Risk Knowledge. **Industry Advantage.**

Aon Advanced Risk Finance Conference | Wednesday, 9 October 2013

Global Risk Financing Case Study - UPS

Mike Fenlon
Sr. Director – Global Risk Management

AON

UPS Global Snapshot

- **Founded in 1907 – Seattle, Washington**
- **Global Headquarters – Atlanta, GA**
- **2012 Revenues - $54.1 B**
  - ($45 B from Global Package, $9.1 B from Supply Chain & Freight)
- **397,100 employees**
  - 322,100 U.S. / 75,000 International
- **Domestic & International Package Operations**
  - 16.3 million packages/day
  - 220+ countries and territories; every address in North America and Europe
  - More than 96,000 delivery vehicles
  - 528 total aircraft: 235 UPS aircraft and 293 chartered aircraft
  - 8.8 million daily customers (1.1 million pick-up, 7.7 million delivery)
- **Supply Chain & Freight**
  - More than 800 facilities in more than 120 countries / more than 33 million square feet
    - More than 40 dedicated Healthcare facilities / greater than 6 million square feet

UPS Supply Chain & Freight

Ocean

Retail

Mail

Brokerage

Healthcare

Air Freight

Supply Chain Finance

Insurance

Distribution

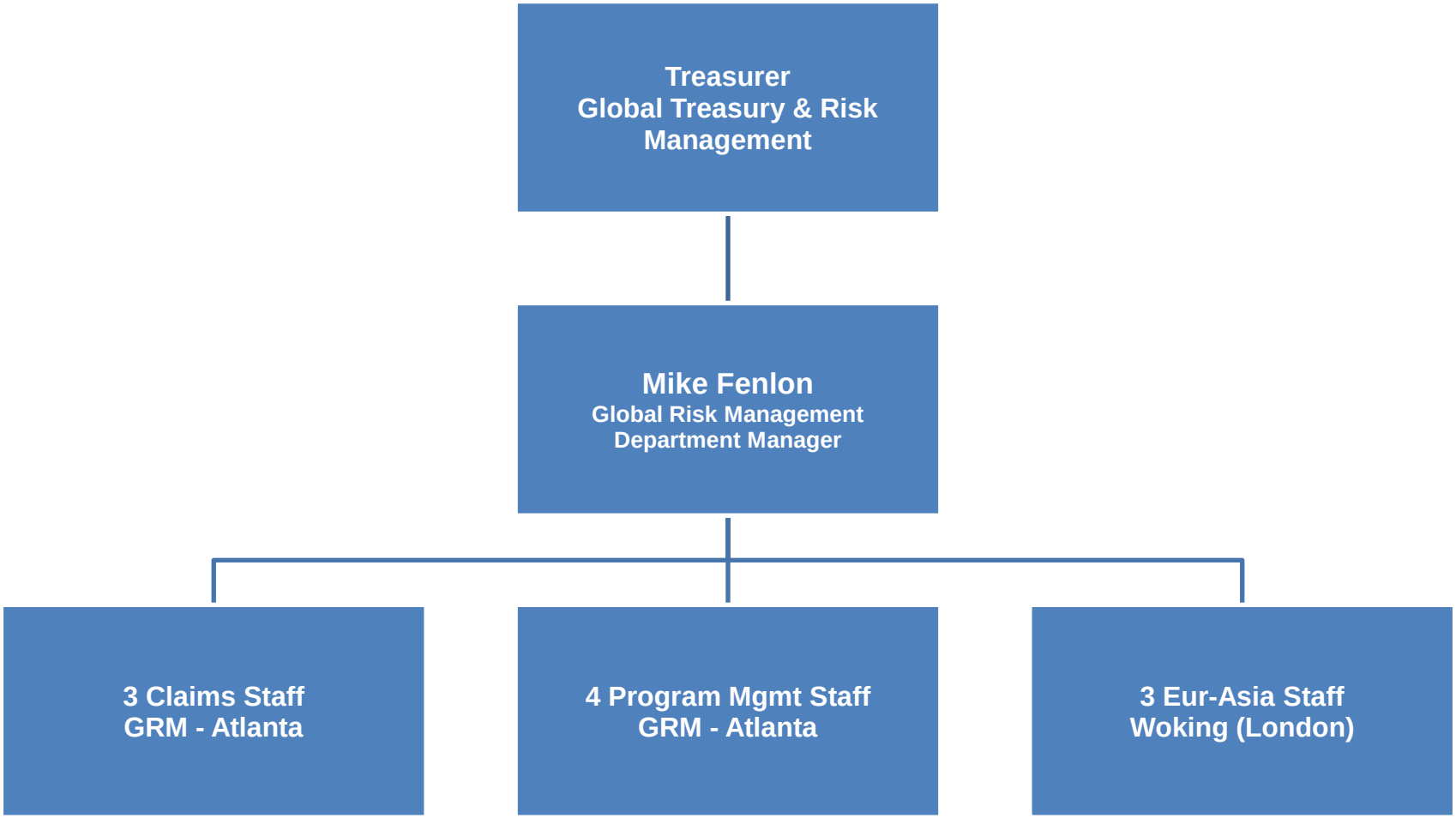
Freight

Risk Knowledge. Industry Advantage.

