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Global Risk Manager

MULTINATIONAL & SPECIALTY **INSURANCE** PERSPECTIVES

TOUGH CONDITIONS IN MENA MARKETS

Insurance markets in the Middle East and north Africa have not escaped the impact of the global hard market

CHALLENGING RENEWALS

A bumpy ride for risk managers through renewal season

MGAS: READY FOR THE BIG CHILL?

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A WORLD OF ITS OWN

Benign 2021 for trade credit market but insolvencies on the rise

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As we come to the end of 2021, it's fair to say it's been a pretty grim year. On the macro scale, the pandemic continued its deadly course, creating disruption and chaos, with not much sign of any improvement as variants are taking hold globally. Supply chain issues also continue to hit the headlines.

During 2021, natural catastrophes increased to near-record levels as a result of climate change, and the world attempted to put the brakes on an impending climate disaster.

For the corporate insurance world, all this was accompanied by growing risks and threats to business such as cyber and political risk, together with a continuing hard insurance market. So as 2022 approaches, will next year be a continuation of 2021, or are there grounds for optimism?

As this issue of *Global Risk Manager* (GRM) highlights, renewals are set to be a bumpy ride for many risk and insurance managers. Some classes such as D&O and cyber are set to stay hard for the foreseeable future. Others may be starting to see some moderation in price increases, but little sign of declining rates. In many areas, the reinsurance sector will be key, and here there are many concerns over supply chain, cyber and above all, nat cats related to climate change, which suggests no weakening of the hard market.

At least capacity appears to be less of an issue. And innovation is to be found in the market, especially in the MGA sector, where there has been considerable growth, as a feature in this *Journal* shows. This issue of GRM also looks at the issue of supply chain risk, which is continuing to cause headaches for risk managers.

On the global programmes side, this issue looks at the implementation of new rules for large risks in Brazil, which are expected to improve the situation dramatically in terms of the country and global programmes. And GRM talks to leading global insurers about contract certainty, digitalisation and reducing complexity in programme administration.

Finally, this *Journal* includes special reports on the oil and gas sector, and the trade credit insurance market. While the regional focus of this issue is the Middle East and north Africa, with a look at Morocco as the hub for the north African market, and the potential role of captives in the Middle East region.

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MGAs – ready for the big chill?

The hard market might have a cooling effect on overheated MGAs, writes *Garry Booth*

Managing general agents (MGAs) have become a force to be reckoned with in the specialty insurance sector, their role boosted by persistent soft market conditions.

MGA revenues earned worldwide had a value of about $12.5bn in 2020, according to analysis of the market carried out by London-based consultant Insuramore. The figure implies that premiums intermediated by MGAs, managing general underwriters and coverholder groups last year reached about $100bn.

Insuramore found that 55 of the top 250 MGA groups (including four of the top five) belong to insurance brokers, while 28 are owned by insurers. The remaining 167 are classed as independent.

Broking groups Brown & Brown, Amwins, Ryan Specialty Group and Truist Insurance Holdings were placed a respective first, third, fourth and fifth in the worldwide ranking.

The growth of MGA revenues relative to mainstream broking revenues is due to several factors, including the development of specialty risk classes such as cyber, Insuramore says. Strong growth in the market for excess-and-surplus cover in the US, a market traditionally served by MGAs, is another reason.

The leading insurer-owned MGA clusters in 2020 were Zurich (mainly through its ownership of crop insurance provider RCIS) and Tokio Marine (whose MGA portfolio includes renewable energy specialist GCube and ProAg, a crop insurance provider).

The MGA market is still very fragmented, however, according to Insuramore's research. In 2020, the top five groups accounted for a combined 18.2% of worldwide revenues, rising to 39.6% for the top 20, 56.9% for the top 50, 68.5% for the top 100 and 82% for the top 250.

MGA startup activity has been unabated in 2021, with new ventures appearing across the specialty spectrum. Some notable examples include:

- Fidelis's MGA platform Pine Walk launched an energy liability MGA led by former Berkshire Hathaway Specialty Insurance underwriters
- NuVenture International launched its second MGA, called Nivante, to bring specialist combined insurance products to the care sector
- Arrow Risk Management has launched a new MGA underwriting platform for multiple specialty lines, led by former Barbican Insurance managers
- Spring Partners, a joint venture with Aston Lark, was created to invest in existing MGAs and create new ones (Aston Lark was acquired by Howden in November)
- Rising Edge, a London-based MGA, launched in May, writing D&O insurance; the new company's CEO is Philippe Gouraud, a former AXA XL executive

Market conditions could detract from some MGAs' allure

- Another D&O-focused MGA, Banyan Risk, was launched by SiriusPoint in July; Tim Usher-Jones, a former Chubb underwriter, is CEO
- Investment holding company Griffin Highline Capital and HDI Global Specialty formed Falcon Risk, headed by former Argo PI specialist Craig Landi and focused on financial and cyber in the US.

Growth potential

In another recent study, *2021: A Year of Renewal for MGAs*, law firm Clyde found that MGAs and carriers see more potential for growth for MGAs in Europe and in the US.

Commenting on the survey responses from carriers and MGAs, Vikram Sidhu, partner in Clyde & Co's New York office, says there is significant activity happening in the MGA space in the US: "There are opportunities for a range of players, from traditional MGAs to insurtech startups."

Survey respondents were upbeat about prospects in Europe as well. Yannis Samothrakis, partner in Clyde & Co's Paris office, says: "The sector is seeing an influx of capital and talent, and we are seeing more MGAs forming and interest in investment or even mergers.

"In Europe, we are also seeing a rapid rise in interest of private equity players looking at MGAs. They are interested in the insurance sector but shy away from the amount of capital being bound. MGAs offer more room to manoeuvre in terms of access to profit without having to put up so much capital."

Christopher Miller, a partner in McGill and Partners' structured solutions team, says he sees no sign of a saturation point in the near to medium term, because of the abundance of capital within the (re)insurance sector that still needs to be put to work. Other factors include the reassessment of traditional carrier-centric career paths by high-calibre talent and the proliferation of hybrid fronting carriers, MGA incubators and specialty technology providers, "who collectively have lowered the barriers to entry for establishing an MGA by offering fast-tracked and capital-light paths to entrepreneurship", Miller reckons.

Enrico Bertagna, global head of MGA Solutions at Zurich Insurance Group, tells GRM that the rising number of MGAs is driven mainly by venture capital-backed insurtech activity: "In the traditional MAG business, we can expect more consolidation than startups, but numbers will continue to grow on the insurtech side. Saturation will happen once insurers become more effective in digitalising their retail offerings and therefore reduce provision of MGA capacity."

For the time being, however, capacity will be attracted to MGAs because they are considered to be the most efficient transformer – often more efficient than an insurer in their chosen area of risk, between the underlying insured and capital, Miller says: "Where we do see a trend is with the capacity vehicles themselves, with a shift from the legacy carriers to those that are purposely built around MGAs as the transformer."

"MGAs that operate in a fully transparent manner will be the winners of long-term, multi-year capacity"
Christopher Miller, McGill and Partners

Hard times

Market conditions could detract from some MGAs' allure, however – a salient point as specialty pricing trends upwards. Put simply, the hard market means that insurers are able to achieve top-line growth through higher premium rates and there is less pressure to grow only through new business, according to Zurich's Bertagna: "This could ultimately drive some insurers to rely less on MGAs for growth until the next soft cycle."

An MGA that can demonstrate differentiation, underwriting expertise, actuarial insight and excellent data management capabilities will always attract capacity in any market cycle, argues Mike Keating, CEO of London's Managing General Agents' Association (MGAA).

"An MGA that doesn't have these attributes will inevitably come under pressure in a hard rate environment. In a hard market, insurers' top lines grow organically, resulting in their tolerance for marginally performing portfolios being reduced.

"In a soft market, it follows that unless you significantly reduce expenses to combat a top-line shortfall, a greater tolerance to turnaround marginal portfolios is applied."

McGill's Miller believes a hard market can be problematic for an MGA operating within the legacy carrier model, because such partnerships are not built to allow for significant year-over-year premium growth: "While most welcome a market where exposures stay flat but rates increase, for the MGA the resulting increase in written premium often puts them at odds with their capacity partners due to artificial premium caps, the carrier's own capacity constraints or the resultant growth of one particular line of business becoming overweight within the portfolio.

"The irony for MGAs and the underlying carriers alike is that a hard market is the time when the underwriting margins should be the most favourable, yet the year-over year premium/capacity constraints limit or diminish the ability to take full advantage."

Differentiate to accumulate

The combination of a hard market and greater competition between MGAs means MGAs must work to differentiate themselves.

"The key USPs of an MGA are specialisation in developing new products, broad distribution insurers can tap into, and the ability to combine different insurance products and services into one bundled offer for their customers, supported by strong digital technology to make the customer experience easy and reliable," Bertagna says.

Mike Keating believes actuarial expertise and data analytics are crucial: "Larger members have the resources and liquidity needed to satisfy this prerequisite, but smaller/medium-sized MGAs sometimes don't have the resources to invest in their own actuarial support.

"We want all our members to have access to such resources so they can work collaboratively with insurers on portfolio performance. The MGAA is able to source independent consultants that can provide analytical and actuarial resources and also attend insurer meetings. It's an area we are actively developing."

McGill's Miller reckons the most dramatic trend across MGAs trying to differentiate themselves and stay relevant to their capacity partners is around transparency: "While MGAs have always provided relatively apparent value around distribution and specialty underwriting, the more veiled flaw of the model centres around the lag, inconsistencies and opacity of the data reporting," he says.

"The desire and ability to provide almost real-time transparency across the MGA's book to its capacity partners is one key area that distinguishes leading underwriting-based MGAs from more production-oriented MGAs. Those that operate in a fully transparent manner will be the winners of long-term, multi-year capacity," Miller predicts.

"An MGA that doesn't have these attributes will inevitably come under pressure in a hard rate environment"

Mike Keating, Managing General Agents' Association

Rating and regulating MGAs

Some emerging challenges facing MGAs are beyond their control. In the UK and the US, the big role played by MGAs in distribution across personal, SME and large commercial insurance has caused both raters and regulators to lean in.

The MGAA's Mike Keating says "the seemingly constant" directives from the Financial Conduct Authority (FCA) add costs and impair the ability of everyone along the value chain to service their customers effectively.

