

The impact of security on the corporate environment



For a culture of prevention



AMERICAN CHAMBER
MEXICO

KROLL

Second edition

The impact of security on the corporate environment:

For a culture of prevention
2nd edition

Security survey conducted by
AMCHAM members

Objectives

The Security Committee of the American Chamber of Mexico City (AMCHAM), in conjunction with key partners, conducted a survey in order to assess the impact of the security crisis on foreign businesses.

Key elements touched upon include:

1. The greatest security concerns for companies
2. Geographic areas causing the greatest preoccupations for companies
3. Causes for the rise in insecurity
4. Areas most vulnerable to security breaches
5. Security budgets

Methodology

AMCHAM has 2,000 corporate members, comprised of both national and foreign businesses.

AMCHAM Security Committee designed a comprehensive questionnaire (modeled on that of 2008), which was sent to members of AMCHAM Monterrey, AMCHAM Guadalajara, AMCHAM Mexico City, OSAC and the Japanese Chamber of Commerce. A total of 2886 questionnaires were sent, via e-mail, of which 286 questionnaires were completed.

The questionnaires were fielded between November 15, 2009 and January 15, 2010.

The broad base of the conducted survey resulted in a very complete and comprehensive study, representative of the opinions of participating members on the impact of current security issues. The study holds a confidence level of 95% with a margin of error of +/- 5.5%.

In addition to the survey, Kroll Mexico conducted secondary research and analysis in order to put the survey into context and bring value to the interpretation of the obtained data.

The following slides represent a compilation of the results obtained throughout the various methodologies used.

The study in its context

Economic volatility in 2009

The global economic slowdown which began in Q3 2008 had a severe impact on businesses in 2009, both domestic and foreign.

Despite countercyclical measures being adopted, the force of the global slowdown (and specifically that of the U.S.) had a strong impact in Mexico.

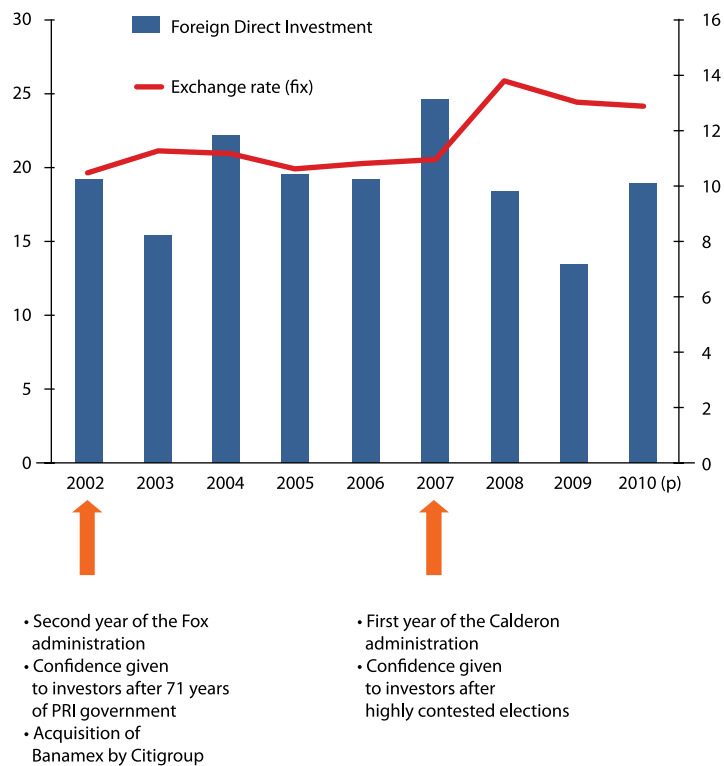
Amidst the economic downturn, the Mexican Peso was able to stabilize from the 2008 devaluation, reaching 13.07 Pesos/US\$ at year end.

Average fix rate during the first three days of December 2009 was of M\$ 12.77 / US\$, compared to M\$ 14.39 in Q1.

The appreciation of the peso is being affected by the worldwide market forces that have pushed the cost of a dollar down.

Desperate scramble for liquidity and very low interest rates that encourage investors to invest in stocks and currencies. Nevertheless, the economy will be better in 2010. FDI should exceed the current account deficit, which should be a comfortable 1.8% of GDP.

Evolution of foreign direct investment and F/X rate



Source: AMCHAM, *Macroeconomic Indicators*, February, 2010.