Aon Advanced Risk Finance Conference | Wednesday, 9 October 2013

AON

Global Risk Management Department Structure



Total Headcount GRM - 11

How UPS Manages Risk – Key Functional Areas

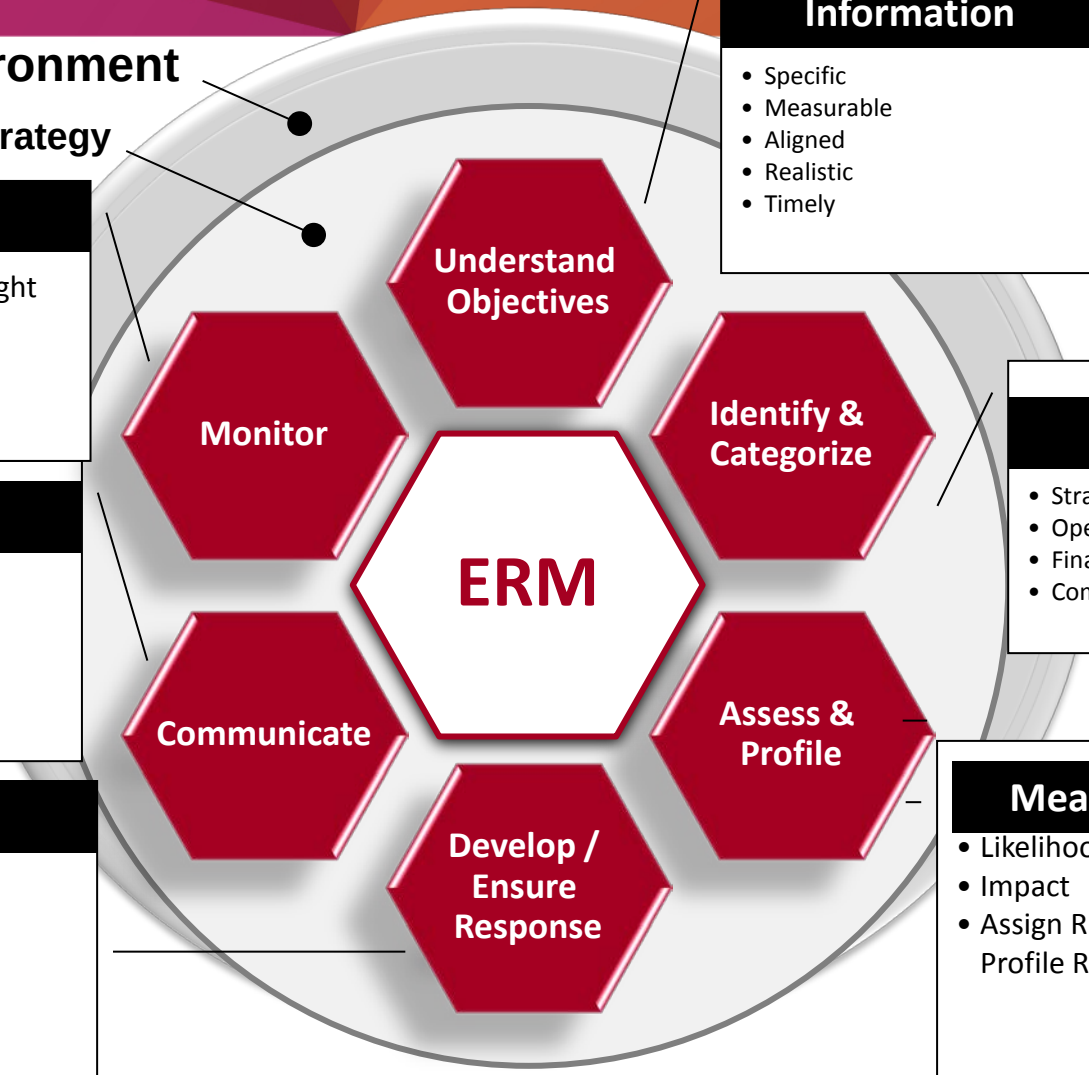
Function	Responsibility
Enterprise Risk Process (ERM)	- Identifies, defines and quantifies risk - Assigns Risk Owners and Provides Oversight Framework for continued assessment of risk mitigation strategies and there implementation
Global Risk Management	Core Member of UPS ERC (Enterprise Risk Council) Responsibility for Insurable Risks
Global Treasury	Responsibility for Financial Risks - FX, Interest Rate, Commodity Exposures, Cash Management, etc.

