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Risk management critical for ransomware cover as losses mount

◇ CYBER

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Cyber insurers are reacting to mounting ransomware losses by further raising rates, restricting cover, limiting capacity and, in some cases, requiring co-insurance with insureds for extortion. Although broad protection is still available, risk management can now be a "deal breaker" and ransomware cover refused if the proper controls aren't in place, according to leading cyber brokers.

Companies in Europe and across the world are suffering from increased ransomware attacks with insurers taking big losses hitting their bottom line.

As a result, carriers are getting "increasingly nervous" about ransomware risk, explained James Bullock -Webster, head of tech, media and cyber at New Dawn Risk. Although no insurers have excited the market yet, the last four to six weeks have seen a "rapid turnaround in appetite across the board by the vast majority of London underwriters", he told *Commercial Risk Europe*.

Microsoft's Exchange Server was hacked in March this year

Jean Bayon de la Tour, head of cyber for Marsh in continental Europe, said ransomware losses started to hurt European cyber insurers in 2020 and made some of them unprofitable for the first time. They have reacted by reducing capacity, pushing up rates and restricting ransomware cover. Mr Bayon de la Tour said rates were up about 40% in Q1 2021. Capacity, meanwhile, is drying up, with risk management a "deal breaker" for cover, he said.

"Six months ago we were able to find the capacity but it was coming at a price. Now we are in challenging market where sometimes you cannot find capacity at any cost, either because the risk controls aren't in place or because we have exhausted all the aggregated capacity in the market. We are having to explore all European insurers and those outside in places like UK, Bermuda or Asia to find the capacity," he said.

RANSOMWARE: p3

Customers need clarity as Aon's bid for WTW takes another hit

◇ MERGER

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Aon's stumbling $30bn bid to merge with Willis Towers Watson (WTW) took another blow at the end of June, as the Competition and Consumer Commission of Singapore (CCCS) became the latest regulator to voice concerns about the brokers' bid to turn the big three into the big two.

It seems likely that coming on top of the suit filed by the US Department of Justice (DOJ) to block the deal, Aon will have to make further commitments on divestments on top of those already made in response to European Union concerns.

Risk and insurance managers across Europe and worldwide will simply hope that this mess can be sorted out as quickly as possible so that their brokers – whether they be at Aon, WTW or a rival firm hoping to acquire the divested businesses – can focus on obtaining them the best possible terms and conditions in what remains a tough market.

The CCCS announced on 29 June that it had completed its initial review of the proposed deal to see whether it would infringe section 54 of the Competition Act, which prohibits mergers that may result in a "substantial lessening" of competition within any market in Singapore, and has identified "areas for further review".

The Singapore regulator's concerns centre around executive compensation and related consulting services, as a sub-segment under human capital consulting services.

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INSIDE–

Global Risk Manager

MULTINATIONAL & SPECIALTY **INSURANCE** PERSPECTIVES

What is Global Risk Manager?

Launching soon, it's a new global media channel dedicated to the information needs of risk and insurance managers who work for multinational companies in all parts of the world, focusing on global programmes and specialty insurance/reinsurance.

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- Special report: The rise and rise of the Madrid market
- Interview: Mike Keating, managing director of Managing General Agents' Association
- Plus the latest on global programmes, captives and insurance renewals/hard market conditions

Watch out for more information on this exciting new product – COMING SOON!

This new media channel, launched by Rubicon Media, publisher of Commercial Risk, will see the creation of a new website and an expanded team of highly experienced and knowledgeable editors and contributors under the leadership of Global Risk Manager's editor, Tony Dowding. He will be supported by Commercial Risk's Head of Content, Adrian Ladbury and the team will include industry veterans Garry Booth, Simon Challis and Mark Geoghegan.

RANSOMWARE: Rate increases tracking around 40% this year

Continued from page 1

"If appropriate risk management and IT security are not in place, corporates can't get cover. So, these key controls and tools are becoming vital. That is why our job as a broker is shifting. Before it was to teach risk managers about cyber insurance, the cover, costs and assistance provided. But now it is really about what we need to do with clients to ensure they are insurable. There is a lot of focus on the risk and prevention with clients before going to market," he added.

Shannan Fort, head of cyber at McGill and Partners, said ransomware losses are arguably the main driver of tightening capacity, increased premiums and coverage revisions across the cyber market.

While the impact "may feel severe", the broker stressed that the cyber market is still writing "broad" cover and capacity is available if the correct risk management is in place. But she too said the market is far from easy and companies without risk controls face a range of sanctions from insurers, which can result in ransomware exclusions.

"Carriers are requiring better risk management and presentation to provide capacity – the current market dynamics are allowing carriers to be much more selective of the risks they take on. Specifically for ransomware, things depend largely on the company profile and the carrier. But there is significantly increased scrutiny on preparation, mitigation and response. Without the appropriate levels, insureds can expect sublimits, co-insurance all the way through exclusion of coverage following a ransomware attack," said Ms Fort.

"So, companies can get the [ransomware] coverage they desire, but they have to have the appropriate controls for the environments and industries they operate within," she added.

The brokers explained that some leading carriers are now looking to share ransomware risk with insureds, particularly those without adequate risk management in place, through co-insurance on cyber extortion. Typically, the insured will a have retention limit beyond which the insurer will only pay half the claim, said Mr Bullock-Webster. This a "difficult pill for buyers to swallow" but does incentivise a more "mature risk posture", he said.

Ms Fort argued that the market reaction may be extreme but in many ways is good for cyber hygiene and insurers are only asking for basic controls as they do for other risks.

A cyber policy typically offers protection for ransom demands, as well as restoration of systems, forensics, legal fees and business interruption (BI) to help companies deal with ransomware. And Mr Bayon de la Tour said insurers' move to share the risk with insureds through co-insurance includes all aspects of cover, including the crucial BI element.


Shannan Fort

"Companies can get the [ransomware] coverage they desire, but they have to have the appropriate controls for the environments and industries they operate within"

"In many ways, the most important thing is not whether insurers cover the ransomware itself – that is a philosophical discussion for insurers and insureds too, that sometimes don't want to have this reimbursement. The real issue is companies need cover for the consequences of the ransomware, the BI element etc. That is the real issue we have in this market," he added.

Mr Bayon de la Tour said this a big concern for European cyber insurance buyers and warned insurers that they are in danger of cutting protection for the very risk that companies want cover for.

"The message we want to send to insurers is: in Europe 95% of cyber claims are ransomware. So, sublimiting where you have claims is really sending a very bad message to clients. Restricting the cover where it hurts is not very positive," said Mr Bayon de la Tour.

"The current situation is causing a lot of concern. Capacity is harder to come by – it is at a high price and in some cases only partially covers the risk. We are at a critical moment for the market, which needs to take some strategic decisions and steps on this. In my view, we are in danger of limiting the cover for the very thing buyers want and need it for," he said.

As a result of the fallout from growing co-insurance demands and insurers' recently reduced appetite for ransomware, a "huge number" of risks have come onto market for the first time in a long while during 1 July renewals, predominantly focused on the US, Mr Bullock-Webster said.

"Insurers are amending their terms and conditions because of ransomware, so buyers are being forced to look for better deals. What we are seeing is a paucity of supply coupled with significant demand, which is driving rate increases typically in the region of 30% to 40% but in some extreme cases up towards 200%," he said.

Mr Bayon de la Tour described the rise in ransomware attacks as likely a "short-term" problem, which can be overcome through IT security tools that are proving efficient in the fight against such attacks. "Will the rise in ransomware end tomorrow? Probably not. But we can overcome this problem in my view. We see that when these IT security tools are deployed, losses are mitigated," he said.

But the broker warned that systemic cyber risks and losses, such as those highlighted by the recent Microsoft Exchange Server attack, are a bigger issue for the market in the longer term.

"Here it is not just a question of ransomware, it's about how we assess and address systemic risk as a whole. My analysis is that everything will become either managed by technology or systemic. So, insurers don't have a choice. If they want to continue to provide some value, they have to provide some cover for these systemic risks. It is a kind of training for the cyber insurance market on how to manage these systemic risks," he said.

In better news for buyers, Mr Bullock-Webster said there is a "fantastic" new solution called Cyber Lockout from Volante, in partnership with a tech company called GBMS, which can help plug the gaps in ransomware cover. It offers ransom-only protection for risks other insurers aren't willing to underwrite.

"This is something that you take out alongside your traditional cyber policy, although the buyer needs to implement endpoint protection software to block malware as part of the cover," explained Mr Bullock-Webster.

The cyberattack on Colonial Pipeline in May led to fuel shortages across the US

Singapore's competition watchdog is the latest to raise concerns about the proposed Aon-WTW merger

AON-WTW: Singapore follows EU and US DoJ in scrutinising deal

Continued from page 1

The news from Singapore followed the announcement made by the US Department of Justice (DOJ) on 16 June that it is taking legal action to prevent the deal going ahead, because of serious competition concerns.

The complaint filed in the US District Court for the District of Columbia alleged that the merger threatens to "eliminate competition, raise prices, and reduce innovation for American businesses, employers, and unions that rely on these important services".

"Today's action demonstrates the Justice Department's commitment to stopping harmful consolidation and preserving competition that directly and indirectly benefits Americans across the country," said US attorney general Merrick B Garland.

"American companies and consumers rely on competition between Aon and Willis Towers Watson to lower prices for crucial services, such as health and retirement benefits consulting. Allowing Aon and Willis Towers Watson to merge would reduce that vital competition and leave American customers with fewer choices, higher prices and lower-quality services," he added.

The DOJ complaint alleges that the merger would "eliminate important competition in five markets, resulting in higher costs to companies, higher costs to consumers, and decreased quality and innovation".

The ability to deliver more innovation for customers is one of the main arguments for the deal proposed by Aon. The DOJ obviously thinks that the main purpose is actually to make cost savings and deliver a better margin for shareholders, to the detriment of customers.

"The merger between Aon and Willis Towers Watson would combine two of the 'big three' insurance brokers which, as alleged in the complaint, can offer global service, sophisticated data and analytics, and a breadth and depth of knowledge and expertise that other brokers do not offer. As alleged in the complaint, Aon and Wills Towers Watson operate 'in an oligopoly' and 'will have even more [leverage] when [the] Willis deal is closed'. If permitted to merge, Aon and Willis Towers Watson could use their increased leverage to raise prices and reduce the quality of products relied on by thousands of American businesses – and their customers, employees and retirees," continued the DOJ announcement.

Aon and WTW have already agreed to divest significant chunks of the acquired business to satisfy other regulators, notably the EU. A J Gallagher has agreed to take on significant parts of WTW's European business in Germany, the Netherlands, Spain and France, and thus hopefully build a base to become a credible third option in Europe at least. Lane Clark Peacock has also agreed to acquire WTW's German pension business.

But this is not enough for the DOJ, and the CCCS in Singapore appears to be following suit with a similar focus on the more emotive pensions and benefits side of the business, rather than the P&C side.

"Although Aon and Willis Towers Watson have agreed to certain divestitures in connection with investigations by various international competition agencies, the complaint alleges these proposed remedies are inadequate to protect consumers in the United States. The complaint also alleges the US-focused divestitures in health benefits and commercial risk broking, in particular, are wholly insufficient to resolve the department's significant concerns," stated the DOJ.

Aon quickly responded to the DOJ action with the following terse statement: "We disagree with the US Department of Justice's action, which reflects a lack of understanding of our business, the clients we serve and the marketplaces in which we operate."

Analysts believe the broker will likely compromise further and make further divestment commitments to get the deal done, rather than scrap the acquisition, partly because if Aon pulled out now it would have to pay WTW a $1bn break fee.

> **"If permitted to merge,** Aon and Willis Towers Watson could use their increased leverage to raise prices and reduce the quality of products relied on by thousands of American businesses – and their customers, employees and retirees"

The CCCS statement was clear that its main concerns are on executive compensation and related consulting services in Singapore. It said that it is open to suggestions from Aon on how to deal with this before it proceeds further, so expect more compromises.

"Third-party feedback suggested that the merged entity will become the largest provider of executive compensation and related consulting services in Singapore [after the] proposed transaction, and that there are limited alternative providers available that are able to compete effectively in Singapore," stated the CCCS.

"Feedback was also raised by third parties that there may be barriers to entry and expansion, with limited consulting personnel who possess the necessary expertise and experience in providing executive compensation and related consulting services in Singapore. There is also feedback that building up a database of compensation data, which underpins the provision of executive compensation and related consulting services in Singapore, may constitute a barrier to entry," continued the Singapore body.

"In view of the above feedback received, CCCS needs to further review the competition effects of the proposed transaction in greater detail. At this stage, the parties may offer commitments to address the potential competition concerns that may arise as a result of the proposed transaction, or the proposed transaction will proceed to a detailed further review upon CCCS's receipt of the relevant documents from Aon," it added.

Risk and insurance managers across Europe and worldwide have voiced serious concerns about the loss of WTW to Aon in an already limited broking market for multinational risks, as it follows so soon after Marsh's takeover of JLT.

But they also hope that if it goes ahead, the deal is completed as soon as possible so that their brokers can focus on what they need, rather than be distracted by concerns over job security and internal jostling for position.

The fallout from the Aon-WTW deal also offers other brokers such as A J Gallagher a great opportunity to take advantage of the turmoil by acquiring chunks of business and teams. But again, risk and insurance managers will hope that such deals take place as soon as possible as they prepare for what is likely to be another tough round of renewals in key areas such as financial lines and cyber.

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The range of risks covered in a global programme is expanding all the time, as new and emerging risks appear. At the same time, traditional covers face considerable challenges, particularly with the current hard market. Capacity issues, increasing rates and tighter terms and conditions mean that buyers need to look to be more creative with retentions, greater use of captives and considering ART solutions.

Some lines are particularly stressed such as D&O and cyber, while others such as business interruption have seen restrictions. Global programmes are about ensuring a level of uniformity of coverage, avoiding gaps and getting the best terms and conditions.

This year's virtual conference will be hosted over three days and will look at the challenges in the insurance market, examine possible solutions and highlight the benefits of programmes in providing global coverage for a multinational.

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ESG to impact coverage, price and future renewals

◇ ESG

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The upcoming COP26 conference in Glasgow is set to further increase policymakers' focus on ESG concerns

Environmental, social and governance (ESG) disclosure and commitments on net-zero emissions by insurers are increasingly likely to affect the coverage available and its price for some corporates, on top of requiring buyers to disclose more information at future renewals.

ESG considerations, and climate change in particular, are already affecting insurers' risk appetite for carbon-intensive risks like thermal coal. Under pressure from stakeholders and their own net-zero commitments, a growing number of insurers are shying away from new fossil fuel projects and have stated their intention to gradually withdraw from insuring coal, oil and gas in coming decades.

The information provided on ESG by buyers at renewal could affect the price and availability of insurance, with underwriters potentially refusing to cover risks that do not meet related underwriting criteria. Insurers will need to develop ESG underwriting criteria that balance their net-zero commitments with the needs of customers, who are likely to transition to more sustainable business models at different paces and to varying degrees.

ESG is approaching a tipping point in the insurance industry, as insurers move from voluntary disclose to mandatory requirements. A growing number of countries, notably those in the European Union, Australia and New Zealand, are requiring ESG disclosure from insurers and reinsurers. At the same time, ratings agencies and regulators are increasing their focus on climate change and ESG risk. Insurers in France and the UK were recently subjected to climate change risk scenario testing for the first time.

In addition to regulatory requirements around disclosure, insurers and brokers are also under pressure from stakeholders – including investors, customers and environmental groups – to align investments and underwriting with the UN Paris Agreement's target to limit global warming to below 2°C and pursue efforts to limit it to 1.5°C.

During the past year, many of the world's largest insurers – including Lloyd's, AIG and Tokio Marine – have come under intense pressure from protesters to stop underwriting fossil fuel projects and pipelines in Australia, North America, Africa and the Caribbean.

But a growing number of insurers and brokers have pledged to achieve net-zero emissions in the coming decades, or have at least committed to reduce the carbon intensity of their investments and underwriting. More than 20 insurers have joined the UN Net-Zero Asset Owner Alliance, which will see some $6.6trn of assets aligned with net-zero emissions by 2050, while seven leading insurers and reinsurers are establishing a Net-Zero Insurance Alliance to provide industry leadership on underwriting.

POLICY FOCUS

Pressure is mounting on insurers to tackle ESG risks, according to Insurance Europe. "Sustainability, in particular, is increasingly becoming the focus of policymakers at EU and national level, and expectations on European insurers, which can play a role in several ways, are therefore increasing," a spokesperson for the trade body told *Commercial Risk Europe*. These new rules will have an impact on insurers' role as investors and risk underwriters, the spokesperson said.

Many insurers have started to screen their investments through ESG criteria and increase their sustainable investment commitments, the spokesperson explained. According to Insurance Europe estimates, the European insurance industry plans to allocate more than €140bn to sustainable investments by 2022. At the same time, European insurers are subject to a wide range of EU regulatory demands, including the Taxonomy Regulation and the Sustainable Finance Disclosures Regulation, the spokesperson noted.

And insurers' underwriting policies will have an impact on customers, depending on their sector of activity or risk profile, the trade body said. For example, insurers may decide not to underwrite risks related to the extraction of certain types of fossil fuels, such as tar sands and coal, according to the Insurance Europe spokesperson.

"[Insurance] companies following this approach tend to have in common a decision not to insure new projects involving certain types of fossil fuel. By taking such an approach, these companies incentivise the transition towards cleaner sources of energy, while continuing to protect against the risks of existing activities. Such decisions and how they are implemented in practice are the exclusive responsibility of each individual company," they said.

As more and more insurers report on ESG factors, they will be looking for additional data and knowledge on risks, according to Marguerite Soeteman-Reijnen, chairman and global board member at Aon in the Netherlands. "As an insurance buyer, if you want to be appropriately covered or mitigate your risks, you need to be aware of this so you can anticipate what data is relevant to the insurers community. This might affect also a better price," she said.

"Climate change can affect access to affordable insurance, but it also presents an opportunity for insurers to invest in companies and technologies that will help tackle the issue – and the insurers that do so will have an advantage," she added.

According to Ms Soeteman-Reijnen, corporate insurance buyers and risk managers should start to prepare for changes brought about by ESG and climate change requirements on insurers. "This should be on the boardroom and risk managers' agenda of all corporates across the globe. If risk managers and insurance buyers are not yet thinking of it, they should start immediately in order to remain relevant and make sure they have the relevant risk assessment and covers in place," she said.