Security: cause for concern

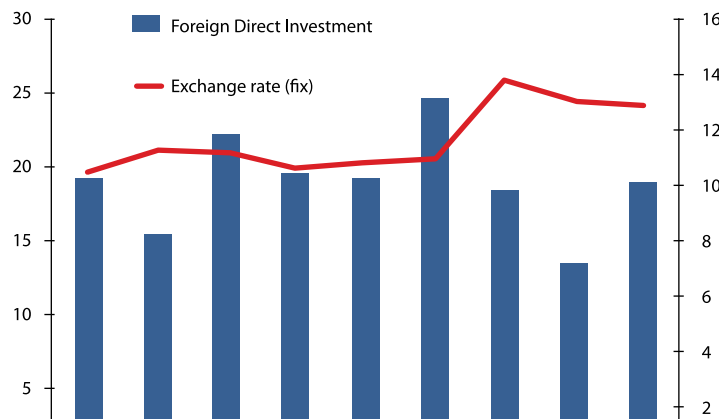
Within a few days of taking the presidential office, Felipe Calderon declared a War on Drugs. Since then, national security strategies have focused on retaking control of various locations in the country which have been the most impacted by organized crime.

At least six national drug cartels operate in Mexico (Sinaloa, Golfo, Zetas, Tijuana, Juarez, Familia Michoacana) with the support of lo-

cal, secondary groups. While some create temporary alliances, most work with the support and collaboration of heavily armed groups.

It is hypothesized that such issues impose high costs for foreign companies who must deploy additional security to protect personnel and infrastructure.

Evolution of foreign direct investment and F/X rate



Survey results

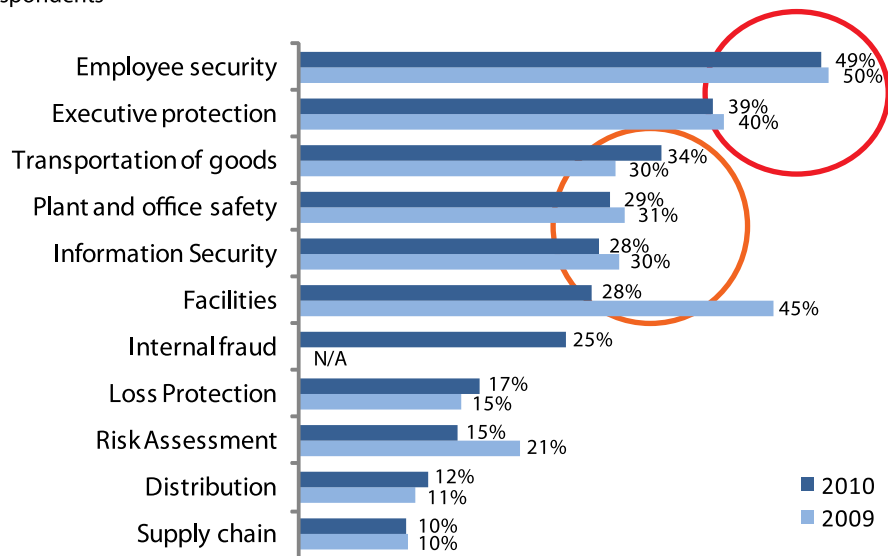
Security concerns: the professional and personal align

Security concerns remained stable from 2009 to 2010. Facilities is the only area where executives demonstrate a lesser concern in 2010 than in 2009. Security heads and business leaders place a clear priority on the “personal” before looking at the “material”.

This is consistent from 2009 to 2010 results as respondents determine the priorities on a personal as well as on a professional level. Responses are indicative that security issues are not just a professional concern, but permeate to the personal issues at hand, including family and home.

Areas causing business security concerns

% of respondents

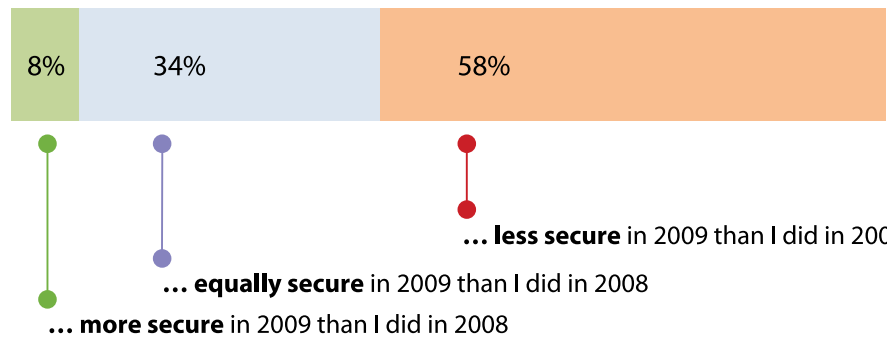


The mood of respondents – growing sense of insecurity

The economic crisis (fewer jobs in Mexico and abroad), the lower remittances, the unemployment rate and the foreign exchange rate are some of the elemental factors which contribute to the mood of the nation.

The recent events of 2009 are still upon us and are still being felt. The combination of these factors results in that nearly 60% of respondents feel a growing sense of insecurity around them. Again, this directly relates to the importance of personal security.

I feel...