Function	Responsibility
Legal – Procurement – Business Development - Real Estate – Risk Management – Business Units	Contract Management for Risk Mitigation
Internal Audit-Compliance-Ethics	Numerous Audits and Risk Assessments
Functional Risk Mgmt: Global Security Engineering Health and Safety Public Relations IT, Finance, HR, Public Affairs, BD, Strategy	Oper Security/Business Continuity Facilities/Fleet/Environmental Safety & Wellness Brand Management Various

ERM Process Used

Business Environment

Organizational Strategy



Information

- Specific
- Measurable
- Aligned
- Realistic
- Timely

Follow -up

- Governance & Oversight

Context

- Strategic
- Operational
- Financial Reporting
- Compliance

Awareness

- Senior Management
- Enterprise Risk Council
- Risk Owners
- Business Leaders

Measurement

- Likelihood
- Impact
- Assign Risk Owners & Profile Risks

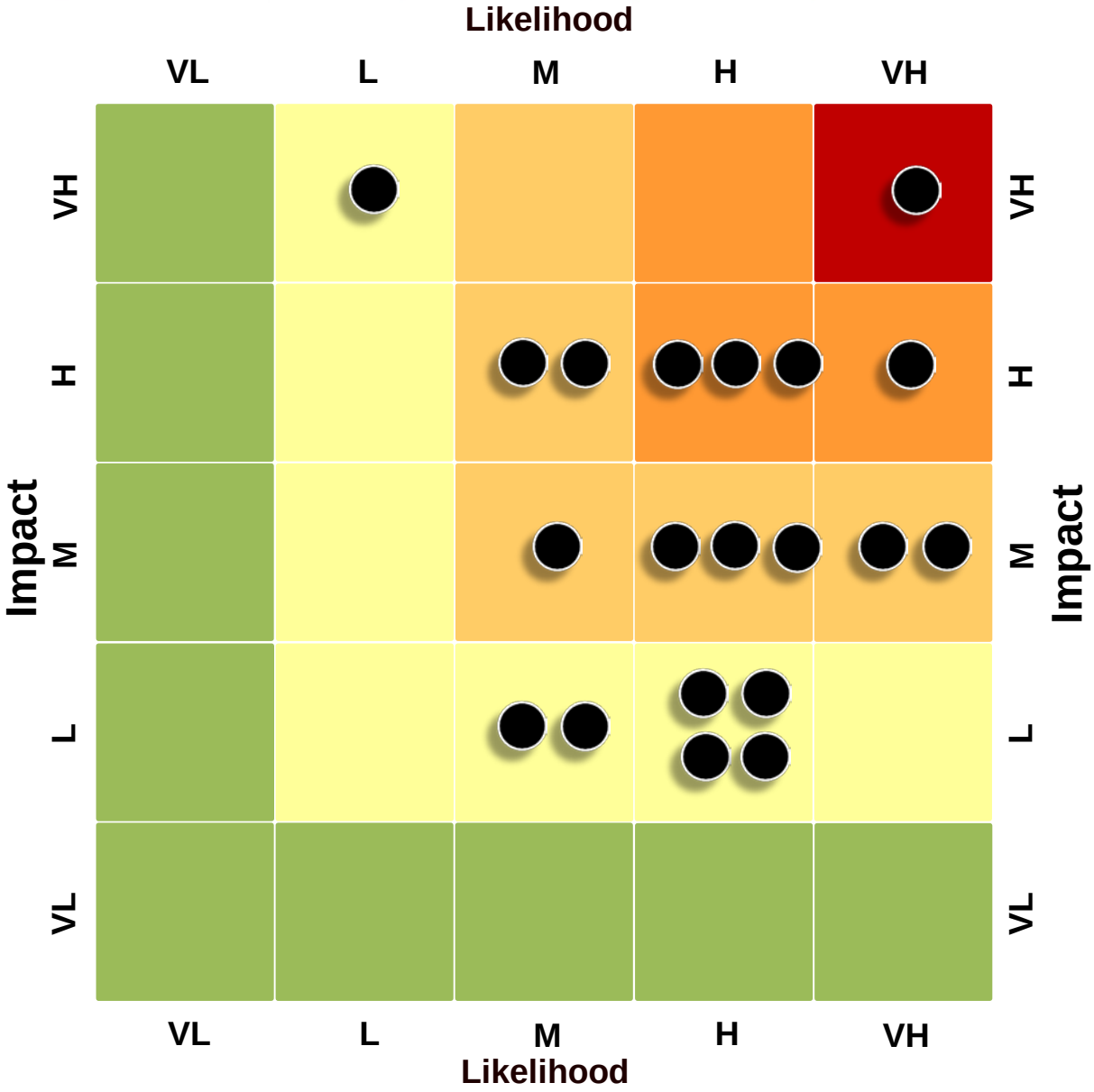
Solution

- Take
- Treat
- Transfer
- Terminate
- Transparency

UPS Enterprise Risk and Control Framework

COSO Framework	Compliance	Operations/Infrastructure						Strategic			Reporting
MC Sponsor	C- Suite	C- Suite	C- Suite	C- Suite	C- Suite	C- Suite	C- Suite	C- Suite	C- Suite	C- Suite	C- Suite
UPS Risk Categories	Ethics & Compliance	Human Resources	Information Technology	Legal & Public Affairs	Operations	Sales & Marketing	Security / Sustainability	Corporate Governance	Communications / Brand Management	Strategy	Finance & Accounting
ERC Sponsor	VP Level	VP Level	VP Level	VP Level	VP Level	VP Level	VP Level	VP Level	VP Level	VP Level	VP Level
Risk Sub-categories	Addressing Allegations	Company Culture	Architecture	Competition / Antitrust	Acquisition Integration	Competition	Aviation Security	Audit Quality	Advertisements	Business Concentration	Accounting Processes
	Compliance Communication & Training	Diversity	Global Business Services	Contract Management	Asset Utilization	Customers	Business Continuity (Crisis Mgt.)	Board Effectiveness	Branding & Reputation	Business Model	Business Information & Analysis
