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Systemic risks top agenda as German risk managers meet for GVNW

◇ SYMPOSIUM

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The new German government that will be installed after national elections on 26 September can expect to hear from its risk and insurance management community on the need for greater state involvement in the battle against systemic risks such as pandemics, natural catastrophes and cyber.

The German insurance management association GVNW meets on 9-10 September for its virtual annual Symposium, and the need for renewed effort on some form of public-private partnership (PPP) to deal with systemic risks will be one of the main topics of debate.

Last year, amid the height of the Covid-19 pandemic, GVNW teamed up with the German brokers association (BDVM) to submit a paper suggesting how a state-backed scheme could work to help deal with future health crises and wider systemic risks that the commercial insurance sector cannot deal with alone.

Cologne: one of several German cities hit by flooding in July this year

On Friday morning during the GVNW Symposium, the keynote speech will be given by Dr Hans-Georg Jenssen, managing director of the BDVM, who will focus on the following big question: 'Pandemic risk: can PPP models help?'

Alexander Mahnke, president of the GVNW, concedes that little progress has been made on this important topic since last summer. But he told *Commercial Risk Europe* shortly before the Symposium that the association is in no mood to give up and stressed again that any scheme should not be limited to pandemics.

"We are convinced this [PPP solution] is still possible and necessary when it comes to pandemic risk. We have said from the beginning that this should not just be limited to health crises. While we are lobbying for such a vehicle with a focus on pandemics for now, this should not be exclusive. Cyber or nat cats can also create

PPP: p3

Cat reinsurance pricing set to climb after heavy losses

◇ REINSURANCE

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Hurricane Ida and billion-dollar losses from European floods this summer are likely to push up the cost of catastrophe reinsurance at January renewals, including in Europe, but increased capacity and improved earnings in the sector may yet see further price rises flatten out more generally next year.

Even before these two disasters, extreme weather events, including record-breaking wildfires in Australia and the US, were already causing insurers to review their catastrophe exposures. If such events continue in a warming climate, the cost of catastrophe insurance is likely to rise further over the longer term, while some perils may become uninsurable without government intervention (see article on page 5).

This year is on track to be another costly year for reinsurers following a number of extreme weather events, including devastating floods in Germany and New York, an above-active hurricane season so far and the costliest US winter storm on record. Prior to the floods in Europe and Hurricane Ida in the US, the insurance industry faced a $40bn bill from natural catastrophes in the first half, the second-highest total for the period on record, according to Swiss Re.

Hurricane Ida is expected to become one of the costliest US mainland tropical cyclones on record. According to catastrophe modelling firm RMS, Ida could generate insured losses of up to $35bn in southern US states. This

LOSSES: p4

INSIDE–

SYSTEMIC RISK: GVNW still in favour of public-private solution

Continued from page 1

scenarios where the insurance market will not be able to respond," said Mr Mahnke.

"Unfortunately, we have not been very successful with this effort so far but more large insurance companies and their underwriters have started to 'blow into the same whistle'.

"But, at the end of the day we need to look at private-public partnerships schemes in order to face these scenarios collectively," continued the GVNW leader.

"From the public side we have not got much of a response. But we will continue the effort. You will hear about this during our Symposium. I hope that one day we will have a discussion on a national and European basis," added Mr Mahnke.

Pandemics remain front of mind of course, but evaporating cyber insurance for GVNW member companies and fast-rising losses will surely mean that any PPP discussions will also cover this critical risk.

FLOOD RISK

The new German government will also be hearing from the German Insurance Association (GDV) as it seeks to discuss potential solutions for systemic risks. It is now more focused on natural catastrophes in the wake of the massive damage caused by the recent floods and hail in Germany and neighbouring countries.

The GDV recently confirmed that these losses will make 2021 the costliest natural hazard 12 months for German insurers in at least 50 years.

The GDV, which presented its own proposals to the German government last year on a potential PPP to cover pandemic risk, has stressed heavily during the last few weeks how relatively little of the nat cat losses have been uninsured.

Nationwide, nearly all residential buildings are covered for windstorm and hail. However, only 46% of homeowners have protection against other natural hazards such as heavy rain and floods, said the GDV. Action is needed to tackle this problem at state level to help promote loss prevention, risk management and potentially mandatary cover, argued the association.


Jörg Asmussen

"It is important to reach those who, despite the recent flood disaster, do not want to believe that they too can be affected by natural hazards"

The GDV recently announced that it will present proposals shortly on how nat cat risks can be more effectively tackled on a cost-effective basis.

"Together with our member companies, we will be presenting ideas by autumn on how the spread of natural hazard insurance can be significantly increased at risk-based prices. It is also important to reach those who, despite the recent flood disaster, do not want to believe that they too can be affected by natural hazards," explained GDV managing director Jörg Asmussen.

"Everything must be done to prevent damage through protective measures or at least to significantly reduce its extent. The German insurers are therefore in favour of a new overall concept for climate-change adaptation consisting of education and binding measures for private and state prevention and insurance," he continued.

The GDV stressed, however, that mandatory flood insurance without robust incentives for better loss prevention and risk management will not work.

"As a single instrument [mandatory insurance], we reject it because it takes away the incentive to insure against flood and other extreme weather risks… At best, it would make sense if it were integrated into a new overall concept for land and building planning and disaster protection," said Mr Asmussen.

"It is encouraging that nearly half of building owners now have protection against other natural hazards. But for the rest, they should review and adjust their insurance coverage," he added.

The new German government will clearly have a lot on its plate, not least the ongoing economic recovery and need to balance public finances against a backdrop of rising unemployment.

But regular polling on what German voters see as the most pressing issues shows climate and environmental topics overtook migration in mid-2019 as the leading issue. The pandemic has, of course, overshadowed all other issues since last March. But concerns over the constantly rising cyber threat at national, business and individual levels is also high up the agenda.

Now would seem to be a good time for the German risk and insurance management community to team up with brokers and insurers to push a related-risk transfer solution forward, and collectively aim for a more resilient and insurable economy.

Hailstorms such as this one in Munich caused widespread damage in June this year

Snow in Austin, Texas: winter storm Uri caused estimated losses of $15bn

PRICING: Overall supply and demand still tipped in favour of buyers

Continued from page 1

estimate does not include the damage caused in Ohio, New England, New York and New Jersey. Other estimates put the insured losses as high as $40bn. Ida follows historical flooding in Germany during the summer, which is expected to cost about €7bn, and US winter storm Uri in February, for which losses are pegged at $15bn.

According to reinsurance broker Aon, natural catastrophe losses will be a "hot topic" during the January renewal negotiations. Mike Van Slooten, head of business intelligence for Aon's reinsurance unit, noted that industry nat cat losses at the end of August were already ahead of the ten-year average annual loss, with four months of the year yet to run, and two months of the hurricane season remaining. These claims add to the considerable burden of Covid-19 losses facing the industry, which are estimated at around $50bn, with $13bn falling on the four big European reinsurers.

"For the renewal, there will be sensitivity as to what happens for the remainder of this year," said Mr Van Slooten.

POTENTIAL RATE INCREASES

Brian Schneider, senior director at Fitch, said European flood losses are an opportunity for reinsurers to push through rates in the region, where prices have not increased in recent renewals. There were an estimated $13bn of losses in the region from storms and floods in June and July, including the costliest natural catastrophe event on record for Germany. These losses will impact renewals in affected countries as reinsurers seek to reflect catastrophe exposures in pricing, Fitch said.

Losses from Hurricane Ida are expected to be more of an "earnings hit" than capital event for the insurance industry, according to AM Best. But a sizeable amount of claims are likely to be ceded to reinsurers, it said.

"Hurricane Ida could pressure reinsurers, whose natural catastrophe budgets had already been increased following the Texas freeze, as they must contend with potentially high claims activity during the rest of the Atlantic hurricane season," said AM Best.

"Hurricane Ida will add to uncertainty about the growing frequency of weather events and provide momentum to reinsurance pricing," it added.

Moody's also expects "continued strong price increases" in loss-affected areas, most notably in the US. "A combination of environmental and social trends is driving up the frequency and severity of catastrophe events. We therefore see scope for further significant price increases, particularly since US and global property catastrophe prices remain well below 2012 levels, even after three years of increases," it said.

During 2021, events such as the Texas winter freeze, wildfires in California and flooding in Germany following storm Bernd have also underlined the growing impact of secondary perils, according to Moody's. More than 70% of the insured losses last year from natural catastrophes resulted from these high-frequency, low-to-medium-severity events such as thunderstorms, hail, wildfires, drought, flash floods and landslides, according to Swiss Re.

"Improvements in reinsurers' modelling of secondary perils – events such as wildfires that are less severe but more frequent than large-scale catastrophes such as hurricanes and earthquakes – will support further price increases as the industry incorporates updated risk assessments into its pricing structures," said Moody's.

"With property catastrophe reinsurance prices still well below 2012 levels, we believe further significant price rises are needed to restore reinsurance underwriting profit margins to adequate levels," the ratings agency added.

However, abundant levels of capital in the reinsurance sector are likely to limit any reaction to Hurricane Ida and the European floods. According to Aon, reinsurance capital levels increased by $10bn in the first half of 2021 to $660bn, including a $3bn rise in alternative capital to $97bn.

Robert Mazzuoli, director of EMEA insurance at Fitch, said risk-adjusted prices across the reinsurance sector are likely to flatten out next year, albeit at a relatively high level. "Capital adequacy in the sector and the return to underwriting profits will put a lid on further price improvements in most lines and we would expect more sideways movement," he said. However, prices in specialty lines that have seen losses, such as cyber and property catastrophe, are likely to increase in 2022 by as much as double digits.

According to Fitch, overall pricing momentum was fading going into 2022 as available capital in the reinsurance market remains abundant. "Traditional reinsurance capital availability will remain abundant in 2021 and 2022 as the sector saw capital inflows in 2020, which compensated for pandemic-related losses, while higher retained earnings will become available for redeployment this year and next," it said.

Moody's said the current upward pricing cycle appears to be driven by risk perception rather than a tightening of capacity, and may therefore be shortlived. "This is indicated by the relatively rapid deceleration in price increases for loss-free lines during the 2021 reinsurance contract renewals," it said.

REGIONAL VARIATIONS

Reinsurance rates in the US and Japan have increased following recent losses but the European market has remained broadly flat, according to Matt Foreman, head of non-marine retrocession and property specialty at Lockton Re. "However, the recent European floods will no doubt lead to European reinsurance rate increases at renewal," he added.

The loss costs for property cat rates have been increasing during the last five years, in addition to the reinsurance community's cost of capital, explained Mr Foreman. These increases have led to a steady increase in cat prices during this time period. "We would expect that trend to continue in the geographies that continue to be affected or in the areas most recently affected by losses – such as German floods," he said.

However, overall the supply-and-demand balance is still tipped in favour of reinsurance buyers with significant capital available, according to Mr Foreman. "Catastrophe reinsurance will remain readily available in the near future as long as reinsurers deem pricing adequate for the increased volatility that secondary perils and climate change might bring. The pure supply and demand equation still favours the buyer, but capacity continues to be price sensitive and wary of the increased impact of climate change and secondary peril losses," he said.

With reinsurance and retrocession remaining readily available, insurers and reinsurers do not appear to be limiting their catastrophe appetite for the most part, as long as their gross-to-net equations make sense from a rate adequacy perspective, he added.

According to Jennifer Marshall, director in the P&C ratings division at AM Best, there is continuing capital available to fund catastrophe products from alternative capital providers, such as the cat bond market. "While this capital is becoming more selective towards specific risk types and geographies, it does provide some buffer against pressure to increase rates," she said.

"Should we enter another period of relatively low cat activity, as we saw from 2006 to 2016, we may see prices decline. During those years, even large events, such as Superstorm Sandy and the Tohoku earthquake, did not have a lasting upward impact on pricing," she noted.

Extreme weather events hit insurer risk appetite

Higher costs and insurability a concern for buyers

◇ RISK

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Extreme weather events in 2021, including Europe's worst flooding in living memory and an active US hurricane season, are causing some insurers to reassess their appetite for catastrophe risk in a move that will likely support higher pricing at future renewals.

There are longer-term fears that changing weather patterns could see some parts of the world and certain risks become uninsurable.

"The appetite for catastrophe-exposed business is generally declining among the large commercial insurers and reinsurers. On the reinsurance side, this has resulted in reinsurers re-focusing on higher layers and being more selective on the regions and perils that they're covering. The less attractive business is finding a home, but perhaps at lower limits and higher prices, with smaller companies or new entrants that may not have the same high level of financial strength," said Dan Ryan, senior director in the P&C ratings division at AM Best.

Insurability will be a key topic in a warming world, one insurer told CRE. "There is a chance of some risks or regions becoming uninsurable and premiums unaffordable. Insurability challenges will manifest differently for different peril, for example wildfire and coastal storm surge being perils of concern," the insurer said.

This year is on course to be another costly 12 months for catastrophe losses. Hurricane Ida, which smashed into Louisiana as a Category 4 storm at the end of August, is currently expected to cost up to $35bn. This followed devastating floods in Europe during July, which are expected to cost insurers between €5bn and €6.5bn, according to catastrophe modelling firm RMS. The German Insurance Association (GDV) estimates insured losses in Germany at €7bn.

30
The record-breaking number of named storms recorded in 2020

Ida was the latest landfall in what has been an active hurricane season, following a record-breaking 30 named storms in 2020. According to Kroll Bond Rating Agency (KBRA), the average number of hurricanes has continued to increase in recent years. Today, the 30-year average is more than 40% higher for named storms and 60% higher for major hurricanes than the 30-year average from 1971 to 2000.

Swiss Re puts insured losses from natural catastrophes in the first half of this year at $40bn, well above the ten-year average of $33bn and the second-highest loss on record for a first half after 2011. Winter storm Uri, which brought Texas to a near standstill in February, caused an estimated $15bn insured losses in H1, the highest ever recorded for a US winter storm.

Insured catastrophe losses are on the rise, according to Yordanka Velichkova, catastrophe perils portfolio lead at Swiss Re. Inflation-adjusted natural catastrophe insured losses

6

have grown by 5% to 6% per annum since the reinsurer started tracking losses in the 1970s. "The annual insured nat cat loss burden today is 20 times bigger than 50 years ago," said Ms Velichkova.

The dominant drivers for rising losses are economic growth, urbanisation and asset growth in exposed areas, as well as socioeconomic trends such as changing claims behaviour, according to Ms Velichkova. While not the main driver today, climate change adds to the trend and makes certain events more severe or more likely to occur, she said.

CLIMATE CHANGE

For example, the July floods in Europe were in part a product of climate change, according to the World Weather Attribution (WWA) group, a collaboration of US and European climate scientists. It found the likelihood of such an event had increased by as much as a factor of nine when compared with a 1.2°C-cooler global climate.

"We are living in a world that is approximately 1.09°C warmer than 1850-1900, where climate change is already affecting every inhabited region across the globe. Hot extremes have become more frequent and more intense, while cold extremes have become less frequent and severe. The frequency and intensity of heavy precipitation events have significantly increased, while the changing climate exacerbates the favourable conditions for devastating wildfires," said Ms Velichkova.

According to AM Best's Mr Ryan, there appears to be a growing consensus that changes in climate risk are a key contributing factor to rising catastrophe losses, but not the only one. "While the size and frequency of events seem to have increased over the last two decades, it is difficult to distinguish, given the relatively short time history, between random fluctuations, short-term factors and long-term trends," he said.

In California, which suffered the single largest wildfire ever in 2021, population density has been growing in the wildland-urban interface (WUI), an area where homes and wildlands meet, increasing the risk of wildfires and property losses. Many climatologists also attribute recent extreme fires to excessive dryness in the region. "As a consequence, insurers and reinsurers alike are very keen on managing the aggregation of risk and their susceptibility to extreme weather patterns," said Mr Ryan.

Climate change is likely to influence future hurricane activity, according to KBRA. "While there are differing views within the scientific community as to whether climate change is helping to generate increased frequency of hurricanes, there is general consensus that climate change has contributed to greater storm severity," the analyst said.

Catastrophe modelling firm Karen Clarke & Company (KCC) says scientific studies have shown that climate change has led to increased intensity of extreme tropical cyclones, as well as increasing frequency and severity of the heaviest precipitation events and wildfires. "Collectively, these trends have led to enhanced coastal and inland flood, wind and fire risk globally. The new *IPCC Sixth Assessment* report confirms these findings," said Daniel Ward, senior atmospheric scientist at KCC.

Cheryl Fanelli, head of global catastrophe modelling at Lockton Re, meanwhile, said: "Climate change is likely to have been a factor in the 2020 hurricane season, while this year was also an intense year for wildfires in the western US. These are just a few examples that could lead to a conclusion that natural catastrophe events and losses are increasing with climate change."

Bushfire in Australia: natural catastrophe coverage continues to be a major issue in the country

RISING COSTS

Whether climate change-induced or not, extreme weather events during the past five years have steadily driven reinsurance pricing higher and some insurers with unfavourable loss experience have restructured their reinsurance programmes to manage sharply rising costs, explained KBRA. "If the recent pattern of active hurricane seasons has ushered in a new reality of natural catastrophes, property/casualty insurers will need to redouble their focus on underwriting profitability and risk management to protect their financial strength," KBRA said.

Across the insurance, reinsurance and retrocession markets, the cost of catastrophe cover has been steadily rising in recent years. This is driven by a number of factors, but is principally due to the continued above-average loss activity since 2017, said Matt Foreman, head of non-marine retrocession and property specialty at Lockton Re ."[This year] seems to be continuing that trend, with first-half losses significantly above near-term averages," he said.

US and Japan reinsurance rates have increased following recent losses, but the European market has remained broadly flat, said Mr Foreman. But he added that the European floods will lead to European reinsurance rate increases at renewal.

According to Jennifer Marshall, director in the P&C ratings division at AM Best, the cost of catastrophe insurance and reinsurance has been rising since 2018. "In the US, many of the large commercial insurers have been reassessing, and continue to reassess, their appetite for catastrophe-exposed business," she said.

Traditional reinsurers are looking to improve and stabilise underwriting margins against the backdrop of low interest rates, explained Ms Marshall. "Many insurers and reinsurers are either raising rates, tightening terms or rebalancing their risk appetites in certain territories. Reinsurers are doing the same by either reducing exposures in catastrophe-prone areas or moving their lines up higher in the reinsurance tower. As such, retention levels for many insurers have been increasing over the years, with limits either remaining the same or being reduced," she said.

With recent loss trends, major reinsurers have frequently exceeded their annual cat budgets, said Mr Foreman. "In fact, some large insurers and reinsurers have recently increased their annual cat budgets due to recent losses and the potential impact of climate change in the future – this will no doubt result in further increased pricing," he said.

History suggests some markets may become so unattractive that they are uninsurable in the private market, as happened in Florida after Hurricane Andrew in 1992, said Ms Marshall. "Some would probably argue that there are already places where so much capacity has exited markets that coverage is unaffordable. Regulatory intervention, such as restrictions on cancellations and price increases, may provide temporary relief, but in the long run could drive insurers out of certain locations entirely, having an impact beyond the property market," she said.

INCREASED COSTS

There will be increased costs along the entire insurance supply chain, for insureds and insurers alike, if loss costs increase, she continued. "Given the fire activity of late, we are beginning to see an exodus from the California wildfire market. This began after the 2018 wildfire season, prompting the state to place a moratorium on insurers non-renewing or cancelling property policies," she said.

In parts of Australia – which has seen big losses from bushfires, floods, hail storms and cyclones in recent years – there are concerns that catastrophe insurance for some perils and regions will become unaffordable. In response, the Australian government is establishing a reinsurance pool for cyclone and flood insurance in 2022, backed by a $10bn state guarantee.

According to Marsh, natural catastrophe coverage continues to be a major issue in Australia. Flood, wind, hail and bushfire limits are being imposed, with further restrictions introduced by limiting coverage to annual aggregate limits. Insurers continue to pursue significant rate increases for insureds that have significant natural catastrophe exposures, Marsh says in a recent report. In its half-year results, QBE said it continues to view catastrophe exposure with caution after losses in the period exceeded its recently increased allowance. The insurer is currently reviewing its catastrophe-exposed portfolios.