Respondents note DF as an increased conflict zone

Respondents indicate that the states representing the greatest security risks for their operations are those of the North (Baja California Norte, Chihuahua, Durango, Sinaloa y Sonora). While Mexico DF has historically been noted as a conflict area, the 2010 study denotes heightened concern for this area of the country.

According to security experts, these states have amongst the country's highly incidence of: Kidnapping and extortions, robbery, daily violence events as "score settling" between gangs.

Other high risk states include Tamaulipas, Veracruz, Guerrero, Estado de Mexico, Michoacán, and Tabasco.

States of high security concern; as per respondents



Additional states of high security concern; as per security experts



- High security risk
- Medium security risk
- Low security risk

Impact of conflict zones on businesses

There is consistence between 2009 and 2010 results in that conflict zones appear within the interior of the republic. Organized crime is moving from the Northern border toward the coastal and even center states in order to gain control of entry points into Mexico, along the coasts, as well as gaining access to key distribution points within cities).

Companies perceive such factors as jeopardizing not only the business operations, but also the personal lives of employees and ex-

ecutives. In certain cities, narco related crimes have seeped from being almost exclusive to drug gangs to now include the population at large. Additionally, analysts believe that the 2009 economic crisis has contributed to a two-fold rise in crime:

- By setting the stage for an increased crime environment, with less employment.
- By increasing the prevalence of corruption.

States of high security concern; as per respondents



Additional states of high security concern; as per security experts

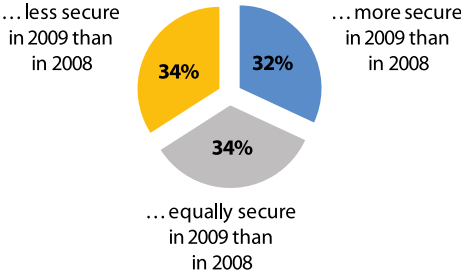


- High security risk
- Medium security risk
- Low security risk

How companies perceive security in 2009 vs 2008

Companies are equally divided between those who feel more secure, those who feel equally secure and those who feel less secure in 2009 vs 2008. Actions and occurrences both on the external as well as on the internal fronts surely have had an impact on crafting these responses.

Our company is...



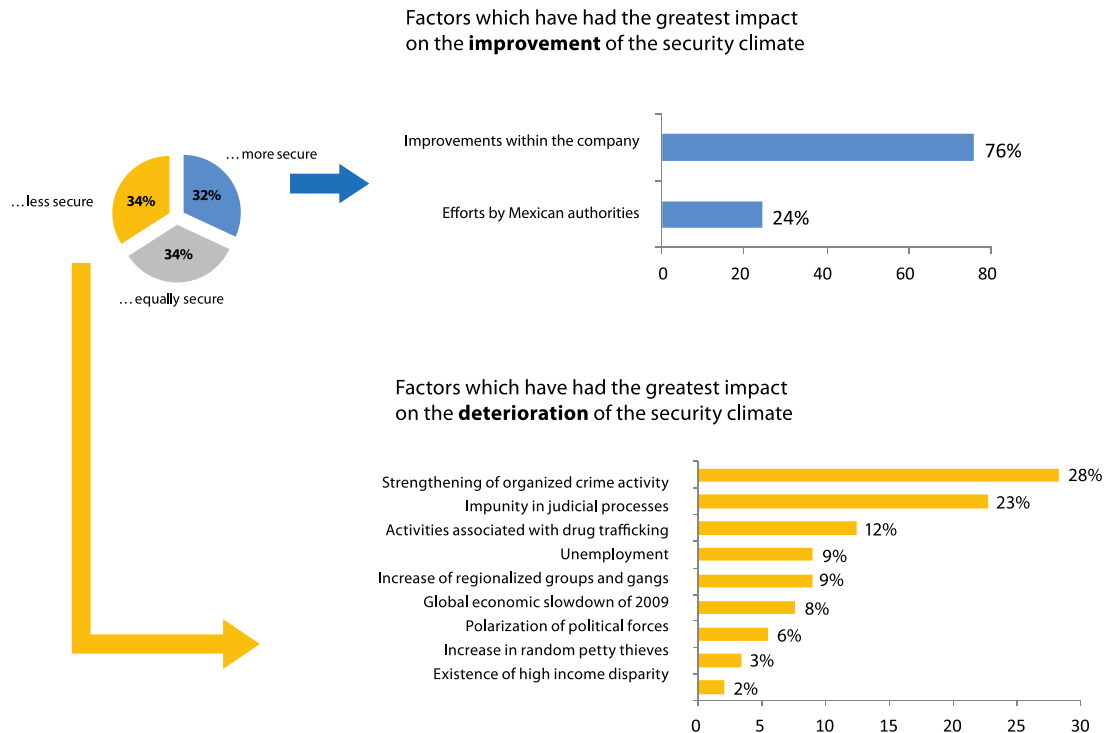
A greater feeling of security can be attributed to investment in the field

While there is no clear trend as to whether companies feel more or less secure than in years past, there is a clear polarization amongst respondents, in which 1/3 of the companies feel more secure in 2009 than in 2008 and 1/3 feel less secure during the same time period.