	Compliance Monitoring & Reporting	Health & Welfare Benefits	I.T. Change Management	Geopolitical Concerns	Distribution & Warehousing	Customer Relations/ Customer Support	External Fraud	Board Structure & Senior Leadership	Communication (Employee/ Customer)	Growth Strategy	Capital Management
	Compliance Policies & Procedures	HR Resource Policies & Procedures	I.T. Asset Management	Government Investigations	Energy Management	Customer Technology	Operational Security	Risk Oversight & Management	Philanthropy	Industry Trends	Commodity Price Impact
	Compliance Program Assessment	Occupational Health & Safety	I.T. Business Continuity Management	Government Uncertainty	Environmental Concerns	E-Commerce/ Internet Strategy	Sustainability Programs		Public Relations	Mergers/ Acquisitions/ Divestitures	Compliance w/Accounting Standards
	Compliance Structure & Oversight	Retirement & Pension Programs	I.T. Contracting & Outsourcing	Intellectual Property (IP)	Facilities and Equipment	Market Research	Terrorism		Social Concerns	Organization Structure	Credit Rating
	Ethical Culture "Tone at the Top"	Performance & Compensation	I.T. Operations	Labor & Employment Issues	Fleet Management (Ground / Air)	Marketing Programs			Social Media	Scenario Planning	Customer Credit Policy
	Regulatory Compliance	Talent Pipeline/ Recruitment	I.T. Physical & Environmental Security	Laws and Regulations	Operational Planning	Marketing Strategy				Strategy Communication	Economic Conditions
	Records & Information Management	Retention / Succession	I.T. Problem Management	Litigation & Dispute Resolution	Operations Management	Product Development				Technology Strategy	Financial Asset Investment
		Training and Development	I.T. Project Management	Privacy and Security Laws	Operational Reporting	Revenue Management / Pricing				Third Party/ Joint Venture	Financial Statement Fraud
		Union Labor/ Workforce Issues	I.T. Records Management	Public Affairs	Operations Performance Management	Sales Strategy				Vision, Mission, and Values	Insurance and Hedging
			Privacy and Data Protection								Investor Relations
			Technology Licensing								Planning/ Budgeting/ Forecasting
											Procurement
											Taxation

