Managing corporate risk in Poland

Corporate risk management in Poland has advanced in recent years, aided by technological developments, but in some sectors there is still room for improvement

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Risk management practice remains underdeveloped in Poland relative to the countries of western Europe, but that is gradually changing. Dramatic advances have been made in recent years and brokers have a central role to play in driving further change.

Big differences can be seen between firms. Some have dedicated risk managers, others import experts from more developed markets and some even have internal risk management programmes. However, these tend to be the largest manufacturers and corporations, often with significant foreign investment or ownership. The situation is different for smaller companies, which constitute the bulk of employers in Poland. Few are so advanced.

As brokers, we very often see basic problems such as the implementation of existing regulations set out under national standards. Sometimes questions about basic health and safety issues must be raised or very obvious questions are asked. The enforcement of regulation is variable and rarely involves the provision of supportive advice about improvements.

National supervisory authority representatives may look for very different things under the National Work Inspection regime, based on the region or the individual inspector. Some may measure their own performance based on the volume of fines levied (often focusing on specific issues ignored elsewhere), rather than on successful improvements at the firms they inspect.

One good example is the very common use of forklifts' charging stations. They are required to meet certain standards, including installation of an acid-resistant floor covering, but it is rare for inspectors to check compliance with the rule. That means it is often ignored, unless a particular group of inspectors likes it. They will more often check on personal protection measures such as the use of gloves, goggles or aprons, as set out in regulation, but these rules are not common knowledge among many smaller companies.

Basic risk analysis is often lacking. Some companies will try to follow regulations, but will rarely go beyond them. For example, a regulation about wearing hard hats when operating forklifts in high bay warehouses was recently revoked. Many operators immediately ceased taking this simple preventative measure, despite its life-saving potential, even though they had done so previously. When it was no longer required by law, it was considered redundant. Changing business safety cultures will require sustained effort.

Maintaining safety standards

Factory visits with insurers are important both for education and compliance, but the response to suggestions may differ depending on who gives the advice. The broker is typically seen as a friendly adviser, but the insurer's risk engineer can be seen as a nuisance. Regardless, personal protection is almost always discussed during factory visits.

As brokers, we must work to meet these requests, and to see to it that clients implement national safety standards and the requirements imposed by insurers to improve the overall risk picture. IT risks are becoming vital for companies, but apart from standard solutions like firewalls and software, risk management for cyber is not well developed.

Poland's workplace compensation system does not always encourage risk management efforts, especially for health and safety measures. The national social security system provides basic cover for workers' compensation. Every employee must pay a monthly premium into this fund based on their salary and an index of risk for their sector.

The national institution that grants this cover has tried to promote health and safety and has offered some limited grants to improve conditions in factories, primarily for personal and workplace protection, but the benefits are questionable. Loss experience is taken into account when assessing rates for this compulsory cover, but employers know the magnitude of the premium is subject to a certain limit, despite the frequency of claims.

Voluntary employers' liability coverage can be bought and buying this extra insurance is now quite common. Poland is becoming a more litigious society and employers are usually aware of the local ambulance chaser. Average indemnities are increasing, albeit slowly, and they remain lower than in many other markets.

All that said, Poland's risk management environment is improving and has done so dramatically over recent years. The overall safety culture in factories has improved, the number of accidents at work has dropped,and people are generally more cautious. We see positive developments in some areas, as risk management improves with increasing investment. Some managers are beginning to engage in pre-loss planning by developing disaster recovery plans. Similarly, business continuity plans are beginning to emerge.

These developments are taking place primarily in larger firms, but some smaller companies are also thinking about the impact of and recovery from an unexpected event. The next step must be to increase penetration of such practices. Risk management in Poland has come a long way in the past 25 years, but it is not the highest priority for factory operators. ■

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Regulation tops corporate risk agenda for first time

Concerns about regulatory risk, which generally fails to capture the attention of senior management, have grown but the gaps in supply chain and corporate risk awareness are a cause for alarm

Dave Brosnan
CNA Hardy

Risk comes in many guises. Our tendency as an industry is to break it down into classes so we can understand and price it more effectively. But while our research shows there have been some dramatic and unexpected changes in the risk landscape in the past six months, what stands out very powerfully is sometimes the boundaries between different risks can become blurred and often it is the risks businesses do not worry about that pose the biggest threat.