Of the companies that report feeling more secure in 2009 than in 2008, 3/4 attribute this to their personal endeavors in the security field (compared to 1/4 who attribute it to the work of authorities).

As in years past, companies who feel less secure in 2009 than in 2008 attribute this to the strengthening of organized crime groups and further impunity in the judicial process. Other factors, such as drug trafficking and socio-demographic elements play a smaller role in these responses.

Factors for improvement vs deterioration of the security climate



Most common causes leading to internal insecurity

Corruption, Impunity in the judicial processes and information theft still top the chart as the most common causes leading to internal insecurity within companies. While this is congruent with results from the 2009 study, there is a clear shift in the order these are presented.

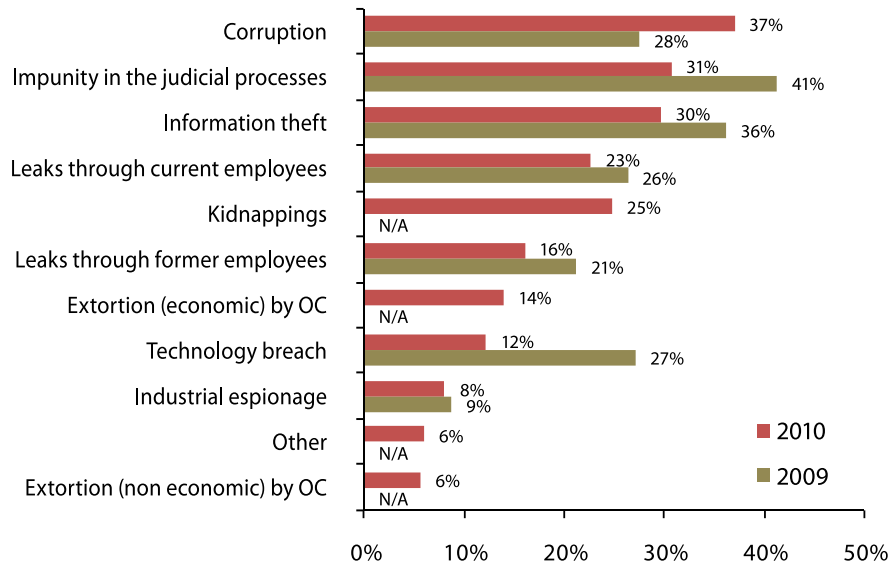
There is a clear shift in the opinions of respondents from the business community from 2009 results to those of 2010. Corruption has

clearly outranked Impunity and Information theft as the leading cause for internal insecurity.

Security experts confirm a growth of corruption in 2009, accelerated by the economic crisis of that year. Corporate governance processes do not appear to have moved as quickly as the increase in corruption.

Most common causes leading to insecurity

% of respondents

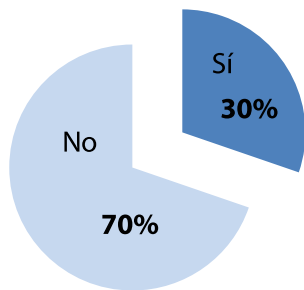


59% of companies witnessed rising insecurity as a result of the economic crisis

In the 2009 survey results, 30% of companies surveyed indicated that they witnessed or were expecting to witness an increase in fraudulent activity as a result of the difficult economic situation. In the 2010 survey results, 59% of companies surveyed indicated that they felt rising security threats due to the economic crisis.

Information theft was the third most important cause leading to internal insecurity within firms, denoting the value of information (vs that of tangible goods).

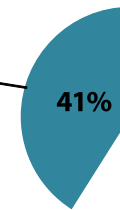
Aumento de robos como resultado de un difícil escenario económico