According to Ms Marshall, it remains to be seen if catastrophe insurance will become unaffordable or unavailable for certain high-risk perils. "But as long as events continue to occur with increased frequency/severity from historical levels, prices likely will continue to rise," she predicted.

Insurers and reinsurers in the US are taking similar measures to manage cat exposure, according to Mr Ryan. "In previous years, natural catastrophe budgets for major global reinsurers typically ranged from 5% to 7% of loss ratios. This year, however, a number of companies have doubled their nat cat budgets, at least temporarily until other exposure-management efforts take effect," he said.

Catastrophe reinsurance will remain readily available in the near future as long as reinsurers deem pricing adequate for the increased volatility that secondary perils and climate change might bring, said Mr Foreman. "The pure supply-and-demand equation still favours the buyer, but capacity continues to be price sensitive and wary of the increased impact of climate change and secondary peril losses," he said.

Risk management and modelling vital to secure nat cat insurability

◇ NAT CATS

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Risk management, catastrophe modelling and government support will be key to keeping natural catastrophe perils insurable in a changing climate, insurance industry experts have told *Commercial Risk Europe*.

This year has seen record-breaking floods in Europe, as well as wildfires, heatwaves and the costliest US winter storm on record. Increasingly, scientists are linking the rise in extreme weather events to climate change. The latest United Nations IPCC report concluded that human activity has led to "unprecedented" climate changes and associated extreme events. In September, the World Meteorological Organization said weather-related disasters have increase by a factor of five during the past 50 years, while economic losses had increased sevenfold.

"These events should serve as a warning that we are in crisis mode. Corporations should take concrete actions to reduce their impact on the environment and protect their operations from these changes. Corporations need to think for the long term," said Amar Rahman, global natural hazards practice leader at Zurich Insurance.

Rising catastrophe losses are already helping to fuel growing demand for catastrophe insurance and reinsurance, according to Yordanka Velichkova, Swiss Re's catastrophe perils portfolio lead. "Increased (re)insurance demand for effective nat cat protection is already here today and expected to rise – the global natural catastrophe protection gap is far from closed," she said.

If the (re)insurance industry is going to be able to continue to provide risk transfer solutions for nat cat risk, it needs to better understand exposures, particularly secondary perils, added Ms Velichkova.

"Natural catastrophe modelling capabilities for the peak perils such as hurricanes, earthquakes and typhoons are an undisputed fact, both as a costing as well as a risk management tool. For secondary perils such as hailstorms or wildfire, modelling capabilities, however, are far less developed. In view of the growing prominence of secondary peril events and associated losses, more attention to this risk set is needed. This is a prerequisite for sustainable coverage in the long run," she said.

INNOVATIVE PRODUCTS

As insurers develop confidence in climate-change projections, they can develop innovative products based on future scenarios, according to atmospheric scientist Daniel Bishop from catastrophe modelling firm Karen Clarke & Company (KCC). "The KCC models also provide valuable information to insurers on the impacts of various mitigation strategies that have the potential to reduce the rising costs of catastrophes. Property owners that invest in mitigating potential damage will also gain from lower premiums that reflect the benefits of mitigation," he said.

KCC scientists are integrating observed climate trends into catastrophe models, according to Mr Bishop. KCC is also developing nine future climate scenarios, as well as three emission pathways – for 2025, 2030 and 2050 – that represent the low-emission best-case, middle-of-the-road best-estimate and high-emission worst-case scenarios for each of its peril models, he added.

"The KCC future scenarios will provide a baseline to assess future risk and will be paramount to guide the insurance industry through a changing catastrophe risk landscape in the coming decades," said Mr Bishop. "The KCC future scenarios, currently being developed for the US Hurricane Reference Model, the Flood Model and the Wildfire Model, will capture the full impacts of short- and long-term climate change on future exposures," he said.

According to Mr Rahman, risk managers and insurers need to make use of these emerging tools and not wait for future developments. "All aspects of climate change are evolving and developing, from climate data and analysis tools to mitigation technologies and regulations. We can't afford to wait until these have matured and need to take immediate action," he said.

"We need to use the available data and tools, even if they are still in development and don't provide all the answers, to assess and quantify the risks to our organisations and develop solutions that serve not only the financial objectives of an organisation but society as a whole. This requires close collaboration between academia, regulatory bodies, all levels of government, industry and society," Mr Rahman said.

> **"Parametric covers and** catastrophe bonds have an important role to play in reducing the protection gap"

And the corporate risk manager role requires a "paradigm shift", he continued. "The risk manager should play a pivotal role in defining the mitigation and adaptation strategies, and defining and implementing the associated measures. There are huge opportunities for companies taking the lead in changing the way they operate but if these changes are not carefully managed, there are also risks associated with implementation."

GOVERNMENT SCHEMES

With growing natural catastrophe losses, government-backed reinsurance pools and schemes are on the rise. The UK, for example, established Flood Re in 2016, with a number of similar arrangements already in existence across Europe and the US for storm and flood risk. Australia plans to launch a government-backed cyclone and flood reinsurance pool next year.

Following the recent floods, German insurance association GDV said insurers are now in "favour of a new overall concept for climate change adaptation, consisting of education, binding measures for private and state prevention, and insurance".

"Against a background of dynamic socioeconomic trends and climate change, we expect that economic losses from both primary, hurricanes and earthquakes, and secondary perils will continue to rise. In this environment, the (re)insurance industry will have an increasing responsibility to strengthen global resilience through effective risk transfer solutions. So far, the industry has been coping reasonably well. Public-private partnerships will continue to play a role," said Swiss Re's Ms Velichkova.

Government pools will always be an option, according to Dan Ryan, senior director in the P&C ratings division at AM Best. "It's fair to say that we may see more of these sorts of arrangements. Furthermore, parametric covers and catastrophe bonds also have an important role to play in reducing the protection gap and supporting vulnerable communities. While public-private partnerships are a valuable tool, the hope would be for insurers to fill the protection gap. After all, that is the role insurance intends to play in society," he added.

According to Mr Ryan, better data, high resolution, risk aggregation and modelling are all important factors for the insurability of natural catastrophes. "The better the data, resolution and modelling technology, the more confident insurers and reinsurers will be in the output," he said. Retrofitting older properties, as well as improving and enforcing building codes, will also help reduce losses, he added.

Risk managers to the fore as pandemic drives push for resilience

◇ RISK MANAGEMENT

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As Europe tentatively emerges from Covid-19, risk managers are being called upon to help in a renewed push to strengthen corporate resilience after the risk function and many of its practitioners rose to prominence during the crisis, according to Ferma and other leading experts.

When Covid-19 first emerged last year, a panicked world turned to experts for help, and in the corporate space many looked towards risk managers to provide some sort of response.

Ever since, risk managers have been helping their organisations manage the pandemic crisis, which has boosted both their, and risk management's, standing. As a result, there is a new belief in the art and science of risk management, and organisations are now turning to risk managers to help them achieve better resilience.

FERMA SURVEY

Ferma has conducted a membership survey with McKinsey on the pandemic that will be published in full later this month. But the federation gave *Commercial Risk Europe* some numbers from the research and explained some of its key findings.

According to Typhaine Beaupérin, Ferma's CEO, the survey found that the Covid-19 pandemic has accelerated the push for building and sustaining corporate resilience. Meanwhile, three quarters of respondents believe that the role of risk manager will increase because of the evolving risk landscape post-Covid-19.

"It has never been more important for organisations to build and strengthen corporate resilience. Catastrophic events will grow more frequent but less predictable. The digital and technology revolution, climate change and geopolitical uncertainty will all play major roles. The potential for systemic risks has grown as a result of the increased interconnections between risks that the Covid-19 pandemic has shown us," said Ms Beaupérin.


Typhaine Beaupérin

Ferma's survey also reveals that risk managers have been closely involved in, or led, Covid-19 crisis management, business continuity and recovery plans.

It shows that 40% of risk managers surveyed either led (17%) or were heavily involved (23%) in their organisation's efforts to create and implement a pandemic crisis management strategy.

Some 33% either led or were heavily involved in creating, or rolling out, the recovery plan, and 30% in Covid-19-related communications.

And Ms Beaupérin said the survey shows risk managers have also been in contact with top management during the crisis.

"So now, businesses are looking strategically. In many cases, they won't be back to business as usual before the pandemic. They will incorporate and develop process and opportunities that they started – or accelerated – over the last 18 months. We're looking at the new normal. Analysing the resulting shifts in risk across the enterprise and updating the risk register are essential," she said.

"Risk and insurance managers are involved in the process of building resilience in a meaningful way, but there is room for them to lead and drive initiatives, for example in scenarios and stress-testing. We see this growing in importance with the evolution of risk profiles as a result of business changes in response to the pandemic," she added.

And many risk managers feel their industry has, on the whole, performed well during the pandemic, so is well set to make the most of the opportunity to help boost corporate resilience.

Daniel San Millán, corporate risk manager at Ferrovial and president of Spanish risk management association Igrea, said the pandemic has "lifted risk managers back into an important position" within their organisations and the industry has responded well.

"We have been called more often to lead prevention and mitigation, as well as risk transfer when possible… the world has changed radically, and the work of risk managers has been very good," Mr San Millán added.

BIG OPPORTUNITY

The president of German risk management association GVNW, Alexander Mahnke, said the Covid-19 pandemic presented a big opportunity for risk managers and risk management.

Many will have taken advantage of this opportunity but others may struggle, he added.

"If you were doing your job right and presented our function as something dynamic rather than static, you probably saw a great opportunity to present yourself.

> **"Risk and insurance** managers are involved in the process of building resilience in a meaningful way, but there is room for them to lead and drive initiatives"


Carolina Klint

> **"The changing risk** landscape requires risk management and resilience to be at the top of organisations' strategic agendas"

At the same time, where there is opportunity there is risk, and if you haven't done that then you might be in a lot of trouble," he said.

Fellow GVNW board member Christian Boehm agreed that Covid-19 has boosted the position of risk managers.

"It has shown the importance of risk management. I think that the decision-makers in the companies recognise this more and more," he said.

Carolina Klint, risk management leader for continental Europe at Marsh, said the pandemic has changed the way we think about risk as everyone learnt first-hand that low-frequency, high-severity events do happen, and their impact can be sudden and profound.

As a result, many boards and c-suite leaders have gained a better understanding of how risks are interconnected and can exacerbate each other, and are now pushing for stronger corporate resilience, she said.

Boards now know that risk management must be fully integrated with operations and strategy to achieve resilience. This has given risk managers "a clear seat at the table", said Ms Klint.

"The past 18 months have left us with a renewed appreciation of risk and the pandemic has forced conversations on how we understand, prepare and manage risks in a fast-paced environment. Risk managers, boards and c-suite leaders know there is always room to improve resilience, and the changing risk landscape requires risk management and resilience to be at the top of their organisations' strategic agendas," she said.

9


Stephen Sidebottom

Stephen Sidebottom, chair of the Institute of Risk Management (IRM), has heard of "extraordinary" efforts from risk managers and risk management teams to anticipate and respond to the pandemic's impact.

This includes practical operational risk management measures, anticipating and getting ahead of possible Covid-related risks, using data to provide early insights, and providing real-time risk assessments as the pandemic has unfolded.

Such endeavours haven't gone unnoticed, and Mr Sidebottom believes boards everywhere are now taking risk management seriously and risk managers have a unique opportunity to rise up and prove their worth.

> **"Great risk management** is increasingly also about understanding horizon threats and identifying ways to build sustainable growth"

"There can't be a board anywhere that doesn't now take strategic and enterprise-wide risk management seriously; businesses across Europe have different levels of risk maturity and some are better placed to manage these unfolding opportunities and threats. The challenge for risk managers is to step into this strategic space for the long-term and, to the extent they haven't already, embrace a holistic system-wide view of business risks," he said.

He added that rising to this challenge goes well beyond traditional risk management approaches and a focus on risk registers and core processes. "Great risk management is increasingly also about understanding horizon threats and identifying ways to build sustainable growth – whether that's new markets, global opportunities, upgrading infrastructure or investing in new technology and automation," he explained.

"By channelling their skills and attention towards learning from the current crisis in a way that identifies new sources of value and growth, professional risk managers can help bring their organisations into a new competitive league. Good risk management is a major competitive advantage, and outstanding risk managers are the cornerstone of sustainable organisational growth and success," continued Mr Sidebottom.

He stressed that the risk manager job is increasingly about getting an organisation's risk culture, or risk DNA, to a place where it improves an organisation's capability to respond to unforeseen events and global uncertainty.

"This requires a sharp focus on strategic risk management, sustainability and resilience. None of these are new topics, but all now have a much deeper resonance," he added.

EMERGING RISKS

Ms Klint believes the pandemic has accelerated trends that have been coming for a long time, and many businesses are still grappling with how to build resilience and survive in the long term.

So while the focus on resilience is pandemic-related, other risks such as cyberattacks, extreme weather events, regulatory changes in sustainability reporting, and increased public scrutiny, are also high on the agenda, she said.

Ms Klint added that organisational resilience is so much more than business continuity planning and the capacity to absorb negative events.

"Resilience enables organisations to both foresee upcoming threats and capitalise on opportunities, beyond the ability to recover quickly from and respond to events. We see a direct correlation between resilience and viability, growth and competitiveness," she said.

Event risk managers face challenging market

◇ COVER

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The event cancellation market is rebounding but buyers are likely to find conditions challenging, with increased rates and limited capacity for very large events.

Demand for contingency insurance all but disappeared during Covid-19 lockdowns just as insurers were hit with big losses. With major events cancelled or postponed in 2020 and into 2021, the contingency insurance market faces losses of about $7bn. This figure may well increase as rising Covid-19 infection rates in parts of the world lead to further cancellations.

"The contingency market was hit massively by Covid-19. With an annual premium base of around $500m, the market is facing losses nudging $7bn. Claims have been huge, so understandably there has been a reaction," said Duncan Fraser, global practice leader, sport and entertainment at Howden Insurance Brokers.

However, going forward, the outlook is more positive, he said. "Insurers' reserves for Covid-19 losses are largely accounted for, and while Covid-19 is unfortunately now widely excluded, clients are coming to the market and buying insurance," he said.

Average rates for event cancellation insurance are now almost double pre-Covid levels depending on the risk, according to Edel Ryan, head of strategy in Marsh's sport entertainment and media industry, UK and Ireland. Even before the pandemic, the contingency market faced challenges with weather-related and huge prize indemnity losses that were significant factors in reviewing rating viability at many insurers, she said.

CHALLENGING MARKET

Prices for event cancellation insurance have risen, but rate increases vary widely by type of event, according to Mr Fraser. A well risk-managed event will find prices are 10%-20% higher than pre-pandemic levels, while some "weather-prone" events and "hotspots" have seen increases of 200%-300%. "Only now is pricing beginning to settle," he said.


Edel Ryan

"The market is challenging. We are seeing price increases and restrictions on terms and conditions. Where insurers have left the market, others have come in, and the market is competitive. But there is less capacity in the market," said Mr Fraser.

While most buyers will find adequate capacity to meet their needs, it is more challenging to buy large limits of $100m or more for bigger events, he explained. "Where capacity for large events was readily available before, now it is more challenging and we need to access insurance and reinsurance markets around the world," he said.

But the market has attracted new players and risk appetite has rebounded, according to Ms Ryan. "In recent weeks, we have been getting feedback on quotes much quicker. There is an eagerness and appetite to write more business. Clients want to hold events and markets want to cover them," she said.


Latitude Festival went ahead this year in Suffolk, UK

"We are seeing the market begin to show signs of stabilising and there is definitely a positive difference in engagement," she added.

But despite positive signs, the contingency market will take longer to fully stabilise, according to Philip Hall, managing director for specialty at Tokio Marine HCC. "Until we see a full 'normal' flow of business, which we are not currently seeing, we can't confirm if the market has stabilised and recalibrated. We are hopeful that the market will return to a more stable environment after the extreme losses within this class, but it may take longer for this to happen," he said.

REOPENING

As Covid-19 restrictions begin to lift in many countries due to vaccination programmes, live events, conferences, trade shows and theatres are beginning to reopen. As such, demand for cancellation cover has increased. Festivals and other live events, particularly in the UK and the US, have been held during recent months. "We have seen the return of clients, with lots of enquiries coming through. Cancellation has certainly moved up the priority of event organisers," said Ms Ryan.

While demand has increased, the market is not yet near pre-pandemic levels, said Mr Hall. "The US market was the first to emerge, with most of the country seemingly open at full capacity, but in Asia, Europe and the UK, the majority of the business we have seen has been big events, which are not reliant on ticket revenue. Day-to-day business has yet to return, with event organisers nervous to commit to a spend when worried that attendance could be limited by further lockdowns or social distancing provisions," he said.

Although live events have resumed, the cover that organisers want to buy most – pandemic cancellation – is not available in the market. Following the outbreak of Covid-19 in early 2021, insurers introduced strict exclusions for Covid-19 and infectious diseases more generally. Those exclusions have held, although a few underwriters will now offer cover for non-human disease outbreaks, such as foot and mouth or equine flu, explained Ms Ryan.

Insurers have largely excluded Covid-19 and communicable diseases, but Howden has arranged pandemic-related cover for some clients, according to Mr Fraser. "We have been able to cover Covid-19, but at a price, and some clients have been willing to pay it, although for the majority it is too expensive," he said.

Cyber cover is also being restricted in the contingency market, said Mr Fraser. "Some insurers see cyber as the next big topic, and we have seen a number of cyberattacks in the sports world, including in football. Cover is being restricted and is now clearly defined and limited," he said.

GOVERNMENT SCHEMES

The UK market is likely to receive another boost as the Covid-19 event cancellation reinsurance initiative opens for applications. In August, Lloyd's said it will offer at least £750m worth of pandemic cover to the events sector under the new government-backed initiative. The solution will offer protection from participating markets against certain Covid-19 event cancellation risks from September 2021 until the end of September next year.

"Without knowing all of the details, it is difficult to predict the effect of the scheme on the market. However, the insurance industry as a whole hopes that it will be a catalyst that provides event organisers with the peace of mind necessary to start planning events with confidence," said Mr Hall.

However, there are limitations, such as the scope of cover and likely cost, explained Mr Fraser.

"We see the scheme as a positive first step," he said. "The team at Howden has put in a lot of work to help get it in place. It is early days and only a number of Lloyd's syndicates have signed up, but we would expect others will follow suit. The reaction from clients to the scheme has been mixed. I expect some will buy the cover but not those where margins are tighter. The cover is expensive for events where margins are slim. But it is good to have a solution," he added.

The scheme's details need to be ironed out but it is expected that Covid-19-related event cancellation cover will be made available from participant insurers alongside traditional contingency insurance. However, exclusions will remain in place and there are likely to be gaps in cover, such as non-appearance due to Covid-19 infections, said Ms Ryan.

Pandemic cover under the scheme will come at a cost. Rates will be 5% of the sum insured, in addition to an average doubling of increases for traditional contingency cover.

The scheme is not the first, neither is it likely to be the last. Last year, Austria became the first country to establish an event-cancellation solution, a move since followed by other European countries, including Germany. The live events industry in Australia has called for a scheme similar to the UK/Lloyd's proposal.

Mr Fraser is confident that the contingency market will soon begin to work on solutions for infectious diseases and could potentially plug gaps in Covid-19 cover provided by the UK and other schemes. "I expect we will see development around infectious disease cover sooner rather than later. We have had conversations with the market, and as long as aggregations are monitored, insurers can put out limited capacity for a price," he said.

Risk managers and rival brokers benefit from Aon-WTW deal collapse

Members of Europe's risk and insurance management community have been remarkably restrained during the last year or so when asked their opinion of Aon's proposed bid to merge with Willis Towers Watson (WTW).

Nobody of course has said: "What a brilliant idea, this will really help me obtain broader and more innovative coverage at an acceptable price in a really tough market."

But equally there have been no leading risk managers who have been willing to really criticise the deal on the record and plainly state that it was constructed for the relatively short-term benefit of shareholders, and presumably top Aon and WTW staff, rather than customers.