"Addressing climate change and the risks attached to it is key. It is a very complex stakeholder community – that includes shareholders, regulators and consumers – who do not all have the same agenda. The most important thing is for an insurance buyer to understand what different stakeholders may require over the next year, the next three years, the next ten years, and start gathering the relevant data and insights," Ms Soeteman-Reijnen said.

According to Ferma, insurers may ask for further sustainability risk information from insurance buyers for underwriting purposes. However, buyers should be able to use the results of their ESG integrated sustainability risk assessment – which forms part of

their ERM framework – as the basis for communication with insurers, it added.

The risk management federation has also expressed a desire for greater data sharing with the insurance market. "More dialogue over sustainability risks should create a better conversation between insurance buyers and the market, especially if there are specific, sustainability-related risks where capacity becomes limited," a spokesperson for Ferma told CRE.

"If European insurers remove capacity for certain business activities, companies may look to alternative methods of risk transfer such as increased use of captives, mutual insurers or pools, and possibly securitisation of risk through capital market instruments," the spokesperson added.

ESG factors are already influencing some of the risks insurers are willing to assume, such as thermal coal, palm oil and more generally in the extractive industries, according to Swiss Re.

"Some (re)insurers are no longer offering covers to certain companies with low ESG performance, or excluding coverage for an entire sector. At Swiss Re, we prefer to set long-term targets to exclude certain risks such as thermal coal – 2030 for OECD countries and 2040 for the rest of the world – and use the time until then to work with our clients and partners on their transition journey to clean energy options," said Stefanie Ott, head of qualitative risk management at Swiss Re.

"We see an increasing number of insurers that are interested in considering ESG factors for their underwriting. For commercial clients of insurers, this trend may add to the existing investor and stakeholder pressure on ESG. Particularly, privately held commercial clients may be facing new requests for ESG data from their insurers. The data collection may vary across industries and lines of business but may be aligned with established reporting frameworks," she said.

ESG underwriting disclosures are more challenging than investments, according to Ms Ott. "Disclosure of quantitative ESG-related information from underwriting remains a challenge for insurers, mainly due to a lack of metrics, standards and data that would allow for consistent measurement, reporting and steering of ESG factors in underwriting," she said.

The insurance industry therefore needs to establish common metrics on how to measure ESG underwriting impacts for a range of sustainability issues, explained Ms Ott. One such metric is the recently developed Weighted Average Carbon Intensity for insurance portfolios, which the Task Force on Climate-related Financial Disclosures now recommends for application in underwriting.

However, ESG data is often lacking for non-listed companies, which so far have little incentive to report on ESG and make up the majority of most commercial insurance portfolios, according to Ms Ott. "[But] In the absence of insured-specific data, insurers may use industry, country and line of business information as proxies for the assessment of ESG performance of their underwriting," she said.

> **"ESG and especially climate** change-related risks should be an integral part of firms' risk management frameworks"

ESG REPORTING

There is a gradual increase among larger insurers to request ESG-related information from partners to ensure principles are aligned, or companies have a plan to achieve certain targets, said Mahesh Mistry, senior director at ratings agency AM Best.

"While some larger market participants are allowing time for transition, there have been cases recently where stewardship management has resulted in (re)insurers reducing investment in certain sectors… due to insufficient commitment on climate objectives. Similarly, there have been a number of (re)insurers, particularly in Europe, that have distanced themselves from insuring new coal projects," he said.

Initially, insurers approached ESG and climate change by focusing on what they weren't prepared to write, rather than how they would support the energy transition, according to Amy Barnes, head of sustainability and climate change strategy at Marsh.

But there is "growing widespread recognition" of the need for an orderly transition and shifting the focus to support the transition to a low-carbon economy, he said. "Increasingly, insurers are asking more questions about insureds' transition commitments. These questions are focused on carbon-intensive industries such as energy and hard-to-abate sectors," said Ms Barnes.

Marsh expects insurers will require ESG information as a standard part of the underwriting process in due course, she continued. "In supporting the transition, insurers will need to support all types of businesses, but we expect them to be monitoring their portfolio of risks to ensure that ESG performance is improving overall. Risk managers should be making sure they are familiar with their company's sustainability and climate strategies, and are communicating these to their insurers as part of their renewal conversations," said Ms Barnes.

Gabrielle Durisch, head of sustainability, commercial insurance and group underwriting at Zurich Insurance, agreed that corporate customers should expect to have to answer more questions around ESG as part of the renewal process during the next few years.

"As insurers are being asked to provide input on ESG-aligned activities to potential new clients, we expect there will be an increasing need for the insurance industry to request information from customers in order to meet the reporting requirements expected to come," she said.

Given upcoming regulations and initiatives, it is vital that insurance buyers and risk managers look at ESG now and embed all of these principles into their strategy and operations, said Christopher Bonnet, head of ESG business services at Allianz Global Corporate & Specialty (AGCS).

"We believe that ESG and especially climate change-related risks should be an integral part of firms' risk management frameworks, with a clear impact assessment of each risk type – for example, credit, insurance, market, etc – depending on the industry. Understanding these risks as they affect individual businesses is the first step. Further, companies are expected to model those risks and consider mitigation measures," he said.

A dedicated unit acts as a centre of competence for ESG within Allianz' P&C business and a central contact point for insurance coverages globally, explained Mr Bonnet. As part of the ESG referral process, the team ensures all potentially ESG-critical business transactions are screened and assessed in detail to allow "informed decision-making and potential engagement" with policyholders, he said.

"Within AGCS, the underwriting teams, and by extension clients, already feel the impact of ESG-driven processes. More and more, (re)insurers advance integrating ESG and climate considerations into their core business, adding to the expectation on clients to transition to a low-carbon business model while also mitigating and managing the broader set of ESG risks," he added.

According to Ms Durisch, the impact of ESG on particular risk profiles is a key discussion point between Zurich and its corporate customers. "Many of them have sustainability teams who are joining our discussions and for those that don't, we are bringing our experience and insights to them so we can all move forward together on addressing ESG issues and opportunities," she said.

"As underwriters, we are working closely with our colleagues in investment management to ensure an aligned approach to both the companies we underwrite and the companies we invest in. The first step is to understand how to calculate the emissions associated with the underwriting portfolio. As part of the Net Zero Insurance Alliance, we are working together with peers to understand how methodology could be developed to enable this," added Ms Durisch.

"Once we have a widely accepted methodology, analysis needs to be done on the transition pathways of the underwriting book and how we should expect the carbon emissions to develop in line with our path to a 1.5°C future. The final step is to translate that into realistic, actionable steps and work with our customers to facilitate the transition," she continued.

Reinsurance rate increases to continue at 1 Jan but signs of moderation

◇ RATES

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Reinsurance prices are likely to increase further at the 1 January renewals but there are signs that price rises may be moderating.

Longer term, the jury is out on whether the hardening market is sustainable. Concerns over climate change and cyber losses could mean higher reinsurance costs going forward, although a period of benign catastrophes and excess capacity might result in increased competition, experts argue.

As the market gears up for the all-important January reinsurance renewal, which kicks off in September, reinsurers are pushing for further rate increases. A run of above-average natural catastrophe years, topped off by Covid-19 losses in 2020, have seen them struggle with profitability.

In the four-year period since 2017, a group of leading global reinsurers tracked by Aon reported an average combined ratio of 102.5% and a return on equity of 4.8%. "This is not enough to meet the expectations of investors and ratings agencies, and reinsurers that have underperformed are now under significant pressure to improve results," said Mike Van Slooten, head of business intelligence for Aon's Reinsurance Solutions division in London.

It has been a "testing period" for the reinsurance industry, according to Mr Van Slooten. The sector has experienced a run of major natural catastrophe losses, including hurricanes in the US and typhoons in Japan, as well as an accumulation of more localised losses from wildfires, tornadoes, floods and hailstorms. "Losses from secondary perils are difficult to model and are happening more frequently, and pricing is still adjusting in response," Mr Van Slooten said.

In addition to an increase in natural catastrophes, reinsurers have had to contend with low interest rates and, more recently, less favourable runoff of prior-year reserves. Underwriting discipline has generally increased in response to these developments, said Mr Van Slooten. At the same time, retrocession costs have increased, which has affected the underwriting appetite of some reinsurers.

Ratings agency Moody's expects reinsurance price firming to continue through 2021 and into 2022. This is driven by a number of factors, including some reinsurers moderating their risk appetites in light of market volatility seen last year, low investment returns and reduced capacity from alternative capital markets, explained Brandan Holmes, vice-president and senior credit officer at Moody's Investors Service.

There is also uncertainty around claims and risk, both on the nat cat side and with respect to loss-cost trends on casualty business and cyber, said Mr Holmes. "Rising uncertainty around the effects of climate change, which feed into more potential volatility in nat cat losses, are also contributing to reinsurers seeking higher prices," he added.

Mr Holmes expects reinsurance prices to follow the evolution of the commercial P&C market, which has seen rates rising strongly but with price increases recently starting to flatten out. "If reinsurance price increases continue to outpace loss-cost trends and absent significant unexpected nat cat activity, we could see prices stabilising in 12 to 18 months' time," he said.

The January 2021 renewal is still too early to call, according to David Flandro, head of analytics at HX, part of Howden Group. Catastrophe losses continue to be the main catalyst for reinsurance pricing, but there are a number of variables that could also influence the outcome of renewals, he said. These include interest rates, potentially higher inflation and changes in the macroeconomic environment as the world emerges from the pandemic, he added.

"We are in an environment where anything can happen. We are only at the start of the Atlantic hurricane season, and large catastrophe losses in the second half of 2021 would likely see further increases in property catastrophe rates in January. However, if we have a relatively benign cat loss year like 2015 or 2016, it's hard to foresee anything more than a moderation in rate increases," said Mr Flandro.

Mid-year renewals this year have shown a trend for moderating prices, according to Mr Flandro. Numbers from Howden's data division HX show that Florida reinsurance rates increased 7% at the June 2021 renewal, compared with 26% at the same time in 2020.

While US property catastrophe rates have increased rapidly in the past two years, global reinsurance pricing has seen only small rises. January renewals, in which the majority of large European treaty reinsurance renewals take place, have not experienced the rapid increases seen in US property catastrophe, explained Mr Flandro. Global reinsurance rates also have a long way to go if they are to make up for reductions in the decade-long soft market, according to HX data.

There are factors that could lead to softening but these are not present in the market right now, according to Mr Holmes. These factors could include an increase in available capacity, including more alternative capital entering the market, rising interest rates and a change in assessment of the overall risk environment, he said.

HARD TO PREDICT

Carlos Wong-Fupuy, senior director for Global Reinsurance Ratings at AM Best, agreed that it is difficult to predict the exact shape of January 2022 renewals but thinks hardening will continue. "We see the rate hardening market continuing for at least a couple of years. New capital is not having a material impact yet. It has been limited, with $10bn added last year to a market with $500bn in existing capacity," he said.

Past reinsurance market hardening has been driven by shrinking capacity following a large catastrophe, such as Hurricane Katrina or the 2001 World Trade Center terrorist attacks. Recent market hardening, however, has been driven by the need to improve earnings, rather than capacity shortages, and this makes it hard to predict how the market will play out, according to Mr Van Slooten. "Rates have certainly increased on loss-affected business, but probably not to the extent that reinsurers think they should. Capital has come into the market and limited the opportunity," he said.

Reinsurance industry capital levels are proving robust. Aon's estimate of global reinsurer capital increased from $625bn at the end of 2019 to a new peak of $650bn at the end of last year, despite the impact of Covid-19. This included about $15bn of new equity, mainly raised by established companies. About $3bn was contributed by three new startups: Vantage, Conduit Re and Indigo.

So far, startups have been disciplined, according to Mr Wong-Fupuy. "Companies are not just deploying capital naively; they are being very selective on how that capital is allocated. Most of these new company formations have very seasoned management teams, which are being extremely careful on how they deploy their capital," he said.

"The question has always been: is the new capital going to start repeating the cycle? In terms of excess capital and pressure on rate softening, we don't think that's the case. There is a change compared with previous high catastrophe cycles," he added.

A number of factors could support sustained reinsurance underwriting discipline, including low interest rates and uncertainty around exposures, explained Mr Van Slooten. Reinsurers and capital market investors are conscious of the implications of climate change, while the pandemic and rise in cyberattacks have highlighted the potential for unexpected and systemic losses, he said.

In addition, there is growing uncertainty around casualty lines, including the impact of social inflation and the potential for Covid-19-related liability. Insurers will also be wary of a potential spike in inflation as the global economy recovers from the pandemic, which could also hit reserves, according to Mr Van Slooten.

He said underwriting discipline is likely to hold at least until recent rate increases work their way into reported earnings. While underlying underwriting performance has improved, it has been masked by Covid-19 and natural catastrophes in 2020 and early 2021, Mr Van Slooten added.

"Pricing has to earn its way through to the bottom line. The benefits are only now beginning to emerge in reported results, but if the rest of 2021 is relatively benign in terms of natural catastrophes, the improvement should be tangible at the year-end," he said.

The reinsurance market underwent significant softening between 2012 and 2017, driven by an absence of major catastrophe losses and an influx of alternative capital, explained Mr Van Slooten. While rates have since increased, not all ground lost during this period has been recovered, he said.

Reinsurers argue that reinsurance prices need to adjust for rising exposures and volatility, namely climate change-related increases in natural catastrophes and systemic events like Covid-19 and cyberattacks. According to Moody's, the coronavirus pandemic has increased insurers' awareness of risk and made them more cautious about other longstanding insurance perils, including cyberattacks, climate change and social inflation.

"We do not think that reinsurers are fully compensated for rising risks around climate, cyber, pandemic, and that prices would need to rise to improve risk-adjusted returns. That said, there are limits on reinsurers' pricing power and it is not clear whether insurers and their customers will be willing to pay a truly economic cost," said Mr Holmes.

It is difficult to say to what extent rising prices for reinsurance will lead to rising prices for primary insurance, and to what extent customers will be willing to pay higher costs, said Mr Holmes. "Generally though, if there is more risk in the system, we would expect prices to rise for both reinsurance and primary insurance," he said.

Wegener re-elected as Ferma president

◇ FERMA

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Dirk Wegener has been re-elected as Ferma president for a further two years, at the federation's general assembly.

Laurence Eeckman, vice-president of group risk management at Electrolux and member of Swedish risk management association Swerma, was elected to the board for the first time. She replaces Maria Isabel Martínez, who had come to the end of her nine-year mandate.

Mr Wegener, who is global head of corporate insurance for Deutsche Bank and a member of the German risk management association GVNW, took over as Ferma president two years ago from Jo Willaert.

He thanked Ms Marisa Martínez for her long contribution to Ferma, in particular the creation and development of its risk certification scheme Rimap.

He told Ferma's virtual general assembly that the last year has not been easy, but he believes we are seeing the "fruits of investment in risk management and resilience" as we move into the Covid-19 recovery phase.


Dirk Wegener

"We have learned a great deal, which I would sum up in two short sentences: Cooperation is essential. Resilience is critical," he told the assembly.

"We have a once-in-a-lifetime chance to emerge stronger from the pandemic, transform our economies, and create opportunities and jobs for a greener, more digital and more resilient Europe," added Mr Wegener.

He also took the opportunity to flag what Ferma has achieved during the past year.

Mr Wegener said the federation has strengthened contributions to European policy discussions on key topics of systemic risk, sustainability, digital issues and captives.

It has also enhanced online communications and contacts with member associations to exchange views and good practices, collecting facts and figures to better support the profession, he said.

Mr Wegener added that the federation has digitalised its activities, notably the virtual Ferma Seminar and Risk Management Awards Week, held with *Commercial Risk Europe*.

And finally, he said Ferma has developed future growth avenues for its Rimap risk management certification.

Looking forward, Mr Wegener said key Ferma projects include lobbying and working on sustainability reporting and governance, a focus on increased insurance data sharing, proportionality for captive regulation, risks related to remote working and its resilience survey.

Ferma concerned corporate buyers are missing from Eiopa's plans to boost insurance data sharing

◇ FERMA

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Ferma has welcomed Eiopa's consultation on opening up the insurance market to ensure greater sharing of insurance data, but is disappointed there is no reference to corporate buyers in the regulator's position paper and has urged further investigation into removing regulatory barriers to sharing claims information.

Ferma has submitted its response to Eiopa's position paper, *Open insurance: accessing and sharing insurance-related data*, which was published in January.

The paper and subsequent public consultation will help frame the advice Eiopa will deliver to the EC on this topic. The EC is expected to produce a legislative proposal on open finance covering insurance in June next year.

While there is no universal definition of open insurance, it is generally understood to mean opening up access to, and sharing of, insurance-related data, Ferma noted.

The federation has backed plans to open up the insurance market's data but is concerned that, so far, Eiopa hasn't focused on the corporate market.

"From our perspective as insurance buyers, it is a worthwhile and timely initiative by Eiopa to explore the potential risks and benefits that could result from opening up insurance. However, we are disappointed that there is no specific reference to corporate insurance buyers in the discussion paper," said Ferma president Dirk Wegener.

Ferma told Eiopa there is a lot of potential in this area to innovate and improve organisational resilience.

"While we are not arguing for parity between this demographic and consumers, and are also aware of the fact that Eiopa may have implicitly been referring to SMEs/corporate insurance buyers when it refers to 'customers', Ferma encourages Eiopa to conduct a more thorough analysis of how open insurance would impact corporates and SMEs. We stand at Eiopa's disposal to assist in this endeavour," the federation said in its response to the consultation.

> **"Eiopa should look into** what currently prevents 'openness' with the buyer in mind"

Ferma explained that with the market hardening and restrictions on cover, corporate insurance buyers want to work with insurers to use risk-related information most effectively.

"With the market already hardening for buyers going into the coronavirus crisis, which seems to have exacerbated these conditions, buyers are increasingly looking to alternative forms of risk transfer and finance to better manage their risks. Data is core to that process and a more open, transparent insurance sector would go some way to helping enterprises better manage their risks and would also assist with organisational resilience," said Ferma.

The Eiopa paper acknowledges that there are regulatory barriers that inhibit data sharing between parties involved in the insurance chain. Ferma described the fact this is on Eiopa's agenda as a "welcome first step", but said the regulator needs to go further.

"In particular, Eiopa should look into what currently prevents 'openness' with the buyer in mind… For example, more diverse case studies could examine the issues involved for large risks facing companies, such as cyber," it said.