New product governance rules from the London market watchdog came into force in October, and another batch is due on 1 January 2022. A priority for the FCA is to make brokers and MGAs show what value they provide insureds for the costs they add to the coverage provided by the carrier.

"It's counterproductive to what the regulator is trying to achieve. The requirement to demonstrate product value is particularly onerous and we, in partnership with other associations, are developing a market template," Keating says.

Meanwhile, the US-based ratings agency AM Best is proposing to introduce a framework of performance assessment for delegated underwriting authority enterprises. The proposals are out for consultation and a spokesman for Best in the US told GRM to expect a ratings methodology to be revealed in the first quarter of 2022.

Obtaining a rating could be expensive for some MGAs – and will be a big differentiating factor for all. Looked at another way, widespread adoption of ratings for MGAs could be a positive sign of the sector's coming of age.

MGAs and insurtechs to the rescue

It wasn't so long ago that we were being told that big is best, bigger is better, says *Tony Dowding*. But it is smaller firms and operations that are providing choice and capacity in the market

Twenty years ago or so, brokers began swallowing each other up, insurers merged and grew, and all the time buyers were told this was a good thing. The bigger the supplier, the more they can do. And so the dozens and dozens of brokers turned into the big three, and very nearly ended up a two. And, to a slightly lesser extent, the same happened with insurance companies.

In the M&A frenzy of the last quarter of a century, choice seems to have been a forgotten word, to be replaced by newer words like 'one-stop shop', leverage, economies of scale and resilience. And of course, all of these are valid benefits.

Undoubtedly, size and reach is important. For brokers, being near to the client and all their operations worldwide, and being able to provide the full range of services on the ground, is vital. And no doubt when it comes to negotiations over programmes, covers, renewals and the like, a strong broker able to match the big multinational insurers is also a clear benefit.

For insurers, especially those servicing multinationals, regional spread is again crucial. The ability to provide admitted insurance around the globe is a minimum requirement for a global programme insurer. As is the ability to provide as many as possible of the specialty insurances that clients need.

Not to mention the need to have all the backup services covering risk analysis, risk engineering, claims specialists, crisis management services

In the M&A frenzy of the last quarter of a century, choice seems to have been a forgotten word

and so on that clients of brokers and insurers may require. And the finances to invest in new systems and IT that will speed up and improve the whole insurance process.

New choices

Perhaps also playing a part in the M&A free-for-all was the sustained soft market, hindering innovation and putting off new entrants. But as new risks have emerged, as the market has hardened dramatically, and as the industry has struggled to provide solutions for some newer risks, choice has started to return to the market, but in a different form: managing general agents (MGAs), coverholders and other forms of delegated authority, together with insurtechs.

As insurers have pulled out of some lines and reigned in their risk appetite, they have turned to MGAs and insurtechs to provide the expertise, technological knowhow and innovation to come up with new specialty products and take on distressed lines and new or difficult risks. Technology is key, as is the lack of legacy problems and the ability to be fast and agile when taking advantage of hard market conditions.

The statistics back up this view. A report from AM Best shows that a surge in the number of MGAs has doubled US premium revenue written under delegated authority in the past ten years, to $44bn in 2019.

New specialist MGAs have appeared in the last year, including Rising Edge, specialising in D&O, Falcon Risk Holdings in the US offering financial and cyber lines, London-based Arrow Risk Management operating across specialty lines, to name just a few. MGA Volante Capital has launched a new Lloyd's syndicate to open for the 2022 year of account.

MGA revenues earned worldwide had a value of about $12.5bn in 2020, according to Insuramore. It said the figure implies that premiums intermediated by MGAs, MGUs and coverholder groups last year reached about $100bn.

Digital transformation

Meanwhile, insurtechs are also growing rapidly as insurers turn to them to help them create innovative products going forward and digitally transform the industry. Global investment in insurtech startups totalled $10.5bn during the first nine months of 2021. Willis Towers Watson says this is just $12m short of the total invested in insurtechs globally during 2018 and 2019 combined. It adds that there were 421 deals in the period, an annual record.

And Juniper Research notes that insurtech platforms will more than double the amount of business they underwrite in the next five years to $556bn in 2025, from £250bn last year. Such growth will increase the market share of insurtech business to 8% of global insurance premiums by 2025.

> "In many ways, MGAs are the incubators of the insurance world, developing new solutions and providing innovation"

Clearly, the big brokers and insurers recognise the value of MGAs and insurtechs. Indeed, they fund and invest in some of them, and collaborate and partner with many MGAs. In many ways, MGAs are the incubators of the insurance world, developing new solutions and providing innovation. So the insurance sector, including the big insurers and brokers, clearly owes a debt of gratitude to MGAs and insurtechs for shaking up a traditional industry and providing solutions to many of the issues faced by the market. And for providing much of the innovation, expertise and technical ability that corporate buyers have been looking for.

Aon's ultimately failed merger with Willis Towers Watson almost turned the 'big three' brokers into a big two

Relevance, rigour, risk and reward

Some people have jobs that affect the whole insurance value chain. *Mark Geoghegan* of *The Voice of Insurance* spent time sizing up the new Lloyd's enforcer *Patrick Tiernan*

Lloyd's is important. It is not a market you can ignore for very long. In the insurance and reinsurance universe, it is an above-average-sized planet with considerable gravitational pull.

The market will write more than $50bn in 2021 and, judging from the slew of capacity pre-emptions the London insurance trade press has been uncovering of late, substantially more in 2022.

And that gravitational pull really matters. This planet affects the height of the tides in far-off places.

Lloyd's is a market but it has a common franchise and brand, a chain of security, an intricate network of global licences and crucially, a shared financial strength rating.

It needs to guard that franchise with its life.

Arguably, the person tasked with that job has had at least the second-most important executive role at the venerable marketplace and one of the most influential in global insurance.

The previous incumbent's situation was unambiguous – Jon Hancock was brought in to turn performance around before the market's reputation and ratings came under threat. A return to core profitability was priority number one, number two and number three.

It was tough and occasionally brutal work that caused casualties in the form of shuttered managing agents and syndicates, exited lines and severed relationships across the world.

Today, Patrick Tiernan has inherited the fruits of that considerable and painful labour.

Where Hancock had zero space to express himself, improved circumstances mean Tiernan has a much wider series of paths available to him.

Tiernan also has a wider remit. Hancock was performance management director while Tiernan's job title is chief of markets, which adds development, distribution and the global network to the role.

All the more reason to get to know him.

Patrick Tiernan

Immediate goals

Tiernan exudes Irish charm and has a self-deprecating sense of humour. We meet almost 100 days into his tenure and, when asked about

Lloyd's is expected to post a sub-95% combined ratio in 2021

his top priorities, his first quip is that his immediate goal has been to avoid "being chased out of the market by an angry mob".

Of course, there is no mob to be seen, in fact so far just a line of admirers prepared to give this fresh-faced rising star a fair crack of the whip.

With Tiernan, the surface may be polished but always visible underneath are the intellect and steely focus on the core numbers of a trained accountant, experienced auditor and CFO.

For instance, after almost four years of continuous remediation and rising rates, Tiernan is dismissive of players who haven't yet reconstructed their portfolios in such a way that underwriting profitability is sustainable across the cycle: "There is a point with certain players where if they can't radically change their business model, they are just not sustainable. It's not that we are being tougher, it just doesn't make any sense going forward."

But that doesn't mean he expects all the Lloyd's businesses you may be buying from to always be making a profit, particularly if they are doing something innovative and untested: "We don't expect every part of every line to be super-profitable just because it's 2021 and we've had 15 consecutive quarters of rate improvement. We're not going to be overly dogmatic but at the same time, if you've got a mature business and you're writing a mature line, what's the excuse?"

Tiernan readily describes himself not as a visionary or a creative, but rather someone who is "trapped in logical thought".

And that logic is ruthless. His pitch to you the risk manager is that while no insurance buyer likes premium hikes, the only thing you will like less is an insurance partner whose long-term credibility as a counterparty is being called into question: "The base building block is sustainability. If you continue to be sustainable and to deliver, you earn relevance. We deeply believe that to have the customers', brokers', ratings agencies' and regulators' trust, we must perform – and perform to an acceptable standard."

Happily, the core performance has returned. Lloyd's CEO John Neal said recently that despite another heavy catastrophe year that has contained the $30bn-plus Hurricane Ida, he still expected the market to post a sub-95% combined ratio in 2021.

Change of focus

So, what does this mean for hard-pressed customers?

There is a subtle change of focus towards positive enablement of innovation for progressive and consistently strong performers.

In Lloyd's' remediation phase, Tiernan surmises that an "inordinate amount of time" was spent on underperformers, whereas all the top syndicates could hope for was to be left alone.

Now the worst laggards have been dealt with, he hopes to be able to be more engaged with winners and actively trying to remove the barriers they have to doing business (and hopefully to solving your most pressing insurance problems).

Don't be surprised therefore to find Lloyd's carriers freed up to be more on the front foot on innovation in 2022 and beyond.

While an obsessive observer of the bottom line, Tiernan also has an instinctive understanding that it is the ability to take on new types of risk and solve client problems that keeps a business relevant and sustainable over the long term.

One such innovative thought going on presently is the possibility of Lloyd's allowing captives into the market. It's not a new idea, with the preparatory work and enabling rulemaking passed two decades ago, but perhaps it is an idea whose time has come?

Who wouldn't want an A-rating and the global licences? The capital advantages are also considerable, as is the benefit of being embedded in a marketplace full of potential co-insurers and reinsurers with whom to trade and lay off surplus risk.

The only drawback, as Tiernan points out, is if you want to be in the club and to access all its benefits, your business plan will be scrutinised in a way you would be unlikely to experience in any of the popular offshore captive domiciles.

"There's no bonfire of underwriting standards coming anywhere – that's not on the cards," the executive asserts.

Now, having Lloyd's licences may save on the fronting bills, but its other base costs are likely to be relatively high and these are likely to be a factor, along with speed to market.

But Tiernan is clearly up for a challenge and would see the new business as accretive to the market as a whole: "We would certainly see this a win-win. We're not trying to cannibalise business that is already in the market, it's to bring new key partners into our sphere."

Perhaps it's time to have an exploratory word with your broker or captive manager?

Cyber and ESG

While you're on the line, it's highly probable you'll be having a chat about what to do with your cyber insurance cover.