This relative silence presumably came about because if the deal had been completed, risk and insurance managers would have been left in a difficult position as they leant harder than ever on their brokers to secure the best possible terms and conditions in what will remain a tough market for some time yet.

One has to presume, however, that the concerns of policyholders about lack of choice and competition within the broking sector, particularly in the high-value multinational space, were voiced off the record to regulators and competition authorities in Europe, North America and Asia.

It is surely difficult to imagine that the EU and, more importantly, the US Department of Justice (DOJ) would have reacted with such force without hearing the concerns of actual customers, whose interests they supposedly acted to defend when demands were made for WTW to offload increasingly significant chunks of business to enable the deal to go ahead.

But insurers and reinsurers would have played their part too in the deal collapsing, because they would not have liked the further-consolidated broking community holding even more cards and negotiating power.

Other brokers will have had mixed feelings about the planned deal. The downside would have been a monolithic Aon to battle with when pitching for new business. The plus side, however, for players like A J Gallagher, was the big chunks of retail business up for grabs because of regulatory concerns and the natural departure of valuable individuals and teams that has already occurred.

So, it seems obvious that customers have played their part in the termination of Aon's bid for WTW at the cost of a whopping $1bn breakup fee and all the hidden costs of lost time, legal and bankers' fees and, most importantly, lost staff.

From a big-picture perspective, the deal's termination is a plus for risk and insurance managers worldwide. Apart from reduced competition, they will not now have to deal with an Aon-WTW monster preoccupied with internal politics, uncertainty and cost-cutting to hit promises made to equity analysts.

The other big potential plus to come out of this for policyholders is the prospect that the deal appears to have energised the 'second tier' brokers below Aon, WTW and Marsh, to build and grow their international capabilities.

A J Gallagher would have been the big winner in Europe had the merger gone through. The $3.57bn deal that would have seen the broker acquire serious chunks of business in leading European markets such as Germany, France, the Netherlands and Spain is now also off. But it didn't take long for A J Gallagher to subsequently agree a deal for Willis Re worth $3.25bn and potentially rising to $4bn.

And A J Gallagher will continue to build through other targeted acquisitions – it completed two in the US and two in Europe in June and July alone. Likewise, risk and insurance managers can also presumably expect other fast-rising brokers such as Howden, McGill & Partners and Oneglobal to continue their impressive growth paths.

Meanwhile, UK based private equity-backed firm Ardonagh Group is launching a European unit as it prepares to take its buy-and-build model to the continent.

Ardonagh Europe will form part of the broker's international segment and operate alongside Ardonagh Global Partners. The broker is on an expansion drive and said it expects further "substantial" growth and investment into international markets, including through Ardonagh Europe, during the next year and beyond. Ardonagh will complete its $500m acquisition of Ed Broking Group and Besso Insurance in 2021.

And the rise of such interesting options is not limited to London-based firms. Private equity firm Charterhouse Capital Partners recently announced it has entered into exclusive negotiations for the sale of leading independent French broker Siaci Saint Honoré to a consortium of investors led by Burrus Group, the majority shareholder of rival independent French broker Diot.

Charterhouse said the deal and combination of the two French brokers will create an independent European leader, and one of the top ten international players in the sector.

In Germany, AnaCap Financial Partners (AnaCap), a specialist mid-market private equity investor in the technology-enabled financial services sector, announced that its German commercial lines broking company MRH Trowe (MRHT) has completed four more bolt-on acquisitions to add to the three carried out earlier this year. The latest string of acquisitions by AnaCap firmly places MRHT among the top ten largest German industrial insurance brokers.

The point is that, while the Aon-WTW deal is now dead, it appears to have ignited a process among European and global independent brokers, and private equity firms backing them, that can surely only be good news for commercial customers as they seek to secure the best possible terms and conditions, as well as innovative partners that really care.

Somewhat bizarrely, risk and insurance managers in Europe and worldwide, along with a lot of ambitious brokers out there who don't work for Aon or WTW, actually owe Greg Case and John Haley a drink!

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GDPR begins to bare its teeth with two record fines reaching nearly €1bn

◇ GDPR

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Messaging service WhatsApp was fined €225m for GDPR breaches by Ireland's Data Protection Commission (DPC) last week, just a month after the record €746m levy against Amazon, as the regulation begins to bite.

The WhatsApp fine is significantly higher than the proposed DPC penalty after objections from other European regulators that it was too low.

The European Data Protection Board (EDPB) instructed the DPC to "reassess and increase" its proposed fine, which was reported to be capped at €50m.

The EDPB argued that the turnover of parent firm Facebook should be included to calculate the maximum levy of up to 4% of global annual turnover under GDPR rules, to ensure the fine is "effective, proportionate and dissuasive".

WhatsApp said it disagrees with the decision and severity of the fine. It plans to appeal.

The WhatsApp fine becomes the second-largest GDPR fine to date and follows hot on the heels of the record €746m penalty against Amazon in July, which is also subject to an appeal.

Both seem to strengthen the force of Europe's data protection rules introduced in 2018 and smash the previous GDPR record of €50m against Google in 2019/2020. Although the sums involved may not make the tech giants quake in their boots, they are significantly higher than anything that has gone before. Risk managers may well be a bit more nervous today about the GDPR than they were a couple of months ago.

WhatsApp has been fined €225m

The EDPB has also now set a precedent in the WhatsApp case by clarifying that all multiple GDPR infringements for the same or linked processes, under Article 83, should be taken into account when calculating fines.

The DPC was designated as lead supervisor for Europe's GDPR investigation into WhatsApp Ireland at the end of 2018, after concerns users were not made aware their information could be shared with owner Facebook and its other companies.

Towards the end of 2020, the DPC submitted its draft decision to Europe's supervisory authorities involved in the case for approval. However, eight objected and the EDPB stepped in after the DPC "was unable to reach consensus" with the other regulators.

The EDPB said its review found "additional shortcomings" with WhatsApp's transparency and instructed the DPC to add an infringement of Article 13 and Article 5 "in light of the gravity and the overarching nature and impact" of the breaches.

The DPC has also reduced the order-to-comply period, during which WhatsApp is expected to correct GDPR infringements, from six months to three months. This in line with a request from the EDPB.

Facebook is reported to have set aside €300m for regulatory fines in Europe for 2021 and almost €78m for WhatsApp.

AMAZON FINE

The Amazon fine by Luxembourg's National Commission for Data Protection (CNPD) was for processing personal data in violation of the GDPR's rules.

The news was revealed in an Amazon US Securities and Exchange Commission (SEC) filing. In that document, the e-commerce giant said that it believes the CNPD's decision is "without merit" and said it intends to defend itself "vigorously in this matter".

"There has been no data breach and no customer data has been exposed to any third party. These facts are undisputed. We strongly disagree with the CNPD's ruling," stated the firm, according to Bloomberg.

The decision concludes an inquiry that was sparked in 2018 by a complaint brought by French privacy rights group La Quadrature du Net. It cautiously welcomed the decision.

Demand for cyber cover up in Spain just as capacity falls and prices rise

◇ Cyber

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Demand for cyber insurance is on the rise in Spain, following a spike of incidents such as ransomware attacks, and the tightening of cybersecurity rules by the European Union.

But at the same time, the insurance market is reducing capacity and increasing scrutiny on cyber insurance buyers, in an example of how the hard market is creating challenges for Spanish companies.

According to the latest study on cyber security in Spain published by Aon, cyber insurance premiums reached €75m in the country last year.

The broker estimates that the volume of renewed premiums was between 25% and 60% higher than in 2019. Higher premium rates are accountable for part of the reason for the increase, but Aon has also spotted a growing number of Spanish companies purchasing cyber insurance for the first time.

Among the drivers of demand is a strengthening of European cybersecurity regulations, which include a new cybersecurity strategy approved in December 2020, as well as publication of the draft Digital Operational Resilience Act in September last year.

Spanish companies have also been spooked by a sharp increase of cyber incidents such as ransomware attacks. High-profile losses like the interruption at Spain's jobs agency SEPE in March have placed the threat high on the list of priorities for Spanish firms.

However, although demand for cyber cover is increasing, capacity has gone in the other direction. Aon estimates that the highest limits available for buyers dropped 45% last year, reaching €165m. And this amount is only available for exceptional cases. The general capacity for large cyber risks has dropped 60% to €97.5m, according to Aon.

And things are getting worse for buyers in 2021. Aon reports that the maximum capacity offered by insurers in Spain has dropped further to €130m.

Lower capacity is not the only challenge faced by buyers. According to Aon, insurers are constantly changing their underwriting guidelines as they try to keep up with the evolution of cyber risks. Furthermore, quotes are valid for a mere 30 days.

Aon notes, however, that there is still enough capacity to meet the demands of the largest cyber insurance programmes in Spain.

The Aon research also finds that critical infrastructure companies bought the highest amount of cyber insurance last year, taking out 28% of the total among Spanish organisations. These companies include telecoms, energy firms and banks, among others.

Manufacturers accounted for 27% of total premiums, while professional services had a 20% share in 2020.

Worryingly, however, a pitiful 2% of cyber insurance sold by insurers last year was bought by entities linked to the several layers of Spanish government. Aon stresses in the report that these are exactly the kinds of companies most exposed to cyberattacks currently, as hackers target their lack of preparedness to make a quick buck.

Participants in a web conference organised by Aon to present the study urged government entities and companies alike to put much emphasis on the assessment and mitigation of cyber risks, which means looking forward rather than leaning on past experience.

"Ransomware is only one kind of attack and it is always evolving," said Jose Carlos Jimenez, a senior underwriter at AIG in Spain, during the conference. "In cybersecurity, when you think about the present, you are already thinking about the past," he added.

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As Germany's risk managers prepare to meet for the annual GVNW Symposium in September, **Adrian Ladbury** examines some of the hot topics facing German risk and insurance managers that will be up for discussion

Germany at the crossroads


Germany was hit by catastrophic flooding in July

◇ SYMPOSIUM

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The German risk and insurance management community meets for its annual GVNW Symposium on 9-10 September, at something of a turning point for the insurance market and wider German society.

First, it's fair to say that GVNW members suffered more than most risk managers across Europe during recent renewals, as the industrial insurance sector finally got its house in order and re-underwrote significant portions of its books, after years of losses in industrial fire and business interruption in particular.

Some important sectors such as the auto supplies market suffered brutal treatment. And this basic re-underwriting occurred just as the wider soft market finally came to an end.

The arrival of the pandemic made the process all the more painful as the sudden shift to homeworking made communications – already under stress – much more difficult. It was not a great time for GVNW members.

The half-year results published by leading industrial insurers clearly show, however, that the re-underwriting process has worked and the direct impact of Covid-19 was not been as bad as most expected.

These results suggested that the coming year-end renewals would not be nearly as painful and stressful as last time around. The bottom of this cycle had surely been reached.

STORM BERND

But then came Bernd to add to earlier catastrophic hail losses and deliver the most expensive nat cat 12 months for German insurers in 50 years. Any fat that may have persuaded the leading German insurers to start seeking volume again above profit has surely been shed.

The renewal will not be as bad as last year but it will still be tough for GVNW members. GVNW will be using its Symposium to once again urge insurers to take a more balanced and portfolio-based view of members' risks and how they are managed. Brokers need to back up their customers strongly.

The other big topic of debate at this year's Symposium is likely to be the need for a more joined-up approach to future systemic crises, whether pandemic, cyber or nat cat driven.

With the change of German government towards the end of this month likely to lead to a shift towards the SPD and the end of the Angela Merkel era, the mandate held by the new leadership will be largely based on concerns about climate change and the pandemic – not surprising, given recent events.

This is indeed a great opportunity for the GVNW to work again with the broker association – BDVM – and the insurance association – GDV – to lobby the new government for a risk-based public-private partnership to help tackle these systemic risks that the insurance sector cannot handle alone.

We look forward to a positive and constructive debate during this year's virtual Symposium!

FLOODS

German insurers face costliest natural hazards for 50 years at €11.5bn

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The flood disaster that hit large parts of Germany and neighbouring countries in mid-July, as well as the devastating hail in early summer, are set to see German insurers suffer their highest natural hazard losses for at least 50 years in 2021 at €11.5bn, the country's Insurance Association (GDV) has estimated.

"The insured storm damage to houses, household effects, businesses and vehicles should amount to around €11.5bn," said GDV managing director Jörg Asmussen, on the losses facing German insurers this year.

"Therefore, 2021 could be the most expensive year for natural hazards since our statistics began in the early 1970s," continued Mr Asmussen.

The long-term average nat cat loss per year for German insurers is €3.8bn.

The GDV's latest estimate for the July floods is at least €7bn. Of this, about €6.5bn is attributed to residential buildings, household effects and businesses, and about €450m to motor vehicles.

The storm front Bernd swept across large parts of Germany on 13-18 July. Heavy rain, flash floods and flooding caused severe damage in Rhineland-Palatinate and North Rhine-Westphalia, as well as in Bavaria and Saxony.

A series of hailstorms in Germany had already caused about €1.7bn of insured losses in June. "The hail damage to around 275,000 cars alone cost the insurers around €700m," said Mr Asmussen. German motor insurers suffered the fourth-largest hail damage since the GDV statistics began. The most expensive event remains the 'Munich Hail' of 1984 at more than €2bn.

The bad news for German insurance managers as they gather for the GVNW's annual Symposium is that the big losses suffered by German insurers from natural catastrophes will not make their wider renewals any easier.

The GDV warned that against this background, the insurance industry has to be prepared for a negative result in P&C lines. "We expect the property/casualty sector as a whole to be in the red this year," said Mr Asmussen. "This was most recently the case in the flood years of 2002 and 2013, when the Elbe, Danube and adjacent rivers overflowed their banks and triggered flood disasters," he added.

The GDV said that while third-quarter results will be hit, customers do not have to worry about their carriers' solvency. "Insurers can shoulder services of this dimension for their customers. You are reinsured yourself and have more than adequate capital buffers. At the end of 2020, property and casualty insurers reported equity of around €120bn," stated the association.

The GDV again stressed that businesses and individuals need to wake up to the level of uninsured property in the wake of these losses and consider how to protect themselves against future events.

"The economic storm damage meanwhile goes far beyond the insurance damage. Because many buildings are only partially insured – almost all of them against storms and hail, but less than half against heavy rain and floods," stated the GDV.

CRE's **Adrian Ladbury** speaks to GVNW president **Alexander Mahnke** on some of the big issues facing his members ahead of the German risk management association's annual Symposium

German market prepares for the new normal

◇ GVNW

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Alexander Mahnke says that German companies have reacted well to the Covid-19 crisis and have learned many lessons, not least that home working can work and employees can be trusted. But he stresses that face-to-face contact and relationships remain fundamental in this complex and often testing insurance market.

Partnership will be key as insurance managers, brokers and insurers enter the sharp end of their annual renewals, particularly when it comes to business interruption, cyber and D&O lines, he adds. The GVNW would also like to see a renewed effort to create lasting solutions to systemic risks, including health crises, cyber and natural catastrophes, through public-private partnerships.

Adrian Ladbury (AL): As Germany and the rest of Europe tentatively emerges from the Covid-19 crisis, how should risk and insurance managers help their companies prepare for the next phase and what lessons need to be learned to help cope with such future crises?

Alexander Mahnke AM: It's tough because it all depends on the sort of industry you are in and how your company is organised. In my main job, I am insurance risk manager at Siemens. I have been working remotely for almost one and a half years now, so I'm not in the position to know yet when we are going to be back to 'normal'.

Many of GVNW's other member companies are already going back to the office. From what I am seeing, many of our members seem well prepared to go back and create whatever the new normal is going to be.

In terms of lessons learnt, most companies that had their emergency and contingency plans in place were probably surprised by the pandemic but managed to handle it very well. The majority have handled it well.

So, I think the main lesson learnt is that those emergency and contingency plans are not just there for theoretical reasons – they sometimes need to be put into practice.

GVNW president Alexander Mahnke says you don't get the same feeling with remote meetings as when you are in a room with people

The economy has been recovering quite well and much faster than we thought at the beginning. A very important point is that it is clear that we can really trust our employees. Leaders and managers were pleasantly surprised by how well things worked and that everyone did the right thing.

Everyone adapted really quickly to a new way of working and there is now real trust in people working from home. Germany has not had a lot of experience of people working from home and trust is important. We need to look at this closely when looking at the new model.

I knew my team was working really well and was prepared for this sort of situation. We did experiments with home-office working in the past. Those in the older generation thought that having people sit at home to do their work wasn't going to be successful.

For me, it's about emergency planning, preparing, giving your people the right technology and putting trust in them.

AL: How have negotiations with the insurance market worked, and internal planning for renewals and the like worked, on a remote basis? Has it gone well? Could it and should it continue on this remote basis?

AM: Using technology for remote face-to-face meetings is working very well on the whole. But it is two-dimensional. You don't get the same flair, the same feeling as when you are in a room with people. We cannot work exclusively in this way. We talk about the new normal, but it's not necessarily new, it's about getting to normality.

Physical, in-person meetings will become important again. I don't think we're going to lose this. We will probably replace some inefficient business trips that all of us have done in the past. But remote working cannot replace in-person meetings totally.

When it comes to difficult negotiations, remote working is not ideal. If I was to talk to an insurer, an underwriter and I wanted to impress the person on the other side of the screen, it's much more difficult than when you are in a room together. On a remote basis, it's much easier to say no to someone.

It has been a hard market and this has had nothing to do with Covid. Because of the hard market, negotiations have been a lot tougher anyway. It was just an additional difficulty to carry out negotiations in a remote manner.

> **"Cyber is a problem because not** so long ago cyber insurance was sold very aggressively by the same insurers who are now saying: we can't provide you with more capacity"

AL: This time last year there was much talk of the need for public-private partnerships to help cope with the next crisis – health or otherwise. GVNW supported this concept and teamed up with the German brokers association to try and generate some positive discussion with the authorities and wider insurance market. But we are not seeing much progress in Germany or elsewhere in Europe. Is this still possible and what needs to happen to make it work?

AM: We are convinced this is still possible and necessary when it comes to pandemic risk. We have said from the beginning that this should not just be limited to health crises.

While we are lobbying for such a vehicle with a focus on pandemics for now, this should not be exclusive. Cyber or nat cats can also create scenarios where the insurance market will not be able to respond.

15

Unfortunately, we have not been very successful with this effort so far, but more large insurance companies and their underwriters have started to 'blow into the same whistle'.

But at the end of the day, we need to look at public-private partnership schemes in order to face these scenarios collectively. From the public side, we have not got much of a response. But we will continue the effort. You will hear about this during our Symposium. I hope that one day we will have a discussion on a national and European basis.

AL: As GVNW members gather for their annual Symposium, what can they expect at the next renewal from the insurance market? Surely, coming renewals will be less stressful than the last, as the recently reported half-year insurer results appear to show that they have weathered the Covid-19 storm pretty well and delivered healthy profits and combined ratios? What are you expecting from the market?

AM: I don't think the hard market and the prices we have been seeing recently are going to go away. Our expectation is that, when it comes to individual discussions between an insurance company and its client, it's all about planning and foreseeability.

We want to know way before the actual renewal date what sort of pricing expectations and capacity we are going to see; we don't want to see that at the last minute and then have to rapidly turn around our marketing programmes or face capacity losses, as our members have seen in the last year.

So, it's all about timely communication, foreseeability and being able to plan. I expect this business renewal will be easier and better than last year. I haven't seen a single insurer that hasn't made the promise that we will all learn from mistakes in the past, so we expect things to be easier. On the other hand, there are some lines of business where there will be continued capacity problems and they're probably not going to go away.

AL: What lines will be more difficult for GVNW members and what are the options?

AM: Property business interruption continues to be challenging, especially in some industries. But when it comes to capacity, the lines that are most affected are D&O and cyber. D&O is a problem because any loss of capacity in a large programme creates management focus and you have to explain that. Cyber is also a problem because unfortunately, not so long ago cyber insurance was sold very aggressively by the same insurers that are now turning around and saying: we can't provide you with more capacity. Some are cutting capacity in half and doubling or tripling the prices! In terms of a sales story for those companies buying cyber as a standalone cover, it's very difficult to explain.