The federation added that "aggregated and anonymised claims and loss data could be a powerful tool for businesses looking into their risk transfer or insurance strategy, and could help target investments into loss prevention".

Ferma also believes cultural change is needed for open insurance to take off, rather than just a focus on compliance and regulations.

"In its discussion paper, Eiopa lists potential benefits of open insurance such as enhanced market, product, and data transparency, as well as making the insurance service/underwriting more transparent. However, and in line with the European Data Protection Supervisor's remarks within its Guidelines on Transparency in the context of GDPR, we paraphrase: The principle of 'accountability' that should underpin open insurance goes beyond simple compliance with the rules and implies a 'culture change'. We encourage Eiopa to consider the steps it needs to take to instil a culture where transparency, accountability and trust are at the heart of open insurance," the federation said.

Ferma added that it looks forward to discussing open insurance further with Eiopa during the coming months.

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COMMENT

Opportunity knocks for wider market as Aon struggles to get WTW deal over the line

Latest news from the Competition and Consumer Commission of Singapore (CCCS) that it has completed its initial review of the proposed merger between Aon and Willis Towers Watson (WTW) and has identified "areas for further review" is not going to cheer up Aon CEO Greg Case, who must now be wondering why he bothered with the idea in the first place.

The news from Singapore followed swiftly on from the bombshell dropped by the US Department of Justice (DOJ) on 16 June that it is taking legal action to prevent the $30bn deal going ahead, because of serious competition concerns.

The complaint filed in the US District Court for the District of Columbia alleged that the merger threatens to "eliminate competition, raise prices and reduce innovation for American businesses, employers and unions that rely on these important services".

Aon quickly responded to the DOJ action with the following: "We disagree with the US Department of Justice's action, which reflects a lack of understanding of our business, the clients we serve and the marketplaces in which we operate."

The DOJ action of course followed similar concerns raised by the European Union which, thankfully for Mr Case, were less dramatic in wording and were seemingly satisfied by a deal struck with AJ Gallagher to sell off significant chunks of WTW's European business and elements of its US and Bermuda operations.

As part of this settlement, Aon also agreed to sell off its German pensions consulting, pension insurance broking, pensions administration and investment consulting business to Lane Clark & Peacock.

The strongly-worded DOJ suit, and Aon's terse response intimating that the regulator does not understand the business, suggests that this spat will not be so easily settled.

For Mr Case and his senior management team, this is really starting to look like a dog's breakfast that follows the PR and HR disaster of cutting Aon staff's salaries last April in response to the pandemic, when no other major broker followed suit. The decision was reversed a couple of months later but the impact on morale at Aon staff already worried about the impact of the mega-deal cannot have been good.

Shares in both Aon and WTW – up 20% and 19.92% respectively during the last 12 months – fell on the news of the DOJ suit, with Aon down 3% and Willis 2% weaker. Analysts said that, despite the latest hitch, the brokers are more likely to sell even more businesses to satisfy regulators rather than drop the deal, which has already cost a huge amount of time and money and would force Aon to pay WTW a $1bn break fee. The analysts are of course focused on the costs savings and potential for improved margin post-deal, rather than supposed potential for greater innovation for customers.

Other emerging brokers – such as A J Gallagher, Howden and new boys McGill & Partners – keen to plug the gap left by the big three reducing to a big two are of course excited about the opportunities offered to them by acquiring books of business and unsettled senior Aon and WTW staff. These independent players had already received a welcome boost from the fallout of Marsh's acquisition of JLT.

A J Gallagher's EMEA head Simon Matson told *Commercial Risk Europe* that he had been pleasantly surprised by the unusually positive response to the news of its planned acquisition of WTW business in Europe, giving it the chance to hopefully become a powerful option for Europe's risk and insurance managers.

The emergence of serious choice among growing brokers such as A J Gallagher and the continued rise of independent broker networks is of course the main positive to come out of this mess. Europe's risk and insurance managers need independent and cost-effective advice more than ever at this difficult time in the insurance market, and for the wider economy.

This is really the time for the broker, particularly those working outside of the big three or two, to step up to the mark and prove their worth. Focus on cost and efficiency, securing the best possible deal and truly innovative responses to hugely challenging new risk scenarios, and you will win from this situation.

This time of flux also presents a real opportunity for carriers to cement their relationships with customers alongside the brokers.

During the long soft market, the leading insurers talked a lot about getting closer to their customers to help deliver a more innovative service and efficient claims offering. After the brutal two years of rapid hardening in many lines, surely it is time for insurers to step up and do everything in their power, in tandem with the brokers, to ensure buyers have the choice needed to dampen such dramatic market swings in the future.

Risk managers have a unique opportunity to strengthen their role in a world of more volatile and unpredictable risks, according to the Institute of Risk Management's (IRMs) newly elected chair, **Stephen Sidebottom**. In this interview with CRE, the new chair said he is optimistic about the future role of risk managers, which he believes will be more strategic, data-driven and sustainability-focused. **Stuart Collins** posed the questions...

Rising to the challenge

◇ **INTERVIEW**

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Q: IS IT A CHALLENGING TIME TO BE TAKING OVER THE CHAIR AT THE IRM?

A: It's an extraordinary time to join the IRM. The effects of the pandemic have massively heightened awareness of the importance of thinking about and understanding risk in the context of organisational resilience and wider social impacts, as well as making people in general more risk averse.

As we come through the current crisis, there is a unique opportunity to use the IRM's outstanding expertise in risk management to strengthen the role of professionally qualified risk managers globally, and to champion the debate about the skills and risk management approaches needed to succeed sustainably in the new world.

Q: IS THE WORLD GETTING RISKIER, AND THEREFORE THE NEED FOR RISK MANAGEMENT GREATER?

A: Since the industrial revolution, developed societies have focused on navigating a technically complicated world. That's to say economic activity has been viewed through a rational lens of fundamentally manageable components where the relationships between the various parts are known, so we can say with confidence what will happen if we change something.

We now know that volatility, uncertainty, complexity and ambiguity describe the situation of constant, unpredictable change that is now the challenge businesses face. The world is complex and unpredictable and outcomes cannot, therefore, be controlled. We must accept and adapt to this to succeed.

Q: WHAT CAN WE LEARN FROM COVID-19?

A: Covid-19 itself isn't a black swan event; a global pandemic has been on the risk registers of governments and major organisations at least since the SARS crisis. When it happened, most of us weren't prepared and had inadequate operational plans to cope with the impact. Arguably, all of this is a foretaste of the need for effective collective responses during the next decade to the existential challenges of tackling the climate emergency.

Q: AS THE WORLD EMERGES FROM THE PANDEMIC, WHAT ARE THE MAIN TRENDS IN RISK?

A: The key challenge for companies is to build resilience into the way they develop and implement core enterprise-wide business strategies. Effective ways to do this include robust scenario planning, simulations and a focus not just on planning for risk events, but being well prepared to manage volatility. A good example is the Bank of England's plan to test the resilience of the UK financial system to financial risk from climate change, as part of its 2021 Biennial Exploratory Scenario.

About Stephen Sidebottom

Stephen Sidebottom took over as IRM independent chair on 1 June 2021. A former global head of HR at Standard Chartered Bank, he has more than 30 years' international experience of working in HR and organisation development, primarily in global financial services but in both the private and public sectors. He also has nearly 20 years' experience on the boards of various membership associations.

This kind of preparedness requires engaging with unplanned, unimaginable scenarios as well as undertaking meaningful reviews of what has happened when things go wrong, to identify weaknesses and embed learning. I expect companies will be looking hard at how they responded to the pandemic, what worked and what didn't, and how they need to adapt their strategies and operational practices in response. At the heart of doing this well lies a real understanding about how to identify, think about and plan for known and unknown future risks.

Q: IS RISK MANAGEMENT AND CORPORATE GOVERNANCE FIT FOR PURPOSE, GIVEN RECENT EXPERIENCE AND THE CHALLENGES AHEAD?

A: Our experiences during the last 18 months show both the extraordinary value of risk management when it's done well and the need for much more focus on enterprise-wide risk management at a leadership and board level. There is a need to focus risk management as much on long term sustainability as immediate operational threats. For some organisations, this will mean boards having to make fundamental decisions about their business models in the context of the demands – such as net zero – now being put upon them.

In response, organisations will have to integrate risk thinking by leadership teams and boards into the core of their strategy, rather than seeing risk management as a separate activity or responding to issues such as environmental, social and governance (ESG) issues with standalone, aspirational objectives on which progress is optional. This year's COP26 in Glasgow will only strengthen the voices calling for action from companies. Boards will have to respond quickly to the governance challenge of understanding the demands of a wider group of external stakeholders, aligning these with the long-term interests of shareholders and employees, and creating meaningful organisational action to address emerging risks to their triple bottom-lines – people, planet and profit.

Q. HOW DO YOU SEE THE ROLE OF RISK MANAGERS CHANGING?

A: Every challenge is also an enormous opportunity, and for many businesses the future is very positive. I feel the same is true for risk managers. There is a need for them to step into an even more strategic debate about the risks inherent in an organisation's business model, and how to plan for known and unknown risks by building resilience and creating sustainable and regenerative business practices.

Q: WHAT NEW SKILLS WILL THEY NEED?

A: One big area of challenge for risk managers is how they use data to create foresight and then how this translates into measurement and reporting. In addition to traditional analysis, this requires an ability to horizon scan, to triangulate data at scale from multiple sources, and to be able to use this in a systemic way to identify future risks and their potential impact.

Organisations should be nimble and have an embedded cross-company enterprise risk management framework that allows them to be proactive and reactive to market forces. Good risk management is a competitive advantage and should focus on both identifying threats and seeking to maximise opportunities.

I also think risk managers will take an increasingly whole-system view of the sources of weakness. For me as a HR professional by background, this touches on issues of organisational design as well as strategy. For example, how important is the continuity of the leadership team to resilience? How well is decision-making authority and accountability distributed through the company, and how strong are the management practices and processes that support good judgement and business conduct?

Q. WHAT DOES THIS ALL MEAN FOR THE IRM'S OFFERING AND PROFESSIONAL DEVELOPMENT MORE GENERALLY?

A: Businesses appear to be willing to devote more time and resources to identifying and managing risk now than in previous years. A clearly riskier world is sharpening the attention of board members on ensuring they have effective risk management practices in place. Much of the focus will remain on existing operations and infrastructure, but alongside this there is a requirement for risk to be at the heart of strategic decision making.

In response, the IRM will be increasing the diversity and content of its product portfolio in both qualifications and training. We will continue to focus on international growth and targeted expansion in key markets in Asia, Africa and the Middle East. Like everyone else, the IRM has delivered its services digitally during the last year, and we believe it's important to continue to strengthen our digital delivery capability and reach to develop risk professionals globally.

As part of our Risk Frontiers Europe survey, supported by **HDI Global** and **Brokerslink**, we spoke to leading risk managers in France about some of the big risk and insurance issues they face, in what is undoubtedly a difficult time for their profession. The good news is that a campaign by French risk manager association AMRAE to encourage its government to introduce new captive legislation and boost options for members looks set to deliver the goods. But the risk and insurance managers are increasingly concerned about the hardening commercial insurance market and fear changing market dynamics may be here to stay. We also took the time to discuss how the pandemic is likely to change the risk landscape in the coming months and years. **Liz Booth** reports...

France

◇ RISK FRONTIERS EUROPE: **FRANCE**

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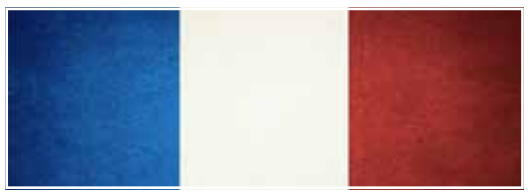

French government about to act on captives

French risk association AMRAE is on the cusp of seeing months of work pay off, as its government looks poised to introduce new captive legislation that will make France a much more attractive captive domicile for entities of all sizes.

Speaking as part of *Commercial Risk Europe*'s Risk Frontiers Europe 2021 risk management survey, Oliver Wild, chair of AMRAE and group chief risk and insurance officer at Veolia, said an announcement is expected shortly on the captive changes, with new rules possibly coming into effect from 1 January 2022.

He said there are already some 50 captive projects and feasibility studies underway among French groups, which is ten times the usual number. There are only six captives domiciled in France currently, but the changing regulations could open the doors for that number to grow "very rapidly", said Mr Wild.

> "I am very happy to see AMRAE working with the government to encourage captives for smaller groups"

"A captive is a great way to involve top management in risk prevention and financing. You would expect your CFO to be on the board of your captive, so it is a great way to get buy-in," he said.

Mr Wild added that captives provide much greater visibility of risks within an organisation and encourage better risk management.

CLOSE TO FRUITION

Other risk managers at French firms taking part in our Risk Frontiers Europe survey were pleased to see new captive rules in France close to fruition.

Isabelle Gout, audit, risk and compliance chief officer at Labeyrie Fine Foods, said: "I am very happy to see AMRAE working with the government to encourage captives for smaller groups. We need to involve the CEO in the risk conversation and this is a very good way to involve those senior people in the risks. A captive would give us greater flexibility."

Maurizio Micale, risk manager at Microelectronics, agreed the changes will provide much greater flexibility. His organisation is undertaking a feasibility study to establish its own captive, in response to the hardening insurance market.

Philippe Levrat, group risk, ethics, compliance and insurance at Transdev, agreed that captives are a good solution to current market conditions, not least because they allow organisations to manage their own risk. But setting up a captive is very complex for smaller companies, so any rule changes that ease the burden are welcome, added Mr Levrat.

French buyers fear market dynamics may have shifted for good

Risk managers express dissatisfaction with insurer behaviour in hard market

As insurers change their approach in the hard market, retreating behind computer analytics and into head offices for decision-making, French risk managers fear the days of local contacts and long-lasting relationships may have disappeared.

Speaking as part of *Commercial Risk Europe*'s Risk Frontiers Europe 2021 risk management survey, the group suggested that changing relationships between insurers and insureds simply won't return to pre-pandemic days.

Oliver Wild, chair of French risk management association AMRAE and chief risk officer at Veolia, explained his thinking. "When you place, say, a €100m programme, in the past you may have found one insurer willing to take on the risk. Now [in the hard market], it is anything from three to five insurers on the same risk.

"That not only makes it harder to sort in the first place, it brings into question long-term relationships. That is partly breaking up – you had one partner before but now you are dealing with three or four," he added.

Maurizio Micale, corporate insurance risk management group vice-president at Microelectronics, said the pandemic and increasing digitalisation among insurers are accelerating market changes.

And like Mr Wild he is very concerned about the changing relationships across the industry. "The industry is based on personal long-term relationships. We are facing multiple factors and I am not sure where the industry is going. Maybe it is a trend or maybe in a year or two things will go back to normal, but I doubt it. We might be entering a new era," Mr Micale warned.

Mr Wild said rates continue to rise in the hard market but reduced capacity and tightening terms and conditions are more concerning. He said there have also been some wording changes, but mostly just tidying up in the wake of the pandemic.

However, he warned that it is "virtually impossible to get a long-term arrangement in place". "In 2019 or 2020 you were potentially at the end of a long-term agreement, but now the market is more fragmented and you will find policies have been rewritten to exclude pandemic and silent cyber," said Mr Wild.

François Beaume, vice-president of AMRAE and vice-president of risk and insurance at Sonepar, agreed that terms and conditions are a concern, on top of rising rates. "Deductibles are up too and there is less capacity," he added. Mr Beaume believes this is an inevitable global shift that local markets cannot avoid.

Cyril Lelarge, head of corporate insurance at Sanofi, said insurers are using the current pandemic crisis to force other changes on the market. "They are using Covid-19 to put pressure on clients," he suggested, while acknowledging that insurers themselves are under pressure from the reinsurance market.

Mr Lelarge said another concern is how widespread the market impact has been. "It is not about one line of business but across all lines of business. Financial


Oliver Wild

lines are particularly tough and anything to do with US exposures. I think it is a difficult and unique situation. As a risk manager, you don't want any surprises when it comes to your renewal, but you will need to manage all these reductions in your programme," he said.

Philippe Cotelle, board member at AMRAE, vice-president of Ferma and risk manager at Airbus Defence & Space, had some sympathy for insurers and particularly the underwriters, who are under a lot more pressure from head office to produce a profit.

But he wondered why insurers have introduced such blanket increases. "They are just applying a 40% increase on the whole book, while the hard market is really an opportunity for better risk differentiation and improved value for better risk management," he said.

Mr Lelarge agreed: "Underwriters just have to refer to top management at an international level, where there is less sensibility on whether it is a loss-making portfolio or a well risk-managed book that carries much less risk."

He is also frustrated by the length of time it is taking to get any kind of a response from insurers.

"They are asking for much more information from us, but we are seeing for certain lines of business a lack of response from them. If we need to adapt or react to something, they expect an instant response, but they are not doing the same thing for us," said Mr Lelarge.

FRUSTRATION

Mr Beaume said there is a sense of frustration that risk managers are in a queue waiting for a response, just when they are having to share more information than ever before.

Philippe Levrat, group risk, ethics, compliance and insurance at Transdev, said that having more information and sharing that with insurers has yet to pay off in terms of a better response. "We know it is very challenging at the moment. You would think that the more you share information, the better the response from insurers will be, but it is not necessarily so," he said.

Zaiella Aïssaoui, director at AMRAE and insurance and risk director at Bouygues Construction, agreed that the market remains hard, with cyber, professional indemnity and property damages among the trickiest risks to place.

And she also said claims are getting more difficult to settle. "The fact that the insurers' teams stay at home and do not come back into the office blocks the exchanges. It does not facilitate the presentation of the claim and it becomes very complicated to explain the decisions taken in an emergency situation to avoid more damages," she said.

As a result, Ms Aïssaoui is looking elsewhere for protection. "We are looking for alternatives – self-insurances, captives, not to renew insurance policies etc. We have the feeling that brokers have less power to negotiate and less opportunity to explain the specific activities and needs of the insured," she said.

François Malan, AMRAE director and chief risk and compliance officer at Eiffage, also sees rates continuing to harden, regardless of claims history. "In addition, limits and sub-limits have decreased and deductibles have increased and there are more exclusions, but mainly for Covid-19 and cyber," he added.

Mr Malan explained that property, especially for industrial plants facing natural hazards, has become much harder to place, while cyber has been impacted because of the huge claims that have occurred globally.

Mr Malan, like Ms Aïssaoui, sees it becoming harder to settle claims. "Insurers are looking more carefully at the wording and applying it literally without commercial consideration," he warned.