Unless you have been extraordinarily lucky, this will have been giving you some headaches since the last renewal, as a heavily increased frequency and severity of ransomware attacks has made its presence felt on pricing and capacity.

Lloyd's has a 20% global market share in this line, so what Tiernan has to say here is bound to be relevant to you.

He outlines new disaster planning scenarios and a thematic review of the class. He clearly doesn't want amateur dabblers but unlike many rivals, he doesn't appear to have lost his core appetite for the risk itself: "In my view, our role is to ensure that we support the development of the market going forward, not to run in the face of changing risk dynamics."

> **"Our role is to ensure that we support the development of the market going forward, not to run in the face of changing risk dynamics"**
> *Patrick Tiernan, Lloyd's*

That sounds a little more like the fearless Lloyd's of old.

Other matters doubtless occupying more of your time these days will be those of an environmental social and governance (ESG) nature. Indeed, ESG has become the business abbreviation of the year.

Once again, measured pragmatism is the order of the day. Tiernan recognises that it is not for Lloyd's to set or reset public policy, and that enabling the transition and keeping the power on is a core priority. He says he doesn't want to be the market of last resort and would rather be on the front foot with new, green technologies that bring abundant new risks of their own.

Think hydrogen-pipeline explosion hazard and Tiernan will have been there way ahead of you.

Useful conversations

In short, I have just met a technical, fun, smart, forward-looking and very savvy man whose first tendency is to study, understand and embrace risk rather than run away from it.

He will bring a rigour to the discourse that you might not have experienced in softer market times, but whether you agree or disagree, it should be a conversation that teaches you something – a free second opinion of the state of your risk that you should value.

Here is someone I feel you can do business with, and still enjoy it while you do.

PATRICK TIERNAN RÉSUMÉ

Lloyd's	Chief of markets	May 2021 to present
Aviva	MD UK commercial lines and global corporate and specialty	Oct 2019 to May 2021
	MD global corporate and specialty	Mar 2018 to May 2021
	CFO Aviva Insurance	Jan 2017 to May 2021
Starstone	Group COO	Jan 2014 to Dec 2016
Zurich Insurance	Group CEO centrally managed business	Dec 2003 to Sep 2013
HIH Ltd	Head of special projects	Nov 2001 to Sep 2003
E&Y	Audit	Dec 1997 to Apr 2001

Source: LinkedIn

Challenging renewals in the US

Risk managers in the US are on a bumpy ride through renewal season, paying more for most coverage than a year ago and hoping projections are accurate that 2022 will bring a slightly softer marketplace, says *Michael Bradford*

The US is seeing a bifurcated market at the moment

"There is no shortage of challenges in the renewal process," says Hector Mastrapa, senior vice-president of risk management at Marriott International. And the Covid-19 pandemic didn't help make this year's renewal process any easier, he adds.

"Clearly, for many insureds, their exposure base is very different than it was in the past," particularly, for many, in terms of revenue and payroll projections that were disrupted by the pandemic, Mastrapa says. "There is a fair amount of vagary around what those are going to be in the future," he adds, which makes rate-setting for coverages that consider those factors challenging.

Buyers who have invested in relationships with insurers will find it pays off in fair outcomes for both sides when discussing the reshaped exposure base and other renewal issues, Mastrapa says. "It's been a challenge to renew in a virtual environment," he adds, and knowing each other well has helped the process of working with insurers from a distance.

"Those relationships are helping convince underwriters to stay on an account or come on at lower attachment points," says Adam Mazan, vice-president, Pacific region at Risk Placement Services. "But they are not necessarily helping to change or dictate pricing and/or terms in a broad sense."

Capacity returns to excess liability market

Solid relationships can't hurt when putting together umbrella and excess liability towers, which sources say continue to be expensive for large risks and those that are considered difficult.

"We're seeing a bifurcated market right now," for umbrella and excess coverage, says Mazan. Accounts considered low to medium hazard are seeing "single-digit to low double-digit rate increases on renewals", he explains, adding: "There is a lot of insurer interest in coming onto those accounts and it's relatively easy to get placements put together."

For higher-hazard accounts and those with revenue of about $1bn or more, the picture

changes, Mazan says, and rate increases are ranging up to about 20% for those accounts.

Marriott was able to complete its international casualty renewals in October after replacing a few insurers that left its excess tower programme with new entrants and additional capacity from incumbent insurers, according to Mastrapa. "We were satisfied, given the current hard market environment," he says.

Capacity for umbrella and excess liability risks is returning to the market after plunging from more than $2.2bn for any single account in 2018 to about $625m in the third quarter of last year, says Jon Drummond, head of broking, North America, at Willis Towers Watson (WTW). Existing insurers are now putting up additional capacity and there are new entrants into the marketplace, all of which added about $350m in capacity in 2021, he says.

For many coverage lines, increases in rates are slowing, sources note. And, in some cases, risk managers may see noticeable reductions next year.

"If the trends continue as they have in 2021, we would expect that as we move into 2022, we'll see continued moderation in the marketplace and certain lines of business could even move into a soft state," says Drummond.

> **"The general feeling is that the market is healthier than it has been in the past, but there is still work to be done"**
> *Sam Baig, Amwins Group*

"The general feeling is that the market is healthier than it has been in the past, but there is still work to be done," says Sam Baig, executive vice-president with Amwins Group. Many of the conditions that drive high prices – social inflation, nuclear verdicts, climate risks and cybercrime among them – haven't gone away, he says. "Carriers have paid bad losses across all industry segments and lines of business, and there's still uncertainty around Covid, too, and how those losses are going to develop."

In many cases, "carriers are managing their portfolios with either a change in terms and conditions or a reduction in exposure by

shedding limits", Baig says. "Regardless of the line of business, it takes more carriers to build the same tower of coverage that you had before, and when you add up all the pieces it becomes quite expensive."

D&O rates ease

Costs for D&O liability insurance are seeing smaller increases as new capacity has entered that market, according to WTW's Drummond. "There were 24 new entrants into the D&O space in 2021," he points out. "That's generating over $100m in additional capacity and that capacity is driving this change."

Prices for the coverage during the current renewal have been "flat to modest single-digit increases", says Mike Mulray, chief operating officer and chief underwriting officer at Everest Insurance. "Market pricing has fallen from its peak; the kind of increases we were seeing last year and earlier this year have receded," he notes, and there are not expected to be dramatic changes to D&O terms and conditions.

In its 2022 *Insurance Marketplace Realities* report, WTW projects D&O rate increases for public companies next year will range from flat to 25%. Private and not-for-profit organisations can expect hikes of 5% to 40%, the report suggests.

Marriott's D&O renewal has been less troublesome than expected, Mastrapa says, shortly ahead of the 1 December deadline. "We have been able to identify new entrants so that we can get the limits we need, despite the fact that some carriers are lowering deployed capacity for the programme," he points out. "We feel the renewal should be pretty reasonable."

Cyber rates still climbing

While trends are encouraging for some liability lines, they're not so rosy when it comes to cyber risks, sources say.

"Cyber is one line of business where, unfortunately, I don't see a silver lining," says Drummond. The frequency of ransomware losses is "astounding", he remarks, "and until cyber professionals are able to get a better handle on ransomware, it's going to continue to be a challenge".

"That's a product that's still in its nascent stages even though it's been around a while now," Mulray says of cyber insurance. "I think the market has been flexible with terms and conditions and customers, and brokers have been very successful in expanding the breadth and depth of the coverage. What we're seeing is underwriters recalibrate what they are willing to cover and how they charge for that," he adds.

Risk managers can expect the cost of cyber liability insurance to rise by 50% to 150%, according to the WTW report.

Costs for D&O cover are seeing smaller increases as new capacity has entered that market

> "Cyber insurance is a product that's still in its nascent stages even though it's been around a while now"
>
> *Mike Mulray, Everest Insurance*

Among other liability exposures, construction projects in New York and Florida, and excess auto risks nationwide, are seeing big rate increases, according to Nicholas Freeman, associate managing director, casualty broker at Burns & Wilcox. "Capacity is at a premium, rates are up, difficult renewals and everything that goes along with that," is the case for most risks in those classes, he says.

High rates are attracting fresh capital from new market entrants in many lines, especially in the excess and surplus lines market, Freeman says. "We'll see what fruit that bears in six to eight months, if new competition works to bring some of the rate increases down," he adds.

"The good news is there's still plenty of capacity," Baig says. "The bad news is there's a tipping point on the cost of that capacity. If a client is willing to pay, in most cases you can find the coverage and the capacity, but the costs as you move up the tower [are much higher than in the past]," he notes.

Property cat concerns

Catastrophe losses in recent years have made the property market difficult for risk managers, sources concede.

Marriott is looking ahead to its spring property catastrophe renewal after a challenging round in April of this year, Mastrapa says. "Property insurance was very, very tough," he remarks, "but I felt we landed pretty well. For us it was more about pricing and capacity than breadth of coverage."

The hospitality industry has faced difficult property renewals since heavy catastrophe losses were recorded in 2017, Mastrapa says. And the uncertainties around payroll and revenues as hotels recover from the pandemic are complicating underwriting for business interruption risks, he adds.

"Every reinsurer, alternative capital vehicle and primary insurer are revisiting what their appetite is in that space," says Mulray. Concerns over climate change, the increasing frequency of natural catastrophes and more intense storms have them reconsidering how much capacity they are willing to commit to the property catastrophe market, he notes.

"That said, it's not lost on us that some buyers are fatigued," after a few years of rate increases, Mulray says. "But it's important to remind people of what's driving that. One driver is that an insurer's cost of goods sold is not always known until quite some time after they sell the policy. And that's part of what you're seeing, even in a short-tail line like property cat," he explains.

Wages muddy comp picture

Mulray says workers compensation insurance is a market to watch. While rates and loss frequency have declined in recent years, the market is "starting to kind of bounce around the bottom", he says. "It may not be until the second half of next year, but we anticipate rates will start to firm up."

"Property insurance was very, very tough," he remarks, "but I felt we landed pretty well. For us it was more about pricing and capacity than breadth of coverage"

Hector Mastrapa, Marriott International

Advances in technology that cause medical costs to rise are contributing to an increase in the severity of workers comp claims, Mulray says. And, he adds, uncertainty over wages is an issue.

Wage inflation in the US is making underwriting difficult for workers comp insurers, Mulray says. "When you charge premium at the inception of the policy period and you're expecting a certain average wage," he notes, unexpected jumps in wages cause problems for insurers. "This is more of a short-term dynamic, but something that adds an element of complexity to the underwriting process."