And I find it very difficult to explain to any manager why there are not capacity problems on the liability property programme but there are on the D&O programme. Managers are saying: "But we are talking about the same insurance companies. The insurance market likes our broader company risk but they don't seem to like me!" This can be difficult to explain.

> **"ESG is a very important topic** that is going to change many things in our industry"

AL: What is the problem in D&O? Why has it become such a tricky line in Germany? Have there been specific legal developments driving the withdrawal of capacity and appetite?

AM: There have been no particular law changes. Over time, Germany has been seen to become quite a risky D&O market in terms of claims.

At the time when D&O was promoted in Germany in the late 1980s, insurance companies didn't expect to get any claims because they thought Germany and the German legal system didn't feel that dangerous. This has proven to be different over time.

Also, there has been very aggressive competition in the German market. D&O capacity was largely underpriced. At some of our D&O-specific events, we even pushed for insurers to provide less-broad coverage and concentrate more on what the focus for D&O insurance should be.

Now we are getting all these claims. The big ones you can read about in the press. It's also the smaller claims that are really eating away capacity and affecting pricing. All of a sudden, D&O isn't that interesting anymore.

Having said that, I think D&O should be part of the wider insurance programme. It shouldn't be looked at individually as a separate line but as part of the whole.

While maybe the pricing doesn't seem great on the D&O element, if you look at the portfolio of coverage that you provide to any company, you can still make a good business out of it. I think that's what we need to talk more about.

In the future, we will probably see more discussions about the overall portfolio of insurance lines in any particular company and less talk about individual pricing. I don't think standalone D&O carriers will have the brightest future in our market.

AL: Do you really think that the market will change over time in this positive manner? Or do risk and insurance managers have to accept that this is the way the market is, the cycle remains?

AM: I don't want to sound cynical, but we are talking of billions here and when the pendulum swings to one side, we see less capacity and higher prices.

In a couple of years from now we will see new carriers entering the market, or carriers that currently don't want to write cover getting back into the business because their strategy is more about growing their premium base, or getting into specialty lines or whatever.

We've seen it during the past 20 to 25 years. That's how the market works. But hopefully we will see a more portfolio approach from longer-term insurers.

AL: The Cop 26 meeting is coming soon in Glasgow, against the backdrop of the recent catastrophic floods in Germany and neighbouring counties. How can the risk and insurance market make a positive contribution to the climate-change challenge?

AM: I think it will be more difficult for the market to take on the risks because of insurers' ESG criteria. While we speak, people are working on specifying those criteria and developing new ones. These need to be adapted to the current business models and this will be difficult, and rightly so.

Everybody on this planet should worry about climate change and make a contribution to slow it and stop it as much as possible. The financial industry and insurance industry should be worried. If you look at some of the publications from reinsurers recently, there's also an opportunity there, creating new insurance lines and solutions for the risks that we are aware of, or may not yet be aware of. It is therefore also an opportunity, not only a challenge.

But right now it creates challenges, especially when you talk about industries that are in place and need insurance coverage. Some insurance carriers might think it's a good idea to withdraw before they are obliged to pull out, take out capacity and make certain industries less insurable. This is certainly a risk that some of our members are facing.

ESG is the theme of our conference this year. It is a very important topic that is going to change many things in our industry.

AL: There is currently a strong push from pressure groups such as Insure Our Future to stop insurers covering coal projects. Do risk and insurance managers have the power to influence this trend in terms of how they select their carriers?

AM: We are all representing companies that have adopted ESG criteria. One day we may not only look at credit ratings, underwriting capacity, claims handling and the like, but also look at ESG as an additional criteria for selecting insurance companies.

Having said that, I can't see that any of the insurance companies that our members are dealing with will not do the right thing when it comes to ESG. So, I think it might become a criteria but I can't see a scenario where any of us will have to say: "No I can't possibly do business with you anymore because you don't apply the right criteria." I am very optimistic that all our companies will do the right thing.

Germany ranks highly in Marsh's newly launched Flood Risk Index

◇ SYMPOSIUM

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Germany ranks highly among G20 countries on two key metrics in Marsh McLennan's newly launched Flood Risk Index, which aims to help organisations and governments better assess their exposure and vulnerability to more frequent and severe flooding.

The Flood Risk Index sets out the potential impact of flooding on populations and economic assets in 188 countries. It analyses flood risk on a country-by-country basis based on three key metrics. The first is the type of hazard – river or coastal flooding. The second is exposure to flood risk, or the total people and assets in harm's way. And the third is vulnerability to flood damage, or the susceptibility of people and assets to harm.

According to the index, Germany has the highest hazard scores for river and coastal flood among G20 countries. It is followed by Argentina, China, France and then Russia.

The top five G20 countries with the largest shares of population and economic assets exposed to flooding are China, India, Argentina, Russia and Germany.

The five G20 countries where people and economic assets are most vulnerable to harm once flooding occurs are Indonesia, Brazil, India, Russia and Mexico, according to the index.

Marsh McLennan explains that more than 2.2 billion people are exposed to flooding globally. Since 1980, more than 4,500 flood disasters resulted in more than $1trn in damages, accounting for 40% of natural catastrophe losses globally, it adds.

SEVERE THREAT

According to the Marsh McLennan Flood Risk Index, the world's largest economies are all severely threatened by flood risk. In the US, about 11 million people and $3trn in asset value are exposed to the risk. Only Japan at $3.7trn, and China at $7.5trn, have higher economic exposure, it reveals.

> **"Recent disasters in the US,** Germany and China show that floods are pervasive and routinely underestimated"

Rob Bailey, director of climate and sustainability at Marsh McLennan and co-author of the index, commented: "Recent disasters in the US, Germany and China show that floods are pervasive and routinely underestimated. As climate change, economic and demographic trends, and a chronic shortfall in investment in resilience combine to drive risk higher, it is time for governments and businesses to rethink their approach to flood risk."

He said the index will help organisations gain a greater understanding of where their people, assets and supply chains are most at risk, and then take steps to mitigate the worst potential impacts of flood.

Marsh McLennan explained that its new index allows users to compare scores for hazard, exposure and vulnerability between two countries, or between one country and the global average.

Users can also gain insight from geospatial datasets made available by multiple research institutions and international organisations to visually assess the potential impacts of river and coastal flooding on urban and rural areas.

Adrian Ladbury pays tribute to **Christian Hinsch**, who sadly died earlier this year after leading the impressive transformation of HDI into a leading player in the international risk and insurance market during a 30-year career at the German group

The loss of a true leader

Christian Hinsch led HDI's successful 20/20/20 programme

◇ TRIBUTE

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The tragic death of long-time HDI board member Christian Hinsch in a car crash earlier this year left the German risk and insurance sector mourning a pivotal figure in its recent market history.

Mr Hinsch was a leading contributor to the transformation of HDI from a steady, reliable and very German insurance group into an international insurer that competes at the top table in the global corporate and industrial insurance market today.

When he left the group in 2019 to set up his own management consultancy, and more importantly pursue his love of motor sports and spend more time with his family, Mr Hinsch left a big legacy built over 30 years for his former staff and colleagues to live up to.

PERFECT GENTLEMAN

I first met him a in a joint interview in London with his long-term colleague Jens Wohlthat, member of the HDI Global management board, back in 2004, shortly after Talanx had emerged from the mutual group in 2003.

His public face was very serious and I am sure for many in the market somewhat scary. But he was always a perfect gentleman, with a ready sense of humour when 'off the record'. We developed a good relationship over many one-to-one interviews and on stage together over the years.

He was not a natural with the press to start with, which was not helped by the rough treatment HDI's management received during the lengthy and complex acquisition of the ailing Gerling business that finally completed in September 2007.

But, as he and his team used the platform provided by Gerling to successfully expand the group and build the Gerling Global brand, Mr Hinsch became more comfortable with his public position.

This was something that would stand him in good stead as he led the long-overdue re-underwriting of the group's property business towards the end of the last soft cycle, which HDI Global currently benefits from under the leadership of Mr Hinch's successor Edgar Puls.

> "He was always a perfect gentleman, with a ready sense of humour when 'off the record'"

This re-underwriting process was known as the 20/20/20 programme and was designed to restore the group's loss-making fire business to profitability. The goal was to improve the premium/risk ratio by 20% in 20% of its industrial portfolio by 2020, during a three-year programme.

Under Mr Hinsch's strong leadership, HDI basically led the wider market as it finally dragged itself out of the long soft period.

Despite the obvious need for action across the market, HDI's early move was clearly not going to be a popular process and HDI again found itself under fire in the press. But Mr Hinsch was not one to hide in such situations.

I recall hosting the group's annual customer day in Frankfurt towards the end of 2017, when he basically opened up the books to some 150 leading customers to honestly and firmly explain what was going on. They appreciated his typically frank approach, and Mr Puls and his team now find themselves in charge of a robust insurer looking forward to expansion again.

IMPRESSIVE RECORD

Taking a step back and looking at the development and growth of HDI during Mr Hinsch's time at the helm reveals an impressive tale. The proof is in the figures.

Under Mr Hinsch's chairmanship of the executive board, the number of employees deployed abroad quadrupled from 380 to more than 1,500. The number of countries in which the HDI Group is active with its own branches and subsidiaries almost quintupled from eight to 39, and the premium volume generated abroad grew by a factor of twelve from €250m to about €3bn.

Long-term colleagues Mr Puls and Mr Wohlthat have paid tribute to Mr Hinsch, his leadership and his human qualities during this impressive growth period.

"Dr Hinsch transformed HDI to a global player in industrial lines. That is a magnificent life's work that I hold in the highest regard," Mr Puls told *Commercial Risk Europe*.

"I myself also owe him a lot. Most of my career at HDI took place when he was already on the management boards of Talanx and HDI Global. In 2005, I took on my first management position at HDI when he had already been CEO of HDI Global for two years. I learned to know him personally as approachable and emphatic. At the same time, he was a determined visionary, very clear in his thinking and in his decisions, and a great management strategist," he continued.

"And last but not least, he was a man who, despite his great professional burden and responsibility, also lived up to his role as husband and father of three children and three grandchildren. To do justice to his family, to the responsibility for a company with several thousand employees and to his own career, all at the same time – that is a great achievement," added Mr Puls.

"Christian Hinsch awakened within HDI the desire and ambition to become a global player in industrial business and, by leading from the front, put the company onto this path"

REMARKABLE ACHIEVEMENTS

Mr Wohlthat said: "Among Christian Hinsch's remarkable achievements for HDI, I would like to single out the following three, with one providing the platform for the next. Firstly, when taking responsibility for the few foreign units HDI had in the 1990s, he created the picture of a European wheel: all units should function as strong stable spikes around a lean and competent steering hub at home office. This brought all existing units to growth and profitability and created new, successful units in key countries such as France.

"Secondly, after the purchase of Gerling – a bold move at first viewed with scepticism and opposition by many in and outside of our company – under his skilled and influential leadership, the integration of industrial operations and business was achieved on time and better than our goals," he continued.

"Thirdly, by recognising that an industrial insurer will not survive without a global network of its own, he created the theme 'make or buy' for servicing our international programmes; and the HDI Global Network was built step by step to serve our customers around the globe, complemented by partnerships in countries where 'make' was not a viable option. And, as soon as a new unit was created, it was him who challenged us to find ways of entering the local market business for enhancement of growth and profitability. Christian Hinsch awakened within HDI the desire and ambition to become a global player in industrial business and, by leading from the front, put the company onto this path," added Mr Wohlthat.

And of course, he also paid tribute to his long-term colleague on a personal basis.

"Personally, I had the privilege of working with Christian for more than three decades and we shared the same values of trust, respect of people and reliability. If Christian Hinsch made a commitment, one could simply rely on it. I admired his ability for reading people accurately and choosing wisely those who could be relied upon, as well as putting complex matters into simple words and phrases for action to be taken," he concluded.

A big character who is indeed sorely missed.

HDI offices in Hamburg, Germany: Christian Hinsch led the firm's transformation into an international insurer

Ahead of the upcoming GVNW Symposium, **Adrian Ladbury** speaks to **Manuel Wirtz**, CEO of Cologne-based Newline Europe, about the company's current prospects for growth

Time for teamwork in German industrial market

◇ INSURANCE

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In April 2019, London-based specialty insurer Newline Group announced the establishment of Newline Europe Versicherung AG (Newline Europe) based in Cologne, the company's new European Union insurance hub. Manuel Wirtz stepped up from general representative to CEO of the new insurer to drive its growth in financial lines, liability and affinity business.

It has not been an easy time in the German industrial insurance market since the new business was launched. The dual challenges of a rapidly hardening market – particularly in the property business insurance, D&O and cyber – and the Covid-19 pandemic combined to present German risk and insurance managers with some big challenges.

But, as the German insurance management community gathers for its virtual annual GVNW Symposium, Mr Wirtz tells Adrian Ladbury that while the coming renewals will still be tricky in some lines, communication within the market has improved and he sees decent opportunities for growth so long as his team works constructively and openly with customers.

Adrian Ladbury (AL): What do you offer for customers in your line of business – product type, capacity/ limits etc?

Manuel Wirtz (MW): The three main product lines that we offer are financial lines, liability and affinity solutions in casualty.

In financial lines, we offer our customers, in the industrial and financial services sectors in particular, D&O insurance cover and fidelity insurance. The coverage of IPOs is also one of our specialties. Our clients are mainly from the larger medium-sized businesses up to DAX 30 companies. Our capacities are up to a sum insured of €15m.

In liability, we are particularly specialised in the so-called life science industry. For us, this includes companies in the fields of medical technology, biotechnology and pharmaceuticals. We offer our clients business and product liability coverage up to a sum insured of €25m.

Manuel Wirtz says he has seen premiums increase across the board in the large-company segment

AL: Do you also provide cover for clinical trials and were you involved in the trials for Covid-19 vaccines?

MW: For almost 20 years, Newline has also been a specialist provider for clinical trials. One of our key features is our global reach. As a group, we are able to provide local coverage for clinical trials in more than 100 countries.

We insured more than 500 clinical trials investigating all stages of Covid-19 by the end of 2020. These trials included global studies in partnership with big pharma, universities and biotech companies, and ranged from diagnostic tools to identify the disease earlier, to vaccine trials aimed to provide immunity across a population.

The third main area we offer is in the affinity market. In 2019, we began offering affinity insurance solutions in addition to our more casualty-focused products. Our highly skilled affinity and special risks team has more than 50 years' experience of working closely with a wide range of clients and distribution channels to develop tailor-made solutions that support our trading partners' brands and customer ethos.

> **"We insured more than 500** clinical trials investigating all stages of Covid-19 by the end of 2020"

AL: How have claims trends been in your line of business in recent times? What are the main types of claims and why?

MW: In the area of D&O there is definitely a trend towards increasing claims. Not only the frequency but also the average size of claims is increasing enormously.

Traditionally, insolvency has always been the biggest claims driver in D&O insurance. This is certainly still the case and the economic slump in 2020 will likely lead to some downstream insolvency claims. Driven by new or stricter laws, increasing regulation and social developments, we see the next big liability field for managers and thus also for their D&O insurances, especially on the compliance side.

In the liability area, it remains to be seen whether claims will still arise as a result of the mass vaccinations. For the time being, there are very few incidents reported and, additionally, many countries in the western world agreed on limitations or even waivers of liability because of the special challenges in the pandemic.

However, once vaccines are in regular commercial distribution, these arrangements will cease and we expect an increased number of potential claims. However, the extent to which these will materialise into real damages remains to be seen.

AL: What happened at the year-end renewals in terms of pricing, wordings and capacity from your perspective?

MW: In terms of our company and product range, the most drastic changes in the renewal 2020/2021 were in the D&O area. We have seen premiums increase across the board in the large-company segment, in some cases by ten times the previous year's premium, and capacity has decreased. In some cases, this was combined with tighter terms and conditions.

Where the risk exposure no longer matched the premium, we also made moderate adjustments to the portfolio.

However, our approach to underwriting and pricing was always geared to the long-term and sustainability, so we did not have to make such drastic adjustments.

AL: GVNW leaders have accused the market of being 'brutal' in recent renewals. Is this fair?

MW: I fully understand that customers complain about drastic price increases, but even more about decreasing market capacity. The fact that this development has really taken off in the coronavirus crisis year of 2020, when companies were suffering from falling sales and management was in crisis mode, has not helped to make the debate more objective.

However, it may be countered that insurers can only operate a line of business if it also earns money from it. This was not the case for many years, especially in the D&O sector. Actually, the opposite was the case.

We have seen decreasing premiums for more than ten years while the overall exposure increased because of social inflation, increased regulation and board members being held to account for breaches of duty. Unfortunately, this often only becomes apparent after a long delay. This is because, in the case of D&O, there are often many years between the occurrence of a loss and the notification of the loss, and then it often takes years after notification until the final amount is known and paid out.

Just recently, the market experienced a very substantial case just like this. The adjustment measures are then all the more severe. However, these measures are necessary in order to operate a line of business profitably and thus sustainably. No one is helped by constantly falling premiums if, in the end, market participants, or even an entire market, disappear.

It is also a fact that the insurance industry should have communicated the necessary adjustment measures better and, above all, earlier, and should not have presented its customers with a *fait accompli*.

There is certainly much to be improved here. In March of this year, for example, we issued a communication to the market with specific information on the adjustments our customers should expect.

AL: What can German risk and insurance managers expect in coming renewals in your market? Will it harden further or will new capacity arrive to soften the market?

MW: I don't see the D&O market returning to a soft market phase anytime soon. First, the market needs to assess what the actual impact of the coronavirus pandemic is on the books. A wave of insolvencies and associated D&O claims still cannot be ruled out and therefore no one can say today how well D&O insurers will come through the pandemic. I do not see any new capacity for D&O in Germany at the moment but I expect this to change as the pricing is now increasing.


Cologne, Germany: home to Newline Europe

"We have chosen Germany as our continental European hub because this is where we are closest to our customers"

In general liability, I also see an upward trend in premiums after many years of a soft market. In fact, there are numerous underwriters in the market that have not yet operated at all in an environment like today's. We do see slight increases across all industries, while the focus of the local carriers is clearly companies from only a handful of industries: automotive (especially when recall is part of coverage), chemical companies and also pharma.

Especially in these areas, we do see increasing prices, increasing deductibles and our competition tends to cut down their line sizes, which was in some cases €100m for a single carrier and more! Those times are obviously over for the time being.

AL: What is your strategy for growth in this market? Where will you be investing for growth and where will you perhaps be pulling back?

MW: We are definitely in a growth mode and would like to expand our portfolio in all underwritten lines. We have been present in Cologne since 2017, to be able to offer our continental European customers a real Brexit alternative. In 2019, we even established our own fully licensed and regulated risk carrier for this purpose, Newline Europe Versicherung AG, which now has almost 20 employees.

We have chosen Germany as our continental European hub because this is where we are closest to our customers and from here we want to continue to grow and expand our reach to other neighbouring European countries. With these capabilities, we aim to offer our customers the best possible service in our core insurance lines.

However, we are not revenue-driven nor do we accept any risk at any price. Rather, we take a technical underwriting approach that focuses on profitability and ensures that we are successful in the long term so that our policyholders can continue to rely on us for many years to come.

AL: Is a 'specialty' insurer currently in a good position to take business from bigger lead players in such a market and how and why can you do this? Why should a risk manager shift from their current carrier to Newline?

MW: There are certainly some arguments for choosing a smaller insurer, but one argument I would like to emphasise for Newline in particular is excellent client service.

Especially in times of hardening markets, it is important as an insurer to be responsive and to find solutions together. In 2020, we received about twice as many requests for insurance quotes as in the previous year. Without exception, we have answered every one of them promptly, and where we did not want to make an offer, we explained our reasons. This is what we mean by excellent service, even in extreme situations.

Beside this, our group of companies is characterised by a decentralised management structure. We make our decisions ourselves and on the basis of local knowhow. This means that we are not only able to understand local needs, but also align our actions accordingly. This is true in underwriting but even more important in claims.