"Furthermore, claims department are more autonomous and are being driven by insurer headquarters. Silent cover or ambiguous clauses are causing more dispute than before," he added.

However, unlike many others, Mr Malan is not looking to alternative solutions for his programme. Instead, he is taking a three-pronged "traditional" market approach:

- To improve risk assessment and the origin of major (in cost) claims
- To improve or implement prevention actions
- To review the risk transfer policy: to cover only what is really needed or compulsory, to increase retention (deductible).

And Mr Malan acknowledged that this hard market has changed longstanding relationships between insurer and client.

Isabelle Gout, audit, risk and compliance chief officer at Labeyrie Fine Foods, described the current market as a "nightmare". "If you have had some small claims, insurers are taking advantage of that," she said.

"I understand the global context for the insurance market but the sanctions are incredible. We are facing a very unusual situation. I have been very surprised by the insurers' response," continued Ms Gout.

"On the one side you have to improve your risk management, and on the other you have to keep an eye on the new policy wordings and try and negate those as best as you can, or face sanctions from the insurance market," she added.

New risks mounting from pandemic fallout

The pandemic's impact is beginning to spin off into new areas of risk, warned a group of French risk managers meeting as part of CRE's Risk Frontiers Europe 2021 survey.

They said political risks are already on the rise, as the likelihood of political change grows.

Cyril Lelarge, head of corporate insurance at Sanofi, was among those voicing concern. "There will be a whole series of consequences, which we are already starting to see, including political insecurity and political changes. There have been strong social impacts from the pandemic," he said.

"And we will face bigger economic and social impacts as governments look to relaunch economies… There will be reputational consequences as companies navigate through more changes ahead – it will be a challenge," he added.

Marie-Elise Lorin Smacl, head of the western AMRAE region and risk manager at Smacl Insurance, said she is heavily involved in risk strategies for her organisation rather than day-to-day risk management. She said her company is increasingly factoring cyber and climate change into its thinking.

"We have had to increase provisions for those risks, and prepare ourselves for the possibility of some major claims in both those areas," she said.

Ms Smacl hopes that the state will intervene and take some of the risk away from the private insurance market. Without that, she said, it will become almost impossible for small insurers to survive and they will have to merge into larger groups, ultimately reducing choice for insureds.

SYSTEMIC RISKS

Zaiella Aïssaoui, insurance and risk director at Bouygues Construction, worries about the possibility of a worldwide blackout, caused either by a cyberattack or a natural event. The good news is that risk managers are already working on such risks and have the respect and ear of senior management, she said.

"Risk management is already important in our company and insurance and risk has a place in the strategy and decisions of our company's business development. The pandemic has demonstrated that a big risk could come from external decisions and that the organisation of activities must adapt very quickly to survive," she said.

François Malan, chief risk and compliance officer at Eiffage, said we are not out of the woods when it comes to the pandemic despite vaccine rollouts, and noted several knock-on effects from the crisis.

He said human resource challenges are a consequence of home working and the changing nature of companies as they struggle to survive through the pandemic and into a post-pandemic world.

Mr Malan is also concerned about climate change and the impact this might start to have on business globally in the next few years. However, he is confident risk managers are alive to these challenges and ready to react.

"Covid-19 boosted risk management because our tools – business continuity programmes and crisis management etc – and our mind set – be positive and efficient to manage a crisis – helped our organisations to face the pandemic," he said.

LESSONS LEARNT

But there are lessons to learn from the crisis, said Mr Malan. The pandemic showed up weaknesses in supply chains, for example. Even now, he said the construction sector is struggling to get some supplies.

Mr Malan also worries that many economies across the world are in a weakened state, which could well lead to poor investment results and to failures.

Oliver Wild, chair of French risk managers association AMRAE and chief risk officer at Veolia, said companies can do little more than watch and wait to see how particular governments react.

> **"We will face bigger** economic and social impacts as governments look to relaunch economies"

"We don't know whether a government will become more flexible to encourage the economy to grow, or whether it will tighten fiscal policies to collect money from those who have it. Companies can be prepared but there is little they can do to influence those decisions," said the chief risk officer.

"Geopolitical tensions will be increased – for example tensions between China and others. But also, different countries fared differently in the pandemic – much of Latin America really struggled, for example, and we may see political upheaval in the near future," he added.

The twin risks of cyber and the economy are firmly at the top of the risk list, agreed the risk managers.

Philippe Cotelle, board member at AMRAE, vice-president of Ferma and risk manager at Airbus Defence & Space, stressed the importance of companies recognising that risk management is about more than simply reducing insurance costs. "Risk managers should help the company develop some form of resilience. We can provide a check and a challenge to top management on how to behave. We can help improve the capacity of any company to absorb a systemic shock," he said.

The risk managers said all companies now understand the impact of a major shock, which has been one of the greatest lessons learnt from the pandemic. They ultimately agreed that companies can no longer afford to ignore low-probability, high-severity risks.

SPONSORS

Tackling the capacity conundrum

◇ HDI GLOBAL

Reduced insurance market capacity means working closely with risk managers has never been more important, says **Florence Louppe**, France country manager for Risk Frontiers Europe sponsor HDI Global. **Liz Booth** reports...


Florence Louppe

There is no doubt that insurance capacity is becoming increasingly scarce, says Florence Louppe, country manager in France for HDI Global. This means that insurance programmes will, in all likelihood, be backed by multiple capacity providers, making the role of the lead insurer more important than ever, she adds.

"As the title infers, it is the insurer's job to lead, to work in partnership with the risk manager, the captive manager and the broker, and ensure the final insurance programme meets all the requirements in all the regions that the client is active in," says Ms Louppe.

Asked if fragmented capacity caused by more co-insurance programmes could add complexity and confusion to policies and coverage, Ms Louppe is reassuring: "The simple answer is no. Even in consortiums with multiple capacity providers, 99% of the time a policy comes with a single wording agreed by all insurers. But it is crucial that insured, captive manager, broker and lead insurer work together upstream to ensure unanimity between all the placement panel participants, should a claim materialise."

Again, the role of the lead capacity provider is key to get the wording right and make clear what is, or is not, covered in the event of a claim. "It is one of the promises we make to clients – that we will manage the community of co-insurers and other stakeholders. We have to be active in doing that. In some cases, it takes us until the very last hours before inception date to ensure we have a working placement package for our client," says Ms Louppe.

However, she concedes that having multiple carriers can make this a challenging process, particularly in the wake of the pandemic as insurers start to differ in their approach to Covid-19 clauses. "It took us a long time to align all the differing wordings when it came to Covid-19, and it is challenging should one partner taking a small share want to have a very different approach. But we do not agree anything that won't work for the client," she says.

RENEWALS

Ms Louppe believes upcoming 1 July renewals are set to follow 1 January trends, with a strong focus on rates and capacity management.

She explains that property risk with a big focus on heavy nat cat exposures and business interruption will be some of the most difficult risks to insure this year. Liability and cyber risks are also requiring a lot of work at the moment, she adds.

"We cannot consider cyber as a standalone issue. Our underwriters must factor cyber risk into every element of the programme"

Insurers are also working to provide many different programme options to clients as they focus on what they really want and need in the hard market.

"Some of our clients have been reconsidering what they want to buy. In a softer market, insureds will tend to buy as much cover as they want and often that includes more cover than they really need. In a harder market, they will take a closer look at their needs and then match their insurance programme accordingly. They may also want to see different options in terms of deductibles and reconsider their captive involvement," says Ms Louppe. "It is a good thing to spend time every now and then doing such a reconciliation," she adds.

This process can also help boost risk management, continues the insurer. Concentrating boards on which risks they want to transfer and which they will retain helps drive a strong internal risk management ethos, she says.

As a result of the rising prices and more limited capacity, Ms Louppe is not surprised by the shift in demand for captives. "Of course, those who established their captives ten or 15 years ago are in the better position now and are able to use the captive more flexibly than younger vehicles," she says.

Stressing that companies should not decide to set up a captive lightly, because of capital and compliance requirements, Ms Louppe says having conversations about the use of such vehicles is good discipline.

Having a captive increases the responsibility on companies to manage their risk and minimise exposures. "When the CEO invests in the risk management strategy… what's not to like?" asks Ms Louppe.

Some insurance buyers have complained about a lack of empowerment for local underwriters in the hardening market, with decisions being taken at head office. But Ms Louppe believes this is somewhat misplaced.

"Isn't that a bit of an easy complaint when terms are not what was expected? We are an underwriting company and the fact that the head office, in some cases, adds a second pair of eyes to a complex file doesn't change the rules of the game; the underwriter is in charge to develop and defend what he or she believes is the right deal for HDI Global with each client," she says.

MAJOR RISKS

Looking ahead, Ms Louppe believes there are some major risks threatening the status quo. The first of these is perhaps the most pressing – climate change. "Think about what happened in Texas earlier this year. It was an extreme weather event that no-one had predicted, for which the insurance cost already reaches $20bn. Does any insurer have this kind of risk in their pricing model?" she asks.

But climate change is not the only threat. Ms Louppe fears the world has only seen the tip of the iceberg when it comes to cyberattacks.

"We cannot consider cyber as a standalone issue. Our underwriters must factor cyber risk into every element of the programme – it has to be fully integrated in our thinking. Cyber is an illustration that the new systemic risks cannot be approached in the traditional way. Future insurability will only be possible via cooperation of all actors in the value chain," she said.

SPONSORS

Meeting the challenges head on

◇ BROKERSLINK

Grégory Allard, chief executive officer of Filhet-Allard & Cie and Brokerslink board director, explains how risk managers and brokers need to adapt their approach to meet the changing risk and insurance challenges


Grégory Allard

Q: ARE RATES, TERMS AND CONDITIONS AND EXCLUSIONS HARDENING IN FRANCE?

A: The answer to all three questions is yes. The insurance market follows the same rules of supply and demand that operate across any industry sector. Where demand outstrips supply, prices will inevitably increase.

The unbalanced situation between rate increases, a lack of available capacity and continuing client demand for coverage has made it increasingly difficult to negotiate rates, terms and conditions and, in some cases, to find a carrier.

We are seeing increasing demands from insurance carriers for more risk management and loss prevention information from clients. In terms of exclusions, we saw French carriers introduce Covid-19 and lockdown-related endorsements on corporate renewals in January this year. These carriers have placed a specific focus on ensuring clients agree to these and in some cases, where clients have not accepted the terms, renewal has been declined. In the property market, we have also seen increased deductibles.

Property and casualty is now a much more complex market. To be able to find a coverage solution, you need to take a very technical approach to understand and prepare risks for insurers. At Filhet-Allard, we have always adopted this kind of approach with our clients' risks and potential carriers, even in the previous soft market conditions.

Q: CAN YOU LIST THE LINES MOST AFFECTED?

A: There are some markets that are more challenged than others, most notably property and cyber.

The lack of understanding about cyber and risk management resources in French companies is leading to some carriers declining coverage and quotations. Our risk management subsidiary, Praeventia, has a team of dedicated engineers and includes dedicated cyber risk expertise. We believe that by adopting the same technical approach we use in property for cyber risks, we can provide greater risk visibility to the client and the underwriter. This enables us to have a technical engineering-led discussion that ensures we can negotiate in the best interests of our clients.

In addition to the issue of 'silent warranties' in cyber coverage, the response to ransomware attacks is a particular concern. In France, there is currently a political debate around the approach of insurers to ransomware demands. In the Assemblée Nationale, politicians have raised concerns about insurers paying these demands, which they say is leading to an increase in the targeting of French companies by hackers.

We are already seeing insurers reacting to the potential for legislation to prevent claims payments. In recent weeks, AXA has announced its decision to stop paying ransomware claims. Also, some insurers are considering possible co-insurance arrangements that would see them paying 50% of any demand, and the insured paying the same.

Q: ARE CLAIMS GETTING MORE DIFFICULT TO SETTLE THIS YEAR?

A: In relation to Covid-19 business interruption claims, there are two kinds of insurance carriers. There are the ones that are prepared to discuss and negotiate with their insured where there are 'grey areas' in policy wordings and coverage, and then there are the ones that decide not to do that and prefer to go to court. However, beyond the well-documented business interruption claims issues, I would say that we are not seeing any specific difficulties relating to claims.

Q: ARE YOU SEEING MORE CLIENTS LOOKING AT ALTERNATIVES TO TRADITIONAL INSURANCE?

A: Interest in alternatives, such as captives, has increased as a result of the hard market. Captives are part of the solution we can bring and we are certainly working with clients on pure and virtual captive projects. These are complex operations and their role and benefits are dependent on the client, industry sector and type of captive, whether they are owned or are in a protected cell arrangement. However, they are not the magic solution for everyone.

Q: HAS THE TRIPARTITE RELATIONSHIP BETWEEN INSURED, BROKER AND INSURER CHANGED?

A: The balance between the insured and the insurer has changed. Where the clients were once leading the discussions, now it is the insurers in the driving seat. It is unlikely we will see this situation change for some time, as insurers remain under pressure from regulation, solvency requirements and other financial constraints.

The pace and, I would say, brutality of the changes we have seen have been difficult for many clients to understand. Adopting a more technical approach has enabled us to support clients and meet the increased demands from risk carriers. In this challenging environment, honesty and transparency with clients are important.

Q: WHAT DO YOU SEE AS THE KEY RISKS FOR 2021?

A: Cyber is the number one threat. The degree of maturity and understanding of the threat from cyber remains low in many French corporate businesses. As in many countries in Europe, businesses are yet to assess their level of exposure to cyber. In the face of such a fast-evolving threat, ongoing risk assessment and management is the only way to help businesses mitigate exposures.

Another area of risk that has come into sharp focus during the pandemic is supply chain risk. The global crisis will drive reorganisation and operational change in global supply chains.

Q: HOW DO YOU THINK RISK MANAGEMENT AND RISK MANAGERS FARED IN THE PANDEMIC?

A: Thanks to the pandemic, business continuity plans have risen in prominence and gained greater public awareness. Even in the face of such unexpected circumstances, these plans have helped many corporates maintain their business operations.

The success of business continuity planning has demonstrated the importance of assessing and anticipating risks, and the value of having risk management policies in place to plan for and deal with the unforeseen and unanticipated. The refocusing of supply chains that we will inevitably see will be a necessary part of a robust business continuity plan.

The importance and risks associated with globalisation of the supply chain have been evident across Europe. At the start of the crisis, there were no facilities in France for producing face masks, and the EU has faced challenges in obtaining ingredients for the Covid-19 vaccine from the US.

With the French elections taking place next year, I hope that the incoming government will be wise enough to establish a global industrial supply chain to address such issues in the future.

Q: WHAT ARE THE KEY LESSONS LEARNT FROM COVID-19? WHAT ARE THE BIG RISKS FROM THE PANDEMIC THAT MIGHT MATERIALISE IN 2021?

A: I have already spoken about the key challenge that cyber will pose. The focus must be on educating and informing clients of the risks and exposures, and helping them put in place robust and responsive risk management policies that will enable them to mitigate their exposures.

We want to lead by example. In our own business we have invested in dedicated cybersecurity expertise to focus exclusively on assessing, identifying and protecting our organisation. It is so important to share the lessons we learnt with clients.

We bring you coverage of the Nordic leg of this year's Risk Frontiers Europe survey, sponsored by **HDI Global** and **Brokerslink**. The risk managers flagged cyber risk as the biggest concern for the year ahead, discussed the pandemic's impact on the role of risk management and explained how ongoing hard market conditions are playing out for insurance buyers in their region. **Liz Booth** reports...

Nordics

◇ RISK FRONTIERS EUROPE: **NORDICS**

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Underestimate cyber risk at your peril

Cyber remains a massively underrated risk, warned a group of Nordic risk and audit professionals.

Commercial Risk Europe asked a 215-strong Swedish group for their views on the biggest risks they face in 2021, and they all agreed that cyber is a bigger problem than last year.

They said cyber risks are often underestimated and they are worried that many firms continue to bury their heads in the sand in terms of preventative measures.

The group was also concerned that companies hold much more data than ever before but are not increasing their data security to match the growing risk. One said that with more people working from home, the risk of a data breach is higher than ever before and that even if people return to their offices to work, the risks will remain.

The group also reported that human resource risk and the widening skills gap are fast-growing problems. Some 88.2% said they were a bigger risk than in 2020. They expect this risk to grow further, unless companies take action to better manage their workforce and retain more staff.

KEY RISKS

Drilling down into the key risks going forward with a smaller group of Nordic risk managers revealed a similar story.

Jennie Elisabeth Wallin, director and head of enterprise risk management at KPMG in Sweden, said: "If you look forward, I think cyber risk will still be a top priority." She also warned that many companies are still unprepared for a major shock, such as a pandemic.

Alessandro Ingrao, risk manager at Holmen, agreed with cyber topping the risk list but added pandemic, climate change and sustainability to his list of worries. He said companies need a strategy to handle cyber risk and prioritise it correctly. Mr Ingrao was also worried that the pandemic may result in much greater political risk.

> "If you look forward, I think cyber risk will still be a top priority"

Ms Wallin explained that new business models emerging alongside changing consumer behaviour, for example online sales direct to the consumer, will produce new risks and complexity for businesses.

And like Mr Ingrao, she put political risks high on her list of concerns. This follows the pandemic's impact on nationalism, protectionism and supply chain shortages, which have forced people to look for supplies closer to home.

Dr Ulrich Adamheit, board member of Swedish risk management association Swerma and head of business risk at Vattenfall AB, added that similar to last year, market price risk, power plant availability and unfortunate political and regulatory decisions are all areas of concern in 2021.

Looking further ahead, Ms Wallin was concerned about sustainability and the ESG agenda, not just in terms of managing the impact of climate change but in reaching targets and managing stakeholder expectations.

Risk management boosted by the pandemic?

Nordic risk managers taking part in our Risk Frontiers Europe survey are divided on whether risk management has been boosted by the Covid-19 crisis, although this is partly explained by the fact risk management was already well established at Nordic firms

A survey of more than 200 Swedish risk and audit professionals found that Covid-19 has made less difference to the role of risk management at their companies than you might expect, with just 38.1% saying the function now has a higher profile than before. And only 28.6% that risk managers have a higher profile within their organisation.

We followed these results up with in-depth discussions with other Nordic risk managers and got a similarly mixed picture.

Lene Ritz, chief risk manager at Energinet in Denmark, believes that while insurance may have come to the fore during the pandemic, wider risk management and entreprise risk management are sadly not now higher on the agenda.

