

# Policy uncertainty and business risks

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# Businesses can protect against many known risks

- Insurance (disaster, fire, professional indemnity, financial derivatives etc.)
- Build into targets (risk adjusted financial measures)
- Risk management processes

# How to protect against unknown unknowns?



# Uncertainty has ramped up since GFC



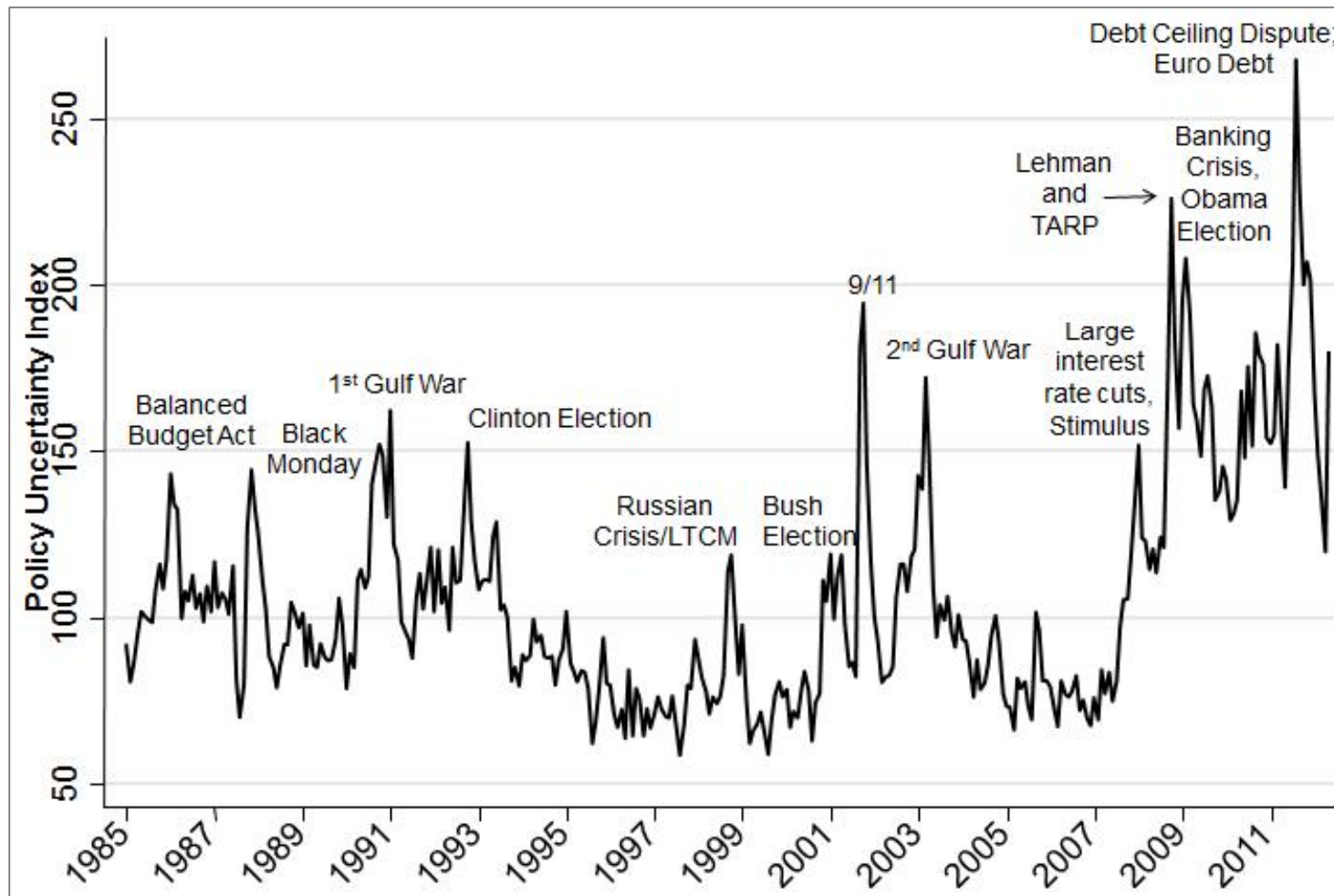
“There’s never been a more unpredictable set of tea leaves than right now.” – Caterpillar CEO

“...uncertainty is constraining the ability of businesses to hire new employees, make capital investments and restock inventories.” - Scott Davis, chairman and CEO of UPS

"The fiscal cliff has a major uncertainty on the world,... (It) is responsible for a real burden and a real diminution of value and wealth in the world just because uncertainty makes everything worth less." - Lloyd Blankfein, chairman and CEO of Goldman Sachs

“Only when there is more certainty will we see cash-rich businesses start to invest, which is what we need to drive a return to growth.” - David Sproul, CEO of Deloitte UK

# Policy uncertainty is to blame for economic uncertainty



# Policy failures

- Failure to adequately regulate the financial sector
- Failure to deal effectively with financial sector distress
- Failure to exercise fiscal control
- Failure of developed countries to deal with the mounting economic and fiscal pressures of population ageing
- Failure of governments in developed countries to adapted to the emergence of China and other developing economies
- Failure to put robust institutions in place to protect the Euro



# In periods of heightened uncertainty businesses...

- Delay investment
- Delay hiring new staff
- Hoard cash

# Policy uncertainty is holding back investment and employment



# Uncertainty is disastrous for the global economy

- High unemployment
- Stagnant household incomes
- Depressed demand
- Falling government tax revenues requiring cuts in public spending

# The importance of policy certainty

- Policy certainty is critical to economic growth and rising living standards
- To a certain extent unpredictable policy changes are unavoidable
- BUT, policies should aim to reduce economic uncertainty as much as possible given available information
  - E.g. future fiscal costs of health and superannuation

# Quality economic governance is the key to more certain policies

- Establish rules, transparency and accountability for policymaking
- Politicians acting in the spirit of policy frameworks
- Courage to confront future challenges, not just immediate concerns

# Businesses need to play their bit

- Good corporate governance
  - Transparency
  - Accountability
  - Rule of law
  - Competence
- Leadership
  - Focus on longer-term issues
  - Shareholder interests
  - Business ethics

Thank you