Our employees enjoy short decision-making processes and our business partners appreciate that.

As part of *Commercial Risk Europe*'s Risk Frontiers Europe 2021 survey, **Liz Booth** spoke to a group of leading German risk managers

Germany

◇ RISK FRONTIERS EUROPE: **GERMANY**
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Insurers undermining trust and confidence

A group of leading German risk managers taking part in *Commercial Risk Europe*'s Risk Frontiers Europe 2021 survey feel that insurers should have improved their results by now and cleaned out bad risks, and therefore the market should not harden significantly further at 2021/2022 renewals.

Alexander Mahnke, president of German risk association GVNW and insurance risk manager at Siemens, said: "The change in terms of insurers' profit margins was understandable and necessary. Our insurance partners need to make money. Although we sometimes feel there has been a backlash and some exaggerated behaviour in the past year." But in his view: "We have dealt with the bottom of the market."

As a result, he said, insureds should not have as difficult a time at next renewals as during the past year. But Mr Mahnke stressed that risk managers should be under no illusions – those tough conditions are unlikely to soften either.

There are also a number of German companies reaching the end of pre-existing long-term agreements that may well face the same pain other risk managers experienced in 2020, as their portfolios come under extreme scrutiny and realignment by insurers.

The last year has been very tough "not just in terms and conditions and in pricing but also in the way the changes were communicated by insurers", said Mr Mahnke. He added that this has not helped long-term relationships between insurers and insureds, and will have simply eroded confidence in the insurance market.

Much, as always, depends on the precise sector involved, and Mr Mahnke said some were affected much more by terms and condition changes than others. But everybody faced exclusions across the board on pandemic coverage, he added.

GVNW board members Mathieas Kohl, risk manager at Draegerwerk, and Christian Boehm, insurance risk manager at technology group Freudenberg, agreed that some of the worst market hardening should now be over. But they foresee further trouble ahead for both cyber and D&O cover.

Mr Kohl predicted that conversations are likely to switch from increased rates towards exclusions and changing wordings. D&O excess layers are becoming particularly challenging, he said. It is now "a puzzle, fitting the pieces of a programme together", he added.

"It is getting harder and sometimes it becomes a little strange in that it is harder to find the second excess layer than the third layer. It is not logical," Mr Kohl said.

WIDESPREAD IMPACT

The hardening market has impacted all parts of the German economy, said Stefan Rosenowski, managing director of the GVNW. "What we are seeing in the middle market is a hardening of rates across the board," he explained. He reported that all liability classes have been impacted, particularly product recall cover, with many insurers limiting capacity.

His views were echoed by Mr Boehm, who pointed to the auto supply sector as another that is hard hit. He said insurers told him that the higher rates and lack of capacity were directly linked to the claims landscape.

He added that one of the big problems facing German insurance buyers is "insurers acting on the different industrial sectors as a whole".

"They are not looking at the customers individually. Whether it is an automotive supplier or a chemical plant, they don't look at the individual loss history. Instead, they put their customers in the respective sector box," he added.

Mr Mahnke agreed. "I am not judging, I am just saying. But if a company now decides to move its money out and find another alternative to managing its risk, when the insurer comes back in two years and is willing to offer capacity again, it is not going to happen," he warned the insurance industry.

"It happened within the past 20 years and it happened especially in D&O. To a certain degree, I am a little disappointed that at the moment it has come to corporate musclemen – the larger insurance companies seem to forget a lot," he added.

One of the drivers of these changes, said Mr Boehm, is the way underwriters are looking at risks, including increasing use of data.

"From what we hear from our members, the feeling sometimes is that underwriting is not being done by the underwriters anymore but by some algorithm-driven tools. They seem to feed their customers' information into tools and not long after that, they announce – surprise, surprise – that the premium must go up. But 'hiding' behind those tools is not a good thing when it comes to building trust and confidence," he said.

"So, it seems that the actuaries are doing more of the underwriting than the underwriters. This has changed through the years from a time when it was more about underwriting on an individual basis," he added.

Mr Kohl said it often appears that underwriters are being forced to ask standard questions as part of their internal compliance, and when challenged they are unable to provide a reason why the question is being asked.

More than that, he said, it appears they do not understand the implications of the answers and the impact of those on the pricing.

However, that does not mean that the panel of risk managers were totally against the increased use of data. In fact, Mr Boehm said the use of data should improve underwriting decisions and perhaps should have been used more in the past, especially to support customers.

Changing times, changing behaviours

Inevitably, the double whammy of Covid-19 and a hardening insurance market has changed the working relationship between insurers, brokers and insureds, but not necessarily in an entirely negative way, according to German risk managers

The impact of insurers' behaviour during the past couple of years may well impact the tripartite relationship between insurer, broker and insured, but it is too early to draw any firm conclusions, say leading GVNW members.

Speaking as part of *Commercial Risk Europe*'s Risk Frontiers Europe 2021 survey, they said the next set of renewals will test that relationship and it is likely that the full impact of any damage will be felt in 2022. "We hear insurers say they are working hard on relationships and that this year will be different to last year. But for me the jury is still out," said one of the group.

And as Christian Boehm, insurance risk manager at technology group Freudenberg, said: "From what we hear from our members more and more, insurers are tending to send their decisions upwards to special committees and sometimes finally to their headquarters around the world. As a result, the customers have less direct contact with the final decision-makers."

He said this is impacting relationships, simply because it is causing delays to decisions. He added that many decisions need to be discussed and terms negotiated face to face, but the pandemic has enabled insurers to step back and negotiate remotely.

Covid-19 is also impacting claim settlements, the group agreed. As Alexandre Mahnke, president of German risk association GVNW and insurance risk managers at Siemens, spelt out: "If you can't travel as extensively as you were able to before, and obviously we are representing companies of a certain size and reach, it can be quite difficult to settle the claim.

"Having said that, when it comes to maybe implying that bad profits on the insurers' side leads to hesitancy to settle claims that are valid, then I am a little careful. This can be the case. But those are insurers you would not choose to deal with in the beginning. I always find there is a degree of responsibility and you get what you deserve," he added.

"So I would be a little bit careful to suggest that a hard market leads to more difficulties with claims. When it comes to the business interruption (BI) claims that we have seen, then clearly we have a case of insurers that did not respond to the policy that they sold in the way that the client expected them," Mr Mahnke continued.

Even here, said Mr Boehm, it was not an across-the-board problem. Some insurers did pay out on their BI policies with event organisers, hotels and restaurant owners, he said.

CO-INSURANCE

Turning to the subject of co-insurance and whether side letters are playing a bigger role in terms of wordings, Stefan Rosenowski, managing director at GVNW, said: "From the mid-market and smaller companies, the co-insurance problem is not quite such an issue but nevertheless the aim is to get a single wording for all the policy."


Alexandre Mahnke

Jörg Henne, managing director at GVNW, stressed that co-insurance is well established in the German market. "But we have seen an increase in the use of co-insurance as capacity shrank, which has forced insureds to bring more insurers on board and have a wider panel of co-shares," he said.

He stressed that most risk managers are experienced enough to understand the importance of having one set of wordings that everyone follows, to avoid complications at the claims stage. And that should extend to the claims process being followed in a uniform manner, he added.

In general it has been a case of so far, so good on claims, as GVNW is not hearing complaints from its members, said Mr Henne.

"No-one really talks about claims until it goes horribly wrong, or something makes it into the press. But that is rare. There can be issues in complicated claims about the figures, particularly in cases where you have to do more analysis to identify the value of a claim. There is never a high interest, in our market at least, to settle in court. It takes money and it takes a lot of time and you are never 100% sure of the outcome," he said.

ALTERNATIVE RISK TRANSFER

As the hard market and pandemic continue to influence the risk and insurance landscape, increasing numbers of companies are investigating alternatives to traditional insurance programmes. This is also occurring among German firms.

"After last year's renewal there was increasing interest in, and appetite for, looking at other solutions, including captives, but they are only one of the alternatives. GVNW has done another survey about the use of captives and we can see through the numbers that there has been not only a number of feasibility studies, but I know of a number of captives that will be formed, or have been formed already," said Mr Mahnke.

Germany is not a traditional captive market for a number of reasons, including the fact that there are no tax advantages in setting up a captive in the country, he continued. There are also very few captive advisers or support specialists working in Germany, which means most people would probably have to run the captive by themselves, adding another layer of complexity to the decision about whether or not to launch one, added Mr Mahnke.

> **"GVNW has done another** survey about the use of captives and we can see through the numbers that there has been not only a number of feasibility studies, but I know of a number of captives that will be formed, or have been formed already"

"Having said that, we have had a number of captives operating successfully in Germany and there will be more to come," he continued.

Mr Boehm, a member of the GVNW captive group, agreed: "There are obviously a number of companies looking into alternatives and a captive is the most favoured one. Germany is not a very easy place to run a captive and there are other places in Europe that are more captive-friendly, such as Luxembourg, which is more business-friendly on the captive front.

And if you look at France, we observe the trend of the government wanting to attract French companies to form captives in France. By contrast, there is no such development in Germany."

Long-term risks topping the agenda

Several long-term risks are key for business revival, a group of German risk managers told **Liz Booth** as part of the Risk Frontiers Europe 2021 survey

Sustainability, cyber and political risks are the leading concerns for a group of German risk and insurance managers.

Jörg Henne, managing director at GVNW, put sustainability at the top of his list as he spoke as part of *Commercial Risk Europe*'s Risk Frontiers Europe 2021 survey.

"We need to build greater awareness around sustainability risks," said Mr Henne. "It is an important topic. It is not a classic emerging risk because it is a political or societal issue. Also you see statements from insurers saying they are taking it very seriously and that could impact us a lot in the future."

Mathieas Kohl, risk manager at Draegerwerk, said the thing that worries him most is cyber risk, and particularly insurance because the class is quite young.

"If you look at the upcoming years and the rising number of claims and the discussions we are hearing, I am really afraid there might be massive changes," he suggested. He worries that insurers will back out of cyber cover in the face of increasing claims.

"If insurers don't make any money in cyber insurance, I am afraid they will walk away or try to find exclusions and then there will be no solution for the risk. At the end of the day, digitalisation will be key to improve our productivity and if there is no insurance coverage behind that, the whole of risk management could be at risk," Mr Kohl added.

Alexander Mahnke, president of German risk association GVNW and insurance risk manager at Siemens, agreed."We have come from a place where most of our risks are material and are moving to a place where more and more of our risks are intangible. Even though we continue to produce, most of our core risks will be in the cyber world and notwithstanding the cyber market, as we have seen it isn't sufficient as such, now the same insurers that aggressively marketed it in the past are withdrawing from it," he said.

> **"Digitalisation will be** key to improve our productivity and if there is no insurance coverage behind that, the whole of risk management could be at risk"

"This goes to the heart of the question of what is the value of insurance and what value insurance will provide. Ultimately, it leads to the decision-makers in our companies asking what the relevance of insurance is to the business. It is something that really keeps me awake at night. I am very worried that effectively we are cutting off the branch that we are sitting on and there could be a situation where five years from now, large corporates will stop buying insurance in the way that they are doing currently, because the solutions are no longer available and they will conclude that their money is better spent elsewhere," he added.

OPPORTUNITY FOR RISK MANAGEMENT

Looking back at the last year, the Covid-19 pandemic and hardening insurance market have presented a "big opportunity" for risk management, continued Mr Mahnke.

"If you were doing your job right and presented our function as something dynamic rather than static, you probably saw a great opportunity to present yourself. At the same time, where there is opportunity there is risk, and if you haven't done that then you might be in a lot of trouble," he said.

Christian Boehm, insurance risk manager at technology group Freudenberg, agreed that Covid-19 has boosted the position of risk managers. "Companies had had pandemic risk on their risk management lists for at least a decade but not many had been saying it was a huge risk that would materialise. It has still shown the importance of risk management. I think that the decision-makers in the companies recognise this more and more," he said.

He also pointed out that, even if someone had predicted the pandemic, they were unlikely to have thought through all the consequences of continuing travel bans and sector shutdowns.

Mr Boehm said the pandemic has accelerated some ongoing trends. For example, businesses continue to regionalise their supply chains to reduce risks. "If you look back at the Icelandic volcano, which brought lots of problems to expanded supply chains, if you are smart you won't have these supply chains again," he said.

Mr Mahnke agreed: "We have all seen now that if something happens on the other side of the world, it has a direct impact on supply lines. It doesn't need the insurance market to tell us; as risk managers we understand that and we are already working on it. I think this is where the insurance industry, from a service standpoint, can be much more help than it has been in the past and is presently."

His compatriot Mr Kohl added that from a compliance point of view, regulation has been forcing change for major corporates. Pointing to the US in particular, he said there are many more rules to be followed and that is adding complexities to already complex risks and supply chains.

◇ HDI GLOBAL SPONSORS

Flash floods a warning to German insureds

After the devastating flash floods this year, German insureds and their insurers are considering future risks and how they can best protect their assets and manage the exposures. **Liz Booth** hears from **Andreas Luberichs**, member of the executive board at Risk Frontiers Europe sponsor HDI Global, for his take on the way forward...

Flooding in Brake, Germany, July 2021

"When it comes to catastrophes, we do see a significant increase... It is not just about rivers and lakes flooding but these surge events with flash floods that can occur anywhere"

The floods that swept across much of northern Europe this summer, causing devastation and loss of life across parts of Germany, have already impacted the local insurance market and will continue to do so for the foreseeable future.

Speaking to *Commercial Risk Europe* in August, with the power still out and rescue teams clearing mud and debris, Andreas Luberichs, board member of HDI Global in Germany, said it was way too early to put any firm numbers on the damage, as access to loss-affected sites remained difficult.

However, Mr Luberichs said back then that "from what we have seen so far, I would expect a surge in costs".

A main driver in this, he feared, will be the escalating costs of raw materials needed to carry out repairs. Germany is already experiencing rising building costs following supply chain challenges in the construction industry.

Mr Luberichs added that the events of the summer will impact the insurance market, not simply because of repair cost rises but also because of growing fears that the floods are a sign of things to come.

"When it comes to catastrophes, we do see a significant increase in the past 20 years in terms of frequency and severity. It is not just about rivers and lakes flooding but these surge events with flash floods that can occur anywhere. And we also have concerns about increased hailstorms and even tornadoes," he said.

"We need to understand the exposure and help our clients to mitigate the risk. We need to look at construction methods, for example, and see how best to develop buildings for the future. With an otherwise booming industry and the ever-growing demand for new buildings, we also need to revisit the way states and communal regulatory offices assess and assign new construction areas with a view to natural catastrophe exposures," he added.

This brought the insurer onto the subject of business interruption (BI) and contingent BI (CBI). While the most recent floods hit areas without major industry, they showed how basic infrastructure, such as power and communications, as well as road networks, can be swept away, taking months if not years to rebuild. Had the floods happened in Germany's industrial heartlands, the BI and CBI costs would have been enormous, warned Mr Luberichs.

RISING RATES

The cost of insurance has been a thorny issue in the past year, conceded Mr Luberichs. And HDI Global has spent a lot of time trying to communicate the reason for its changes to customers and meet their demands where possible.

"Communicating the changes, listening to our customers and offering solutions has in fact been key to not only retaining business, but in winning new clients. We talked to our clients and adjusted terms. Part of that was about the price itself but clearly it also had to be about changes to some clauses or limits," he said.

There is an expectation across the whole insurance market that prices will hold firm and that we will see increases during the rest of the year. Mr Luberichs also predicted the hard market could continue through 2022 and into 2023, depending on future conditions.


Andreas Luberichs

Property lines are likely to be among those most affected, he said. "We have had these devastating floods on the back of the Covid-19 pandemic, and we are worried about the third quarter of this year when we might see ourselves facing a new wave of the pandemic. It is a very tough period for our customers and so for us," he stated.

As well as raising prices to help the top line, HDI Global is relentlessly reviewing the entire cost chain along its operating model, including distribution costs, to lower the pressure on customers.

CAPTIVES

Mr Luberichs is well aware that some clients are looking for alternatives to the traditional insurance market in response to rising prices.

"Companies are looking at captives as one option, but not all companies are fit for captives. There clearly is a surge in interest but not necessarily a surge in establishing a captive. Many companies are choosing to do feasibility studies," he said

Mr Luberichs added that the challenges of a captive approach are two-fold. "You are taking just one set of risks into a captive. The law of insurance is that we pool the risk and share the cost of claims, but that is not the way a captive works. Secondly, the cost of setting up a captive and setting aside the necessary capital is high, so you can't just set up a captive and then two years later decide to go back into the traditional insurance market," he said.

Either way, he said, HDI Global is confident it has a role to play in supporting clients to manage their risks and emphasised that the company remains strongly dedicated to the industrial market in Germany.

SPONSORS

Jury still out on pandemic's long-term impact

◇ BROKERSLINK

Stephan Winneg, managing partner, Karl Köllner GmbH, Brokerslink partner in Germany, recognises that it is still too early to tell the final outcomes from Covid-19


Stephan Winneg

Q: ARE INSURANCE RATES, ALONG WITH TERMS AND CONDITIONS, CONTINUING TO HARDEN THIS YEAR?

A: The rates and conditions on 'traditional' insurance lines have been hardening for a couple of years now. While insurers claim that property damage and business interruption rates have not yet reached an adequate level, it seems the market for liability – excluding motor, construction and erections all-risks, and machinery breakdown – is stable. In other words, the markets for these lines continue to harden, however at a more moderate level.

The situation is totally different for insurance lines like directors and officers (D&O) and cyber and related lines. Like almost everywhere in the world, limited capacity is probably creating more headaches for insureds and brokers than the exploding prices. Needless to say, these lines come with substantial changes in cover. Perhaps one of the most remarkable changes is the tendency to exclude ransom payments from cyber policies.

From an industrial insurer's point of view, it seems that increasing premiums, limiting cover and a considerably higher demand on clients regarding their risk management practices has not achieved the predictable and adequate results they have sought.

Another area is the limitation and allocation of capacity. We know that D&O capacity has dropped to a fraction of what it used to be and we also know that insurers have been more selective in providing capacity for nat cat risks. But we also see insurance companies reducing their capacity for property FLExA (fire, lightning, explosion, aircraft) risks.

In the past, it was a question of reputation and power for the large global insurance companies in Germany to provide significant levels of capacity on individual accounts, but this has changed. Against the backdrop of large losses, the only way to 'get off lightly' is to reduce the share of risk. That is the latest consequence of the hard market.

In terms of the lines most affected, D&O insurance is surely top of the list. Cyber and trade credit lines are also obvious candidates. And, of course, the entire entertainment insurance market.

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

A: We have not observed any negative changes in the way insurers are handling claims, at least not related to the current market situation. However, after more than a year during which most insurance companies' employees have been working from home, service quality levels across each and every aspect of the business – whether that's underwriting, claims handling or day-to-day administration – have suffered.

> "The real risk managers during the pandemic were the employees whose working environments literally changed in one day... Parents who had to deal with a home office and closed Kindergartens and schools, people who suddenly swapped their desk in an office for their dining table at home"

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

A: Yes, the relationships have changed and the most obvious aspect of this is the shift of power to the insurer. A couple of years ago, many insurers were more than happy to provide capacity at almost any price to industrial clients. The broker's job was to find the cheapest cover and the insured could relax in the knowledge that almost any of their risks could be transferred to an insurance company.

So, previously the power was with the insureds and their brokers as the insurers competed for market share. But today, insurance companies are extremely reluctant to provide capacity and, if they do, there is no competition at all on price. Market share is almost not a business target for insurers anymore. At the same time, insureds are threatened by 'new' risks – predominately cyber – and must realise that risk transfer to insurance companies is limited. Usually, the broker is the bearer of bad news.

Besides the impact of the hardening market on the relationship between the three parties, there are other factors at play. The role of compliance and the way organisations work and communicate have changed the picture. The days when deals were done on a handshake are gone. Service level agreements, periodic tenders and a focus on measurable business benefits prevail over personal relationships and trust in the broker's expertise and experience. The broker's challenge is to adjust and redefine their own role accordingly.