"It [the pandemic] might have put insurance higher on the agenda, as the broader part of the organisation now realises that the 'devil lies in the detail' – the written words with small letters in the policy. However, this situation contains a dilemma. As an insurance specialist, you would like the subject high on the agenda. But if the main driver for realising the value from enterprise risk management is taken more out of the equation through buying insurance, then while it is a moment of fame for insurance, it is also a downgrading for enterprise risk management," she said.

Another Danish risk manager, who preferred to remain anonymous, felt Covid-19 has provided a shot in the arm for risk management. "For us, it has fuelled a general and ongoing maturity process in risk awareness at corporates as Covid-19 impacts have been largely manageable," he explained. He added that the pandemic has taught companies there must be a greater focus on resilience and business continuity planning.


Ulrich Adamheit

Dr Ulrich Adamheit, board member of Swedish risk management association Swerma and head of business risk at Vattenfall AB, noted that risk management was already high on the agenda of Swedish firms before Covid-19 struck. "Fortunately, no boost was necessary to risk management because it was already highly valued ahead of the pandemic and also pandemics had been part of the risk picture before," he said.

Alessandro Ingrao, risk manager at Holmen, believes that both risk management and risk managers have fared well through the pandemic. But he pointed out that risk management should already have been high on the agenda, with big risks such as a pandemic flagged internally. "You should clearly expect the unexpected," he stressed.

Jennie Elisabeth Wallin, director and head of enterprise risk management at KPMG in Sweden, said the pandemic has boosted business continuity and crisis management because many organisations had limited established processes and routines in place before Covid-19.

She believes the crisis should have taught companies to expect the unexpected. "Risks you should have on your radar are not only those that you have experienced and they cannot be based purely on history," she said.

On the upside, digital acceleration has been key to many organisations' survival during the pandemic and provides an opportunity going forward for workforces to become more agile and reactive, continued Ms Wallin.

Another Danish risk manager that wanted to remain anonymous added that Covid-19 should have focused minds on business continuity.

"We have managed the supply chain situation well during Covid-19, however having better preparedness when situations like this happen would in my opinion lower the cost for a company following such an event," he said.

Buyers bruised by hard market but relationships still strong

The hard market has had an impact on the appetite of some carriers and raised questions about alternative risk transfer, but insurance remains the critical solution for transferring risk off the balance sheet, according to Nordic risk managers taking part in our Risk Frontiers Europe survey.

They added that relationships between insured, broker and insurer may well have taken a slight knock in 2020 and 2021, but are ultimately standing strong and are sustainable.

Alessandro Ingrao, risk manager at Holmen, said rates now appear a bit more stable but there are no signs of prices coming down. Terms and conditions are worsening and exclusions growing, he added. The most heavily impacted lines remain D&O, cyber and property, explained the risk manager.

In response to the market, Mr Ingrao is considering boosting loss prevention and raising internal risk awareness, as well as bigger self-retentions and improved contractual risk transfer.

Dr Ulrich Adamheit, board member of the Swedish risk management association Swerma and head of business risk at Vattenfall AB, is also seeing more market hardening this year, with more or less all lines affected by premium increases. He said cover is more stringent and there is less "silent" protection in polices. As a result, he said more people are turning to captives.

Copenhagen-based Lene Ritz, chief risk manager at Energinet, believes the hardening will likely continue for the next few years. "We still have a pandemic and the insecurity that this causes will continue for some time. The future will change because of Covid-19," she said.

"But the hardening market started before Covid-19 and we should have foreseen this after so many years of a soft market," added Ms Ritz.

"The hardening market of course means continuously rising rates on all lines. However, the terms and conditions, not to mention the expanded need for risk information, have changed significantly too," she said.

Ms Ritz' company is working harder to sell its risks to the insurance market. "We need to develop even more extensive risk information. And we have to meet requirements from the insurers, which could mean changes in already entered contracts with business partners."

In terms of the biggest impacts, she said liability lines are affected significantly. "At first it was the non-interest from the insurers on LTAs. Then the covers got narrowed down and now we see less capacity. On construction risk, we see higher deductibles and an offshore market that is basically 'impossible' to act in."

And Ms Ritz said the hardening market certainly hasn't improved the claims experience. "In general, we have not had that many claims and therefore it is difficult to talk about a lengthier process. But, overall, the process has historically been lengthy. However, the efficiency of follow forms, which we have had good experience with in the past, seem to have been eroded because of co-assurance agreements with less and less caps for the lead," she said.


Lene Ritz

MORE DIFFICULT

Ms Ritz does not believe the hardening market has broken the relationship between insured, broker and insurer. But things are more difficult, she suggested.

"The understanding from all parties that this is 'the name of the game' is present, and has the professional attitude that it demands," she said.

"However, insurers have extended the need for risk information and their giving less cover has changed the handling of potential business changes or scope changes in relation to construction. The time for approving scope changes and other minor requests is more and more onerous, and demands more and more risk information from the insureds. You could get the feeling maybe the trust is eroded a bit. But I am sure that it is the insurers' internal processes that have become more rigid," Ms Ritz added.

Her words were echoed by other Danish risk managers. Two that wanted to remain anonymous both reported higher prices as well as tighter terms and conditions compared to 2020. They said the most affected lines were property damage and business interruption, liability, construction all-risk and cyber insurance.

One reported that all claims are being "scrutinised and audited to a degree not seen before, and great efforts are being exercised in finding reasons to deny coverage… the latter in some instances to a degree not defendable according to policy conditions and/or general law".

As a result, he is considering buying into a protected cell captive.

The risk managers also think brokers have limited power to protect buyers from the hard market. "The position of the broker has declined as brokers have little or reduced power to change the outcome of the hardening market and difficult claims environment," one said.

Another Danish risk manager said rates have increased. But due to his company's risk management activities and strong relationship with its insurers, the increases have been kept lower than those averages reported by Aon and Marsh for the EMEA region.

"We had the general cyber clauses introduced to our programmes and, on the property damage business interruption programme, I was fighting for our CBI coverage and managed to keep the wording as is. However, our lead insurer has informed us that we may need to look into cutting some of the coverage for the 2022 renewal," said the insurance buyer.

> **"The terms and** conditions, not to mention the expanded need for risk information, have changed significantly"

He has yet to look into alternative risk transfer but reported that he may soon consider captive solutions.

The risk manager said there is little change in his existing insurance relationships. "This has not changed since I joined my company six and a half years ago. Our insurance broker knows that for us it is important that we have the direct communication with our insurers. For instance, during the insurance renewal period all the important meetings I will have will be with the insurer directly, without involvement from the broker. Because this is the best way to ensure that our insurer has the best possible knowledge about us. We are the ones having the agreement with the insurer," he said.

Adding: "We do use insurance brokers a lot actually – but only when this adds value. They support us in the renewal and complicated tasks during the insurance period."

TRICKY TIMES

All the risk managers concluded that finding capacity for their insurance portfolio next year could be tricky. While some may appear slightly more relaxed than others, they all shared a common view that the hard market is far from over and things could get worse before they get better.

The feeling was, however, that ultimately they will need the insurance market to be there for them in the future. While it may be tough going at the moment, they recognise the need for a sustainable insurance sector and a professional approach to their risks.

SPONSORS

Finding the silver linings

◇ HDI GLOBAL

Out of adversity comes opportunity, and the pandemic has clearly highlighted the need for proactive risk management, argues **Rasmus Jørgensen**, managing director of HDI Global's Denmark branch and responsible for the wider Nordic region


Rasmus Jørgensen

Premium rates are still on the rise across most lines of business in the Nordics according to local analysis of figures since the turn of year, says HDI Global's regional manager Rasmus Jørgensen. The analysis shows a small amount of variation between countries, but "all in all the pattern is the same", he adds.

"It is not just about pricing though, it has also been about varying terms and conditions and increasing deductibles. Terms and conditions have become the most significant part of any renegotiations," says Mr Jørgensen. This is hard to spot from a simple spreadsheet analysis of what is going on, but it is the thing most impacting insureds, he says.

As elsewhere in Europe, the impact has been felt most in exposed property business as well as cyber, professional indemnity and D&O cover. But there has been a silver lining, Mr Jørgensen explains: "It has given us a real opportunity to spend much more time with clients and to discuss their risk management approach in much more detail. As rates have risen, risk managers have been justified in spending more time on this.

"We know that in a softer market, the risk management approach can be diluted as the cost versus gain ratio swings the wrong way. But now risk managers are being given internal budgets to spend time on this," he says.

LIMITED CAPACITY

The increase in co-insurance during the hardening market is another challenge that has resulted in more conversations between insured and insurer. With limited capacity available, Mr Jørgensen says it is no surprise that co-insurance programmes developed further this year.

However, again, he finds the positives. "Our depth of experience and our strength have meant a lot as we have moved through this market cycle. We have worked hard at the underwriting stage of the process to ensure co-insurance programmes are fit for purpose," says Mr Jørgensen.

"We stress-test wordings and ensure that the whole programme will work as one. The result is that we have not seen difficulties in claims. Because the world is a complex place – even without Covid-19 – we make sure these programmes work, and that again means spending more time in discussions with clients," he adds.

"We know that in a softer market, the risk management approach can be diluted as the cost versus gain ratio swings the wrong way. But now risk managers are being given internal budgets to spend time on this"

On the subject of Covid-19, Mr Jørgensen says the Nordic region has seen very few direct claims but he is watching the macroeconomic situation carefully. There is an expectation that some companies will struggle as economies falter in the wake of the pandemic and this could well result in more claims. "Just like in 2009/2010, we are beginning to see a more hostile legal environment among clients. When cash is tight, companies start to look around for ways to reclaim money – disputes and legal actions often result," says the insurer.

Regardless of this trend, Mr Jørgensen reports that clients are willing to take on more risks themselves. Regionally, there are relatively few captives and he is not expecting lots of new ones to emerge because of the capacity barriers. But where there are captives in place, Mr Jørgensen is seeing greater use of these alternative risk transfer vehicles.

"We are seeing more feasibility studies looking at how something like cyber risk can be housed within a captive structure," he says.

Greater risk retention and increased use of captives add up to one thing, he continues: better risk management.

"Risk managers and their boards are taking a more proactive approach and considering how their risk should be transferred, but also what can be better managed internally," explains Mr Jørgensen.

"People are watching and waiting to see if the hard market holds and also how the economy develops. They are then factoring in things like cyber exposures. Whatever their ultimate decision on how to transfer risk, they are intensifying their risk management – and that can only be a good thing," he adds.

Mr Jørgensen believes this is also helping the relationship between insurer, broker and insured. "As insurers we need to be proactive in this type of market, offering support to our clients and communicating well. We need to improve our service to clients at all times. Of course, it has been a stressful year in many ways and certainly it is tough when renegotiating some lines of business, but this is also a time of opportunity. We can show our strength and reliability and be very clear about what we will underwrite and what we will not. That clarity is essential in what are such uncertain times and it is paying dividends," he says.

AREAS OF CONCERN

Looking ahead, Mr Jørgensen believes property and natural catastrophe risk will remain areas of concern for Nordic companies with global operations. Business interruption will also become a key issue going forward.

"Clients will want protection but there needs to be a greater understanding of the risks. And there needs to be a balance – not everything can be transferred to the insurance market. Third-party liability is something that many risk managers and brokers are struggling with – it is hard to quantify," he says.

Other complexities include Brexit, adds Mr Jørgensen, as companies still require insurance and to know how they might have to adapt their programmes.

Above all, he says, the past year has shown insureds and insurers alike the need to proactively manage their risks. "Regardless of the pandemic and the state of the insurance market, the lesson remains that risk management is increasingly important to every business," he concludes.

SPONSORS

Lessons to learn

◇ BROKERSLINK

Martin Flink, senior risk and insurance broker at Söderberg & Partners, an affiliate of Risk Frontiers Europe sponsor Brokerslink in Scandinavia, provides his view on the state of the local insurance market and its impact on industry relationships


Martin Flink

Q: ARE INSURANCE RATES CONTINUING TO HARDEN THIS YEAR? HAVE TERMS AND CONDITIONS HARDENED TOO? AND ARE THERE MORE EXCLUSIONS?

A: Rates continue to harden and the market as such will no doubt see more increases, more exclusions and less 'add-ons' during the coming six to 12 months. In the Nordic insurance market, which includes all the major insurance companies and large Nordic insurers, we are also seeing insurers offering lower limits. Many of our D&O clients buying cover of SEK200m or more have seen their limits cut in half and brokers are having to work harder, and longer, to secure cover for clients at the same levels as before, and for higher premiums.

Q: CAN YOU LIST THE LINES MOST AFFECTED?

A: All major lines are affected, but from our point of view, cyber, D&O and crime have been the worst hit, followed closely by property-damage business interruption and liability.

Q: ARE CLAIMS GETTING MORE DIFFICULT TO SETTLE THIS YEAR? WHAT SORTS OF THINGS ARE CAUSING DISPUTES?

A: Unlike with premium rates and insurance conditions, there is no clear trend in claims settlements. In an environment where insurers need to improve their loss ratios, there is a suspicion that claims adjusters will be more careful over their adjustments. But as a broker we must trust that adjusting and claims settlements will be carried out in an objective and diligent fashion according to the insurance conditions, regardless of the insurers' financial standing.

Q: ARE YOU SEEING MORE CLIENTS LOOKING AT ALTERNATIVES TO TRADITIONAL INSURANCE? IF SO, WHAT AND WHERE?

A: No, not yet. I think that clients understand and accept, just about, the changes in market conditions during the last year, and maybe again this year. But if the trend continues, as predicted above, I think we will see more interest in alternative ways of safeguarding assets and transferring risks. As we have lived through a soft insurance market environment for the past 15 years, with practically every year's renewal coming in slightly lower than the previous year, it will take a lot of careful explanation and lots of pedagogic presentations from brokers to make buyers understand that rates ought to now be higher rather than lower.

Q: HAVE THE RELATIONSHIPS BETWEEN INSUREDS, BROKERS AND INSURERS CHANGED?

A: The role of the broker is becoming increasingly important. An agile, innovative, persistent and strong broker can really make a difference, and our clients and insurers both realise that. Renewals take longer in a hardening market, as underwriting is more thorough and time consuming, and as a result broking is more complex. It takes time to win over an insurer on behalf of the client, and the broker's hard work makes all the difference for the client.

Q: WHAT DO YOU SEE AS THE KEY RISKS FOR 2021?

A: It is impossible to answer this question without referring to the ongoing pandemic. Setting that aside if I may, I think we will see a continuous 'development' in cyber and cyber-related attacks going forward. Bearing in mind how insurers currently increase premiums and tighten the scope of insurance within the cyber area, I think insurers also believe that it will be the key risk in 2021 and beyond. It will also be interesting to see if insurers' fears of an increase in D&O claims come true in the wake of the ongoing, and soon to be declining, pandemic.

Q: HOW DO YOU THINK RISK MANAGEMENT AND RISK MANAGERS FARED IN THE PANDEMIC? HAS COVID-19 CHANGED ORGANISATIONS' APPROACH TO RISK MANAGEMENT? HAS COVID-19 PROVED A BOOST FOR RISK MANAGERS? IS RISK MANAGEMENT HIGHER ON THE AGENDA THAN EVER BEFORE?

A: The pandemic has changed everything! No organisation will remain the same as pre-coronavirus. Risk management has never been higher up in people's minds and business agendas as it is now. I think the pandemic has provided an opportunity for risk and insurance managers around the world to position themselves higher up in organisations and has given them a chance to bring value in a different way than before. Also, in an environment of increasing premiums and tighter insurance covers, the importance of agile and proactive risk and insurance managers is key to the business environment, in addition, of course, to good work from insurance brokers.

> **"The pandemic has** illustrated that we still have so much more to innovate, so much behaviour to change and so much to learn"

Q: WHAT ARE THE KEY LESSONS LEARNED FROM THE PANDEMIC? WHAT ARE THE BIG RISKS FROM COVID-19 THAT MIGHT MATERIALISE IN 2021?

A: There are many lessons to be learned and it would be presumptuous of me to be giving confident answers to this question, but thinking outside of the box I believe the pandemic has illustrated that we still have so much more to innovate, so much behaviour to change and so much to learn. The statement that humanity is never so innovative as during a crisis is certainly true. On a positive note, the pandemic has taught us we can change for the better in terms of sustainability, environmentally-friendly living and caring more about one another than just about our own success.

Adrian Ladbury interviews **Joachim Müller**, chief executive officer at Allianz Global Corporate & Specialty, as the insurer looks forward to a new growth phase and market leadership after a period of restructure and renewal

AGCS back on track and ready to lead

◇ AGCS

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First-quarter 2021 results published by German insurance group Allianz appear to show that the relaunch of its industrial insurance arm Allianz Global Corporate & Specialty (AGCS), led by Joachim Müller since he took over as CEO in December 2019, is making good progress.

AGCS has struggled to deliver a decent return to the group in recent times, reporting combined ratios well above 100% even before the arrival of Covid-19 as it struggled to cope with the long soft industrial insurance market, along with the rest of the sector.

The pandemic arrived as Mr Müller and his new management team really kick-started the group's re-underwriting process, which saw it walk away from significant business in difficult areas such as German auto recall, and those where it could not play a lead role, to focus firmly on profit and leadership in key selected lines.

Mr Müller explained that the process to get AGCS back on track saw it "let go" some €700m of business to "find the right balance and avoid negative surprises" in future for all stakeholders – the Allianz group and its shareholders, staff and, of course, brokers and customers.

In interview with *Commercial Risk Europe* as the company published an encouraging set of first-quarter numbers despite the continued, though reduced, impact of Covid-19, Mr Müller said the bulk of the hard work had been done and AGCS is now in a "mode open for new business".

AGCS has, along with the other leading German industrial insurers, been criticised for a rather brutal approach to the re-underwriting process that really picked up pace in 2019 and signalled the end of the long soft market.

Mr Müller's perspective is that the strategic shift he and his management team made to create a leaner, more efficient and more technical "new AGCS" when he took over, was necessary to deliver a stronger, more reliable and more efficient partner for customers and brokers.

In his view, AGCS needed a reset to enable it to deliver a more consistent offering for all stakeholders and, above all, eradicate the volatility that leads to such dramatic market corrections that customers have suffered in recent renewals.