Resultados 2009

El impacto de la crisis económica en la seguridad

No sentimos un aumento en la amenaza de seguridad por la crisis económica



Sí, sentimos un aumento en la amenaza de seguridad por la crisis económica

Resultados 2010

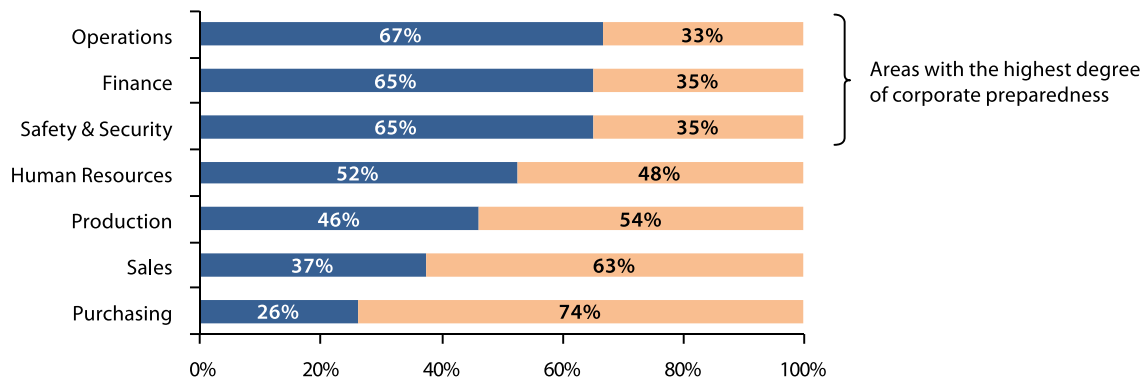
Operations, Finance and Safety & Security are the most prepared areas to deal with external threats

Operations and Finance (where the tangible and financial goods are) are some of the most prepared areas to deal with external threats. Safety & Security, where the human capital is, is also well prepared. That said, it is interesting to note that all three of these areas are on the same level of preparedness when it is clearly noted that personal security is the largest preoccupation amongst respondents.

Areas less prepared to deal with external threats include Purchasing (where many supplier frauds can hide) and Sales (where corruption may be rampant).

Security experts denote that Purchasing and Sales departments are often the ones that have most contact with the external environment and therefore are most exposed to external threats.

Degree of preparedness of corporate areas to deal with external threats



50% of companies report aggression or threats against employees

The most common threat to have appeared in 2008/09 is aggression or threat against employees reported by 50% of companies.

Attacks against Transport and Logistics was also rampant, reported by 37% of respondents.

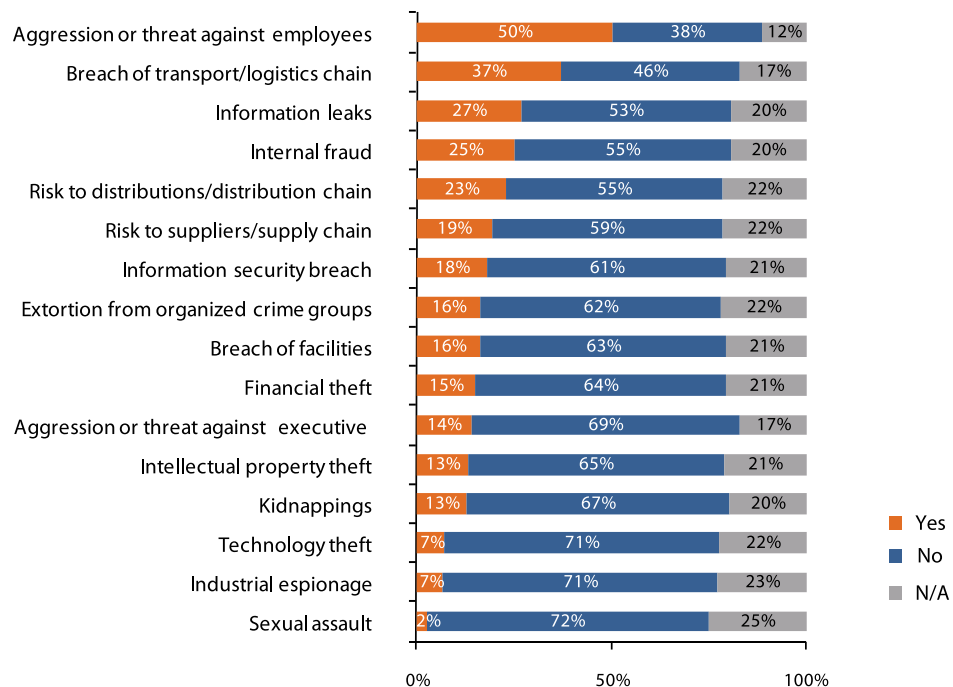
Information leaks and internal fraud were reported by over 25% of companies surveyed.

These figures denote the importance of improved security both on the macro (country) level as well as on the micro (company) level.

Improving security must be a joint effort between government and industry in order to succeed.

Security experts believe this is consistent with companies throughout Mexico. This is specifically true of “express kidnappings” in December and organized crime activity in Polanco and Santa Fe. That said, security experts also note that companies and employees have benefitted from reporting crimes to authorities.

