Part III

Business Strategies and Risk Governance

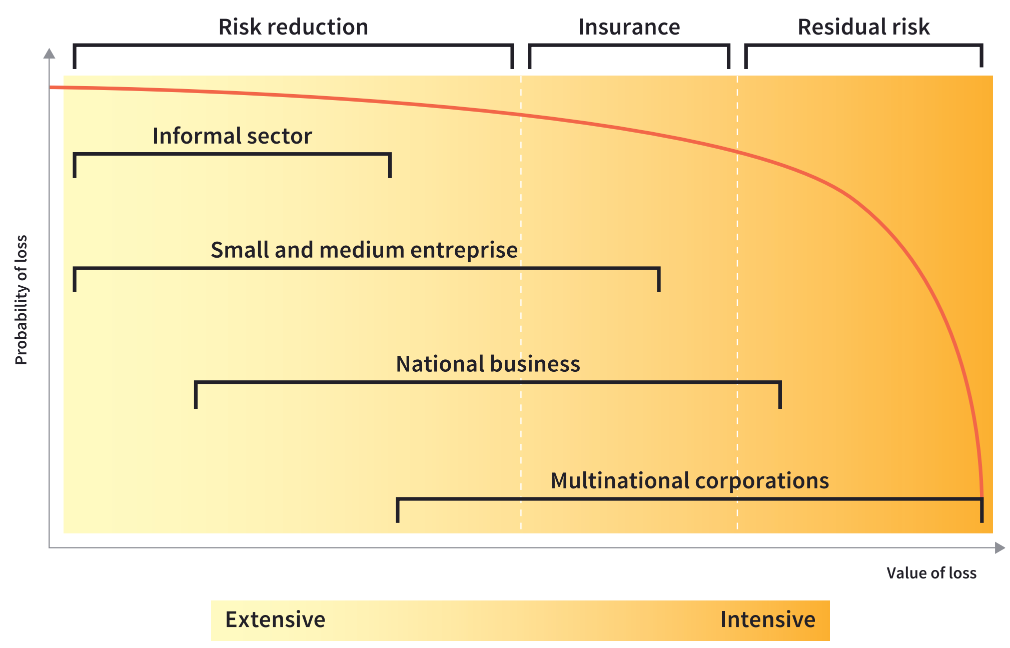
Business investment decisions are not taken in a vacuum. Seasoned investors weigh possible profits and risks, deciding whether to spread risk through insurance and how to manage uncertainty. Investors—private and institutional—operate similarly in an attempt to maximise return on investment. Insurance companies seek to price risk so that market share and profitability are maximised; risks are managed; and insolvency avoided. National and local governments also compete to attract investment while attempting to manage associated risks and costs.

These competing interests created tension, which requires the stakeholders involved to negotiate perceived trade-offs. But recently, the concept of shared value and its focus on the interdependency of business, investment, insurance and public regulation and service provision has been recognised as a more mature approach to competitiveness (Porter and Kramer, 2006 and 2011). When considering the different types of risk and risk layers as laid out in the first part of this report, businesses—ranging from small informal traders to large multinational corporations—may be impacted differently, but will all have an interest in bringing down risk levels and strengthening resilience.

For example, a small shop owner in an informal settlement who is most likely unable to take out individual insurance on his dwelling and stock will have a vested interest in his settlement's association and municipality to maintain electricity, water supply and drainage systems in case of local floods.

Although the CEO of a large diversified global consumer goods company may not be too concerned about the flooding of one of its numerous plants located in the same municipality, the local manager will have a vested interest in uninterrupted local

Figure III.1 Risk layers, differentiated impact on and relevant risk management strategies for business



(Source: UNISDR)

power supply and functioning local transport to ensure that his client base as well as his workforce is maintained.

Similarly, although a large national company will have adequate insurance covering its main assets, its operations are equally vulnerable if its local small suppliers are vulnerable to highly frequent, localised events. Thus, effective reduction of extensive risk, if translated into more resilient infrastructure and communities, also reduces risk to larger businesses (Figure III.1).

In the same way, national and local governments that effectively reduce the more extensive layers of risk protect not only their infrastructure investments and avoid growing liabilities for vulnerable communities, but also contribute to an increasingly business-friendly and enabling environment that attracts larger investments.
In the context of shared risks, how businesses, governments, investors and insurers perceive and assess disaster risk influences business decisions to invest in hazard-exposed areas. But equally, it can potentially motivate investments in reducing risks and strengthening resilience, thus creating a shared value for all stakeholders.

This subject will be the focus of Part III of this report. Chapters 11 to 13 look at the different ways that businesses, the finance sector and insurance industry consider disaster risks in their investment decisions. Chapters 14 and 15 then consider how different forms of risk governance mediate, regulate and provide incentives to these processes.