In our latest survey of UK and European multinationals, carried out in spring 2018, cyber and regulatory risk pushed economic and political risk off the radar for the first time. But somewhat alarmingly, corporate and supply chain risk continued to fail to register.

Cyber risk has been on the radar for several years, but in our surveys it was always the risk companies expected to worry about most in six months' time. In spring, that picture changed, with 25% of executives ranking cyber as their top risk today and 49% predicting cyber would be front and centre of their risk agenda by autumn this year.

The increased focus on cyber risk represents the largest and most dramatic shift in consensus on risk we have seen since CNA Hardy began its regular study of risk and confidence. Our data shows European business leaders are every bit as concerned as their British counterparts, with more than one-third (35%) identifying it as the top risk today and 46% in autumn 2018.

Cyber risk's meteoric rise is not that surprising when you consider last year's high-profile cyber attacks – state-sponsored, broad-ranging and a very real threat to public and private assets alike. Threats on this scale enabled cyber to make the transition from IT risk to boardroom risk. The picture continues to develop, with ongoing tension with Russia heightening security concerns. It is hard to overstate how much focus corporates will place on this issue in the coming years.

Regulatory risk climbs

Perhaps a more significant and unexpected change saw regulatory risk shoot up the rankings, with 32% of respondents expecting it to be one of their biggest issues by autumn 2018. This is a remarkable transformation, given regulatory risk generally fails to capture the attention of more than 8% to 10% of the C-suite population. However, it has some very clear causes.

Undoubtedly, the impending introduction of the EU's General Data Protection Regulation (GDPR) on May 25 is a regulatory timebomb. Slightly more than half of our survey respondents declared their business "not ready" for GDPR implementation, which is a real concern, given both rising threat levels and the clear intention of the UK's Information Commissioner's Office to look for early examples of non-compliant companies.

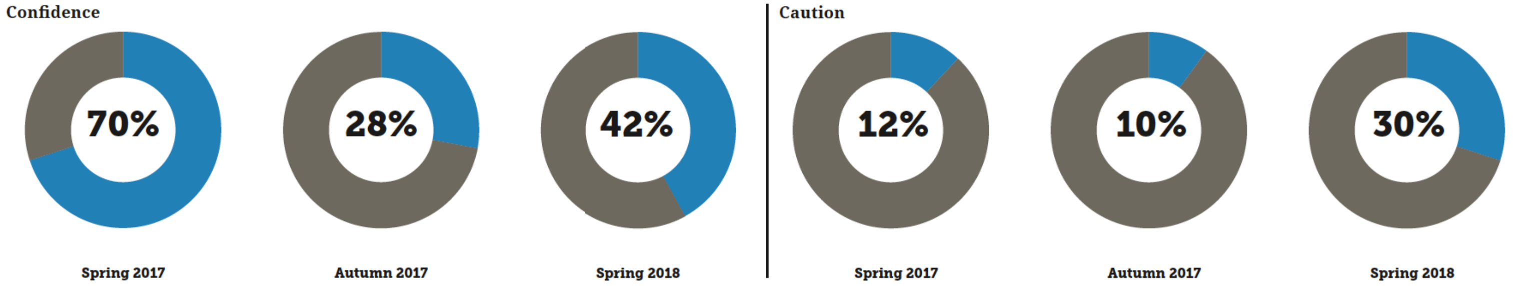
But there is more to the regulatory spike than GDPR. Brexit will bring major regulatory change to nearly every industry and businesses are concerned by the double whammy of compliance with both current and anticipated regulatory requirements in 2019 and beyond.

But the challenges do not end here. Businesses have also had to deal with gender pay gap reporting. Many businesses appear to have been completely wrongfooted on this issue. Many of the executives we spoke to were concerned about finding themselves on the wrong side of a reputational backlash – one fuelled by the #MeToo events of 2017.

The pressure in this area can only continue to grow, with institutional investor Legal & General Investment Management reporting earlier this month it intends to invoke shareholder activism to force boards to address gender pay gap issues, as well as increase female representation at board level.