Occurance of certain threats within companies in 2008/09



Business preparedness

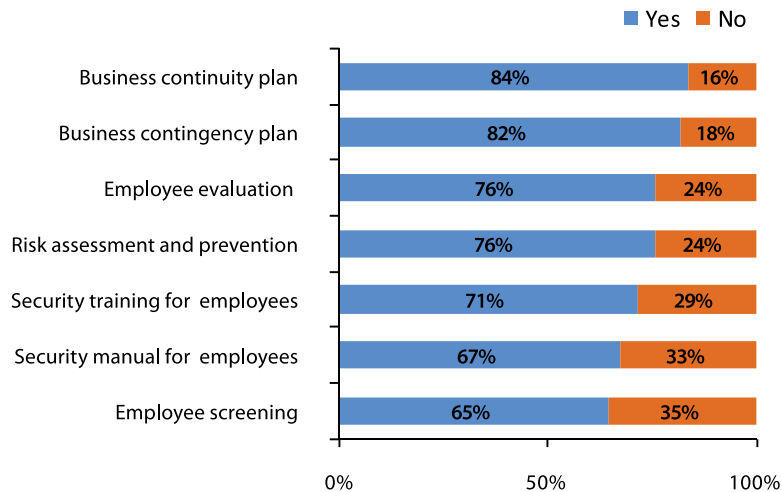
Security experts indicate there is a clearly positive message in companies having business continuity plans in place, especially if these are put into practice. This could be a direct result of the N1H1 flue outbreak and the corporate need for heightened preparation.

While companies generally appear to be ready for unforeseen events (with business continuity plans and contingency plans),

much fewer companies have risk prevention tools implemented, such as employee screening, manuals and training.

Furthermore, security experts indicate that while many companies have such policies in place, few reinforce them or update them, leaving a wide field of action for fraudulent employees to work the system.

Implementation of key security elements within companies



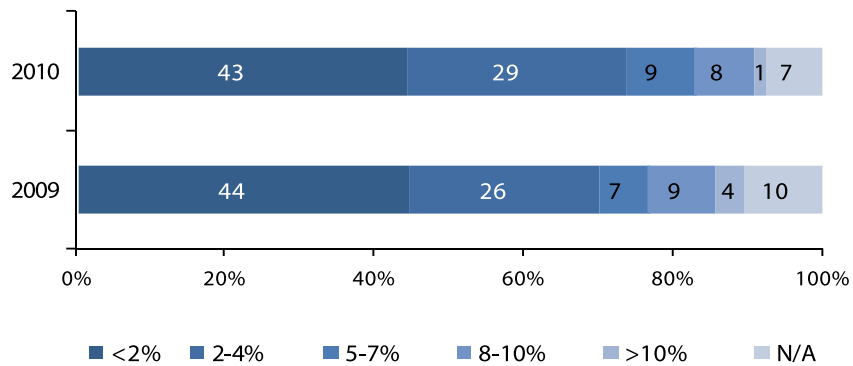
Mexican security budgets: in line with the rest of Latin America

As per the 2009 results, respondents indicate that their company spends, on average, 3% of their operating costs on security. Half of respondents indicate that their company spends less than 2% of their operating costs on security.

This is in line with the rest of Latin America, but considerably below the US where up to 7% of operating costs are spent on security.

Latin American ideology prevails and no change in this regard has been perceived during 2009, in that that executives are hesitant to spend on preventive security. This is in part due the culture, judicial process and enforcement measures. Nevertheless, the fact that security budgets have not been cut in light of the economic slow-down may be interpreted as a sign of the importance of security within corporate operations.

% of operating costs spent on security



Indications of a maturing security industry

Corporate investments in the security field plan to remain relatively stable in the upcoming years. This is in line with responses from the 2009 results —there does not appear to be any big shift in investments or security in this regard.

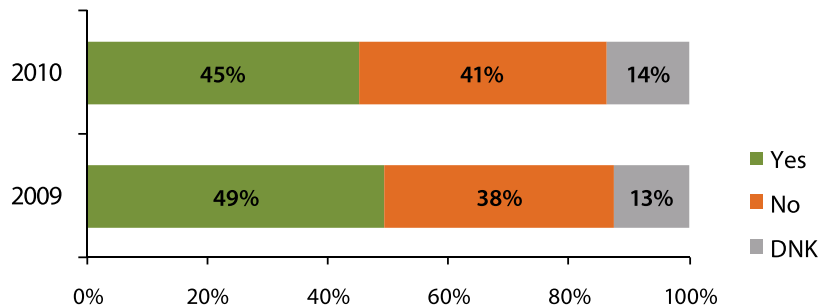
Of the respondents who plan to increase security investments in the upcoming 2 years, the primary areas of focus will likely be Training, CCTVs and Access controls.

Training, at the top of the list, is a dramatic change from 2009 results and a possible indication of a maturing security industry.

27% of respondent companies have reconsidered investments in Mexico due to security issues.