If wages rise significantly and unexpectedly, as they have in some cases in the US, workers comp insurance rates are suddenly out of whack, according to Mulray. "It's a big difference compared to the rate you charged," he says.

A renewed sense of purpose

Return on capital is the refrain from battle-hardened reinsurers in the run-up to the 1 January 2022 renewals. But as two experienced campaigners explain, there are many forces at work in the market this year. *Garry Boot*h reports...

Winter storm Uri in Texas generated massive losses for reinsurers

For the second year running, the annual reinsurance market renewal discussions are taking place under the cloak of Covid. Not only are things running late, due to the dislocation in traditional negotiating processes, but many more market forces are at work this time.

From behind the scenes, an insistent drumbeat that portends a harder market for European cedants can be heard from reinsurers who have been battered by nat cats. But perhaps more than for any renewal experienced since the aftermath of 9/11, few of the old certainties apply on either side of the balance sheet this year.

The combination of climate change risk perception and Covid-19, especially, has caused a major rethink of risk exposures across the property-casualty reinsurance spectrum. Meanwhile, the entire market is operating in a low interest rate environment, weighing on investment returns and pulling the focus on underwriting.

Unprecedented cat losses

Winter storm Uri in February, the European floods in July and Hurricane Ida in August generated massive losses for reinsurers.

Mike Van Slooten, head of business intelligence for Aon's Reinsurance Solutions division, points to unparalleled nat cat losses for the insurance industry as a whole: "We're already through $100bn insured losses this year and half a trillion for the last five years. That makes it an unprecedented period for the insurance industry as a whole. Reinsurers are designed to absorb volatility and they've certainly taken their share of the load. The same is true of the retrocession market, where capacity is now constrained.

"After another cat-affected year, reinsurers have stepped up the rhetoric and the appetite for cat business appears to be waning in some cases, despite the strong capital positions. Others are well positioned to grow if pricing meets their terms. It's a sign of the pressure management

teams are now under to achieve their target returns on capital."

Meanwhile, Covid-19 has generated significant losses for reinsurers in both the life and non-life segments, and is a continuing event in terms of excess mortality, Van Slooten adds: "There is also ongoing uncertainty around reserving positions, notably for BI/contingency losses, as well as the possibility of additional claims emergence from longer-tail classes."

Covid and casualty

Firming in the casualty, long-tail, end of the reinsurance spectrum has been underway for a while and will be sustained through the next renewal, according to Simon Welton, market head, P&C UK and Ireland, at Swiss Re UK: "For the upcoming renewals, we expect rates to improve, with differences by market and product. These improvements have been needed, for different reasons, for longer. Casualty has been an underperforming line of business driven by hard-to-predict factors like social inflation in the US and by lockdown. Plus, inflation is rising steeply while [investment] yields have dropped to very low levels."

The eventual cost of Covid-19 casualty-related losses is hard to call, Welton says: "The advices on loss are coming in very slowly, so we are just starting to build a picture of where the losses will come from. Contingency and event cancellation are obvious but we will need to observe the trends regarding property and BI in some regions outside the UK.

> **"For the upcoming renewals, we expect rates to improve, with differences by market and product"**
> *Simon Welton, Swiss Re*

"A big issue is not the BI losses *per se*, which we can understand, it's the impact on global supply chains and the impact on inflation around rebuilding."

Overall, casualty presents a mixed picture, according to Van Slooten: "There are concerns around the impact of inflation in its different forms: economic, loss cost and social. However, most casualty insurance lines have benefited from significant price increases over the last few years and reinsurers writing proportional programmes have obviously benefited. Once again, there will be strong appetite for good business."

Welton agrees that when insurers are generating very strong rate on the original business, then reinsurers follow their fortunes. But he advises caution: "It's a paradox whereby this is a hardening market but there is some pressure to start offering better terms to cedants because of the improvement in underlying

The eventual cost of Covid-19 casualty-related losses is hard to call

primary rates. That would risk derailing the improvements that are needed."

Investor sentiment slumps

Investor sentiment is weighing heavy on a reinsurance market that has not been meeting its cost of capital for years.

Van Slooten says: "In many cases, reinsurer results over the last five years have not been in line with the expectations of management teams, investors or ratings agencies. Investors are now questioning whether reinsurers are pricing for the effects of climate change, which is putting pressure on reinsurers to address the volatility that's being seen in their results.

That will add to upward pressure on the pricing of catastrophe covers at the year-end, and potentially not only in the areas that have been affected by losses this year, Van Slooten reckons.

Swiss Re's Welton echoes that view. "There has to be a general rising tide. The whole point of reinsurance is mutualisation of risk and if you want the benefits of that diversification, then there's a downside. Our capital is exposed globally and is affected globally if there's a local loss. Will floods in Germany cause UK insurers to pay more? Yes, a little bit, because our capital base is affected by it," he reckons.

But Swiss Re does differentiate between cedants as well, Welton stresses: "It's very important to do that and we would never mandate an across-the-board rate rise. It goes against the ethos of getting closer to clients. There will be a general upturn in the market and the losses are a catalyst for it and not the cause."

Trapped collateral chills ILS

Third-party capital has been a significant influence on reinsurance capacity and pricing in recent years – but has taken a hit this year.

"We'd seen a resumption in the growth of alternative capital up until the third quarter, and the property cat bond market in particular looks set to have a record year. However, the European floods and Hurricane Ida have resulted in losses to the retro market and resulted in additional collateral being trapped," Van Slooten says. "This is discouraging for investors who already had concerns around climate risk. With little sign of new money coming in, there will be less alternative capital available to serve the retro market at the year-end, which in turn will put upward pressure on reinsurance pricing."

Welton is similarly bearish on ILS: "Anecdotally, while cat bonds are a buoyant market, the role of third-party capital overall is probably reducing. That said, 'alt capital' should be opportunistic and if there was a capacity constraint it would be welcome. Right now, there isn't a shortage of capacity."

"There are concerns around the impact of inflation in its different forms: economic, loss cost and social"

Mike Van Slooten, Aon Reinsurance Solutions

Cyber risk in the spotlight

The machinations taking place at the sharp end of the risk transfer pyramid might seem a long way removed from the premium rating action down on the ground. But reinsurance availability and pricing does have a direct effect on commercial business.

Cyber is one of the most challenging areas at the moment, says Van Slooten. "It is high on the list of priorities for corporate buyers, but carriers and their reinsurers are struggling to fully understand the loss potential. Concerns have been heightened by the elevated cost of ransomware claims in 2021."

Swiss Re's Welton agrees that cyber is creating more noise than any other line today and for very good reasons. "Amid the celebrations over the growth opportunity presented by cyber, the industry is currently reassessing some of the potential risks, notably ransomware, that are now manifest. This is leading to a substantial price correction. It's an important part of the industry and [there's a danger that] prices can become unsustainable."

Brazil modernises large-risks rules

The implementation of new rules for large risks has the potential to remove Brazil from the list of the most nightmarish jurisdictions for global insurance programmes, says *Rodrigo Amaral*

Brasilia, capital of Brazil: The publication of Resolution 407 in March removed almost all bureaucratic steps for the approval of wordings

It is up to insurance buyers to put pressure on underwriters and brokers so that they can almost seamlessly integrate Brazilian covers into their programmes, a process that, until recently, was likely to drive many a risk manager to reach out for the liquor cabinet.

The publication of Resolution 407 by the CNSP, Brazil's top insurance authority, in March removed almost all of the bureaucratic steps for the approval of wordings that for a long time spooked foreign insurance buyers in the country.

Time-consuming process

Previously, if a buyer wanted to integrate a Brazilian risk into its global programme while complying with local non-admitted rules, it had to go through a neverending pre-approval process at Susep, the insurance supervisor, which could last several months.

"Global programmes were very affected by the rigidity of the Brazilian market. As a rule, when a policy from a global programme was adapted to reflect the Brazilian wordings, it became a Frankenstein," says Marcia Cicarelli, a partner at the Demarest law office in São Paulo.

The adaptation was made by the "tropicalisation" of the original policy via the addition of clauses that modified its content in order to make it compliant with covers that were already approved by the supervisor.

Cicarelli recalls that, in one particularly tricky instance, no less than 74 clauses needed to be added to a master policy from a multinational company in order to achieve this goal. It is no wonder that, according to market players, the process could take up to a year, causing severe disruptions to global programmes with significant Brazilian exposures.

The new resolution has changed the scenario by stipulating that insurance contracts for large risks can be freely negotiated between buyers and underwriters, with no need for Susep to give the green light to the process.

Even covers that do not exist in the Brazilian market can encompass local risks as long as they are translated to Portuguese, comply with Brazil's insurance contract rules and are fronted by a local insurer.

"For global programmes, the contract issued in Brazil was very bad. Now it will be much easier for companies to manage their Brazilian exposures within global programmes," says Joao Marcelo

Oil exploration in Guanabara Bay, Rio de Janeiro: oil and gas is one of several sectors automatically dubbed large risks

Santos, a partner at the Santos Bevilacqua law office in São Paulo. "Brazil will no longer be an exotic jurisdiction."

Innovation

The new flexibility on wordings is also expected to open the gates of innovation in Brazil's insurance market, as Susep's rigidity and cumbersome approval processes made it hard for insurers to introduce new covers in the country.

"There are good opportunities to further develop BI covers. There are still some limitations as triggers are linked to physical damage, and they need to be very clearly defined in the policy. Now the market has an opportunity to innovate by introducing a variety of triggers, perhaps with parametric products for example," says Rodrigo Ávila, head of corporate risks at brokers MDS in Brazil.

Eduardo Figueiredo, head of corporate risk and broking at Willis Towers Watson in Brazil, notes that the company is already preparing a reputation-insurance solution, as well as new political risks wordings that aim to help Brazilian buyers tackle their ever-evolving risk exposures at home and abroad.

"We can bring those products from abroad, 'tropicalise' them to some extent, and offer them in the Brazilian market in partnership with insurance companies," he says.

As Brazilian wordings converge towards standards employed in markets like London, Bermuda or the US, their integration with global programmes could be further improved. However, buyers will have to let insurers know that they want tailor-made products in order to give the market a push to actually offer them.