WHAT DO YOU SEE AS THE KEY RISKS GOING FORWARD?

A: We are all facing a new dimension of cybercrime, or at least the exposure has become more obvious. The recent heavy floods in Germany have shown people in this country that climate change is no longer something that happens somewhere else. Insurance has come to a point where the possibilities to share a risk within an insured community are limited and might even come to an end – ransom payments in connection with cyberattacks, for example. The key risk is the gaps insurance leaves and the main challenge is how to address these gaps.

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

A: For me, the real risk managers during the pandemic were the employees whose working environments literally changed in one day. Parents who had to deal with a home office and closed kindergartens and schools, people who suddenly swapped their desk in an office for their dining table at home, all managed to keep companies going.

The big question for a risk manager has been: what are the scenarios we would have to consider in the future? Nobody really imagined a pandemic like the one we are still facing, so why would we be able to predict future threats like this? Perhaps the real lesson we have all learnt is that we have to be prepared for the unexpected

Q: WHAT ARE THE KEY LESSONS LEARNT FROM THE PANDEMIC?

A: As far as business is concerned, I think it is still too early to talk about specific key lessons because we are still learning. Though we have learnt that work can be organised more flexibly and that technology is key – something that is very obvious to everybody who still works with physical files and 'old-school' IT systems.

Many companies found that their businesses were not affected in the way they perhaps expected they would be and, at the same time, their costs were substantially lower as a result of there being no corporate travel or entertainment, no face-to-face meetings or conferences and, last but not least, a reduced need for office space. In other words, they learnt that a stable business based on lower costs means more profit.

From an employee point of view, the pandemic may change their perspective on not just where they work but who they work for. If the company wants them to work from home, does it eventually not matter who their employer is? The concept of loyalty, the commitment and dedication to their employer, human relationships with clients, colleagues and company management, become less relevant and, from my point of view, understanding these characteristics will be the real secrets of success.

The risks and lessons from the pandemic will inevitably drive these developments.

The hard market has been making life tough for Spanish and Portuguese risk managers who often struggle to find the necessary cover, discovered **Rodrigo Amaral** when he hosted a roundtable as part of our Risk Frontiers Europe 2021 survey

Iberia

◇ RISK FRONTIERS EUROPE: **IBERIA**

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Cover increasingly hard to find

The hard market continues to bite for Iberian companies, although some believe that the cycle of price increases and capacity restrictions may be close to an end.

In 2021, however, the reality for many insurance buyers in Spain and Portugal has been an inability to find some of the covers they need, while paying a lot to renew their most basic programmes, according those taking part in our Risk Frontiers Europe survey.

"Our latest renewal, in 2021, was very complex. In several segments we faced considerable price increases, and especially in D&O, cyber and property," said Luis Campilho, head of finance at Efacec, the engineering services group. "We could not find all the capacity we wanted for D&O with our usual insurer. We had to purchase the difference from a different company, as a higher layer, which had an impact on prices for both layers."

But things are even worse when companies cannot find coverages to meet their needs, no matter the price. Mr Campilho has experienced precisely this circumstance with a key cover used by Efacec in its international projects.

"We have faced a situation in our construction all-risks programme where we have not been able to buy an open policy that covers construction risks of up to $15m for projects located outside of Portugal," he said. "The insurer said it was for tax reasons."

This is far from an isolated case. Lourdes Freiria, director of risk and insurance at construction firm Grupo San José, has also found it hard to find covers vital for meeting client demands in international projects.

"The biggest problem has been to renew policies for large construction projects outside of Spain, both in terms of placing the risks or pricing them. This is the first time that we see a lack of solutions that could enable us to comply with contractual requirements that, some years ago, we could accept and comply with without problem. Now we have to pay prices that are tremendously higher to obtain at least the continuity of essential policies," said Ms Freiria.


Daniel San Millán

"Another cover that has been badly affected as a rule is professional liability for single projects that provide broad discovery periods and limits that are high enough," she continued. "It creates a serious problem for us to comply with requirements made by clients in several countries."

CAPACITY WITHDRAWN

David González, chief insurance officer at construction group Sacyr, pointed out that capacity has been withdrawn for covers essential for international construction companies.

"In construction insurance, some of the covers that we used to have are no longer offered. And in the latest renewals, we have seen some covers that were provided by default disappear from policies," he said.

One example is protection for damage derived from vandalism and other social unrest, which was traditionally part of P&C policies, said Mr González. Now, insurers are increasingly excluding this risk from their policies, he explained.

Some risks, in fact, such as environmental liability, seem to have been completely blacklisted by underwriters as capacity restraints in the hard market combine with long-running concerns about particularly tricky exposures.

"We have seen, in the past two years a significant hardening, including a lack of capacity, in the market of property insurance for waste residue plants," Mr González said. "Insurers and reinsurers have completely lost their appetite for this risk at a global level."

REASON FOR HOPE

However, Daniel San Millán, corporate risk manager at Ferrovial and president of Spanish risk management association Igrea, believes that there may be light at the end of the tunnel for buyers.

"The market remains hard but I believe we are touching the ceiling. Next year I expect renewals to be flat or even some very small price decreases," he said. "Financial lines are the most problematic. PI in particular is very complicated right now. In D&O, the latest renewal was less complex than last year, but I expect it to be among the hardest lines in the next one," he added.

Financial lines have been a headache for everybody, and the idea that market hardening is approaching its peak is not shared by all survey participants.

"There has been a clear hardening of the insurance market this year, with a lack of flexibility in negotiations and tighter conditions. In our view, the situation continues to get ever more serious. There is less capacity in the market and prices are higher," said Jorge Neto, insurance manager at retail group Jeronimo Martins. "The lines most impacted by the hard market have been cyber, D&O, property and terrorism. We can still find the covers we need, but with restricted wordings, higher deductibles and higher prices," he explained.

Ms Freiria agreed: "We have not been strangers to the tremendous hardening of the D&O market, with capacity limitations imposed by all insurers following criteria that have nothing to do with loss histories or the quality of the client's risk management. This has forced us to restructure the towers that compose our programme and to accept a dramatic increase of premium rates to maintain coverage levels."

Buyers turn to retentions and captives to boost transfer strategy

With capacity falling and prices surging, Portuguese and Spanish companies have had to increasingly retain more risk, either by choice or because of insurer demands. It is therefore hardly surprising that many are looking at the possibility of using alternative self-insurance tools, such as captives, to optimise their transfer strategies.

"We have been increasing our retention level for quite some time. This year we have once again taken measures in this direction. Retention is turning into a regular resource for companies to absorb the hard market impact," said Jorge Neto, insurance manager at retail group Jeronimo Martins.

Higher retentions assuage the fears of insurers and obtain better terms and conditions from their policies. But they bring their own set of challenges, not least because companies are adding risk exposures to their balance sheet. Therefore, Mr Neto stressed that companies must boost their risk management capabilities before thinking of retaining more risks.

"To increase retention levels without enhancing the underlying risk management mechanism is a reckless thing to do. You are bringing too much risk into the organisation, and you cannot manage it the same way you did before. If retention goes up, risk management processes and policies must be strengthened as well," he said.

That is where instruments such as captives come to the fore, and Jeronimo Martins is right now studying the possibility of setting up its own self-insurance vehicle. "We have been discussing with our brokers alternatives to manage higher retentions. It is likely that we will end up using a specialised retention vehicle, like a captive or a protected cell company. It has not been set up yet but we are working arduously on a solution," Mr Neto said. But he added that the usefulness of a captive depends on the characteristics of its risk owner and its business activities.

"Retail is a particular market. We have high levels of aggregate capital, but exposures are very spread. In Poland alone, we have more than 3,000 supermarkets," he said. "The aggregate capital of those 3,000 units is very high but it is scattered around the country. That is why we have to deeply study the type of retentions we put in place. Our main focus isn't severity in an aggregate point of view, it is more the frequency of medium claims."

Daniel San Millán, president of Spanish risk management association Igrea and corporate risk manager at construction group Ferrovial, also sees captives as a powerful tool to navigate periods of market turbulence.

"As a consequence of the hard market, underwriters are making us retain much more risk. It is no longer a matter of using captives to find the optimal risk/retention ratio. We are being forced to retain more risk. Those who do not have a captive tend to suffer more, as the retention goes directly into their businesses, which are already sometimes struggling," he said.

As a result of current market conditions, Ferrovial is using its captive more intensely than before, not only to obtain better terms and conditions, but also to transfer risks that jittery insurers are reluctant to touch. "There are risks for which the market is so hard that it is worth retaining them. For example, all financial lines. Although they face some compliance restrictions, it is possible to retain D&O risks linked to the organisation. We are also using our captive to retain risks in PI, property, liability and construction. In all lines, we have had to retain much higher volumes," he said.

And it looks like other companies are likely to follow Ferrovial's example.

"For some years we have been studying the possibility of setting up a captive company. We are looking at it at this very moment," said David González, chief insurance officer at construction group Sacyr. "There is no doubt that the current situation will last some time and, in the future, it will be necessary to find a better balance between risk transfer and risk retention. In this, the captive company plays a fundamental role."

An initiative is about to be launched in Spain by the country's two risk management associations, Agers and Igrea, to boost captives and other alternative risk financing tools.

Lourdes Freiria, director of risks and insurance at construction firm Grupo San José, is keen to take an active part in the discussions, not least because the possibility of creating a captive is being discussed by her own company today.

Claims conflict mounting in hard market

CLAIMS

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The hard market has affected claims settlements and, as a result, created some friction between underwriters and insurance buyers, according to participants in the Spanish and Portuguese leg or of our European Risk Frontiers survey.

"We have noticed, as a rule, a change in claims management processes, although not in all segments, nor by all insurers. Claims settlement has become slower and more complicated," said Lourdes Freiria, director of risk and insurance at Grupo San José.

"The biggest disagreements have been sparked by some clauses being interpreted in a way that is more restrictive than they were in previous years, even though the same typology of the losses and the same clauses are applied. I hope that this is not something that will get even worse, as the provision of adequate answers to claims is the reason why insurance exists, and that should never be questioned," she added.

David González, chief insurance officer at construction group Sacyr, agreed that the hardening market has "complicated" claims.

"We have seen longer claim settlement processes and ever more strictness in the adjustment of losses. On some occasions, there have been more tensions with insurers to solve a claim. It is true that there have been more conflicts and disagreements in the market, and that generates tension. From this point of view, relationships have changed in the market," he added.

But claims are not the only concern for buyers in the current market. Luis Campilho, insurance manager at engineering services group Efacec, pointed out that even day-to-day interactions seem to be getting more laborious.

"We have noticed that the time it takes for insurers to answer our requests has worsened significantly of late, and especially in 2021," he said. "In one particular case, the issuance of a simple document linked to a policy, which would usually take one or two weeks, took more than 45 days to be delivered by the insurer. Even the underwriting process is taking significantly longer than usual."

Another consequence of the current business environment is insurance bosses seem to be keener than before to keep a tight rein on the activities of their different departments, which can increase red tape and delay progress between underwriters and their clients.

"In Spain, local subsidiaries have lost authority for both underwriting and claims management," said Daniel San Millán, corporate risk manager at Ferrovial. "That is making things harder. Local units have to go to referrals much more often than before."

Ms Freiria warned that underwriters should be aware of this problem and build bridges with buyers in order to maintain good long-term relationships.

"It is important that insurance companies resume their relationship and proximity with clients. The pandemic, along with the dramatic changes that they [insurers] have made to their underwriting policies, taking away local decision authority and increasing the need to seek referral from headquarters, have cooled the relationship down a little, and that is not good," she said.

Challenges for buyers are compounded by turbulence in the broking market, exemplified by the car crash merger between Aon and Willis Towers Watson.

"The broker market is crazy. There is much confusion there, a lot of people are changing companies, and this confusion is translating into the business. We hope this situation will settle down soon," Mr San Millán said. "The relationship with brokers is a matter of a lot of caution right now. The Aon-Willis situation was a clear attack against competition and in the end, belatedly, there has been a solution. Now we go back to the starting line and a lot of confusion remains," he added.

A consequence of this uncertainty is that risk managers like Mr San Millán are building more direct relationships with insurers.

"There have been many changes in teams of brokers in the US and London, and in Spain as well, and as a result the relationship with insurers is much more direct today," he said. "We are working very hard as a result. It is also true that there are fewer players in the market who are keen on taking some kinds of risks. So we have a heavier workload but fewer companies to deal with. And in a hard market it is good to have a direct channel with insurers."

For his part, Jorge Neto, insurance manager at retail group Jeronimo Martins, stressed that in difficult times brokers and buyers must make an effort to work together to overcome the challenges that each party faces.

"We do not see brokers as service providers, but as our partners. As partners, they have to understand our needs and difficulties, and we must do the same relative to them. If anything, our relationship with our brokers has become even tighter," he said.

Risk managers step up to new risks and new challenges

Rodrigo Amaral reports on a changing landscape facing risk managers across Iberia

As the Covid-19 pandemic continues to grab the attention of companies, cyber risks have emerged as one of the biggest threats to many organisations, according to participants in this year's Risk Frontiers Europe survey from Portugal and Spain.

To make matters more challenging for risk managers, cyber risks are gaining in intensity and frequency at a time when the insurance market seems less amenable than before to providing adequate transfer solutions for their clients.

"Cyber is generating daily losses. Hacker attacks take place every day. But the message from the market is that it will get much more complicated. Capacity will be reduced and covers will be restricted," said Daniel San Millán, president of Spain's risk management association Igrea. "Colleagues tell me that it is very hard to buy ransomware protection today. Cyber is the line that is the most likely to get worse next year."

David González, chief insurance officer at construction group Sacyr, said cyber risks have become a fundamental issue for many, if not all, companies. "This is not only from the point of view of the insurance coverage, but also because the risks to which companies, industries and countries are exposed to are on the rise with the digitalisation of the economy. The pandemic was an accelerator of this process, the world has become less physical and more digital, and it is necessary to adopt measures to fight cybercrime," he said.

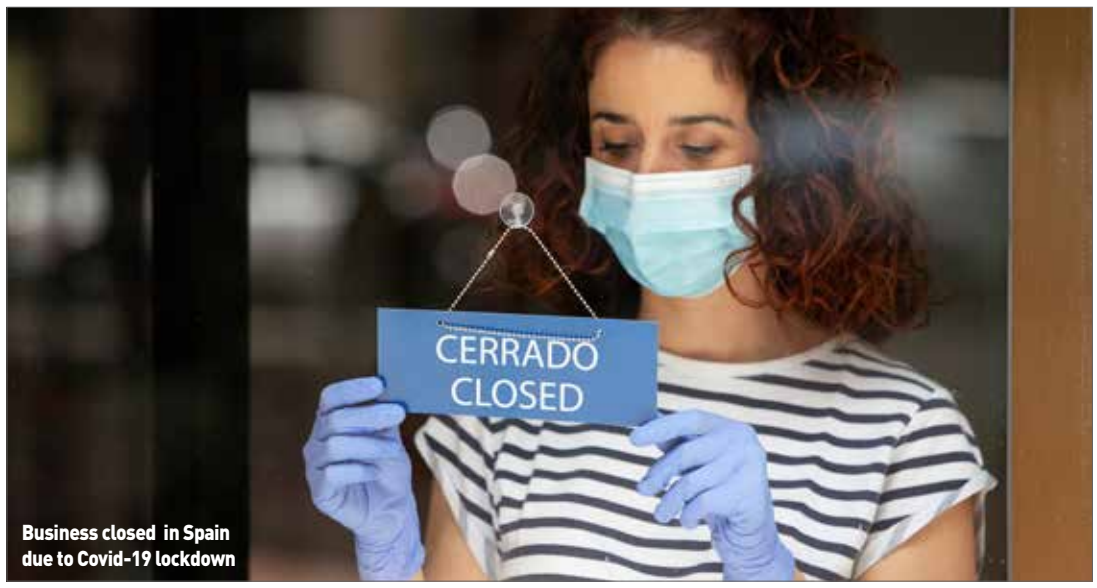
And Mr González shares Mr San Millán's concerns about the response of the insurance market to this growing threat.

"Three years ago, cyber insurance was sold at reasonable prices and with enough capacity. This year, the market has changed drastically. Insurance capacity has shrunk even more than for other products, and prices have shot up in a very abrupt way," he said.

Jorge Neto, insurance manager at retail group Jeronimo Martins, warned that with this scenario in mind, companies have no alternative but to keep up with the evolution of cyber risks and invest in mitigation.

"Cyber is a difficult risk. When we are exposed to a property risk, we know that it can be a fire, a flood, a robbery. The trigger of the policy is well identified, and so are the mitigation strategies. It is, after all, a policy that has existed for more than 200 years. Cyber risks are much more recent and the market still does not have an accumulated loss experience that is significant," he said.

"Also, the triggers are not that clear. There are many entry points that are not well known, or that are not well quantified yet. Companies must prepare themselves to mitigate cyber risks in a loop that we have to go over and over again, as it is a dynamic process and new triggers appear all the time," he added.



Business closed in Spain due to Covid-19 lockdown

> **"The pandemic has** taught us that the market is not ready to provide coverage against systemic risks"

EMERGING RISKS

But cyber is not the only risk on the rise over the past couple of years.

"A risk that is much more relevant in 2021 than in previous years is the dramatic inflation of some prices of raw materials, and the scarcity of many of them," said Lourdes Freiria, director of risks and insurance at Grupo San José. "It is a subject that affects the very essence of many businesses, threatening their profitability and, on occasions, even hampering their ability to keep production going, or making it impossible."

Another growing risk is the impact of nat cat events, she noted. And underlying all those challenges is the neverending pandemic. Hopes that it could be coming to a close were boosted by the progress of vaccination in the US and Europe but have lately been dampened by the appearance of new variants and the reluctance of many people to take their shots. The pandemic has delivered several lessons to risk managers and will carry on doing so.

On the insurance side, for instance, it has become clear that extraordinary measures are needed to deal with this kind of catastrophe.

"The pandemic has taught us that the market is not ready to provide coverage against systemic risks. Either states, in partnership with the insurance sector, take the reins to make sure that covers against systemic risks are available in the future, or there will be no transferring them. Political action is required," Mr San Millán said.

"The main lesson of the pandemic is that something like this can happen again in the future. And it is unlikely that it will take as long to happen again as it took for a global pandemic to take place after 1918," Mr Campilho added. "In my opinion, if anything, pandemics will be more frequent than before. The challenge is to make sure that, once this pandemic is over, we will have some kind of insurance coverage to deal with this kind of situation. Maybe by using parametric insurance technology, for example," he continued.

RISK MANAGERS TO THE FORE

The pandemic has also illustrated how important risk management is for companies, Mr Neto said. In his view, risk management has gained relevance and this trend will continue over the near term.

"The pandemic is not a risk linked to financial cycles. It has shown that some risks that are very improbable can happen when we least expect. They come around virtually overnight, and risk management is the department that can help the company face a crisis and recover from it. Companies need to have the capacity to reinvent themselves very quickly and devise answers to new situations. Only organisations that can come up with such answers, and are resilient, have the ability to survive this kind of situation," he said.

Ms Freiria remarked that companies have increasingly drawn on the expertise and experience that risk managers have in dealing with tough situations and making difficult decisions. In that sense, their role has expanded.

"In my particular case, I have been able to be a member of the crisis committee created to face the pandemic, and it has helped me to take a global and direct view of everything that was going on. It has also allowed me to actively participate in the process of making decisions that were important for the workings of our organisation in such complex times," she said.

"The world has changed radically, and the work of risk managers has been very good," Mr San Millán remarked. "We have been called more often to lead prevention and mitigation, as well as risk transfer when possible. The pandemic has lifted risk managers back into an important position in our companies."

SPONSORS

Every cloud has a silver lining

◇ HDI GLOBAL

There are always positives to find, even from a global pandemic, says **Juan Aznar Gáldiz**, director general at HDI Global in Spain


Juan Aznar Gáldiz

While an enormous amount of harm has come from the global pandemic at personal, business and political levels, one of the few positives to emerge has been an improvement in communication.