UPS Consolidated Risk Profile - Illustrative



Sample Risks

FCPA

Healthcare

Pensions

IT Risks

Strike / Work stoppage

Regulatory Risks

Competitive Challenges

Trends in Product Mix

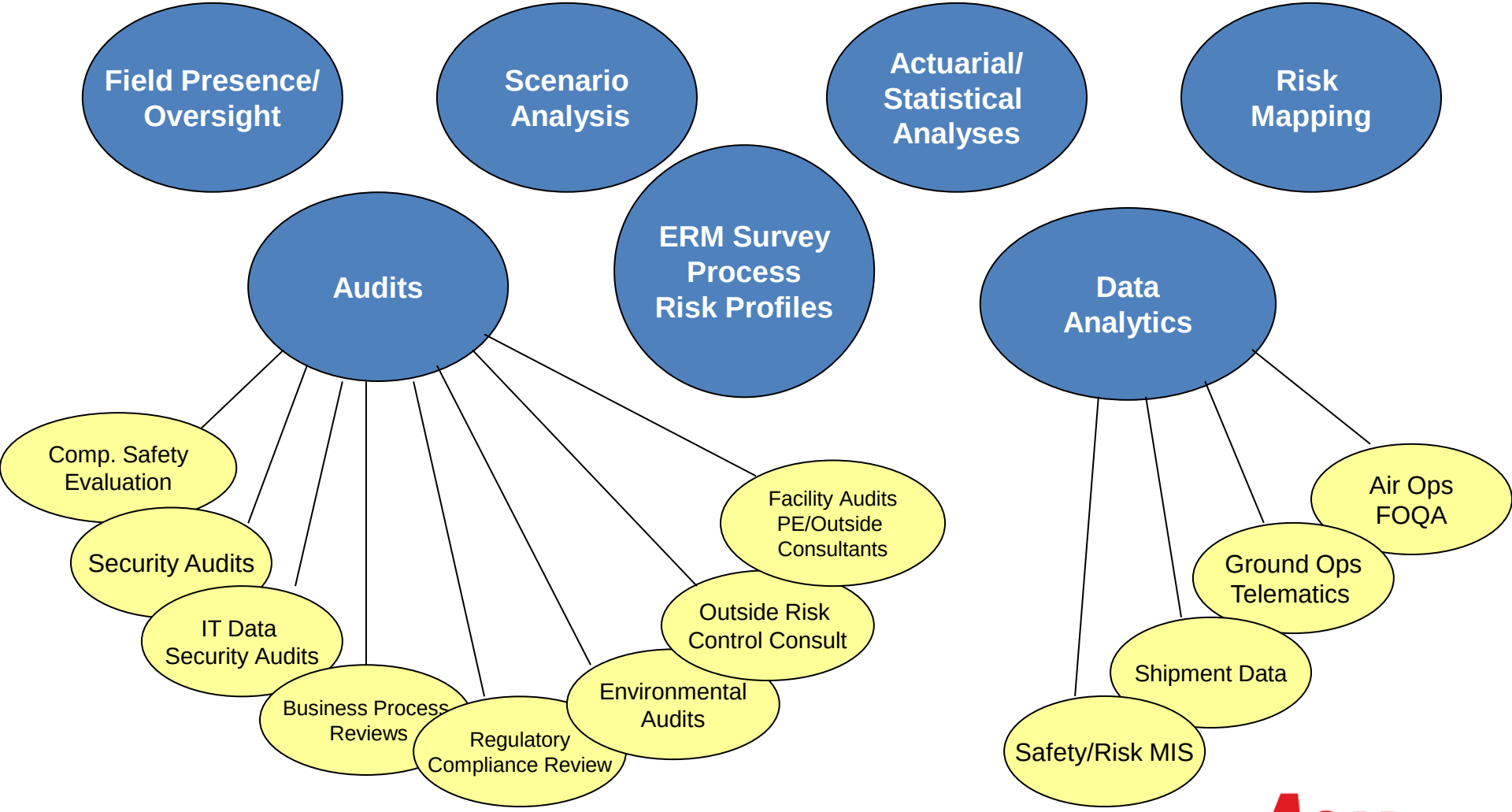
Fraud

Network Security

Revenue Concentration

AON