Lack of new wordings

Eight months after the resolution was published by the government, there still is a lack of new wordings in the market, as insurers are taking their time to adapt their internal process and reinsurance contracts to the more flexible underwriting processes.

It is not an easy task as the Brazilian market has for a long time been kept on a tight leash by Susep and, until 2007, the then monopolistic state-owned reinsurer IRB.

"The opening up of the reinsurance market in 2007 was a revolution," Santos says. "But product regulation remained very heavy – approving a new product with Susep was a nightmare."

The result was that Brazilian companies did not develop the ability to innovate as quickly as in markets such as London. The process to set up tailor-made covers for big clients involved huge amounts of red tape, and risk managers often complained that underwriters showed little willingness to put their noses to the grindstone.

Many are still hesitant at dropping their off-the-shelf products in segments like property, liability or D&O in order to work with clients to develop customised covers, Cicarelli points out.

"We tell them that they do not need to adapt anything. Now they have complete freedom to write their own covers," she says.

Luciana Prado, also a partner at Demarest, warns that it will take some time for the market to adapt itself to an era of wordings freedom. In her view, the international insurers who now dominate

the Brazilian corporate insurance market can take advantage of the expertise of their mother companies to push the process forward. But it is up to buyers to make it clear that they want the new practices to take hold in the market.

"We are not seeing demand for tailor-made covers yet but the regulatory framework is there. People wanted freedom for wordings; now it's a question of learning how to use it," Prado points out. "Companies' risks can be better translated into an insurance cover and this will be a competitive advantage at lower costs for them."

Thomas Menezes, the CEO of It'sSeg, a Brazilian broker that is now part of the US-based Acrisure group, says that large insurance buyers are ready to work with customised covers, and underwriters that step up to the challenge will have an advantage in what could be a growing market.

"Now, insurers will be able to look at a company as a risk and adapt their offer to what it needs, rather than providing some standardised products," he points out.

The new rules have also made it possible for insurers to integrate several different covers into a single package for corporate insurance buyers. Although this is common practice in many markets around the world, in Brazil, before March, it was allowed only for a few kinds of buyers, such as oil and gas companies, airport operators and banks.

"The integration of covers will happen, but not too quickly. Clients may be concerned about spending too much time negotiating a customised policy with a single insurer, without a guarantee that the underwriter will offer the same product in the following year," Avila says. "It will take some time for the market to feel confident that these changes are here to stay."

Market opportunity

Figueiredo stresses that therein lies the opportunity for Lloyd's and Bermuda underwriters, for example, who want to expand their presence in Latin America's largest market. They have the reputation of providing tailor-made and packaged solutions for clients that have singular risk exposures, and now they will be able to offer that same expertise in Brazil.

Large risks are defined by the resolution as those that require covers of more than BRL12m, which is equivalent to about €2m. Companies whose annual turnover reaches more than BRL57m, or €9m, can also purchase cover for large risks, as well as those that have assets valued at at least BRL27m (€4.3m). Risks in sectors like oil and gas, international trade and global banking are automatically dubbed large risks.

Menezes says the dynamic that the new rules can create in the Brazilian market may attract new players to the corporate insurance sector, especially in areas like cyber risk, where the offer of cover and consultancy services alike remains minimal, even though Brazil is widely seen as one of the economies most exposed to cyberattacks.

"We can bring those products from abroad, 'tropicalise' them to some extent, and offer them in the Brazilian market in partnership with insurance companies"

Eduardo Figueiredo, Willis Towers Watson Brazil

The alliance with Acrisure, which purchased a controlling stake in It'sSeg in October, answers to this reasoning, as the US broker has also invested in its cyber risk capabilities lately.

Furthermore, the Brazilian regulators are implementing a bold 'open insurance' strategy, which aims to ensure that, by the end of 2022, insurers and brokers have free access to data from products, sales channels and customers.

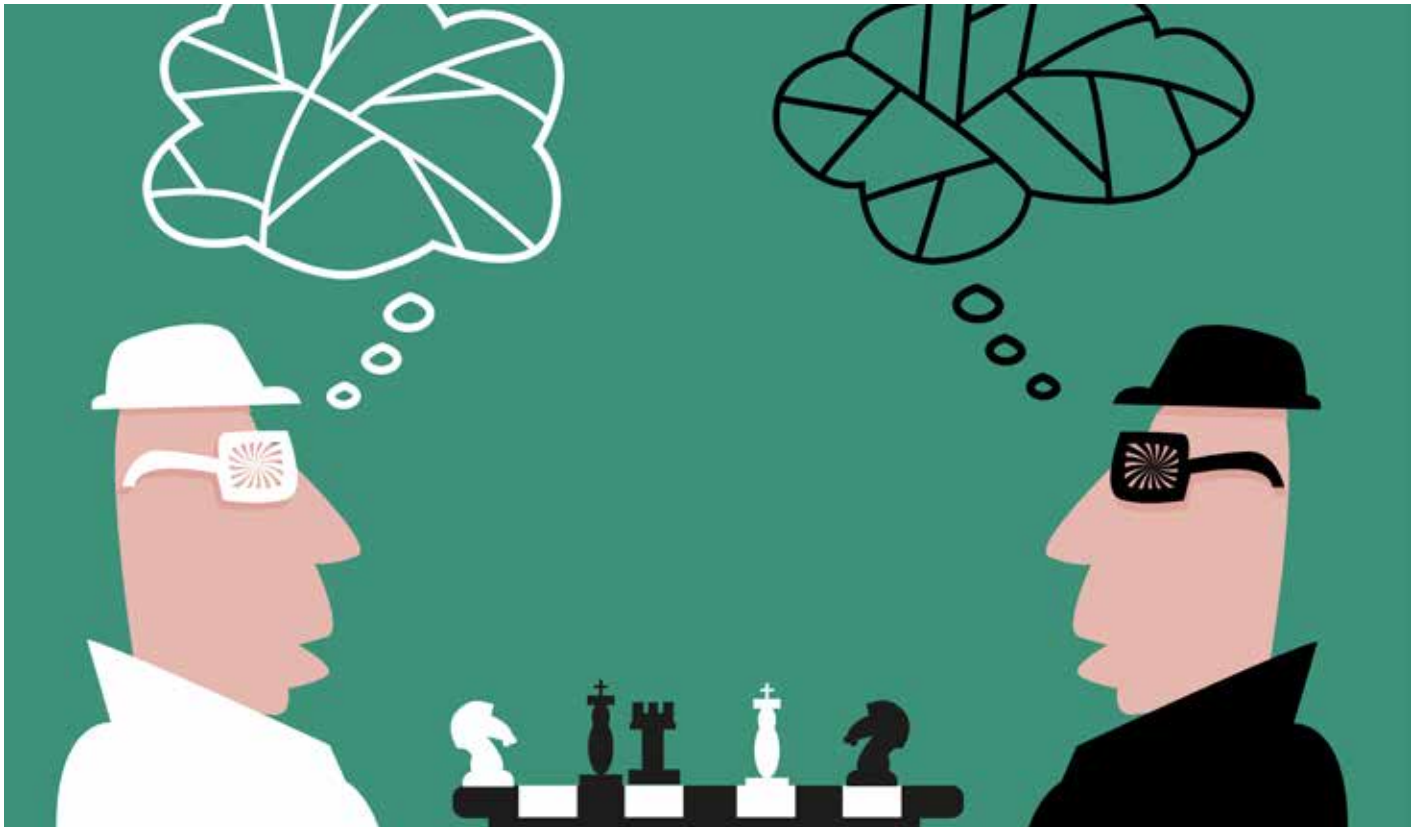
"But open insurance should have a significant impact on large risks too. Data about all kinds of insurance, both retail and large risks, will be shared by market players," Prado says.

In Santos's view, even though it may take a while, Brazil's insurance market is on the verge of significant transformation thanks to the recent modernisation push. And in fact, there is little alternative to moving with the times.

"It is a very powerful change that is taking place at a moment when the market is ready for it," he says. "There are many large global insurers in Brazil that can offer new covers. And it is particularly relevant because risks themselves are changing and digitalisation has taken a leap in the past couple of years."

Tit for tat

Mark Geoghegan **explains how game theory will help you become a better buyer of insurance**



I'm sure you know all about the famous 'Prisoner's Dilemma' game-theory thought experiment.

But just in case you haven't, here's a re-cap:

Two criminals have been caught by the cops. Let's call them Jane and John. But the cops don't have enough evidence to send them away for a three-year stretch for major crimes. They can only nail them for minor misdemeanours that would put them behind bars for 12 months.

So the cops offer a plea bargain to each.

If they rat the other out they walk free, but the other gets three years. But if they both turn for the prosecution, each gets a two-year stretch. If they both keep schtum, they get a year apiece.

The two criminals are in separate cells and can't communicate with each other.

Four permutations are possible. Jane rats on John, John rats on Jane, both betray each other, or both keep quiet.

The scenario is so interesting to psychologists because running through the logic, each prisoner is rationally better off if they betray the other. That is if Jane betrays John she might walk free and even if John also betrays her she gets only two years, which is still better than the three she would get if John betrayed her and she didn't reciprocate.

But the way the penalties are structured, each is also incentivised to cooperate. If both are nice to each other, this means only a collective two years in jail whereas the two scenarios where one betrays another are three and mutual betrayal is a hefty four.

That's why it is a dilemma!

What's this got to do with insurance?

Well, the dilemma gets much more interesting when you turn it into an iterative game that is played repeatedly. It has the same rules but at the

end of each round, John and Jane get to find out what the other did. With its annual renewal negotiations, the buying and selling of insurance is much more like this variety.

The political scientist Robert Axelrod popularised this version of the dilemma. He asked fellow academics and advertised to get people to submit different strategies to play it as a game. Then he played each strategy out against the other and totted up the scores.

The winner was the simplest – a strategy called 'tit for tat'. Tit for tat's first move was always not to betray the other prisoner, but in subsequent moves it simply did whatever the other player's last move was: "I will do unto you what you do to me." Literally tit for tat.

Over the years and millions of iterations, tit for tat and lightly tweaked variants of the same strategy have always won the game.

Axelrod's insights, which he codified in the book The Evolution of Cooperation, are that the best strategies are 'nice' – that is to say, they are the ones that are never the first to betray the other player.

They are also forgiving. For example, tit for tat is infinitely forgiving. It can be betrayed 500 times in a row but will immediately cooperate as soon as the other player comes into line.