This, according to Juan Aznar Gáldiz, director general at HDI Global in Spain, has not just been about our ability to use Microsoft Teams or Zoom for calls, but in spending time talking to each other.

He believes that unlike in past years when everyone was in such a hurry, there is more time for longer and more meaningful conversations now that so many are working from home.

But despite this positive, Mr Aznar Gáldiz is among the first to admit that the hard insurance market conditions have impacted Spanish organisations, particularly for certain lines of business. Like so many other parts of Europe, he reports that terms and pricing remain tough for financial lines, cyber and product liability in particular.

"It is not a question of price but a question of capacity. The availability of insurance is not there for every risk and every company," he says.

Renewable energy business is, for example, a difficult area. Spain is home to many renewables businesses, thanks to its plentiful sun and wind, however the risk of theft remains high and insurers are often cautious about offering cover.

Another issue this year for Spanish insurers has been demand from customers with interests in Latin America. Mr Aznar Gáldiz reports an uptick in demand from his customers in Spain looking for capacity from within the country to cover their Latin American risks. But the region is catastrophe-prone and claims have been constant.

All of these factors have put pressure on available capacity, which Mr Aznar Gáldiz thinks will mean prices remain high into 2022 and maybe beyond.

And as the world hopefully moves out of the Covid-19 pandemic, Mr Aznar Gáldiz says insurers are watching and waiting to see the economic impact and its fallout in terms of insurance claims.

Spain is home to many small and medium-sized enterprises that have found it tough to ride out the pandemic, Mr Aznar Gáldiz notes. So, the question for insurers is whether these problems translate into claims, particularly in lines such as D&O.

However, to date it has been a case of so far, so good, says Mr Aznar Gáldiz, as claims levels in 2020 and 2021 have not risen much above expectations. As a result, those claims coming through are being settled smoothly, he suggests.

Insurers have also been mindful of any possible uptick in fraudulent claims but, again, so far, so good, and fraud levels have not risen sharply.

> **"It is important to** communicate and, actually, that is what has been able to happen through the pandemic. This has to be a positive thing"

In these challenging times, with insurance prices on the rise and capacity shrinking, many across Europe report a surge of interest in alternative risk mechanisms such as captives. However, Mr Aznar Gáldiz says those smaller companies are less tempted by such vehicles.

"Captives are expensive options – you need financial strength, so at the end of the day it is not easy for smaller operations. What is happening instead is that many of them are choosing to retain more risk, increasing deductibles," he says.

Again, Mr Aznar Gáldiz believes this is good news for risk managers, who have a bigger role to play internally. And in many ways, this has helped the relationship between risk managers, insurers and brokers.

"Risk managers, brokers and insurers have had no choice but to work more closely together this year. If risk managers can't find insurance policies, then the company can't operate, so it has been an imperative to find the right solution. Because they have a greater understanding of what is going on, we are also seeing the purchase of insurance becoming a main board topic. This is good news for risk managers, whose profile within companies has increased," says Mr Aznar Gáldiz.

"Beyond that, more board members want to understand what is happening in the insurance sector. I have had calls from people on boards asking me what is happening in the insurance markets so they can understand and relay that to the rest of the board. Having a better understanding of the insurance market function can only be a good thing for the longer term," he adds.

He says board members have realised it is not just a question of price, but also capacity, and there is a new realisation of the importance of insurance to their operations, as well as market dynamics.

"This is not purely about the pandemic. We have had 15 to 16 years of soft markets and there had to be a realignment. Nobody likes to be told that there will be price increases but if they [customers] want to continue to have insurance as a risk mechanism, then it is important that insurers make profits too," he continues.

Mr Aznar Gáldiz stresses: "If you talk to people and explain what has been happening, they do understand. It is important to communicate and, actually, that is what has been able to happen through the pandemic. This has to be a positive thing."

It is essential, he adds, that risk managers start renewal conversations early this year to ensure they find the right levels of capacity in good time. "We are seeing reports about insurance reaching the mainstream media – because it is such a key topic for business right now – so risk managers and their boards need to work ahead," says Mr Aznar Gáldiz.

And of course, businesses face many risks beyond the pandemic and economic fallout. Mr Aznar Gáldiz says short-term risks include things like cyber, as criminals continue to take advantage of pandemic-related weaknesses in company systems.

He says there is also a growing risk of political fallout – something that has already started in parts of Latin America. Political risk, he says, is escalating as Latin American countries such as Peru, for example, face elections.

But it is not all doom and gloom. There are lessons to be learned from the past 18 months, which could well prove valuable as some of the longer-term risks, such as climate change, begin to materialise, says Mr Aznar Gáldiz.

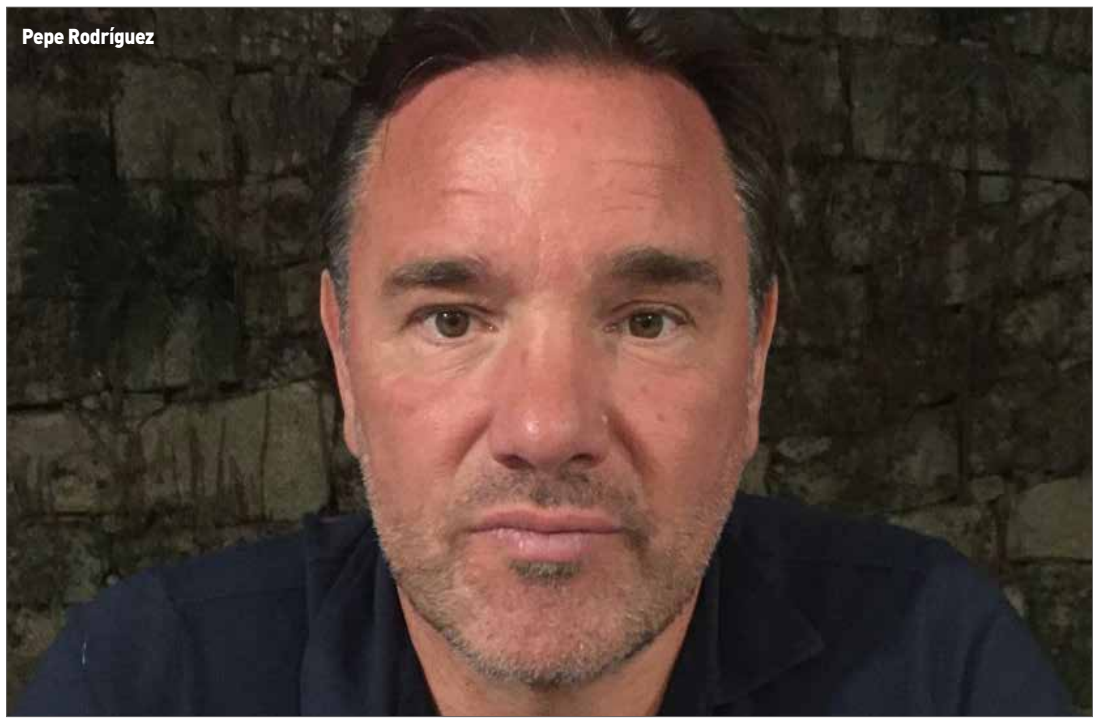
"Given the tough times, we have still been able to provide solutions and enable businesses to keep functioning. Our own resilience has been important, not just to us, but to our clients too. We have been able to support them through this," he concludes.

SPONSORS

Balancing act continues in Spain

◇ BROKERSLINK SPAIN

Pepe Rodríguez, international director of Filhet- Allard MDS and Spanish partner of Risk Frontiers Europe sponsor Brokerslink, talks to **Liz Booth** about what has been a challenging year


Pepe Rodríguez

Q: ARE INSURANCE RATES CONTINUING TO HARDEN THIS YEAR, ALONG WITH TERMS AND CONDITIONS? AND ARE THERE MORE EXCLUSIONS?

A: The Spanish insurance market has experienced a severe reduction in capacity and the rates applied have hardened noticeably. At the same time, wordings have been modified with new exclusions connected to Covid-19, business interruption (BI), cyber risks and directors and officers (D&O) cover.

In the case of cyber risks, the renewal premiums have increased by between 25% and 60%, added to the fact that the number of companies that have transferred these kinds of risks for the first time has grown rapidly, especially for those with turnovers of more than €250m.

Among lines most affected are property and BI, industrial heavy risks, recycling and insureds with poor loss histories. Also impacted are professional indemnity covering IT and advisers with international exposures, general liability including pharmaceutical risks, D&O and cyber risks.

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

A: Covid-19-related loss-of-income claims were filed by a large number of insureds. The majority of these have been rejected by insurers because most policies in our market exclude claims related to pandemic diseases.

There has been an exception to this trend on a BI loss in Girona relating to a pizzeria obliged to close by the authorities. The local courts ruled that the policy in question did not clearly exclude these kinds of claims. The ruling encouraged the clients of the insurer to file claims related to the shutdown dictated by the local, state and European authorities. All insurers reacted stating that the claims related to the pandemic were excluded in their wording. This contrasted with the health and life insurers, which have reacted proactively in favour of those affected by Covid-19.

For non-Covid-19 claims, insurers have adopted a more agile approach to the settlement process in an effort to help their clients facing severe reductions in turnover because of the pandemic's impact.

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

A: Clients that have experienced difficulties placing insurance, have a multinational risk profile and with a high insurance expenditure, have shown an increased interest in captive insurance solutions, replacing or supplementing the lack of insurer and market appetite for their risks, as well as the higher rates requested by the insurers supporting their current programmes.

> "Clients are now more keen to rely on their broker's experience and skills"

Along with that, markets specialising in sophisticated solutions have gained a presence because of the withdrawal of traditional players in sectors such as industrial and technological, and other areas with capacity-intensive requirements.

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

A: The role of the broker has gained importance, with clients affected by the trends I've described, sourcing insurance and risk management solutions for specialised and complicated risks, placing reinsurance capacity and rolling out captive and alternative schemes to fulfil clients' requirements. Therefore, clients are now more keen to rely on their broker's experience and skills. Insurers are now less interested in client servicing, and this has left room for the brokers to step in when a need arises.

Q: WHAT DO YOU SEE AS THE KEY RISKS GOING FORWARD?

A: Cyber risk and business interruption arising from supply chains and the pandemic, as well as property risks for heavy industries are the big risks.

The rapid adoption of new technology will continue in 2021, bringing ever greater connectivity. Regulatory risks, including sanctions and bans on purchasing foreign tech, will increase this year. Ideological and practical blocks are emerging rapidly. Companies across the world will have to balance the drive for technological innovation with security, integrity and resilience challenges.

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

A: The risk management profession has been affected by an event that was never forecast. Therefore, all the plans designed by risk managers have had to be adapted to this new scenario and a completely different framework. The pandemic has substantially reduced the risk appetite of insurance market investors, causing a massive reduction in underwriting capacity of both local and international players. This now is one of the top issues on any risk agenda.

Risk managers and compliance officers should ensure their organisations implement integrated risk management processes related to decision-making and rethink their approach to corporate governance through the prism of compliance and risk management.

The road ahead is full of uncertainty, given the volatility of the legal framework, the reshaping of the financial markets because of the arrival of massive recovery funds to help organisations return to pre Covid-19 conditions, and the controls set up by the authorities to monitor the use of these funds.

Q: WHAT ARE THE KEY LESSONS LEARNT FROM THE PANDEMIC?

A: Now, risk management must consider global trends that can certainly affect any business, no matter its size or activity. Business travel will substantially change its shape and volume with the increasing number of business meetings and training sessions that are now online.

Organisations have discovered just how fragile their supply chains are. Therefore, local supplying alternatives will be prioritised, and reliable options abroad will be critical for all interconnected businesses.

SPONSORS

Rays of hope shining through

◇ BROKERSLINK PORTUGAL

Ricardo Pinto dos Santos, CEO of MDS Portugal, the Brokerslink partner in Portugal, finds some glimmers of hope in an otherwise tough year


Ricardo Pinto dos Santos

Q: ARE INSURANCE RATES, ALONG WITH TERMS AND CONDITIONS, CONTINUING TO HARDEN THIS YEAR? AND ARE THERE MORE EXCLUSIONS?

A: Due to a number of catastrophic events and the pandemic, we are facing an increase in rates across life and non-life insurance. Also, on the underwriting side, we see that most insurers are hardening their criteria and becoming more cautious on risk assessment.

In several lines of business, the lack of capacity has become an issue and we are facing new exclusions, namely, the cyber and data exclusion (LMA 5401) and communicable disease exclusion (LMA 5394). These have become current market practice in property, while in other lines we have not seen these changes.

Health insurance should also be highlighted here. Following a period of reduced use of this type of insurance because of lockdowns, there has been a surge in demand for medical care, which in most cases surpassed the frequency of claims observed in previous years. On the other hand, the cost of claims grew significantly with Covid-19 testing and with the additional charge for personal protective equipment (PPE) required for a large portion of medical procedures. Also, in the near future it is anticipated there will be increased demand as a result of the greater concern around the prevention and worsening of untreated illnesses during lockdown. Therefore, we expect a hardening in the health insurance market.

According to what we have seen, the most affected lines by far have been cyber and D&O, both in terms of levels of rate hardening and lack of capacity. These are closely followed by property and health insurance.

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

A: From our own experience, we don't feel that settling claims is becoming more difficult in 2021. While societies are fighting the pandemic, the insurance industry is also facing complex challenges. But it is an undeniable truth that the industry was able to react to the crisis, displaying confidence and high levels of resilience through the multiple waves of the pandemic we have seen so far. And, once again, it has shown it is able to react, manage, recover and learn from such a major crisis.

The claims settling on an 'as usual' basis is a clear demonstration of these innate characteristics, empowered by the large investments in technology and digitalisation that we have seen in recent years.

On a global scale and related to Covid-19, it should be mentioned that losses under property and business interruption policies are still a matter of discussion throughout multiple markets. In Portugal, from day one, the local insurance market immediately declined all the reported claims relating to business interruption losses caused by the pandemic and has not given any signs of a willingness to engage in extra-legal discussions.

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

A: The pandemic radically changed consumer needs and reinforced the view that the insurance industry, more precisely brokerage, is a people business. At a time when face-to-face contact is limited and with digitalisation permeating our lives, customer relations and trust have never mattered more.

The pandemic helped accelerate the sector's digital transformation and created growth opportunities, boosting more efficient and effective business models, and new contact and sales channels. We have implemented hybrid distribution systems and facilitated product subscription. Claims management became even more virtual and we have strengthened compliance to better fit the new reality. The pandemic and digitalisation have also contributed to the development and availability of new products and services, responding to customer needs.

Q: WHAT DO YOU SEE AS THE KEY RISKS GOING FORWARD?

A: For decades, insurance brokers, insurers, reinsurers and risk management consultants have advised organisations on their exposure to the risk of business interruption. And, considering the impact of the Covid-19 pandemic on businesses and industries around the world, how this type of risk exposure is managed going forward needs to evolve.

In an increasingly complex and global world, with technology advancing at exponential speed, and supply chains operating with a matrix of components and customers anywhere in the world, the need for an efficient and reliable business continuity management approach is as pressing as it ever has been.

For a few years now, cyber risk has been considered one of the most perilous to public and private organisations of any size. The pandemic encouraged a societal move from a physical to a digital world where all of us – families, students and corporations – are cyber-reliant and, therefore, cyber-vulnerable. So, if cyber risk was concerning to start with, the pandemic has blown it up to unforeseen proportions and it has now become an extremely pressing matter.

The pandemic has also ushered in a more complex environment for decision-making, forcing managers to make hasty decisions, often based on limited detail or even non-existent information. These actions may come back to haunt managers and their assets in the mid to long term.

Let us not forget either that the risk posed by natural disasters has gained relevance, given their increased frequency and severity. Climate change is affecting the world and Portugal is no exception, being singularly exposed to climate phenomena.

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

A: Societies evolve when they face challenging moments of historical consequence, and the pandemic has led to a change in awareness. Covid-19 came to show that anything can change in the blink of an eye and managers were forced to work in an environment of enormous complexity, where rapid decision-making and the adoption of new security measures were required to ensure business continuity.

Regrettably, and broadly speaking, we felt that the risk management and risk managers in most organisations were not fully prepared for such an unexpected and unforeseen event of the size and complexity of the Covid outbreak. In many cases, risk management was, and still is, mainly focused on known and foreseeable risks, meaning those of high impact and high frequency.

Q: WHAT ARE THE KEY LESSONS LEARNT FROM THE PANDEMIC?

A: As I have mentioned, the pandemic created an even more complex decision-making environment, forcing managers to make quick decisions, often based on poor or non-existent information. This has underscored the need for placing risk management as a top priority tier. It must be on the board of directors' agenda in any organisation and form a part of their business strategy.

That said, it is critical for the success and continuity of any business that all risks that can affect an organisation – including, of course, cyber and climate change – are carefully analysed and managed. Regarding the risks that the pandemic threw up in 2021, I would highlight three areas:

Cyber – cyber risk has been exponentially boosted by the pandemic. In fact, as individuals and organisations changed their way of working as a response to the Covid-19 outbreak and began to rely primarily on technology and remote working, the frequency of cyberattacks mounted. Cyber criminals took advantage of this new context to launch various attacks. For example, through malicious domes, online scams and phishing, malware, ransomware and distributed denial of service (DDoS).

Supply chain disruption – more specifically, how supply chain diversification can have synergistic effects on the management of other risks, such as climate change-linked extreme phenomena throughout specific areas of the globe.

Political and social risks – mainly because of the economic and social crisis and the upsurge of popular movements that arose from the current pandemic and government measures such as lockdowns.

As brokers and their clients face up to what is set to be another tough renewal season with insurers determined to increase prices and toughen wordings, terms and conditions, **Liz Booth** spoke to a number of intermediaries about the key to surviving in this market and delivering good service to insureds

Delivering good service key to smaller broker survival in tough market

Buyers face another challenging round of renewals

◇ MARKET

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Brokers across Europe remain concerned by the continuing hard market and fear their clients will be facing price rises again for the 2022 renewals, despite increases for the past two years.

Surveying brokers from across Europe for our Risk Distribution Survey 2021, sponsored by Sompo International, *Commercial Risk Europe* found that intermediaries are worried about a third year of price increases on top of previous rises.

They warned that while the arguments for price rises are understood and accepted by their clients, there is real concern that "the chaos of the end of 2020" might return again this year as insurers withdraw capacity, regardless of their history with any particular client.

Talking to brokers at the unisonSteadfast annual Independence Day Conference in Prague, as well as virtually, the vast majority of delegates said clients had faced price hikes at the 2020 renewals, again in 2021 and are now looking at increases for the 2022 season.

They were most concerned about sudden withdrawals of capacity and cancelling of contracts at short notice, particularly in lines such as directors and officers (D&O), cyber and property.

As Mark McKay, co-owner and CEO of the Highcourt Breckles Group, said: "It is about the timeliness of terms being presented and giving us some mobility to react. We start our larger renewals 90 days ahead of a plan, we have a strategy, we have agreements and then you engage with the underwriting side of the equation and it doesn't fall into place. It seems we are on their schedule."

His other major concern is around limit stability. "You might have had a $10m tower going into renewal and that tower is priced the same per million, but you only have $2m from that same underwriter and all of a sudden you have $8m that is attached against a contract or bank agreement and you need to find cover.

Madrid, Spain: consolidation in the local market could improve standards in the Spanish broking sector

That is the biggest concern, along with it taking three times as long to produce. For example, you book a Zoom call and then it gets put back and before you know it, it has taken three times as long to sort out," he said.

He also reported that some clients are still facing 300% or 400% price increases on "what should be a normal renewal". Mr McKay added that while some partnerships have shone through these tough times, others have been found wanting.

CAPACITY IS KEY

Niek Post, commercial director at Kröller Boom Assurantiën BV in the Netherlands, agreed with Mr McKay that timing has become a crucial factor. "Capacity is also key – if I look at the co-insurance market in the Netherlands, it is shrinking. So, finding 100% capacity is the essential thing, but we are faced with differences in pricing and in terms, so it is taking three times as long to do a normal renewal," he said.