Joachim Müller

"We have to build a portfolio that is based on proper pricing. This is key to avoid negative surprises for customers and the other stakeholders"

"AGCS was kind of in a challenging situation for quite some time and delivered combined ratios averaging around 105% to 106% for five years or so. We decided that we needed to turn this around by focusing on markets and regions – core markets – where we could achieve a leadership position and stay as a long-term partner for industry and grow the book going forward. This is about a stable turnaround. Allianz is a key P&C insurer worldwide and needs a strong proposition on the large corporate side. So, we agreed to start on the journey for 'new AGCS'," explained Mr Müller.

LONG-TERM STRATEGY?

The obvious question for brokers and customers at this point is whether this strategic shift is really a long-term play to create a more consistent partner, or whether it is actually more of a short-term knee-jerk fix to deliver improved results to the group and shareholders.

Clearly, Mr Müller and his team need to deliver improved results for Allianz. But he insists this is truly a long-term strategy to create the new AGCS for all stakeholders and involves key investments in areas such as IT efficiencies that will deliver a much stronger and more consistent base.

"We have to build a portfolio that is based on proper pricing. This is key to avoid negative surprises for customers and the other stakeholders. These are two sides of the same coin. The core of what we are doing is gathering and analysing a lot of data to deliver more technical pricing and bring down the

volatility, along with the construction of a new reinsurance programme. It is interesting that a lot of clients have stuck with us during this period because they understand the need for technical excellence for us to be a strong leader," he explained.

An important part of the AGCS relaunch involved restructuring global operations using a more global IT platform and simplified reporting lines, in what Mr Müller described as a real "game changer".

"In the past, AGCS was spread across the globe and opened over 30 operations with local systems, product models, processes and the like, but we are offering a global service, this is our raison d'etre, so it needs to be more globally aligned and consistent. The key is to be a leader, more direct and more efficient, and with that, definitely cheaper than in the past. If we do this right, then it is a win-win for us and for the brokers and customers. We are building global product management based on global data capture. From this base, it is easier to develop new products and bring them to market faster. By shifting from eight or nine different IT systems to one global system, we also bring the cost of distribution down as we become leaner and faster," continued Mr Müller.

SHARP FOCUS

This strategic shift to focus on leadership and produce a leaner and meaner AGCS also means a sharper focus on chosen lines of business and inevitably pulling capacity from some others, a move that is often unpopular with customers and one that needs to be carefully managed and communicated.

"It is important to select the right markets and segments in which you want to lead. If we have overextended in some markets and offer no USP, then we have pulled back. This happened, for example, in the mid-corporate segment in Canada where we were more of a capacity provider. Other markets where we pulled back were in agribusiness in the US, and in auto recall in Germany, which we have not totally pulled out of but are playing a much more limited role. In total, we decided to let go €700m of the portfolio to find the right balance and avoid the negative surprises in future. We are, however, now back in the mode of open for new business. We have improved the pricing tools, the portfolio has been reshaped, so we have taken the key steps and are now embarking on a new journey," explained Mr Müller.

"This is Allianz. We can't be happy to be in the middle of the bunch – we need a clear ambition to shape the market"

This shift has not just involved retraction and divestment. It includes investment in people and expertise to develop the right pricing models and services in key selected markets. The new global and leaner structure also means that expertise can be better shared across the group for the benefit of customers, including for specific sectors in focus such as financial services.

"We are working with financial services companies in Europe, the UK, the US and Asia, so there are best practices, experience and knowledge in the group that were perhaps not shared so well in the past. Now we have one industry head for financial services worldwide, who can align sales and share best practice worldwide. This has also been done for underwriters to develop products and it gives customers a much stronger voice and better sharing of expertise with customers. They appreciate this because if we can do this on a worldwide basis, then we can do it much better than in the past," said Mr Müller.

From a financial perspective, the effort to reduce volatility for both the group and for customers, while also focusing on these key lines and segments, is inevitably concentrated on the combined ratio which, as Mr Müller notes, was way too high in recent times and far too inconsistent as AGCS followed the wider market cyclical trend. "We are aiming at 96% over the cycle. We want to reduce volatility for customers and the wider stakeholders. The range was about 12% and we want to reduce this to maximum 3% with 96% as the mid-point," he explained.

Some customers and brokers may say that AGCS has acted too harshly and too late, along with the rest of the market. But the bottom line is that if Mr Müller and his team had not taken this decisive action there would clearly have been a danger that, at some point, the group may have decided to pull out of the segment altogether. This would have been a very poor result for customers as they struggle to complete their programmes in an already limited multinational insurance market.

"For me, it is not easy to comment on the past as I started at AGCS one year ago with a new board and leadership, which created the new strategy. The question I get asked by brokers and customers is naturally: will your group stay in the international market and deliver capacity over the long term? The answer to that is yes but only if we turn around the portfolio, because the mother company will not deploy capital if there is no profit," said Mr Müller.

"This is not rocket science and would apply at any insurance group. So, we had to take immediate action on a bad portfolio at that moment. This was a clear strategy. To get the capacity you need to be a partner in future is not always an easy journey. At times it was difficult for us with some customers but, on the whole, they appreciated what had to be done to secure us as long-term partners in this segment. The fact is that over 80% of the portfolio was renewed. There were some tough conversations but, in the end, we agreed with most customers that this was required for the long-term relationship to prosper," he added.

BACK IN THE MARKET

The good news for AGCS staff and customers is that, according to Mr Müller, the reset process is now largely done and it is time for the group to shift firmly back onto the front foot and take the natural leadership position that an Allianz Group company has to take.

"We see growth opportunities that are very promising on a worldwide basis, especially in the US where we are increasing our market share in energy and construction, and on an international basis in the wind and offshore markets. There are also pockets of the financial lines markets where we are not pulling capacity and opportunities in cargo, inland marine and aviation. We have a clear risk appetite and will share this in detail with brokers and customers to send a strong signal that we are back in the market," explained Mr Müller.

"I am very optimistic about this market, which will be very, very interesting over the next few years, and we have the capabilities to really support this market. The game is market leadership in targeted segments. This is Allianz. We can't be happy to be in the middle of the bunch – we need a clear ambition to shape the market. With our capabilities, we will get there. But we have to take positive action and not just be a participant in the market. We want to win!" concluded Mr Müller on a positive note.

Ben Norris caught up with Zurich's group head of sustainability, **Linda Freiner**, to see exactly what the insurer is up to and how, ultimately, it can help the world mitigate climate change and other ESG risks.

Climate change and ESG risk become Zurich's 'North Star'

Insurance industry transitioning to tackle climate crisis

◇ **CLIMATE**

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The insurance industry and its customers are on a sustainability and ESG journey as the world looks to tackle huge systemic risks, with climate change top of the agenda. Insurers, particularly in Europe, are taking steps to help tackle the climate crisis and wider sustainability threats through investment, operational and underwriting decisions. There is also increasing recognition that the industry must help clients as they transition to more sustainable organisations and risk managers become increasingly involved in developing solutions. But what exactly does this all mean for insurers and the companies they serve?

One insurance company at the forefront of this movement is Zurich Insurance. The Swiss firm has already made some of the biggest commitments to help reduce its – and others' – carbon emissions, as part of broader sustainability goals. It wants to become a "purpose"-led insurer and change the way it serves customers, employees, partners and society.

Zurich's group head of sustainability Linda Freiner explained that when Zurich's CEO Mario Greco took the reins in 2016, he wanted to transform the company because it was clear to him, and others, that the insurance industry would look very different in ten, 20 and 30 years' time.

So, the insurer set four areas of focus – embracing digitalisation, becoming more customer-focused, investing in innovation and taking a more long-term view of the business – to guide its transformation.

"We saw it was clear that the insurance industry was going to have to change, including from an ESG perspective. We saw that responsible investor movements are getting stronger and stronger as they expect more from companies. We also saw that in all the climate talks, there was a lot of discussion about the role of insurance. So, the pressure was on. That has really given us a push on our journey," said Ms Freiner.

Zurich is one of many insurers looking at ways to reduce their carbon emissions, as part of broader sustainability goals

In 2019, Zurich created a customer office to start looking at its customer value proposition and then, crucially, went a step further and asked: what is the insurer's purpose? Whereas previously its role was simply to protect organisations and transfer risk, Zurich decided it should now be creating a better and brighter future with customers and other stakeholders. This mantra now sits at the centre of the business and guides decision-making, said Ms Freiner.

> **"This has become our North Star** in everything we do, whether it is with our customers, partners our own employees or for the planet. Put simply, ESG is becoming an integrated part of how we do business"

"This has become our North Star in everything we do, whether it is with our customers, our partners, our own employees or for the planet. Put simply, ESG is becoming an integrated part of how we do business," she said.

This transformation is not unique to Zurich. A growing number of insurers are also taking ESG more seriously and, in particular, addressing climate change from an investment, operations and underwriting and services perspective.

However, some regions are further along this journey, and Ms Freiner explained that currently things are moving more quickly among European insurance firms when it comes to tackling climate risk.

"Looking across investment, underwriting and products and services in general, I think there is more understanding among the European insurers of the urgency to address the big issues than elsewhere. If we look west, I think the US insurance industry is starting

to change because of influences from government and regulatory debates, but they are more looking at their products and services, and less so on how they manage ESG risks. The trend is somewhat similar when you look east," explained Zurich's group head of sustainability.

But while progress is taking place across investments, operations and underwriting, the latter poses more questions and problems for insurers.

Ms Freiner said it is clear to a growing number of insurers that managing their investment portfolio and sustainable finance is key to addressing climate change and other ESG responsibilities. Progress in this area has been swift. While insurers don't have a big carbon footprint on the operations side, they are also working, relatively straightforwardly, to reduce in-house emissions. But the big challenge for all insurers comes on the underwriting side, said Ms Freiner.

"The questions we asked ourselves were: How do we really integrate ESG thinking into underwriting? How do we integrate it into our risk management processes? And how do we also start thinking about innovation in this area? How can we offer sustainable products and services? Because when I came into this role five years ago and started talking about what we are doing on the product and services side, I realised there was more work ahead of us. I thought if we are seeing revolutions happening in the retail space, consumer goods industry and even banking, it has to happen in the insurance industry as well. Today, I think we are seeing that trend already among customers – including big commercial buyers," she said.

In June 2019, Zurich was the first insurer to sign the UN Business Ambition Pledge for 1.5°C, effectively a Paris Agreement for the business sector, aiming to limit average global temperature increases to 1.5°C above pre-industrial levels.

In September of that year, the company became a founding member of the UN Net-Zero Asset Owner Alliance, committing the insurer, and at the time a total of 12 signatories, to a net-zero-emission investment portfolio by 2050. The alliance of pension funds and insurers today controls investments worth more than $6.6trn. Initiated by Allianz, Caisse des Dépôts, La Caisse de dépôt et placement du Québec, Folksam Group, PensionDanmark and Swiss Re at the beginning of 2019, the alliance has recruited Alecta, AMF, CalPERS, Nordea Life and Pension, Storebrand and Zurich as founding members.

TARGETS

Then, in March 2021, Zurich announced further emission reduction targets. This latest move saw the insurer increase pressure on companies it invests in to set climate action targets in line with the Paris Agreement.

It has also engaged with commercial customers to discuss how they are planning to transition their business to reduce their own impact on climate change. This engagement has increased since 2019, when Zurich strengthened its previous thermal coal policy to include oil sands and oil shale.

"Looking across investment, underwriting and products and services in general, I think there is more understanding among the European insurers for the urgency to address the big issues than elsewhere"

On the investment side, during the next five years Zurich will engage with companies that produce 65% of its investment portfolio emissions and require them to set emissions reduction goals or face shareholder action. "Should engagement fail, and companies refuse to set targets after due dialogue, Zurich will vote against board members at shareholder meetings," the insurer said.

It added that simply divesting from companies with carbon-intense footprints is "less effective than engaging with them to drive the shift to sustainable practices".

The insurer has also set new targets to cut carbon intensity in its listed equity and corporate bond investments by 25% by 2025, and by 30% for direct real estate investments.

In addition, Zurich will cut emissions from its own operations by 50% by 2025 and 70% by 2029, to be in line with the Paris Agreement. Group CEO Mario Greco said Zurich's operations have been carbon neutral since 2014, but it will achieve cuts in remaining emissions during the next few years by switching to renewable power, using electric vehicles and curbing business travel.

Zurich further announced that it wants to help develop industry-wide standards to measure emissions from insurance underwriting alongside industry bodies and policymakers.

"We have already communicated what things would look like on the investment side, we've looked at what it would look like on the operations side, but the big challenge is underwriting. The first big step we took was to try and understand the carbon footprint of our portfolio. That is easier from a commercial point of view because there we have more data available and industry-recommended methodology. On the retail side it is much more difficult, but discussions around how to do this are underway and we naturally have an idea of where our retail book is more carbon intense," Ms Freiner told *Commercial Risk Europe*.

Zurich has committed to net-zero emissions by 2050 on the underwriting side, but how it and other insurers making the same commitment get there is a challenge.

The company is among several insurers, many in Europe, to commit to reduce or stop underwriting thermal coal, oil shales and oil sands. As it stands, Zurich generally won't underwrite companies that produce 30% or more of their revenues from these fossil fuels.

In April, it announced it is in the process of establishing a pioneering Net-Zero Insurance Alliance (NZIA) along with other European (re)insurers working with the UN Environment Programme Finance Initiative. At the time of publishing, other companies involved are AXA as chair, Allianz, Aviva, Munich Re, SCOR and Swiss Re.

The companies are all signatories to the UN Principles for Sustainable Insurance (PSI) and are establishing the NZIA under the auspices of the UN Environment Programme's PSI initiative, the largest collaboration between the UN and the global insurance industry.

The NZIA is expected to be launched at the 2021 UN Climate Change Conference, also known as COP26, in Glasgow this November.

"We have come together with six other insurance and reinsurance companies and started to work to create a realistic net-zero insurance framework. Our first priority will be to look at what is actually needed to decarbonise underwriting portfolios on the commercial side," explained Ms Freiner.

EXTERNAL PRESSURE

She pointed out that activism to stop underwriting high-polluting energy sources is also putting pressure on the insurance industry to act. And this is an issue that Zurich and others think is important to look at from a larger net-zero perspective.

"When we first started making commitments, we looked at the energy mix in general and clearly saw that thermal coal should not be included, and is not needed, if we are going to meet the Paris Agreement. So, that was a decision we took because we wanted companies to be serious about their transition plans. Mostly, European companies are working hard to phase out coal from their portfolios in place of other energy sources. These companies are also well aware they won't be in business in 20 years if they don't diversify their portfolios and move into different energy sources. And the big European energy companies are already making very large commitments in this area. We need to work out what that means practically, and we can help them do that," said Ms Freiner.

25

FACT

Zurich said it is to sponsor a targeted, sustainable reforestation project in Brazil to convert barren farmland back into native forest, rich in plant and animal life. It has committed to plant one million trees, including one for each employee

25

"But if we see companies that are not moving, we have to have deeper conversations about their transition plans. It's a conversation we have to prioritise with the carbon-intense sectors. And it is not just energy. Other industries are also starting to come under the scrutiny of regulators. It is definitely a different type of dialogue today with customers than it was in the past," she added.

To ensure the world is able to transition to a low-carbon economy, renewable energy requires insurers to provide risk transfer solutions for these new, alternative green sources. This is not easy for an industry that relies on historical data to build and price products.

"It's not as simple as it sounds to just start insuring all renewable energy. The challenge we have with alternative energy sources is they are very vulnerable to physical risk, including extreme weather events. Therefore, we have to get more knowledge and data. We are working internally and with a number of external parties to develop industry knowledge in this area. But we look at the growth curve of renewable energy and it is clear this is an industry with a high demand for both risk transfer and mitigation solutions," said Ms Freiner.

However, insurance is in some ways the last piece of the puzzle. Particularly when it comes to sustainability risks, and climate change in particular, insurers can also help companies through risk prevention and management services. This is why Zurich is keen to point out that it is focusing efforts on services, as well as products.

"I talked about product and services but that is very generic. What is key for us is to help our customers on their own sustainability journey. If it is in regard to climate, we want to help them integrate climate risk as part of their ERM processes, providing data that they need and boosting our risk-engineering capabilities," said Ms Freiner.

ADDRESSING RISKS

Zurich launched its Climate Change Resilience Services last September to aid this process. It provides services to help a range of corporates address current and future physical risks related to natural hazards and climate change. Climate Change Resilience Services builds on Zurich's natural hazards risk engineering expertise to meet growing customer demand.

"This service is based on the idea that we were experts on natural hazard risks, so why couldn't we expand this to future risks associated with climate change? It moved from looking at hazard and historical data to forward-looking climate data, so we have moved beyond just providing nat cat hazard services to these forward-looking issues, working closely with our customers to bring our expertise to their organisations. We can say to a client: 'Ok, you are planning to open a new plant in a new location and we can help you to better understand the climate impact on that location in a 20- to 30-year horizon.' This can then influence where and how things get built. We can be that partner and have that conversation. It helps with sustainability," said Ms Freiner.

"More and more, I think insurance companies want to strengthen the risk partner relationship and help businesses prevent losses, because prevention is the best protection. We don't want to only provide a risk transfer solution. We really want to provide the data, service and dialogue, and play an active role in supporting companies on this complex journey," she added.

Zurich has also gone down the same route as some other insurance companies and increasingly provides customers with climate education through academies and training. It does this through its Customer Advisory Board.

But how do risk managers access these risk prevention services? Rather than attaching them to insurance products, more and more are available for a fee.

"Things are moving more to a fee-based structure than in the past. This allows customers to pick and choose services – it gives them clear, structured access to our expertise on a project basis. We wanted to separate this from our underwriting activities, to ensure we could provide action-based solutions, ringfenced from our underwriting operations. The customer is in control of what happens and the results of the assessments won't automatically be shared with their underwriter," said Ms Freiner.

It is clear that the insurance industry has one of the biggest roles to play in helping the world tackle climate change. It can influence decisions through underwriting, has access to a mass of data and expertise, and is a huge investor. It is potentially one the biggest tools and best chances the world has to limit the damage.

Ms Freiner agreed that the insurance can make a real difference, but stressed the solution requires a wider effort involving many stakeholders.

"We are also very dependent on others. We are the middle of the net. We are dependent on regulation actually taking this seriously so we don't continue to build in areas where we should not and that certain activities are reduced. So, it is an ecosystem of stakeholders that need to work together, which makes things even more complex. But we are striving hard to play our part," she said.

"This service is based on the idea that we were experts on natural hazard risks, so why couldn't we expand this to future risks associated with climate change?"