But of course, they may be nice but these strategies are not pushovers by any stretch of the imagination. They will be provoked immediately into retaliation.

The final point is that they are not greedy. They are not overtly setting out to score more than the other player but end up doing so over the long run.

Being nice works

Now for the insurance part. Let's turn this game into one of risk manager and underwriter, and try to apply Axelrod's learnings:

The most important lesson is that being nice works.

In the simplest terms, the nicest risk mangers generally get better deals more than they get ripped off, because brokers and underwriters simply like and trust them more and want to help.

The same goes for underwriters. Nicer underwriters always get a better showing, most commonly because they are able to decline risks without offending brokers. This way, they keep them coming back again the next day with potentially better submissions.

It's also hugely important to remember that insurance is a contract of utmost good faith. This reflects the imperfect nature of the deal. The risk owner doesn't know everything about the risk and neither does the underwriter.

> "Like the prisoners, we both get the chance to rat each other out once in a while, but it's better for the both of us in the long run if we don't"

There is material uncertainty and it is explicitly recognised that faith in the other party, and a certain willingness to forgive, is going to be needed to make things work.

After all, if we knew exactly what bad thing was going to happen, when it was going to happen and how much it was going to cost, then we would need a savings product or a loan, not insurance.

An underwriter who screams material non-disclosure and sends reservation-of-rights letters at the first sign of trouble is the equivalent of the defector turning 'stool pigeon'. It's a betrayal of client trust and deserves retaliation.

The same cuts both ways – real client non-disclosure is a similarly undeniable act of treachery that must also be punished.

In the insurance context, the other main betrayal available to players relates to loyalty on both the buy and the sell side throughout the pricing cycle.

On the buy side, it is the empathy not to push for unsustainable discounts or the widening of coverage in the troughs of favourable markets.

On the sell side, this translates into a willingness to temper rate rises for loyal and transparent customers, despite hard market conditions that might otherwise allow greater exploitation and profit.

Like the prisoners, we both get the chance to rat each other out once in a while, but it's better for the both of us in the long run if we don't.

Yet neither of us should be pushovers. Poor behaviour should suffer immediate consequences.

Buyers must walk away from overly harsh underwriters and, likewise, we should expect aggressive buyers, or those with unreasonable expectations, to be dropped by the best carriers.

Toughness doesn't pay

The final point is the non-envious one. Greedy underwriters and avaricious buyers don't usually end up doing as well as they think their toughness should merit.

Greedy underwriters get selected against and their portfolios underperform.

Conversely, ultra-parsimonious buyers end up with lower-quality security with a lower ability, and a lower willingness, to pay up when it really matters.

So, as you prepare to play the next round of the eternally fascinating insurance version of this classic game, do pick your strategies wisely!

Oil and gas: changing attitudes

Downstream oil and gas companies have faced steep premium rate increases in the past couple of years, with underwriters regularly demanding spikes of more than 30% at renewals. Now, insurers are also implementing new clauses to their policies that cap business interruption payments as the sector goes through high levels of volatility. *Rodrigo Amaral* reports...

Underwriters have reduced their appetite for downstream risks

The oil and gas industry faces a transitional period as many companies are investing in the diversification of their activities towards greener energy sources, which is creating challenges for their insurance programmes as a result.

But downstream energy firms, which include those in sectors like petrochemicals and refineries, constitute the trickiest segment of the industry for buyers and their brokers at the moment.

Even before the Covid-19 pandemic, the segment was struggling with a high volume of operational losses that baffled insurers due to their lack of predictability.

Losses have remained significant, reaching more than $3.5bn in 2020, and $2.3bn in the first nine months of 2021, according to Alesco, a London-based broker. Respectively, $2.5bn and $2.1bn were due to operational causes, rather than nat cat events.

Brokers say that as a result of the high losses, underwriters have reduced their appetite for downstream risks, with some withdrawing capacity in the past couple of years. Buyers have faced rate increases of up to 35% in recent renewals.

Improving situation?

The situation has improved somewhat for buyers of late, however, with forecasts for future rate rises dropping to a maximum of 10%.

"In the past 12 months, we have seen a definite tampering in rate increases. Underwriters are still pushing to get rises but it is a very modest pressure now, even in the downstream market," says Jon Smith, a managing partner at Alesco. "We are seeing some of those prices come down because underwriters are looking to write bigger lines in the downstream market next year."

This constitutes an important change of attitude as one of the main characteristics of the market during the pandemic was an effort by underwriters to reduce their exposure to large risks.

"In 2019 and 2020, some of the largest carriers in the downstream sector became much more conservative. We would normally see big insurers taking 10% of the risk, but leading up to 2020, they would take 7.5% or 5%. If several carriers did that at the same time, clients struggled to get their programmes completed," says Nicholas Little, chief broking officer of energy GBC at Aon in London.

"As we moved into 2021 and now enter 2022, the market has stabilised and there has not been any major withdrawal of capacity in the past six months. And some of that cautious underwriting has started to retreat. A number of very large players are now seeking to write larger lines in the downstream market," he adds.

Oil and gas companies have reacted to the price increases by making more use of captives or the capacity offered by mutualist insurer OIL. The insurer announced that it will increase its limit from $400m to $450m next year, with the aggregation limit reaching $1.35bn, up from $1.2bn.

Business interruption cap clauses

But rate increases are not the only way the hard market is hitting the downstream sector. One of the noticeable developments to take place in recent times, and which is set to remain a feature in the near future, is the application of business interruption (BI) cap clauses in downstream oil and gas packages.

Insurers have expressed worries about turnover volatility at some downstream companies, especially refineries, which have suffered from the reduction of fuel consumption during Covid-19 lockdowns around the world.

"The insurance market has been pushing BI volatility clauses in the downstream sector. If a company declares to the market an annual revenue value, but in reality, at some point that year, it experiences a lower value, and then later on a higher value, it is very difficult for insurers to charge the correct premium," Little explains. "Volatility clauses apply a cap to the BI values the client declares, either on a monthly or annual basis, or sometimes a combination of both, and establishes that, say, 120% or 130% is the maximum recovery that the client can make."

He adds: "Clients need to think very carefully about what they declare as values. In the old days, if a company declared €10, and the loss was €20, on many BI forms they would still be able to recover the actual loss sustained. With BI volatility clauses this is not always the case and going forward, buyers need to work with their brokers to have a clear understanding of their BI risks."

> **"If several carriers [became more conservative] at the same time, clients struggled to get their programmes completed"**
> *Nicholas Little, Aon*

Upstream risks

In the upstream market, however, the situation has been much less dramatic. Capacity has remained plentiful and price increases have been much less painful than among refineries and petrochemical firms.

"Increases in rates have been very modest, ranging between 5% and 15%, usually around 7.5%," Smith says.

Alesco pointed out in a recent report that the construction part of the market, which is also usually covered by upstream insurers, has seen tighter conditions, with increases reaching between 10% and 15%, and limited appetite for subsea elements. But capacity concerns in the upstream segment are mostly restricted to a few areas such as fracking, which has been afflicted by higher levels of claims.

"Fracking claims can reach up to tens of millions of dollars. So it is difficult to find capacity for that sector in the current climate," Smith says.

Even then, Alesco estimates that upstream losses amounted to $864m last year, and in the first nine months of 2021 they reached $325m.

"There is plenty of capacity in the upstream market but premium volumes have been low in historical terms. Many of the production companies are not investing in production or new wells, and activity levels are quite low," Little says.

In the midstream market, which encompasses pipelines and other intermediary activities, trends vary according to where the covers are purchased. As there is no specific midstream insurance market, both upstream and downstream underwriters can provide capacity to the sector.

Price increases are expected to range between 8% and 10% in forthcoming renewals, according to Alesco, which has however diagnosed a tendency among underwriters to impose minimum premiums on midstream businesses. The values demanded by insurers range from $50,000 to $75,000 and seem to have stabilised, according to the London broker.

Even though the situation is different in the three segments of the oil and gas industry, some of the challenges faced by the market today are shared among all companies. For instance, communicable-disease clauses have become commonplace in policies. And oil and gas insurers have increasingly striven to remove cyber risk covers from oil and gas packages, driving buyers towards the purchase of standalone policies from dedicated cyber teams.

Smith stresses that a few underwriters, such as Munich Re, offer a cyber facility for energy companies and they have gained some traction in the market. Other than that, most policies contain some kind of cyber exclusions.

"Not many energy companies are looking for traditional coverage, due to the limits available and the level of information required," he says. "And also because some companies believe that they have excellent IT departments that provide good defences for them."

Sustainability challenge

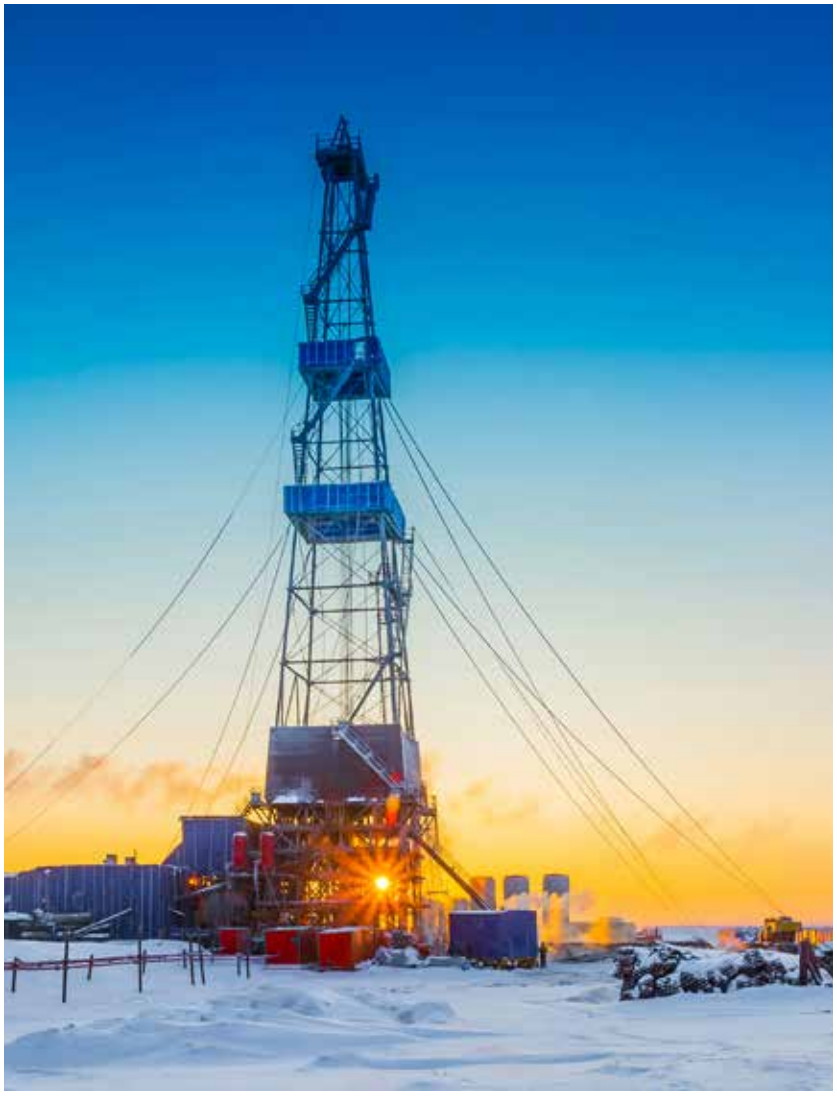
Other challenges come from the pressure for a sustainable economy that is gaining momentum both in the energy and insurance industries.