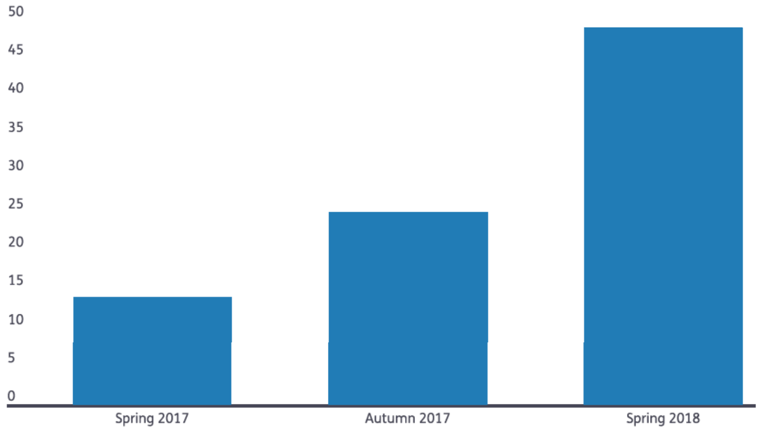
UK firms less certain about growth prospects for the year ahead

Graph 1: Percentage of UK firms stating either confidence or caution in the ability of their firm to grow and prosper

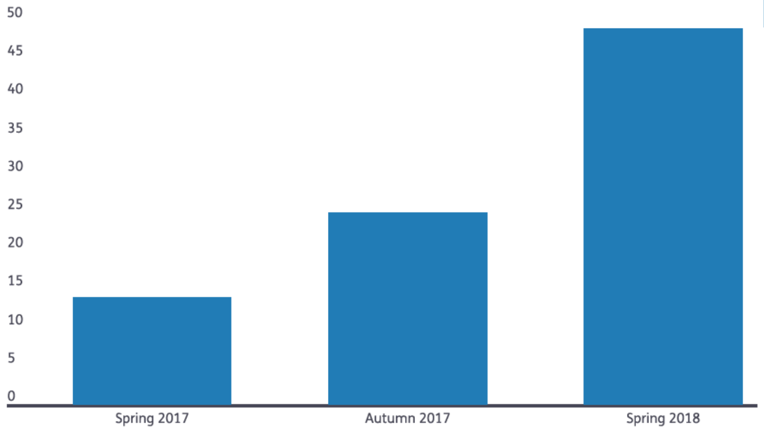


Cyber now the greatest worry but regulatory fears accelerating

Graph 2: Percentage of firms that say cyber risk concerns them most



Graph 3: Percentage of firms that say regulatory risk concerns them most



Source: CNA Hardy

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Supply chain dangers

Regulatory risk is a key driver of boardroom risk, but so too are supply chain and what we term corporate risk – defined in our research as the risk of fraud, corruption, poor governance or pension exposure. While we were pleased to see regulatory risk certainly did get the attention it merits in this latest research, gaps remain in terms of supply chain and corporate risk awareness.

KFC's so-called "chicken-gate" woes demonstrate very clearly how large companies' reputations can fall victim to supply chain risk. Lean, just-in-time supply chains run on wafer-thin margins mean risks are often concentrated on fewer suppliers with broader geographic footprints, often in catastrophe-exposed regions. Although failure in this area will make instant headlines and put reputations in the spotlight, only 8% of executives ranked supply chain as their biggest risk in spring 2018.

Similarly, corporate risk registered as a key concern with very few (only 10%) of business leaders. When we look at the failures in terms of governance by a multiplicity of prominent business leaders in recent weeks and the instant share price impact, it is surprising corporate risk remains on the fringes of the risk radar.

Boardroom risk is challenging and multi-faceted. It defies existing silos, with the most serious risks no longer technical but behavioural. It is the role of the insurance industry to help businesses surmount the risks that dominate board agendas today, respond to the challenges they identify for tomorrow and identify the gaps in their risk analysis that are affecting their growth plans. This will not be easy – and not every risk has an insurance solution – but it is the task that will define the industry in the years ahead. ■

Dave Brosnan is chief executive of CNA Hardy