BUYERS

Insurers' ESG agenda a growing factor in buying decisions

Risk managers playing key role in sustainability drive

Sustainability is becoming a bigger and bigger topic for risk managers, particularly in Europe, who are increasingly factoring ESG behavior at insurers into buying decisions, Linda Freiner, group head of sustainability at Zurich Insurance, told *Commercial Risk Europe*.

According to Ms Freiner, Zurich is having increasing discussions with clients about sustainability and the topic is higher on the agenda at risk management conferences she attends. This is borne out by the fact that sustainability and ESG risks have been a priority for Ferma during the past few years.

"It is clear this is a topic that is growing for risks managers. Most companies today are looking at this issue. They are looking at it from a climate point of view, a workforce point of view and a digitalisation point of view," said Ms Freiner.

She believes this growing interest is in part caused by the changing role of many risk professionals, who are more focused on risk management rather than just insurance.

Ms Freiner explained that climate change is top of the ESG list for most risk managers, who are working alongside sustainability teams and insurers to try and tackle the threat. "This is because of the impact we are already seeing from extreme weather events, but also because of regulatory pressures," she said.

"Risk managers are trying to work out how they can best work with their sustainability teams. The risk managers traditionally look at short-term risk, while the sustainability team looks at more of the long-term topics. Having these two functions come together is really important. We, as an insurance company, can come in and try to help with that. People are turning to us because they know we have the knowledge," added Ms Freiner.

And as with insurance companies, the focus seems greatest at European firms.

"Companies in Europe are much further advanced on an overall basis with sustainability strategies and looking at climate change – partly because regulation is much more advanced. So, companies are forced to think about these issues. The movement is broader in Europe but it's now moving fast in other parts of the world," said Ms Freiner.

BIG OPPORTUNITY

She added that the focus on ESG and such strategic risk is providing a big opportunity for risk managers to get in front of their boards and add clear value. But to do this requires risk managers to be comfortable in dealing with the issues, she stressed.

"Often, boardrooms want to have clear answers and we are all looking into a crystal ball. So we have to tread quite carefully. But I think the debate is turning much more onto what the long-term and emerging risks are," she said.

The pandemic seems to have accelerated these discussions and increased the urgency to tackle the risks. "Covid-19 has opened things from a risk point of view, with people realising what can occur. But it also opens up new ways of working. We have learnt to work in a completely different way and many of us won't be going to go back to the office full-time. Things are going to look very different. People working remotely has also accelerated cyber risk. So, ESG is an even bigger topic than it was before," said Ms Freiner.

She said that efforts by insurance companies to tackle ESG issues are increasingly coming up in discussion with clients and driving who they decide to work with. She added that this is likely to become a bigger factor as the next generation comes through into more senior risk management roles.

"ESG was previously a checkbox factor, but companies are now starting to look much more at who they are working with – what is that company actually offering? So, in pitches we are asked to present on what we are doing on sustainability, our purpose, what we stand for and the products that we are offering in this space. This is definitely becoming more of a selection criteria when clients choose which insurance company they want to work with," said Ms Freiner.

"We are also preparing for the next generation of customers that care even more about this topic. That will be a trend on the retail side, but these generations are also coming into manager positions within companies. So it's a trend we just have to be on top of," she concluded.

Cyber capacity falls as buyer demand for cover rises, finds AMRAE

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French companies are buying more cyber insurance, but capacity is on the slide and programme structures are increasingly complicated at a time when losses are rising and companies need higher limits, an AMRAE study finds.


Philipp Cotelle

The study by France's risk management association aims to provide more clarity to a market that, according to the organisation, is going through significant levels of volatility at the moment.

The *Lumière sur la CyberAssurance* report, or LUCY, is based on analysis of the cyber insurance portfolios of eight top insurance brokers operating in France. AMRAE estimates that this accounts for about 80%-90% of the cyber insurance market in the country.

The goal of the report is to inform moves to reduce uncertainty in the market and help risk managers make the case to boards about the usefulness of cyber risk management and insurance. AMRAE has urged other national associations to make similar efforts.

The report highlights some concerning trends for French companies. "The most worrying for the structuring of cyber programmes is the reduction of capacities proposed by insurers," commented Philipp Cotelle, AMRAE board member and vice-president of Ferma.

The study suggests that large corporations with cyber exposures reaching several hundred million euros cannot obtain coverage that meets their needs. The average limit offered to these firms in 2020 was €38m, and underwriters are also demanding higher deductibles than before.

"Fewer and fewer insurers are keen and ready to take the first layers of insurance towers," said Mr Cotelle. "The reduction in the number of leading insurers is a real issue for the structuring of cyber insurance programmes at large companies."

François Beaume, an AMRAE vice-president and vice-president of risk and insurance at Sonepar, stressed that where a couple of years ago leading insurers could fork out €15m-€20m of capacity for the first layer of cyber programmes, now they are limiting their offers to €7.5m-€10m.

"Automatically, followers will not offer more than the first layer, and it generates the need to find supplementary actors and multiply the layers to arrange the same capacity that, two years ago, required a couple of carriers," he said.

Even smaller programmes with limits of €8m on average and favoured by mid-sized companies now often require the participation of more than one insurer. The shrinking capacity therefore creates complexities for structuring cyber insurance programmes among smaller companies, with potential consequences for the whole of the business environment.

"With more acquisition of cyber insurance by mid-sized companies, they would become more resistant to cyberattacks and the economy would be less vulnerable," added Mr Cotelle, who is also head of insurance and risk management at Airbus Defence and Space. "The cyber insurance industry would boost mutualisation and the volume of premiums, and stabilise the whole of the cyber market," he added.

As it is, the difficulty of finding adequate cyber coverage is moving buyers towards alternative risk transfer arrangements, including setting up captives, to achieve more favourable conditions and higher limits, he said.

At the same time as finding capacity issues, the AMRAE report reveals a significant increase in the take-up of cyber insurance by French companies. The volume of premiums went up by 84% in 2020, reaching $130m.

Out of 287 French companies that have annual turnover of more than €1.5bn, 87% had cyber policies in place last year, up 15% compared to 2019.

Among mid-sized companies, or those with revenues between €50m and €1.5bn, 441 had purchased cyber coverages – a 43.6% hike in one year.

Among small firms, the ratios are much lower. AMRAE found out that only 362 of 140,000 firms with revenues lower than €50m were protected by cyber insurance in 2020. But here too the trend seems to be upwards, with 16.3% growth last year.

There has been little change among public services however, as only 75 regional or local French governments purchased cyber coverage in 2020, the same number as the previous year.

But higher demand for cyber cover was dwarfed by the near-trebling of losses in the French market identified by AMRAE.

While losses amounted to €73m in 2019, one year later they reached €217m. The segment's loss ratio went from 84% to 167% in the same period.

One of the reasons for the dramatic spike in loss ratios was some very large claims. Just four losses with values between €10m and €40m accounted for 78% of all French cyber losses in 2020. The total number of claims was 221, compared to 107 in 2019, when no claims higher than €10m were reported.

Commercial Risk Europe's **website delivers daily news, reporting the leading stories of relevance to European risk and insurance managers every week in its electronic newsletter. Here, we round up of some of the most popular articles published last month. To visit the website and sign up for the free CRE weekly newsletter, please go to: www.commercialriskonline.com**

DOJ complaint threatens to scupper Aon-WTW deal

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The US Department of Justice (DOJ) has filed a civil antitrust lawsuit in the US District Court for the District of Columbia, to block Aon's planned $30bn acquisition of Willis Towers Watson (WTW).

The DOJ said the combination of the two firms, turning the 'big three' into the 'big two', would seriously limit choice and competition for customers, inevitably lead to price increases and stifle innovation for US businesses, their customers, employees and retirees.

Aon and WTW swiftly issued a statement disagreeing with the DOJ's concerns, stating that the authority has showed a lack of understanding of the deal and the market.

Aon and WTW will be hoping that their previous agreement to divest chunks of the business – notably WTW's primary broking business in leading European markets such as Germany, France and Spain – will help to overcome the DOJ's threat. But the statement issued by the department does not suggest it will give up easily, and more divestments might be needed in the US.


US Department of Justice

"Today's action demonstrates the Justice Department's commitment to stopping harmful consolidation and preserving competition that directly and indirectly benefits Americans across the country," said US attorney general Merrick B Garland.

"American companies and consumers rely on competition between Aon and Willis Towers Watson to lower prices for crucial services, such as health and retirement benefits consulting. Allowing Aon and Willis Towers Watson to merge would reduce that vital competition and leave American customers with fewer choices, higher prices and lower-quality services," he added.

The DOJ complaint said that Aon and WTW provide essential guidance to many of America's largest companies. It added that US companies depend on the two brokers to "craft and administer" health and retirement benefits, and keep their costs down by managing complex and evolving risks.

It pointed out that the two broking giants compete "head to head" to provide these services, which helps ensure businesses obtain innovative, high-quality broking services to manage their risks and provide critical health and retirement benefits to their employees, at a reasonable cost.

The DOJ complaint

alleged that the merger would eliminate this important competition in five markets, resulting in higher costs to companies, higher costs to consumers and decreased quality and innovation.

The complaints includes a quote from Aon's chief broking officer that appears to seriously undermine the proposed deal.

The DOJ stated: "Now, by combining with WTW, Aon would eliminate this competition and remake the big three into a big two. As Aon's chief broking officer explained to his colleagues: 'We have more leverage than we think we do and will have even more when [the] Willis deal is closed… we operate in an oligopoly that not everyone understands.'"

The complaint continued: "If allowed to merge with WTW, Aon likely would use that leverage against American businesses. Businesses likely would pay the price in the form of higher fees for lower-quality services for the management of their most complex and expensive commercial risks through insurance and reinsurance."

Adding: "They likely would pay the price through higher costs for lower-quality service for the management of health benefits plans of millions of employees and retirees. And they likely would pay the price through higher costs for lower-quality service for the administration of trillions of dollars in defined benefit pension plans on behalf of their retirees. Ultimately, the burden of those higher costs is likely to fall on their customers, employees and retirees across the country."

Aon and WTW not surprisingly refuted the DOJ's arguments.

"We disagree with the US Department of Justice's action, which reflects a lack of understanding of our business, the clients we serve and the marketplaces in which we operate," they stated.

They argued that the merger would actually enhance innovation. "Aon and Willis Towers Watson operate across broad, competitive areas of the economy and our proposed combination will accelerate innovation on behalf of clients, creating more choice in an already dynamic and competitive marketplace," stated the brokers.

The statement also pointed out that the rise of the pandemic has further strengthened their case.

"While this proposed combination was not developed with the pandemic in mind, the impact of the pandemic underscores the need to address similar systemic risks, including cyber threats, climate change and the growing health and wealth gap that our combined firm will more capably address," continued the Aon-WTW statement.

EC sets out plans for new EU-wide cybersecurity unit by 2022

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The EC has proposed a new EU cybersecurity unit to coordinate the bloc's response to, and recovery from, large-scale cyberattacks.

The unit will bring together resources from across the 27 EU member states, targeting prevention and response to mass cyber incidents.

Under the proposal, the Joint Cyber Unit will be up and running by the end of June 2022 and fully established by June 2023.

It is set to have a physical base next to the EU Agency for Cybersecurity (ENISA) in Brussels. The plan is to bring together best practice and knowledge-sharing, while collating real-time data on threats.

The unit will include members of ENISA, experts from individual member states and Europol's European Cybercrime Centre.

"Cybersecurity communities, including civilian, law enforcement, diplomatic and cyber defence communities, as well as private sector partners, too often operate separately," the EC said.

Vice-president of the EC Margaritis Schinas said Europe must pool its resources to protect businesses, governments and citizens from the increased and growing threat of global cyberattacks.

"The recent ransomware attacks should serve as a warning that we must protect ourselves against threats that could undermine our security," he said.

Howden names Allianz' Schaefer German CEO as it seeks acquisitions

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Howden has named Allianz' Holger Schaefer as its next German CEO, where he will drive the search for acquisitions in the country as the broker continues expansion across Europe.

Mr Schaefer will lead Howden's Euroassekuranz, Hendricks, Howden Caninenberg and Himmelseher specialty operations in Germany. These combined businesses make Howden the sixth-largest broker in the country.


Holger Schaefer

Mr Schaefer will join the firm on 1 September, after working for many than 30 years for the Allianz Group. More recently, he served as regional CEO for Asia-Pacific at Euler Hermes and was previously CEO of Allianz Global Corporate & Specialty (AGCS) in Australia and New Zealand. Prior to that, he was part of AGCS Germany for 20 years, where he held senior positions in underwriting and sales, managing multinational clients.

He will return to Germany to lead Howden's ambitions to build on its presence in the market. Part of his focus will be on strategic acquisitions of other "culturally aligned companies", as well as investing in talent and digital transformation.

His appointment follows a host of moves by Howden to boost its European operations. It recently named Luigi Sturani as CEO for Europe and Felix Jenny as CEO in Switzerland.

Mr Schaefer said: "I am thrilled to be joining Howden at this exciting time as its ambitions for Germany and for its wider European platform are being realised. Howden is delivering on its strategy for growth and I'm delighted to be part of it. Howden's 'people first' approach and culture of employee ownership is appealing to both clients – from SMEs, through to mid-market firms and multinationals – and also talent looking for a credible alternative in a consolidating broker market."

José Manuel González, CEO of Howden Broking, said Mr Schaefer will lead "continuing expansion" in the German market.

"Our ambition is to be one of the top three brokers in key markets across Europe through strategic acquisitions, organic growth and investment in talent. Holger's appointment shows that we are consistently delivering on our plan and we are proud that he has chosen to join us," he added.

SUPPLY CHAIN

Foreign companies in China could become 'sacrificial pawns' under new law, warns Verisk Maplecroft

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China will use new "weapons" under its recently passed Anti-Sanctions Law to target European and US businesses operating in the country and most likely Hong Kong, according to Verisk Maplecroft.

It warned that foreign companies could become "sacrificial pawns" in political tensions between China and the US.

China's top legislature, the National People's Congress (NPC), passed the Anti-Sanctions Law on 10 June. Verisk Maplecroft said it expects the scope of the new law to extend to global financial centre Hong Kong.

Foreign companies that comply with their governments' sanctions against China could now be put on an anti-sanctions list by Chinese authorities. Such companies could then face restrictions on their business activities in China and freezing or seizing of assets, explained Verisk Maplecroft.

"Beijing is determined to safeguard its national sovereignty by using foreign companies as political leverage," the firm said. It added that although the action is aimed at the US, it will also apply to its allies.

Verisk said the new law uses "foreign companies, individuals and their families as political leverage in China's confrontation with their governments".

It suggested that foreign businesses may look to Vietnam or Singapore as alternatives to China.

"While we do not expect to see a mass exodus of companies from China just yet, foreign businesses will find it increasingly difficult to balance between the political interests of Washington and Beijing if they plan to enter or remain in the Chinese market," said Verisk.

The new law in China also imposes penalties for foreign individuals that comply with their own government's sanctions.

Verisk Maplecroft said the new sanctions law is "unlikely to be the last" development in the deteriorating relationship between the US and China. "Their tit-for-tat actions reflect that there is only a remote chance of de-escalation over the next two years," Verisk Maplecroft said.

"While there are no clear indicators of potential targets, foreign corporates and financial institutions that comply with the US's or their governments' sanctions against China, will likely face increasing scrutiny from Beijing both locally and abroad," continued the firm.

It added that companies will be exposed to new legal risks that are difficult to navigate and mitigate.

Going it alone

◇ CONSTRUCTION


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The European Commission has recommended that the UK should not continue to enjoy the benefits of the EU's rules on jurisdiction and the enforcement of judgments in cross-border disputes. We look at what this means in practical terms and the extent that claimants in international disputes with a European dimension can fall back on global and more local rules.

On 4 May 2021, the European Commission formally recommended that the EU should not allow the UK to rejoin the Lugano Convention 2007 on jurisdiction and the enforcement of judgments in civil and commercial disputes.

The Commission does not have the last word on the matter, but the European Parliament and Council are expected to follow its lead.

In the current climate, the news is not surprising and is certainly not a disaster for litigants (or would-be litigants) in the English courts, but it is disappointing nonetheless. It means that parties that are concerned about parallel litigation in England and the EU may have to rely on an English court issuing an anti-suit injunction to suppress foreign proceedings where those are breach and English jurisdiction agreement, and any judgments issued in England will have to be enforced under local, bilateral or global rules, where these apply.

The days when English judgments could be easily enforced in EU member states under the 'Brussels regime' now seem to be over and the process could take longer and be more expensive than previously, and will sometimes be more unreliable too.

Just how difficult the enforcement process will be depends on what alternative laws have to be relied on. The new global rules, which fortunately bind EU member states as well as the UK, are set out in the Hague Convention on Choice of Court Agreements 2005, which is now in force for those countries as well as for Mexico, Montenegro and Singapore.

> **"The days when English judgments could be easily enforced in EU member states under the 'Brussels regime' now seem to be over"**

These rules only apply though where the judgment arises from a straightforward exclusive jurisdiction agreement in favour of the courts of a contracting state and (in the Commission's view, at least) only if the agreement was concluded no earlier than 1 January 2021 – the day after the Brexit transition period ended.

These facts, and the limited scope of the 2005 Convention (it does not cover, for example, most tenancies, employment contracts and many insurance matters where the UK or EU is concerned), mean that its provisions will be of limited use in the short term. However, alternative bases for enforcement are usually available: old bilateral arrangements between the UK and individual EU member states, where these are still in force, or local rules on enforcement such as Section 328 of the German Code of Civil Procedure (Zivilprozessordnung).

All this may seem rather messy but is not unusual in the global context. US judgments are routinely enforced in England under common-law principles, for example, and judgments from courts in the EU could be enforced in future in the same way, so there is no absolute need for a convention or bilateral arrangement to be in place.

What it does mean though is that claimants in disputes involving the EU should think carefully before issuing proceedings in the UK, and plot a 'route to enforcement' before investing any money in their claim. By contrast, those parties that have chosen arbitration rather than the courts in their pre-2021 commercial agreements will be in a privileged position, since arbitral awards can be enforced across borders under the New York Convention 1958, which is not affected by Brexit and not subject to all the limitations of the 2005 Convention.

However, this does not mean that arbitration is necessarily the better option in new commercial agreements agreed after the Brexit transition period ended. There are pros and cons to each kind of dispute resolution clause.

