are often high and can be crippling. However, risk advisors such as Marsh also consult to manufacturers and help them examine their supply chains to identify where they are most at risk.

They can also assist on designing plans to quickly initiate a product recall. This includes helping to establish a protocol for efficiently notifying customers of a recall and assessing whether there are appropriate independent experts who can be deployed in the event of a product crisis.

It is with these methods that some risk advisors are helping manufacturers to protect their reputations and assist them to get on with making goods the world can enjoy.

For more information on reputational risk and insurance, contact Kohsuke Komorizono, practice leader of Marsh Risk Consulting in Japan on telephone +81-3-5334-8275 or Kohsuke.Komorizono@marsh.com.

Newsbites

New earthquake warning system launched

Alerts given vital seconds before an earthquake hits can now be delivered to the public after the Japan Meteorological Agency launched a new early warning system on October 1. The system, which detects preliminary tremors caused by a major earthquake, will also provide advance announcements on their estimated intensities.

The public broadcaster, Japan Broadcasting Corp., and private broadcasters will announce the earthquake alerts through television and radio. The early warning system aims to reduce damage from temblors by allowing countermeasures, such as slowing down trains and controlling elevators. It would also give people time to find protection in potentially dangerous areas, such as factories, houses and near cliffs.

Meanwhile, non-life insurance companies are revising their earthquake insurance premiums for the first time in six years. The average premium in Japan is expected to fall by 7.7%.

A new system will also be introduced in November to deliver warnings on volcanoes.

Insurance sales by banks to be deregulated

Banks are soon set to offer a wider range of insurance products after the Financial Services Agency said its plans to deregulate insurance sales is on track for late December.

The financial watchdog has conducted a review of the banks' current insurance sales practices and found no significant problems, and has not sought to impose administrative penalties for the minor problems it uncovered. Based on the agency's report, "there is nothing to warrant a change in regulations regarding the timeline for the planned full deregulation," an FSA official was reported to have said.

It remains for the agency to negotiate with the ruling and opposition political parties to negotiate the details of the deregulation.

Since 2001, banks have been allowed to sell fire and overseas travel insurance at their branches. After the deregulation, they will also be able to add life, auto and health cover to their current lineup.

Marsh ranked number one insurance broker

Marsh has added another award to add to its substantial collection this year. Marsh & McLennan Companies, Inc. (MMC) has been ranked as the world's largest insurance broker for the 36th consecutive year by *Business Insurance*, which recently published its annual 2007 brokerage report.

MMC's 2006 brokerage and related services revenue of US\$10.474 billion (¥1.2 trillion) was more than US\$3 billion ahead of its nearest competitor, and was roughly equivalent to its three largest rivals combined.

Marsh was also named "Best Global Insurance Broker" by *Reactions* magazine. *Reactions* spent months conducting an extensive poll throughout the industry to identify the best firms and people from around the world. *Reactions* is a leading monthly magazine that provides detailed, global coverage of the insurance and reinsurance industries.

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