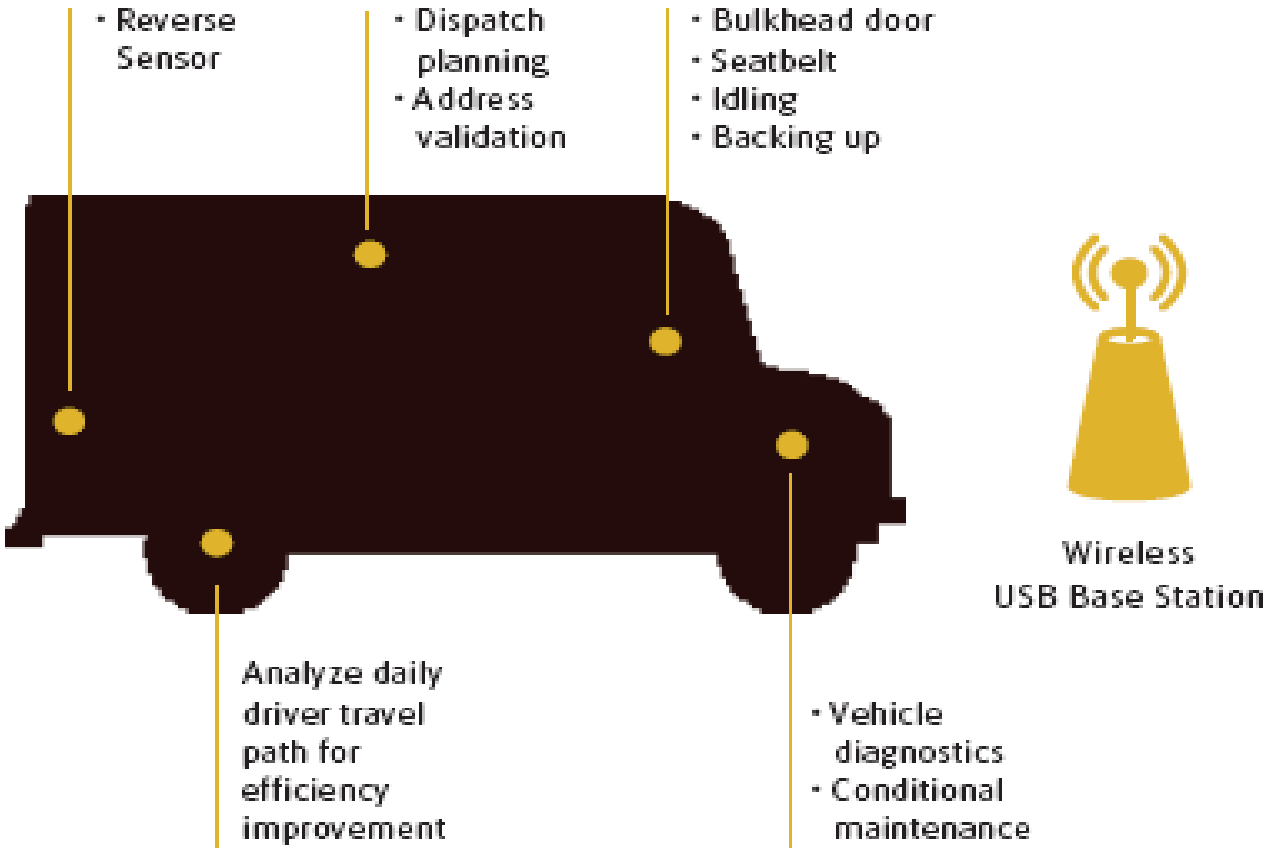
Risk Identification & Quantification



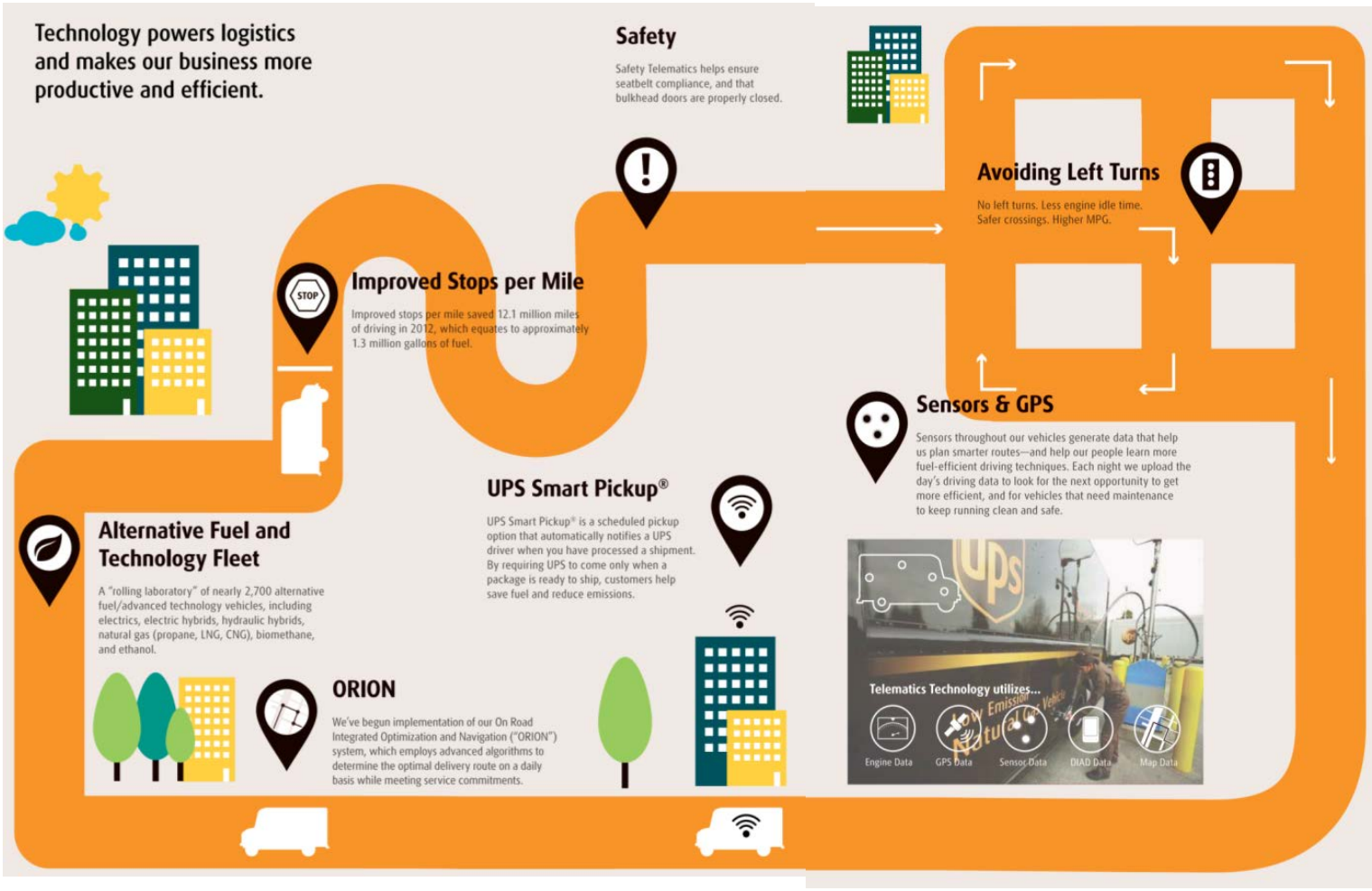
Example of Data Analytics from Ground Operations - Telematics

1 Sensors capture information about the vehicle, its route, and its driver actions related to speed, backing up, seat belt use and more.