◇ **LEGAL EYE:** THE BRIEFS

UK's modern slavery law to get more teeth

◇ Back in September 2020, the UK government announced an "ambitious package" of "powerful new measures to strengthen and future-proof the Modern Slavery Act's transparency legislation", and "ensure that large businesses and public bodies tackle modern slavery risks in supply chains". Now, according to Sarah Lambert-Porter of Ropes & Gray, the government has introduced the Modern Slavery (Amendments) Bill to the House of Lords. Given the ongoing and politically more pressing Covid-related demands on parliamentary time, it will be interesting to see how far and in what form the Bill progresses. Many will be hoping that it does not fall as a casualty to constraints on parliament's time and attention. If it does pass smoothly, the Bill could mark the start of implanting some real teeth into the Modern Slavery Act, giving the Independent Anti-slavery Commissioner more bite, said Ms Lambert-Porter.

Tougher ESG rules to reach far beyond US

◇ The US House of Representatives has passed the Governance Improvement and Investor Protection Act, which is a package of bills broadly requiring disclosure of ESG metrics in business, including supply chain impacts, and setting specific reporting expectations on climate risks, political spending, executive pay and taxation rates, report lawyers from Baker McKenzie. The legislation comes amid indications by the SEC that mandatory disclosures related to ESG and climate impacts are a priority. Accurately measuring these risks requires companies to have a transparent view of their supplier and sub-supplier operations, and will require listed companies subject to any SEC disclosure operations to request and analyse ESG impact data from non-listed suppliers, both within and outside the US.

Class actions on rise across Europe

◇ A record number of class actions have been filed across Europe in recent years, with a rise of more than 120% between 2018 and 2020. According to a study from the CMS Dispute Resolution Group, class actions against the technology sector increased dramatically, with 15 times the number of claims filed in 2020 as in 2017, equivalent to growth of 1400%. Data protection claims grew 11 times, or 1000%, between 2016 and 2020. The study revealed a significant trend towards opt-out class actions in Europe, as the UK, the Netherlands and Slovenia introduced far-reaching mechanisms in recent years.

Liz Booth spoke to leading members of global broking network UNIBA Partners as part of our Future of Risk Distribution survey, sponsored by Sompo International. The brokers discussed how their industry can help customers deal with the hard market and difficulties thrown up by Covid-19. We also looked at how the broking profession can evolve to meet ever-changing customer demands...

Pandemic and hard market offer golden opportunity for brokers to demonstrate value

◇ UNIBA

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The current hard market, where insurance is hard to find, provides the perfect opportunity for brokers to show their value to clients, agreed a group of UNIBA Partners speaking as part of *Commercial Risk Europe*'s Future of Risk Distribution survey. This opportunity has been magnified by the Covid-19 pandemic, which has created some unique challenges for the whole insurance market as well as risk managers and their organisations, they added.

Alfonso Ansotegui, managing partner at Spanish brokerage ATS Hanseatic, summed it up: "A hard market should be the preferred environment for brokers, because this is when we can demonstrate our value. Anyone can be a broker in a soft market, but now is the time to be a good broker.

"I believe a good understanding of the risks and of the new policies available is key, as well as the ability to find answers for our clients," he added.

There was broad agreement that the hard market is all part of a regular cycle and that a soft phase will follow once more in due course. However, the group also agreed that the pandemic has added complexity to conversations between clients, brokers and insurers.

Geoffrey Roederer, owner of French broker Roederer, said: "It is important to differentiate parts of the market and not assume it is the same across the board. But one thing that insurers did very well with in 2020 was their speed of preparation ahead of the 2021 renewals."

He said some insurers, on the employee benefits side in particular, had prepared for the renewals by July last year. This was an impressive feat, he said, given the pandemic and difficulties with home working to contend with. He is optimistic that early preparation will roll over for the 2022 renewals.

Brussels in lockdown: Covid-19 has created unique challenges for the whole insurance market

CAPACITY CRUNCH

However, Mr Roederer said things were not quite the same in P&C classes, where he found it harder to find capacity and there were fewer insurers willing to take on risks.

"The worst thing was that renewals could only start in October. Insurers broadly were blaming reinsurers, saying it was hard to settle the reinsurance coverage before then. We had to do a lot of work with our customers to explain the many changes, both in terms of capacity and also in terms and conditions," he added.

> **"We had to do a lot of work with** our customers to explain the many changes, both in terms of capacity and terms and conditions"

Joe Perry, head of international at Sutton Winson, agreed that the 1 January 2021 renewals had been much tougher than the previous year, involving both higher costs and lower capacity, particularly in financial lines. Areas such as D&O and management liability were the hardest insurances to find, he said.

In fact, some clients faced the tricky situation of being turned down by the insurance market and Mr Perry said it led to some very frank conversations about expectations and what was available.

"Our situation in the UK was not only complicated by Covid-19, we also had Brexit to deal with," he said. "The hardening market coupled with uncertainty made for interesting times."

The key for all the brokers was communication. Making sure clients fully understood what was happening, what it would mean for them and ensuring there were no nasty surprises at the end of the day was vital.

E.O

There were are other factors at play, making life tricky during renewals, said Robert Havekotte, CEO at Netherlands-based Van Luin. "For the first time we have seen this year a change in terms of who we can access to discuss a programme. One of the biggest changes is that underwriting authority is no longer with the local underwriter. Increasingly, our programmes have to go to head office for sign-off."

This was echoed by Tommaso Bazzi, CEO of Bazzi and Partners in Italy, who is also worried by this trend and the lack of local authority.

"One of the biggest changes is that underwriting authority is no longer with the local underwriter. Increasingly, our programmes have to go to head office for sign-off"

CANCELLED COVER

Another massive problem for brokers and insureds was the way in which insurers simply cancelled policies in their thousands last year, insisting that they had to be renegotiated or there was no longer any cover available.

Mr Havekotte said his firm had to work extremely hard renegotiating – even on policies where there had been an extremely good claims history and had been profitable business for the insurer.

Mr Ansotegui agreed wholeheartedly, saying it had been the same in Spain. He did, however, have a few words of comfort for insureds. The broker believes insurers have now fixed their positions and chosen their preferred lines of business, so it is unlikely insureds will face the same nightmare again for 2022 renewals.

The scale of the disruption meant that it was the middle of May before the final deals were agreed on some 2021 renewals, according to Mr Havekotte. Mr Perry wondered whether that was as much to do with the fall in service levels from insurers.

Christian Hortkorn, owner of Dr Friedrich E Hortkorn, said the market issues were reflected in Germany too. "It is much more important to have a good relationship with the insurer now," he said. "If you are discussing a usually profitable piece of business with the insurer, it is a little easier."

The brokers agreed that one benefit of the tough market was they were able to work closely with their clients to develop strong insurer relationships for the longer term. That tripartite relationship has never been more important than in the current hard market, they agreed.

Know your risk and talk to your broker

◇ RISK DISTRIBUTION

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Risk managers must understand what is covered under their insurance programmes and combine this knowledge with enhanced risk management for risk transfer to truly deliver, agreed a group of brokers from UNIBA Partners.

The pandemic has highlighted the real importance of understanding cover, stressed Alfonso Ansotegui, managing partner at Spanish broker ATS Hanseatic. For him, this is one of the key messages for risk managers as they approach the 2022 renewals later this year.

In a warning for risk managers, the brokers said that too often insureds are in a hurry and do not dedicate enough time to their insurance programme, being eager to get the deal done and move on. The brokers believe that spending more time analysing and stress-testing under a range of scenarios pays off in the long run, helping to ensure the right cover has been purchased.

This was made clear when the pandemic hit and some companies were left without cover that they thought they had.

Geoffroy Roederer, owner of French brokerage Roederer, said that in the immediate aftermath of the first lockdown in France, the country's government investigated how many insurance programmes would pay out on the pandemic. The resulting study found some 93% of wordings were crystal clear that there would be no payment for pandemic-related losses. Of the remaining 7%, some 4% were "grey", while just 3% would cover pandemic-related losses.

Joe Perry, head of international at UK firm Sutton Winson, was among those to argue that brokers did not mislead customers about pandemic cover. "However, the pandemic highlighted ambiguity in some policy wordings, which created uncertainty. Ultimately, it comes down to communication and managing expectations to ensure insureds understand if, and how, their policy will respond," he said.

Mr Perry said this has implications for the growing use of technology to place risks, and urged brokers not to forget the importance of in-depth advice. "There has been a big move towards e-trading and the use of technology at the expense of advised sales, but we still see a clear need for that advice," he said.

That is not to say that brokers in this UNIBA Partners group should not, and will not, take full advantage of the technology available, but Mr Perry said there is a need to ensure balance. "Use technology where it enhances the service, but not instead of the service," he said.

Mr Roederer warned that bad communication would do nothing other than allow disruptors into the broking space and threaten the broker channel. He urged his fellow brokers to focus on data.

Geoffroy Roederer said banks are already eyeing up the insurance market

"We need to improve the data offering," he said, but called for more standardisation for the benefit of everyone.

Mr Roederer suggested that banks are already eyeing up insurance. More collaboration in terms of data usage would enable the insurance sector to ward off such competitors, he argued.

Meanwhile, Robert Havekotte, CEO at Dutch firm Van Luin, believes brokers should focus on creating their own platforms rather than being forced to use those of insurers.

"Our biggest opportunity is to work with clients on identifying any problems created by insurers and to make their lives easier. We can do that through creating platforms but we do not want to simply have such a platform imposed on us by the insurers. Because that will not serve our customers as well as it will the insurer," he said.

"Technology will allow us to do business better and spend more time with our clients – and that is a big win," he added.

The group agreed that mid-size brokers will have a big role to play well into the future because of the added value that they can offer to clients.

They said only time will tell how customer service will evolve among the new groups created by the spate of broker mergers and acquisitions, but they questioned whether the large companies will provide a level of service that competes with mid-sized players.

And they said there is real value in the global broking network to which they belong. They agreed it provides confidence that they can speak to partners in other countries and know their client will get the same level of service that they would expect in their home market.

"We are discussing the business with likeminded professionals who will service our clients properly because they share the same ethos and not purely on the basis of commission," said one.

Mr Ansotegui agreed, adding: "My client will be treated as a principal wherever the business is located and will not simply be handed over to whoever is on the list regardless of the fit."

And Mr Hortkorn likened the arrangement to that of a family. "It is a different philosophy, but it is one that we share. It works well and serves our clients best," he said.

Working closely with your broker has never been more essential as the hard insurance market sets in and data analytics plays a bigger part than ever in underwriting dsecisions, members of global broking network UnisonSteadfast told **Liz Booth**. Taking part in our Future of Risk Distribution survey, sponsored by Sompo International, they also discussed claims, industry consolidation and the need to work towards more robust business interruption solutions.

Brokers working to tackle changing risk appetites

◇ UNISON

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It's time to go back to basics and remember that the insurance market is a balance between premium, exposure and claims, a group of members from global broker network UnisonSteadfast told CRE as part of our Future of Risk Distribution survey.

Jérôme Soubaigné, director of distribution at the French brokerage Groupe SATEC, said brokers have a duty to remind clients of this basic principle, particularly in such a hard market.

He added that insurers have been taking a look at their overall exposures and that after an event such as Covid-19, it would only be natural for them to consider the impact of systemic shocks and reduce their willingness to support clients as before.

However, Niek Post, commercial director at Dutch firm Kröller Boom International, said some of the market's decisions have been surprising. "Most of our renewals are on 1 January, and in August and September last year we were sent cancellations for most of our book. They simply threw out a lot of business and left us with a small window to renegotiate or find new insurers. It was also extremely tough to get answers out of them and time was ticking," he said.

Mr Post is hopeful that after such dramatic action last year, this year's renewals should be smoother, simply because insurers have already ejected so much business that they didn't want.

He believes the ability to keep lines of communication open between insurer, broker and insured will be key during this year's renewal.

Not everyone had such a dramatic time of it last time around. Jean-Luc Verbaet, director of international relations at Induver Insurance in Belgium, said: "Niek and I are neighbours but we see differences between our markets. It was a little less exciting for us in Belgium, compared to the Netherlands.

Jérôme Soubaigné believes brokers have a duty to remind clients of the basic principle of insurance

"But it did result in some requests from our Dutch neighbours to place risks for them in the Belgian market and we were able to do that in some cases," he added.

Mr Verbaet said the biggest challenge was to ensure insureds understood what was happening and the implications of changing market conditions. "They needed to realise very fast that the market was truly hardening after so many years of a soft market in which insurers had tried to talk up a harder market but failed. This time it was for real," he said.

STARTING EARLY

Like many of the group, Tom Bartleet, CEO at UK firm Erskine Murray, stressed the importance of starting conversations early, so there is time to address any problems before they become a crisis.

For his part, Thomas Haukje, managing partner at German brokerage Nordwest Assekuranzmakler Group, enjoyed a seemingly easier time than his European colleagues. German insurers, he said, wanted to negotiate an increase of between 5% and 10% across the property book, which they achieved and took the stress out of the renewals. But he also faced falling capacity, particularly in financial lines, D&O and cyber.

Ugo Sica, managing director at Italian broker AssiBroker International, said end-of-year renewals were much tougher for any industrial clients, and things were made more complicated by many insurers working from home, with communication difficult at times.

Even now, insurers are spending a maximum two days a week at the office, so it is far from normal service, said Mr Sica. He sees insurers still struggling to maintain continuity as their staff switch from office to home and believes brokers and risk managers will have to wait for another few months for things to "normalise".

> **"Now it is all about the data and** no longer an underwriting decision"

BIG DATA

Marc Jori, managing partner at Spanish broker Jori Armengol & Associates, blames the increased use of big data and analytics for the changes in insurer appetite.

"We are seeing a shift in decision-making within insurers and not just because decisions are being sent to head office," he warned.

"Insurers are now able to see any concentration in risk, say in Australia or the US, courtesy of their data. The danger is that all the data goes into the computer and tells the underwriter that they have exceeded capacity for that particular risk. However, it ignores the longstanding relationships between insurer and insured, and just says a blanket 'no'," he added.

He cited the example of clients who have seen policies cancelled despite going 50 years without a major loss. "We are seeing this now with good clients without claims," said Mr Jori.


Financial district, Madrid, Spain

"We have a lot of smaller companies in Spain and also a lot of subsidiaries of larger corporates. Combine that with the trend towards taking all underwriting decisions back to head office and there is a problem"

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Brokers need to understand this new trend and communicate the threat to risk managers and insurance buyers, he continued. "The real danger is that the insurers are then refusing to budge or even look at their history. We need to adapt to this new approach because as technology advances, this risk is only going to become greater," he said.

Mr Bartleet agreed about the data trend. "Any broker will want to talk to an underwriter and not to the actuary. But now it is all about the data and no longer an underwriting decision. They are becoming very difficult to manage. The underwriting decisions are no longer based on experience or knowledge, but are entirely around the actuarial answer," he said.

Mr Jori said this issue is complicated in Spain by the fact companies aren't often that big. "We have a lot of smaller companies in Spain and also a lot of subsidiaries of larger corporates. Combine that with the trend towards taking all underwriting decisions back to head office and there is a problem.

"We find that those head office underwriters are much more concerned with the €1m premium than they are with the €10,000 premiums from the Spanish businesses. Too often, the decision-making is cursory as a result and too far removed from us," he said.

Wolfgang Mercier, UnisonSteadfast president and CEO, added: "I think the development has evolved from the large brokers who wanted to do everything in a more centralised way. Now the underwriters are following their lead, so that now we have no local underwriting left. It makes it very complicated for us and our clients."

CLAIMS

Claims challenged by perfect storm

Claims have become quite a challenge during the perfect storm of Covid-19 and a hardening commercial insurance market, according to a group of UnisonSteadfast broker network members.

Working from home during the pandemic has had a noticeable impact on claims settlement, said those taking part in *Commercial Risk Europe*'s Future of Risk Distribution survey.

The brokers all agreed that it is much harder to get claims settled this year. As Jean -Luc Verbaet, director of international relations at Belgium-based Induver Insurance, said: "They [claims handlers] have all been working from home and they are distanced from the job and their employer."

He has heard tales from underwriters and claims handlers alike about the difficulties of working at home and communicating between teams, which is reflected in client service.

"One underwriter told me, 'before I lived for my job and was prepared to work long hours, but now I no longer live for my job', and that is a problem for our clients because they, and us, are just not getting answers to questions," he said.


Niek Post

Niek Post, commercial director at Kröller Boom International in the Netherlands, added: "They [insurers] don't care anymore because they have too much business and don't necessarily need us as they did before. We faced a situation where insurers simply stopped all business in November and right up to January, leaving us no time to sort things out – and that is reflected in the claims processes too."

The group moved onto a conversation about the growing use of co-insurance in the hard market and the challenges this brings. Like many risk managers, they are seeing programmes that were handled by one insurer being shared by several others this year, with a potential impact on claims.

One of the group said: "In the past we had insurers queueing up to take on a risk and now they will only want to take a small share – some as low as 5% of a risk. Not only does that involve more work for everybody but there are challenges on the wordings, which could be reflected on a claim."

Some other challenges have emerged in the past year from the pandemic and business interruption (BI) cover. The group acknowledged that few insurers had intended to provide non-damage BI for a pandemic – and even fewer insureds had set out with the intention of buying such cover.

Regardless of the rights and wrongs of the recent battles over claims, the brokers agreed this has certainly kickstarted a very lively conversation about wordings and consequences when losses hit.

BI itself is likely to come under scrutiny in much the same way that the market dealt with silent cyber a couple of years ago, they agreed. However, BI is a much-needed cover for their clients, along with CBI, and the brokers would like a workable solution.

As one suggested: "It would be ideal to have a global wording and the ability for clients to buy cover with higher deductibles, which would make it possible for insurers to provide cover."

However, there was a feeling that insurers will resist introducing too much cover, particularly while there is a very real risk of climate change-related claims.

The group said there need to be some open and honest conversations about how the insurance industry can continue to provide BI cover to corporates and pay the subsequent losses. This discussion must involve better communication, better understanding of the risks and a realistic approach to what can and cannot be covered, they added.

The brokers also discussed the effects of ongoing consolidation in the broking and insurance industry.

Thomas Haukje, managing partner at German brokerage Nordwest Assekuranzmakler, said it could create opportunities for close-knit smaller brokerages like the UnisonSteadfast members.

Jérôme Soubaigné, director distribution at the French brokerage Groupe SATEC, also believes it represents an opportunity.

"Larger companies will have to focus on internal issues through the merger processes. That will have an impact in terms of lost customers and also on a loss of talent. For us, there is a moment to seize an opportunity," he said.