"There have been very specific areas so far where capacity has been withdrawn, such as Arctic drilling, due to ESG concerns. It is critical for brokers to understand the changes in underwriters' appetites," Little says. "It is very likely that insurers will adopt additional decision-making parameters, other than just profitability."

Smith warns that insurers have an important role to play as energy companies go through a period of transition towards greener energy sources. Simply denying cover for companies that are deemed not immediately compliant with ESG standards is not going to cut it.

"We will not see oil and gas companies, and their insurers, disappear overnight. They will be around for a long time. But there is definitely a move towards renewables, and renewables are increasingly going offshore," he says. "The industry is moving to much deeper and hostile waters, which will require much bigger capacities. This is where the upstream insurance market can step up and help, as it is much familiar with offshore structures and deep water. Working together with the renewables market, they can put together long-term solutions for our clients."

Little adds: "Clients are getting involved with biodiesel, solar power, hydroelectric generation, or hydrogen. It is a big challenge for insurers to adapt their policy terms to provide programmes that cover all those different activities in addition to traditional energy market exposures."



Capacity has been withdrawn for Arctic drilling, due to ESG concerns

He concludes by noting that, even as the hard market fades, some of the approaches adopted by the insurance industry in the past couple of years are unlikely to go away.

"From now on, different subsectors in the oil and gas industry will have different insurance experiences," Little says. "Some may have difficult nat cat profiles, others may have a more challenging ESG story. Rather than having a broad brush, insurers are increasingly differentiating clients, and there could potentially be a significant disparity in the results each client obtains at renewals."

> **"There is definitely a move towards renewables, and renewables are increasingly going offshore"**
> *Jon Smith, Alesco*

Trade credit: a world of its own

Trade credit insurers expected a wave of bankruptcies in 2021, as government schemes to support companies in the wake of the Covid-19 pandemic ran their course. The year is coming to a close, however, with not even a ripple in sight, says *Rodrigo Amaral*

Government support for businesses closed during Covid-enforced lockdowns helped many to avoid insolvency

The volume of insolvencies and consequent insurance claims has been so low in developed markets that a growing number of companies are deciding to do without insurance capacity and retain the risk of default by clients on their own balance sheets.

Trade credit insurance to some extent looks like a world of its own, where the market is not only hard, but also presents some of the characteristics of a soft period. Claims are below pre-pandemic levels despite a worldwide health crisis and economic volatility, insurers have recovered their appetite for risk and rates are even going down in some markets. Willis Towers Watson believes, for example, that good accounts could achieve drops between 5% and 10% in the US market during the next renewals.

The Berne Union, an association of trade credit insurers, has described the claims environment in 2021 as "incredibly benign", as its members paid only $1bn in short-term insurance policies in the first half of the year. The number is 38% lower than in the same period of 2020 and represents the lowest claims-to-commitments ratio on record.

A number of buyers have spotted the trend and asked themselves: why do we need trade credit insurance if nobody seems to be missing payments?

"We have seen in recent months companies leaving the market to self-insure. They believe that in the current environment, they do not need credit insurance anymore," says Dirk Hagener, director of communication and corporate development at Atradius.

The temptation is not hard to understand. Hagener points out that it is not a cheap product and board members, especially at companies in sectors that are doing well at the moment, such as electronics, may feel that the money can be put to other uses.

But he also warns that the scenario suggests that the current lull may not last much longer. "The growth outlook for a lot of companies that we have in our portfolio is positive," Hagener says. "But insecurity is definitely out there."

Unusual situation

The challenge for both insurers and their clients is to properly interpret what is a highly unusual situation. On the one hand, consumer spending is going strong in several countries, savings remain high, economic growth seems to be on the way up, and companies in many sectors have reported positive earnings of late.

On the other, inflation is on the rise everywhere, supply chain issues spook production managers and the Covid-19 pandemic still seems to have some legs, as new variants appear every so often, nurturing doubts about vaccinations and raising the prospect of new lockdowns.

"We have built dozens of scenarios in the past 20 months," says Nicolas Garcia, group commercial director at Coface. "We look at the indicators that we have and we adapt our risk-taking strategy to what we observe in the market, as most of our benchmarks have disappeared."

He notes that there is no historical precedent for a situation where economies dropped by 6% to 8%, or even more than that, as was the case in plenty of countries in 2020, without generating a massive increase in bankruptcies and insolvencies. The economic effects of the pandemic were countered by unprecedented government support schemes for all kinds of companies, as well as extremely lax monetary policies by central banks.

"The massive intervention from public bodies has completely frozen the levels of bankruptcies," Garcia says. "But it does not mean the risk has disappeared. The underlying risk is still there and it is even higher than it was one year ago."

Insolvencies on the rise

In fact, the Berne Union has warned that the number of insolvencies registered by its members has started to creep up of late, a perception that has been confirmed by market players. "We see now the first signs of normalisation. It will be a slow process, it will take time, but things are starting to deteriorate, even though from a very low level," Garcia says.

"Demand is booming but inflation is rising at the same time, so margins are under pressure. Companies that have plenty of cash at the moment can face this situation in the short term, but they will gradually consume their reserves. That is when we believe the level of bankruptcies will accelerate significantly," he says.

"Once the claims start coming in, which they will do, then an adjustment will be inevitable"

Andy Hodson, Euler Hermes

"The pace of insolvencies is increasing. But so far we are not seeing the tsunami of bankruptcies that has been forecast," adds Andy Hodson, risk director at Euler Hermes in the UK. "Many businesses have incurred additional debt to get through the pandemic, the question is whether they will generate enough cash to support it."

Some sectors, of course, are already struggling. Hotels, restaurants, travel agencies and other tourism-related sectors, to mention a few, have felt the full brunt of lockdowns and continue to be affected by persistent virus variants. But Hodson stresses that some other companies have shown signs of distress that send a wider message to the market. For instance, there has been an increase in the number of construction insolvencies in the UK.

"We usually see that as a bellwether of what might be coming in the future," he says.

Credit insurance programmes

Companies must therefore consider carefully whether this is not the time to structure their credit insurance programmes, as the current bonanza may not last well into 2022. Hodson stresses that, with governments' support for

the trade credit insurance market fading into the past, capacity levels should go back to normal. The soft market is also supported by the unusually low volume of claims, which is unlikely to be maintained. Conditions offered by underwriters should be affected as insolvencies accumulate.

"Once the claims start coming in, which they will do, then an adjustment will be inevitable," Hodson says. "We know that insolvencies will take place more on a frequency basis, affecting smaller and medium-sized businesses. But the biggest challenge will be the severity claims, those involving the big names."

Hagener, for his part, warns that many "zombie" companies may still be found in the marketplace, as they have been artificially kept afloat by government support and strategic decisions made by lenders. This could change as companies feel the impact of the end of government support schemes and, due to inflationary pressures, central banks revert their current lax attitude towards interest rates.

And the supply chain crisis is another factor to be considered, as companies have to slow down production lines due to the lack of essential components such as semiconductors. Spanish credit insurer Credito y Caución has warned that the automotive industry in countries like Germany, France, the UK, Japan and Brazil faces high levels of credit risk for this reason.

"What is stunning is that the risk is really high right now," Garcia says. "There is inflation, supply chain disruptions, and also rising political tensions between countries and within countries. And central banks are starting to lower quantitative easing."

All those factors combined should temper the tendency shown by certain companies to keep credit risks in their balance sheets, Hagener points out.

"There is discussion about credit insurance, according to which, if you have very professional credit management and organise yourself very well, the value of credit insurance goes down. In the US and Asia, many companies do credit management in-house," he says. "But, especially looking at the clouds in the horizon, this is a phenomenon where, in one or two years, companies will come back to the market."

Atradius estimates that global insolvencies will grow by 33% in 2022, in large part boosted by delayed insolvencies from 2020 and 2021. Its latest payments practices report, published at the end of November, has already spotted an increase in late payments and write-offs in regions like western Europe, and growing demand for credit insurance covers as a result.

Trade credit insurers will increasingly be considering ESG issues

Emerging issues

As they tackle the challenges to come, credit insurers and their clients must also deal with emerging issues linked to current pressures on the business community to move towards a more sustainable economic model.

"As an industry, we will have to adapt and support this change," Hodson says.

That means looking not only at the ESG profile of clients, but also of those companies with which they do business. Credit insurers will have to increasingly take into account how capable, flexible and agile companies are in that area.

"We are working with the ratings agencies to determine how we will incorporate ESG criteria to our risk profile. And we need to move quickly in that direction," Hodson says.

At some point, a lack of credible ESG credentials could even compromise the ability of companies to purchase trade credit insurance coverage.

"Starting in 2022, we will have to take a stance in the industry," Hagener says. "Either we follow purely governmental ambitions to help green industries to grow and reduce our exposures to industries that use coal, for example, or we take an active role and adopt a specific stance towards being green."

Reduced supply, increased demand

***Ben Norris* finds insurers wary of CBI amid supply chain disruption, with good risk management key to getting cover**

Empty shelves in Vancouver, Canada: recent months have seen unprecedented supply chain disruption

There is a growing focus among insurers on contingent business interruption (CBI) and supply chain risks, with the broadest cover now unavailable. But well risk-managed businesses can still get some protection, despite reduced appetite for indirect suppliers and almost universal Covid-19 exclusions.