2 Data is uploaded when driver returns to building and turns ignition off.



Example of Data Analytics in Ground Operations - Telematics

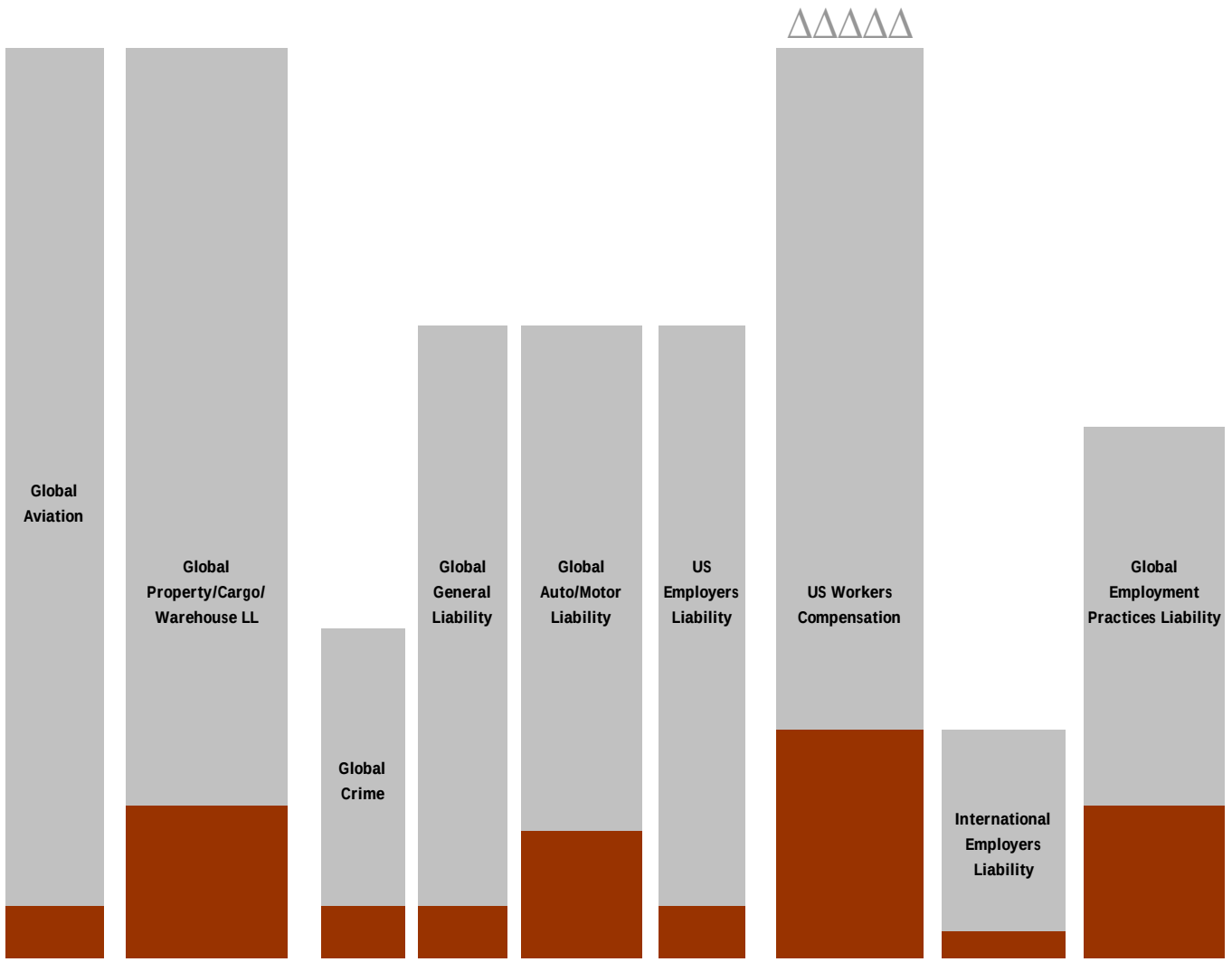


CEOC (GL55) Functions & Features

- Permanent set up with 24-hour controlled access
- One 119” HDTV Projection Screen
- Live TV feeds to six 50” plasma displays
- 26 workstations and 4 guest seats
- Wired microphones at each workstation
- Built-in audio conferencing capability
- Data/Power/Telephone connection to each workstation
- Raised platform flooring
- Portable audio visual control panel
- HVAC unit for room
- Motorized shades
- Wireless capability
- 2nd Floor CEOC meeting room with phone, LAN and data display located directly above CEOC

UPS Risk Transfer Structure – Illustrative

(not drawn to scale)



UPS Insurance Companies (Captives)

USVI Captive – UPINSCO, Inc.