Matthias Böhm, managing director at Nordwest Assekuranzmakler GmbH & Co KG in Germany, said a lot of insurers are "cherry picking" risks. "We are seeing what they don't want to insure but it is only the insurance industry that can do this job," he added.

> **"It is about the timeliness of** terms being presented and giving us some mobility to react"

Tommaso Lucca, vice-president at ASSITECA in Spain, is most worried about the length of time it is taking to negotiate programmes. Spending so much time on every client is not easy, Mr Lucca explained, particularly when brokers themselves are being challenged by pandemic lockdowns.

Many brokers in Spain are very small businesses without the capacity to cope with all the extra hours required to sort the same programme that may have previously been agreed in just a few hours, he continued.

This he said, could result in brokers leaving the market. But every challenge is also an opportunity, said Mr Lucca, who expects there to be some consolidation, with smaller brokers being snapped up.

This could improve standards in the Spanish broking sector, which would be one positive to emerge from an otherwise tricky environment, he added.

TECH TRANSITION

His colleague Steven Zan, director, international division at ASSITECA in Italy, said the transition to using technology is critical for the insurance industry.

"We are lagging in terms of technology. A lot of things could be standardised – the quotation process for example, where everyone uses different formats and questions. Each risk is a little different but the questions are the same," he said.

Mr Zan said his own firm, along with many others, is investing heavily in technology to be fit for the future. "A lot of smaller businesses, particularly in personal lines, will see more competition from tech firms into the future. When I joined the industry there were more than half a dozen large brokers but now there are two, maybe three, of the mega-sized brokers. The difference from when I started out to today is also that those giants have flags in many countries now."

He said broking networks such as unisonSteadfast can definitely compete with the big players but ultimately it comes down to the people. "The idea of an independent firm truly helps when it comes to delivering good service – and that is what the clients want," he said.

Chlorpyrifos: a risk in waiting

◇ LIABILITY

Neil Beresford
Senior equity partner in insurance, financial and professional disputes at Clyde & Co

@ClydeCoNews

In her book *Silent Spring*, one of the most important environmental works of the 20th century, Rachel Carson wrote: "A Who's Who of pesticides is therefore of concern to us all. If we are going to live so intimately with these chemicals, eating and drinking them, taking them into the very marrow of our bones, we had better know something about their nature and their power."

In the 59 years since that comment was made, pesticides have found themselves at the centre of some of the world's largest product liability disputes. Will chlorpyrifos be the latest pesticide to become engulfed in litigation?

Chlorpyrifos is an organophosphate insecticide, acaricide and miticide used since the mid-1960s to control foliage and soil-borne insects on a wide variety of fruits and vegetables. Corteva, which was the world's largest manufacturer of chlorpyrifos, stopped producing the chemical last year. The company maintains that the product is safe and the halt in production was solely due to declining sales.

The US Environmental Protection Agency (EPA) has so far adopted an equivocal position towards chlorpyrifos. In 2015, the EPA proposed to revoke all tolerances for chlorpyrifos but then stepped back from doing so. In December 2020, the EPA published a proposed interim decision that concluded that the science remained unclear and that chlorpyrifos oxon (degraded chlorpyrifos) was a potential cause of neurodevelopmental effects.

In April 2021, the ninth US Circuit Court of Appeals ordered the EPA to make a positive decision either to ban the pesticide or declare it safe.

> "It is expected that chlorpyrifos complaints will be filed in the states that have banned its use"

The court's decision has been widely interpreted as requiring a ban, although the EPA's final registration review decision may not be taken for some time.

Several states, including California, Maryland, Oregon, Hawaii and New York, have now banned the use of the insecticide or are working towards definitive phase-out dates. The 2019 ban on chlorpyrifos in California was largely predicated on new animal studies, which will now be evaluated by the EPA.

CIVIL LITIGATION

In the meantime, civil litigation is underway. Lawsuits have been filed against Corteva and Dow Chemical on behalf of children suffering from severe neurological injuries. These follow on from lawsuits filed last year by farm and packing-plant workers who allege that chlorpyrifos has caused brain injuries to them and their families.

It is expected that future chlorpyrifos complaints will be filed in the states that have banned its use and, given that the proposed interim decision found limited risks from residential exposures and spray-drift, such complaints are most likely to stem from occupational exposures. It is envisaged that any claims rooted in residential exposures, such as the most recent lawsuits, will involve allegations of injury to children and unborn babies, thereby making them high value.

If the experience of previous pesticide cases is a reliable guide, the outcome of the litigation will be led not only by the expert evidence but also by the factual evidence surrounding the manufacturer's understanding of the properties of its product.

Past US juries have been greatly influenced by plaintiffs' claims that defendant manufacturers sought to conceal the known or suspected harmful properties of their products. The parties will also await with anticipation the final decision of the EPA.

EUROPEAN POSITION

In Europe, the use of chlorpyrifos and chlorpyrifos-methyl has been prohibited since January 2020, on the basis of identifiable concerns that the insecticide caused genotoxicity and developmental neurotoxicity to humans. These concerns were published in the European Food Safety Authority's (EFSA) report in August 2019, which concluded that toxicological reference values could not be established for either of these effects.

Consequently, the EFSA determined that a valid risk assessment for consumers, workers and bystanders was not possible, and no safe exposure level could be established for chlorpyrifos.

For those reasons, chlorpyrifos litigation should be added to the watchlist of emerging risks. True to Ms Carson's prediction, its nature and power will be examined very closely in the years to come.

◇ **LEGAL EYE:** THE NEWS IN BRIEF

FRC puts ESG firmly in its sights

◇ The UK's Financial Reporting Council (FRC) published a Statement of Intent on ESG challenges in July, setting out a number of issues that must be solved to create a system of ESG reporting that works for corporates, investors and other stakeholders. The Statement of Intent identified a number of issues in relation to production, audit and assurance, distribution, consumption, supervision and regulation.

The FRC said: "There is an increasing focus both on how companies report the impact of their activities on the environment and on the wider environmental and social challenges to which company business models must respond. Companies, auditors, actuaries, investors and others face a changing regulatory environment as reporting and activity adapt to meet these needs. However, underlying this changing regulatory environment, a range of challenges need to be addressed to ensure that we build an effective framework fit for the future."

Warning on director responsibility

◇ Senior UK executives who are also directors need to be aware of additional obligations that apply to them on contract termination, warn lawyers at CM Murray. The majority of senior executives who are considering leaving their current role are aware of the restrictive covenants in their contracts of employment. However, very few are aware of the duties and obligations they continue to owe to their employer after termination of their employment, if they were also a director of their employer or any of its group companies. The recent case of *Burnell v Trans-Tag Ltd {2021}* has highlighted the importance of remembering such continuing duties once employment/directorship terminates and has widened the impact of such duty. In this case, the High Court held that a former investor, CEO and *de facto* company director had breached the duty to avoid conflict-of-interest situations, notwithstanding that all the relevant acts on his part had occurred after he had ceased to be a director.

Ireland introduces new corporate enforcement laws

◇ The Irish government has approved publication of the Companies (Corporate Enforcement Authority) Bill 2021, report lawyers from Dillon Eustace. This will allow a transition of the Office of the Director of Corporate Enforcement (ODCE) into an independent statutory agency. This agency will also be equipped with additional resources in order to investigate and prosecute white-collar crime. The current director of corporate enforcement, Ian Drennan, described this legislation as a watershed moment in Ireland's approach towards economic and white-collar crime. The new functions of the Corporate Enforcement Authority include prosecuting summary offences, encouraging compliance with companies' legislation, supervising liquidators and receivers, and investigating any suspected offences and non-compliance under the Companies Act 2014. In preparation for its establishment, the budget of the ODCE has been increased by about €1m and 14 additional civil servants have been assigned to the authority to carry out its new functions.

Pandemic set to trigger big rise in political risk by 2022, warns Aon risk map

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There is likely to be a "tide" of political risk by next year as the world begins to emerge from Covid-19, warns Aon's 2021 *Risk Maps*.

The pandemic has seen terrorism and political violence risk fall during the past year, but political unrest is set to grow by 2022 as the fallout from Covid-19 plays out, according to the research.

Henry Wilkinson, chief intelligence officer at Dragonfly, which helped produce the maps, said: "The pandemic is a long-tail risk that has created an artificial near-term global risk picture, particularly of political violence risks. The extraordinary measures to contain the pandemic have been suppressive but politically aggravating. A tide of increasing risk by 2022 is likely as mass vaccinations and an easing of restrictions converge with the accumulated economic and political effects of the pandemic."

Aon's 2021 *Risk Maps* report finds that the Covid-19 pandemic both suppressed and aggravated terrorism and political violence risks during the last 12 months.

Lockdowns and travel restrictions have had a containing effect on most forms of terrorism and protest in 2020, Aon says. The percentage of countries exposed to terrorism and sabotage fell to 45% – with surges in incidents mainly accompanying an easing of restrictions.

As a result, overall terrorist attacks fell worldwide, the broker's report shows. But it warns that the scale of government intervention, economic inequality and public unrest about government responses to the Covid-19 pandemic will play an influential part in rising global unrest going forward.

The report says that 60% of countries around the world are therefore exposed to some form of civil unrest in 2021.

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Aon also says that extremists and activists from across the spectrum are evolving their narratives. "The pandemic has been an opportunity to build support and challenge established orders and forms of governance through protests and violence. For example, the US saw a sharp rise in civil unrest and insurrection risks," it explains.

Aon's 2021 *Risk Maps* – which examines political risk, terrorism and political violence globally – also shows that political risks have risen during 2020 and so far in 2021. Seven countries – including the Dominican Republic, Ghana, Kyrgyzstan, North Macedonia and Montenegro – have experienced a deterioration in their political risk score, with none registering an improvement.

Aon says this follows a "significant uptick" of inflation in emerging markets (EM) this year and a setback for green recovery initiatives following Covid-19. In addition, the risk of EM divergence from developed markets in terms of per capita income as a result of lagging and insufficient vaccination implementation is causing political risk to rise in these countries.

The report also warns that supply chain disruption risk, exacerbated by climate change and extreme weather, is a growing issue for frontier markets, where Covid-19 has caused "much wider" fiscal imbalances, higher inflation and larger debt burdens.

"As a result, these countries are at greater risk of falling behind in efforts towards climate change mitigation. However, rising commodity prices and inflation can help in reducing the debt burden of commodity-focused emerging markets," says Aon.

Vlad Bobko, head of crisis management, London Global Broking Centre, Aon, commented: "The Covid-19 pandemic has complicated an already fractured landscape of geopolitical risks, which firms operating globally need to navigate. From rising instances of civil unrest, to economic dislocation and the long-term potential for inflation in an increasingly connected and volatile world, informed decision-making has never been more important."

Airmic in-person conference given green light

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Airmic's annual conference will take place in-person on 5-6 October at the Brighton Centre. The confirmation comes after months of uncertainty about whether the event would go ahead.

UK risk management association Airmic said the conference will be held in line with government guidance on Covid-19. Last year's annual conference was held on virtual platforms in response to the pandemic.

This year's event moved from Manchester to Brighton to allow a final decision on whether it should go ahead to be delayed, without incurring additional event cancellation costs with the venue.

Delegates will also be able to choose hub sessions across both days, which cover key issues in underwriting, emerging risk, sustainability, pandemic, claims and the changing profession.

Taking the theme 'Driving Transformation – Shaping the Future', the conference programme builds in networking sessions as well as wellness beach runs, HIIT classes, a QBE yoga class and mindfulness sessions run by Marsh's head of mental health risk Lorna Feeney.

Dr Anne-Marie Imafidon, CEO of social enterprise firm Stemettes, which promotes women and diversity in STEM careers, will deliver the keynote speech towards the close of day two.

The exhibition hall will also be back, with more than 50 service providers showcasing innovative products and solutions.

Registration for the event is open now.

Legal issues hold up inclusion of Willis Re France and the Netherlands in Gallagher deal

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AJ Gallagher's acquisition of Willis Towers Watson's (WTW) treaty reinsurance business excludes operations in France and the Netherlands, although an option has been put in place for the former to also pick up these businesses.

In a US Securities and Exchange Commission (SEC) filing, details of the $3.25bn Willis Re acquisition reveal that "WTW has not agreed to divest any business in France or the Netherlands".

But it explains that the firm may exercise an option to sell its treaty reinsurance business in the two countries to A J Gallagher on completion of additional work council consultations and local legal/regulatory requirements.


AJ Gallagher head office

WTW agreed to sell its global Willis Re facultative operations to AJ Gallagher for $3.25bn cash and an additional $750m payable in 2025, subject to revenue targets. It follows the collapse of Aon's acquisition of WTW, which included a side deal to sell Willis Re to A J Gallagher to win regulatory approvals. The new deal adds WTW's reinsurance operations in Hong Kong and China.

The deal is expected to close before the end of this year.

Rate increases slowing down in global and EMEA markets, says Aon

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The global and European commercial insurance markets remain challenging for buyers but rate increases are decelerating as new capacity enters the fray, according to Aon.

The broker's *Q2 Market Insights* report says pricing continues to harden across global markets and lines to varying degrees. It finds average pricing up between 11% and 30% in EMEA, North America and Asia-Pacific during the second quarter. Rates were up between 1% and 10% in Latin America.

However, new capacity continues to flow into the market and is now slowing price rises, Aon adds.

Global capacity is tight but sufficient for all but the largest and most complex placements, says the broker.

Meanwhile, at the global level, underwriting remains aggressive as information requests continue to be more detailed and rigorous. At the same time, insurer decision-making is more centralised, says Aon.

Deductibles are trending upward as a mechanism to shift some of the risk and help offset pricing increases. Coverages are restricting and insurers are mandating clarifications and exclusions for silent cyber, infectious disease and contingent business interruption.

When it comes to worldwide claims, Aon warns that information requests can be onerous and timelines challenging. Engagement of external counsel continues to bring challenges to the process, it adds.

The picture is similar in EMEA. Although the market continues to harden, here too premium increases have decelerated and the market is less stressed, says Aon. EMEA insurers continue to shift from portfolio remediation towards growth, it adds.

Aon stresses that some areas remain challenging. These include D&O, professional indemnity, cyber, cat-driven property placements, or those with contingent business interruption exposures, as well as risks in the food, energy or waste-processing industries.

The reports says the EMEA market is starting to align on wordings. While insurers continue the process of rationalising wordings and clauses within their portfolios, they are becoming more flexible in aligning across placements, it explains.

"The [EMEA] environment is complex and dynamic. New entrants have provided some capacity relief. Talent shortages and resource pressures continue, partly related to the ongoing pandemic situation. Decision-making continues to be held by central teams. New technologies are being introduced to support product innovation, underwriting and trading," says Aon.

MARINE

Shipping safety remains at all-time high but risks lie ahead: AGCS

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The *Ever Given* stuck in the Suez Canal

Shipping losses remained at a historic low in 2020, with 49 large ships lost and the number of incidents down 4% year on year to 2,703, but Covid-19, cyber, supply chain and climate challenges lay ahead for the industry, according to Allianz Global Corporate & Specialty's (AGCS) latest annual review.

The report also warns that piracy rose in the Gulf of Guinea last year and the risk could yet be magnified by the pandemic.

The insurer's *Safety & Shipping Review 2021* reports that the 49 large ships lost at sea last year is one less than 2020. It is the second-lowest total this century, says AGCS, with more than 870 shipping losses in total during the past decade.

The south China, Indochina, Indonesia and Philippines region remains the main loss hotspot. It accounted for a third of all losses at 16 last year, representing a small increase year on year. The east Mediterranean and Black Sea (seven) and Arabian Gulf (four) regions both saw significant increases in loss activity to rank second and third.

Cargo vessels (18) accounted for more than a third of all vessels lost in 2020. Foundering was the most frequent cause of loss and most cargo vessels were lost in southeast Asian waters. The number of losses involving cargo and passenger vessels increased year on year.

Meanwhile, the number of total shipping incidents declined by 4% from 2,818 to 2,703 in 2020.

The British Isles, North Sea, English Channel and Bay of Biscay maritime region saw the highest number of reported incidents (579), although this was slightly down year on year. Machinery damage/failure was the top cause of shipping incidents, accounting for 40%.

AGCS says the international shipping industry continued its long-term positive safety trend during the past year but has to face up to challenges ahead.

"The shipping sector has shown great resilience through the coronavirus pandemic, as evidenced by strong trade volumes and the recovery we are seeing in several parts of the industry today," says Captain Rahul Khanna, global head of marine risk consulting at AGCS.

"Total losses are at historic low levels for the third year running. However, it is not all smooth sailing. The ongoing crew crisis, the increasing number of issues posed by larger vessels, growing concerns around supply chain delays and disruptions, as well as complying with environmental targets, bring significant risk management challenges for shipowners and their crews," he adds.

One such problem is piracy. According to AGCS figures, the world's piracy hotpot, the Gulf of Guinea, saw 130 crew kidnapped last year in 22 incidents, the highest number ever. AGCS says this problem has continued, with vessels being targeted further away from shore. It warns that the Covid-19 pandemic could exacerbate piracy because it is tied to underlying social, political and economic problems, which could deteriorate further. Former hotspots like Somalia could re-emerge as targets for pirates as a result, adds the insurer.

The AGCS report explains that Covid-19 has had less effect than feared on maritime trade. Global seaborne trade volumes are on course to surpass 2019 levels this year after declining slightly in 2020.

However, the recovery remains volatile. Covid-19-related delays at ports and shipping capacity management problems have led to congestion at peak times and a shortage of empty containers. It was estimated that there were a record 300 freighters waiting to enter overcrowded ports in June. The time container ships are spending waiting for port berths has more than doubled since 2019.

AGCS says there is an ongoing "humanitarian crisis" for crew affected by Covid-19 restrictions. There were an estimated 200,000 seafarers onboard vessels in March unable to be repatriated due to Covid-19 restrictions, its report says. And this can impact safety levels.

"Extended periods at sea can lead to mental fatigue and poor decision-making, which ultimately impact safety. There have already been shipping incidents which have featured crews who have been onboard for longer than they should have. Seafarer training is suffering, while attracting new talent is problematic given working conditions. Future crew shortages could impact the surge in demand for shipping as international trade rebounds," warns AGCS.

The company adds that although the pandemic has caused limited direct marine insurance claims, carriers haven't been completely spared.

"Overall, the frequency of marine claims has not reduced. We are also seeing an increased cost of hull and machinery claims due to delays in the manufacture and delivery of spare parts, as well as a squeeze on available shipyard space," says Justus Heinrich, global product leader of marine hull at AGCS.

The shipping review also says that the Suez Canal blockage by the *Ever Given* containership highlights how ever-increasing vessel sizes continue to pose a "disproportionately large risk", with costly groundings and salvage operations.

"Larger vessels present unique risks. Responding to incidents is more complex and expensive. Approach channels to existing ports may have been dredged deeper and berths and wharfs extended to accommodate large vessels but the overall size of ports has remained the same. As a result, a 'miss' can turn into a 'hit' more often for the ultra-large container vessels," says Captain Nitin Chopra, senior marine risk consultant at AGCS.

The *Ever Given* incident also sent shockwaves through global supply chains dependent on seaborne transport. It compounded delays and disruption already caused by trade disputes, extreme weather, the pandemic and surges in demand for containerised goods and commodities, notes AGCS.

"Such events expose the weak links in supply chains and have magnified them," says Captain Andrew Kinsey, senior marine risk consultant at AGCS. "Developing more robust and diversified supply chains will become increasingly important, as will understanding pinch points and supply chain nodes."

With momentum gathering behind international efforts to tackle climate change, the shipping industry is likely to come under increasing pressure to accelerate its efforts.

"A huge investment in research and development is required if the industry is to meet the challenging targets being set. Today's existing fleet and technology will not get the shipping industry to the International Maritime Organization's target of a 50% cut in emissions by 2050, let alone the more ambitious targets being discussed by national governments," says Captain Khanna.

And finally, the report turns its attention to cyber risk. It notes that all four of the world's largest shipping companies have already been hit by cyberattacks. With geopolitical conflict increasingly played out in cyberspace, concerns are growing about a potential strike on critical maritime infrastructure, such as a major port or shipping route, it warns.