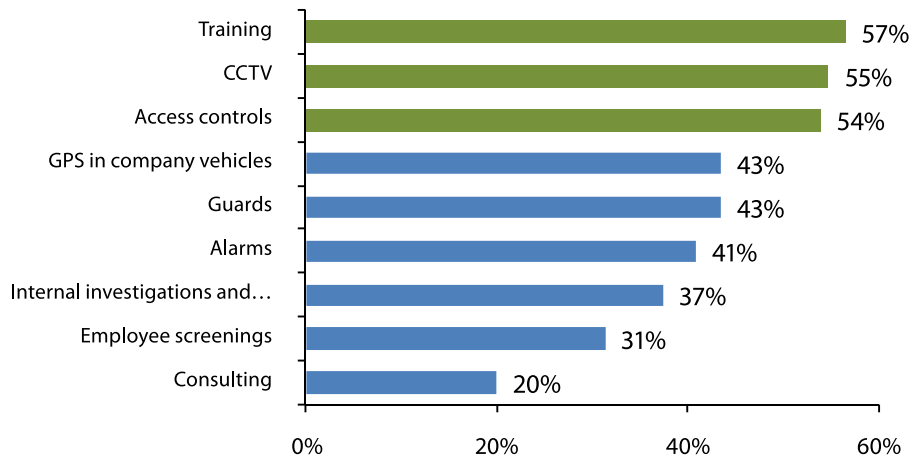
Over 1/4 of respondent companies have reconsidered investments or growth plans in Mexico due to security issues. Additionally, security experts indicate that 52% of companies that have not reconsidered their investments or growth plans in Mexico have likely taken additional precautions in order to mitigate the inherent business risks that Mexico poses.

Planned increased investments in security in the next 2 years



Focus of additional spending

Answered only by respondents who will increase security spending in the next 2 years (115 respondents)



Security: seen as a necessary cost

Given a preamble of rising insecurity, corruption and impunity, it is not surprising to see that a majority of respondent companies see the security issues as a necessary cost, rather than a good investment.

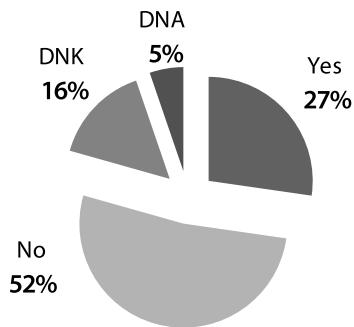
While this corporate opinion has been prevalent for many years, it will be interesting to see if this changes in years to come. Experts indicate that investing in security is a necessary cost due to security culture, climate and education in Mexico. While in other countries "security" is a common good, in Mexico it is one that must be purchased.

Polarization as to improvements within Mexico's security context

2010 results indicate that the events of 2009 have polarized respondent views on the possible improvements of Mexico's security context. 39% respondents believe it will take more than 5 years to see improvements in this area, compared to 22% a year ago.

Meanwhile, more respondents believe there is possibility of improving Mexico's security situation and at the same time that 2010 will be a year in which Mexico's security improves. Experts indicate that the fewer responses of "Never" translate into fewer people being fatalistic. However, the growth of the "Don't know" answers indicate a certain degree of skepticism and insecurity in respondents.

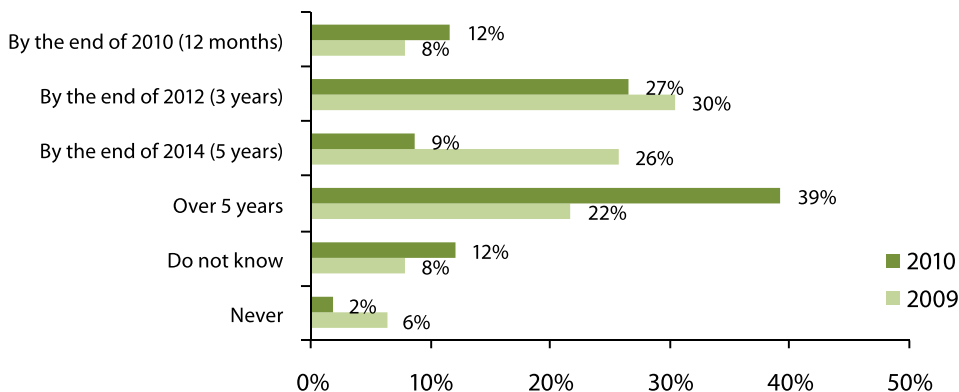
Have companies reconsidered investments or growth plans in Mexico due to security issues?



Corporate viewpoint on security



Expectations as to improvements within Mexico's security context



Conclusions

Personal security (employees and executives) remain the primary concern for Security executives. Business continuity (such as transportation of goods, distribution, etc.) are secondary concerns.

Northern states and Mexico DF are the ones which cause the greatest concern for security experts. While this is consistent with 2009 data, Mexico DF appears to be a growing concern.

There is a heightened sense of insecurity as nearly 60% of respondents felt less secure in 2009 as they did in 2008. That said, when it comes to their business, respondents are equally divided as per the security issue (1/3 feel more secure, 1/3 feel equally secure and 1/3 feel less secure).