Wholly Owned Single parent captive formed in 1994

- Workers Compensation
- Aviation – (Risk Fully Reinsured)
- Property and Crime
- Cargo & Warehouse Legal Liability
- TRIPRA (US Terrorism)
- Customized Package/Cargo Insur. – UPS Shippers

Dublin Captive – UPS International Insurance. Ltd.

Wholly Owned Single Parent Captive Formed in late 2002

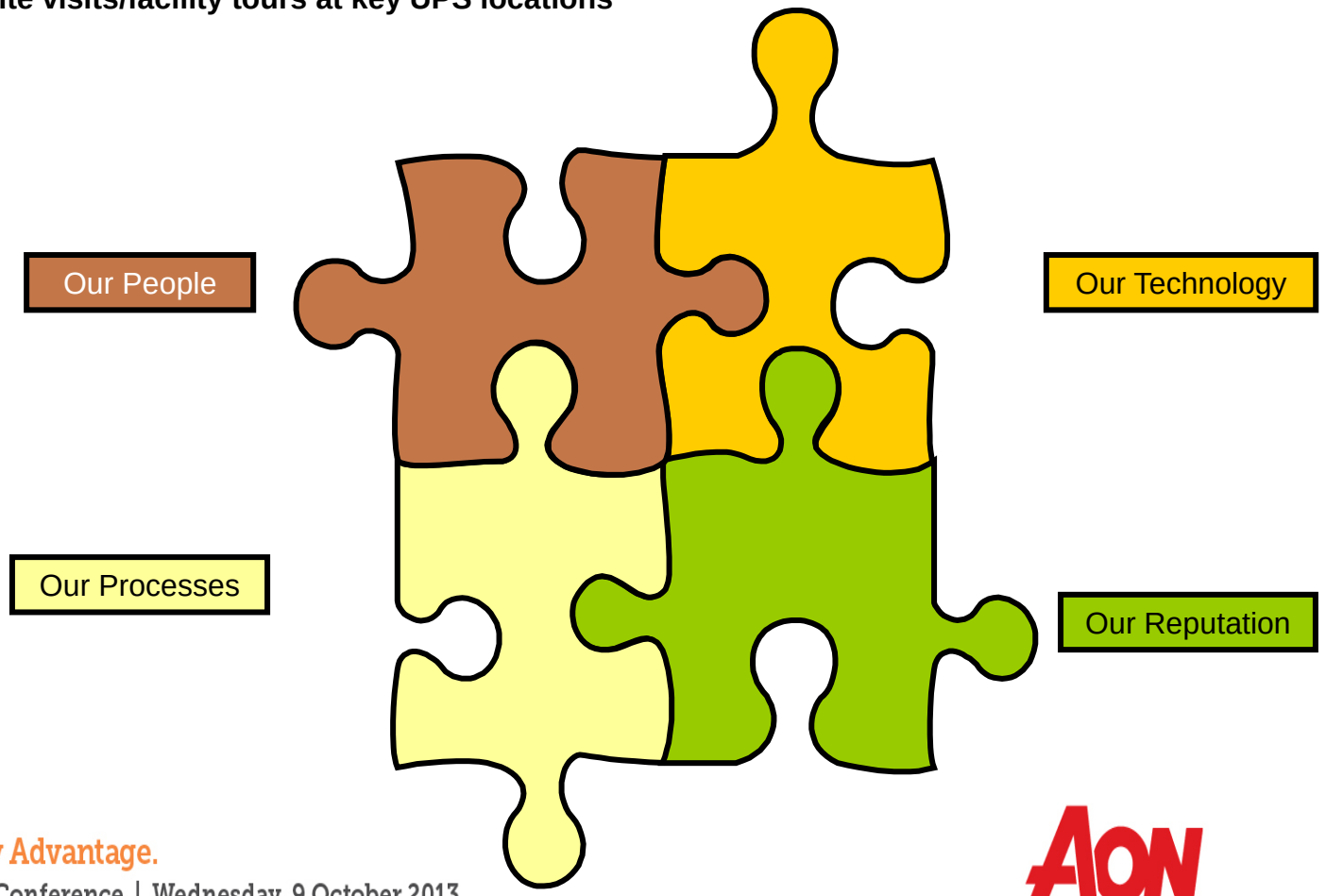
Direct Writing EU Captive

- Motor Liability
- General Liability
- Employers Liability
- Property and Cargo/Warehouse Liability
- Crime
- Personal Accident (AD&D)
- Pending / International Employee Benefits

How UPS Sells Risk

Long Term Partnerships with Insurers:

- Annual underwriter meetings led by Risk Management
- Annual strategic relationship meetings
- **Numerous site visits/facility tours at key UPS locations**



Emerging Markets

Emerging Risks