As factors of improvement of security, continued private investment (75%) and improvements from authorities (25%) are the main factors. As for factors of deterioration, strengthening of organized crime, corruption and impunity are the main factors mentioned.

59% of companies witnessed an increase in insecurity as a result of the economic crisis.

Operations, Finance and Safety & Security are the most prepared areas to deal with external threats, while Sales and Purchasing are the least prepared.

Aggression or threats against employees is the most reported occurrence within companies, at 50%.

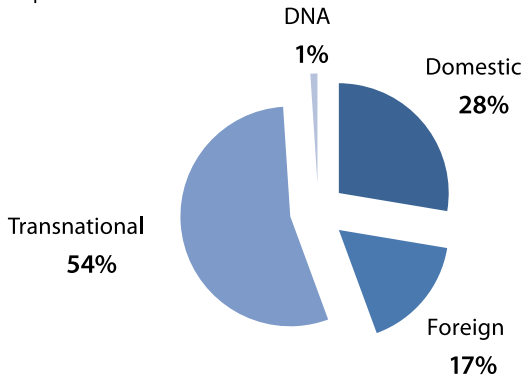
84% of companies mention having business continuity plans in place, a solid and high number.

Percent of operating costs spent on security are consistent in 2008 and 2009, in line with the rest of Latin America at 3%.

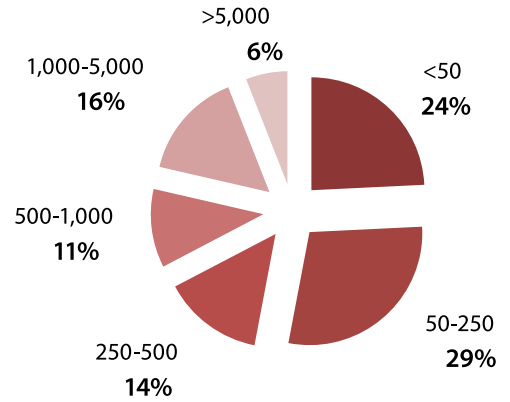
27% of respondent companies have reconsidered investments in Mexico due to security issues.

Demographics

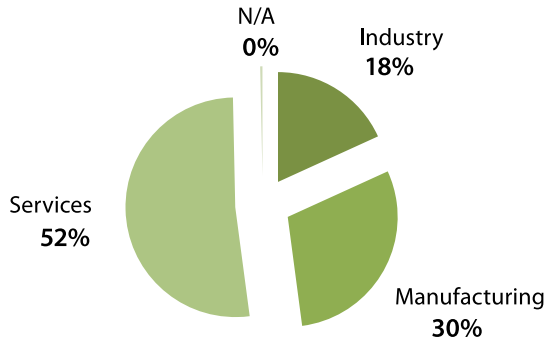
Company types
Total: 286 respondents



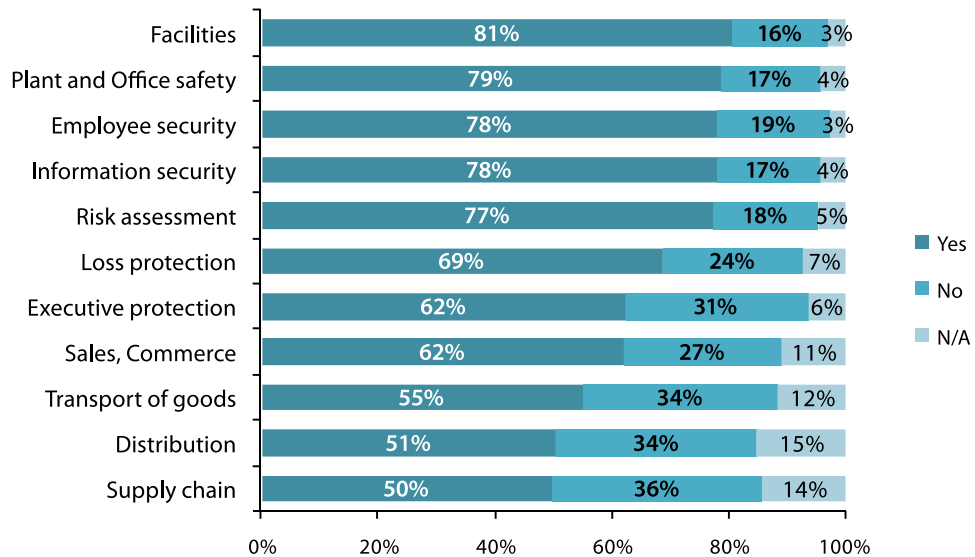
Number of employees
Total: 286 respondents



Company industries
Total: 286 respondents



Areas overseen by respondents



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