Recent months have seen unprecedented supply chain disruption caused by Covid-19, which has impacted almost all sectors. The pandemic and a wave of power shortages in Asia have hit production, while a post-lockdown boom in some regions has caused a surge in demand for raw materials and goods, contributing to long delays in shipping. Adding to the pressure, severe labour shortages are affecting many industries.

This has caused insurers to take a long, hard look at their supply chain and CBI exposures, just as demand from buyers has risen.

Concern over exposure

Palle Kensoe, property practice leader in central Europe, Middle East and Africa at Marsh, says there is no doubt insurers are increasingly concerned about their CBI exposure.

"Where insurers were offering extensions like infectious disease and CBI, they didn't have a full picture of how they were exposed across a book. So, after they saw the effects of infectious disease clauses when the pandemic hit, they are now are also looking at CBI extensions. And we see insurers wanting to know more and more about the exposure and demanding more information about how clients are dealing with supply chain risk," he says.

Kensoe says some carriers are starting to focus on CBI limits and reducing their per-risk capacity. He says buyers can generally get the amount of cover they need if they can supply the correct

information for their named suppliers. But without this information, risk managers can struggle, he adds.

"We still have the capacity and it is still out there, but we do see some of the international insurers starting to focus on their CBI limits. We see some carriers starting to reduce that capacity," he says.

"But if you can demonstrate to the insurance market that you know your risk, can quantify it and show your mitigation options, like alternative suppliers, that is important and you will get the cover. A big issue on property is named and unnamed suppliers. However, if you can supply the named supplier, you will often still get capacity," he adds.

Limited appetite

Chris Waterman, global head of property, marine and technical lines at Zurich Insurance, stresses that insurers' appetite is "very limited" for unnamed suppliers and indirect, tier two or three suppliers.

He says that growing concern among insurers over supply chain disruption and uncertainty over accumulation risk, coupled with the increased frequency and severity of supply chain incidents, has resulted in a reduced appetite for CBI or contingent time-element insurance.

And the broadest supply insurance cover has now been withdrawn, he says.

But he adds that CBI cover remains available for first-tier suppliers at well-managed businesses. However, even here, appetite is reduced, says the insurer.

"For named direct suppliers, appetite depends on how well the risk itself is understood, as well as the risk a supplier poses for the direct insured and/or multiple insureds within a portfolio," he says.

"Generally speaking, appetite is much more limited than ever before, resulting in a reduction in capacity/limits; increased deductibles or self-insured retentions; restricted/excluded coverage, for example non-physical damage triggers, communicable diseases or cyber; and rises in rate," he continues.

"However, for those businesses where there is less uncertainty on understanding risk and where they can demonstrate that they have built resilience to reducing frequency and severity into their strategy, an appetite from the insurer can be generated," says Waterman.

He adds that insurers are particularly concentrating on supply chain risks in North America, Asia and Europe.

Focus on risk management

Marsh's Kensoe says a focus on risk management is the most important thing for companies

"The better a company understands and mitigates its supply chain exposures, the better we can assess the risk and offer coverage"

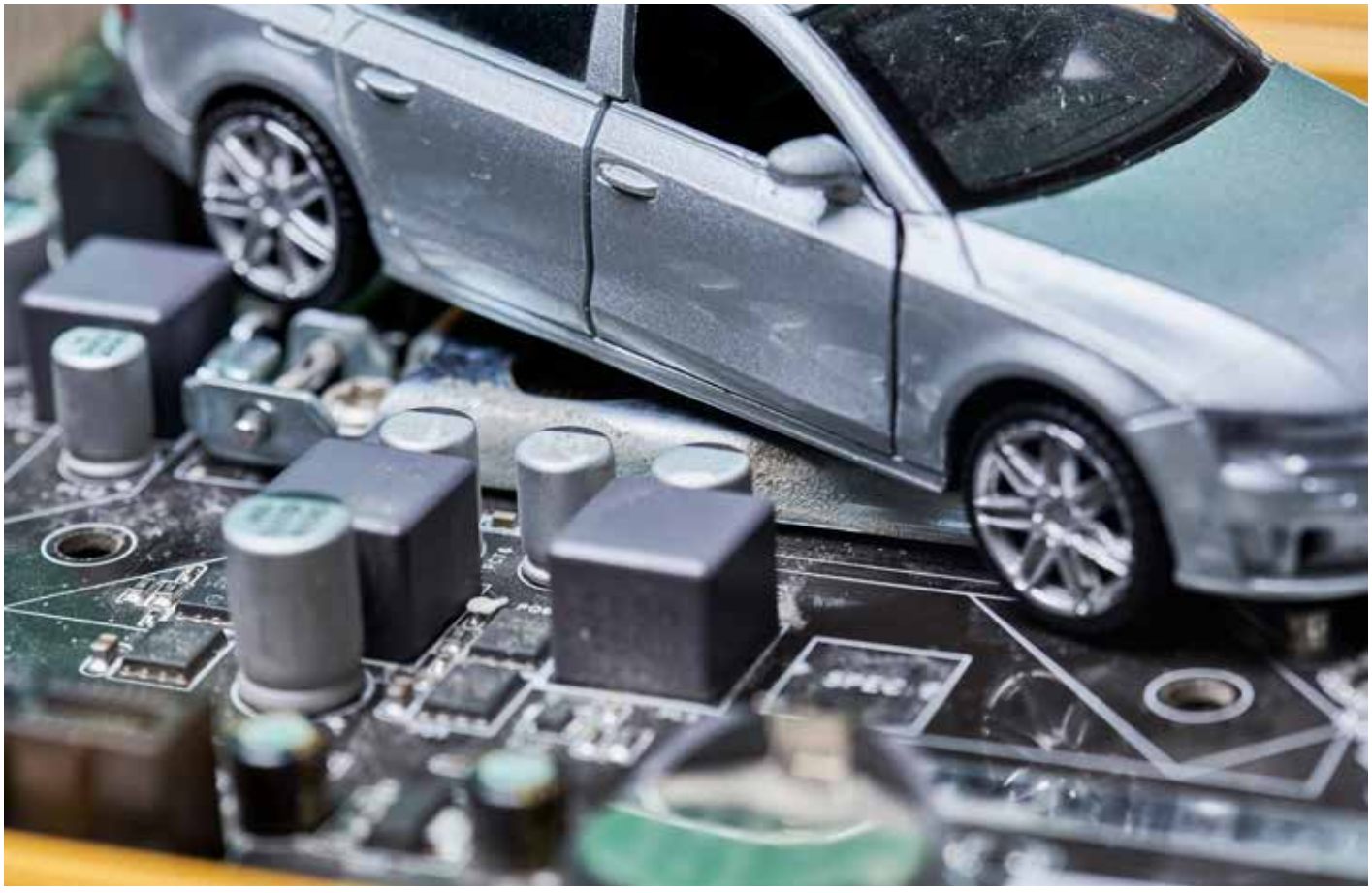
Maria Grace, AGCS

wanting CBI cover. "You need to know your risk and assess your risk. In the current market, insurers are willing to insure well-controlled property risks including CBI extensions. But if they don't see that, they are pulling out and not offering capacity. So, we advise clients to do a thorough assessment of their supply chain risk, not only focusing on tier one but tiers two and three," he says.

The broker understands that it has become very challenging for industries hit hard by the supply chain disruption to place standalone, specialised supply-chain cover. And he says there is more concern from a property perspective about some of those industries, such as automotive, too.

Maria Grace, global head of property at Allianz Global Corporate & Specialty (AGCS), says her company still offers CBI cover. But the amount of capacity on offer and its cost depends on the specific risk, how well it is managed and then documented. Grace says AGCS and other insurers have limited appetite for CBI for companies that aren't on top of their supply chain risk.

"At Allianz Global Corporate & Specialty we still provide CBI cover, but our appetite varies



The automotive industry has been hit by a global semiconductor shortage

depending on the industry, client resilience, loss experience and the breadth of cover," she says.

"Rates for CBI coverage have to reflect increasing exposures. So, what we offer in rate, terms and conditions will vary depending on the underlying exposure or loss performance of the sector, and the individual client. The better a company understands and mitigates its supply chain exposures, the better we can assess the risk and offer coverage. If the clients don't have a good understanding of their own suppliers' or customers' loss control and business continuity plans, carriers will have limited appetite for CBI," says Grace.

London market

Andy Edwards, account executive in the cargo and stock throughput team at broker Miller, says the London market for physical damage supply chain and cargo insurance is in a far better position for buyers in terms of coverage on offer, pricing and capacity than it has been for the last 18 to 36 months.

The reason for that is increased capacity coming into the market and bringing back competition.

Meanwhile, cover remains available for non-physical supply chain risks but capacity, as has always been the case, remains "very limited", says Edwards.

"We wouldn't say it is becoming harder to cover financial loss, but certain issues such as Covid/pandemics and labour shortages remain firm exclusions," he explains.

The broker says that rate increases in the London market for physical damage cargo supply chain cover have "decelerated rapidly". This has been spurred by growing competition and an overall appetite among insurers to get more business onto the books following an industry-wide correction in the challenging market.

But Edwards says the cost of non-physical damage supply-chain products has remained pretty much unchanged in the current market. And there is now some pressure to increase rates following recent events, he adds.

"Rates for trade disruption insurance, consequential loss, have remained fairly consistent over the years. But the increase of natural catastrophes and political instability in certain countries has put pressure on the market to increase rates," says Edwards.

Sustainable solution

Waterman says sustainable insurance solutions can only be provided once supply chain risk is fully understood and resilience built in by risk managers. With a way to go before this is achieved, he says Zurich expects a further reduction in appetite for CBI cover this year and next, to "correct the current situation".

Kensoe, meanwhile, says rates for general property and CBI cover that is available from the market is stabilising, if risk managers can supply the right information. He explained that property rate increases in continental Europe, for example, slowed to 12% from 18% in the last quarter.

"So, although we are still in a challenging market, it is moderating. CBI is also impacted by this trend, with rate increases slowing down despite the supply chain risks out there," says the broker.

Zurich's Waterman concludes by saying that insuring the "unknown" is not an appropriate strategy for insurers, and a sustainable supply-chain approach from carriers and industry is needed. "Otherwise supply chain-related insurance becomes unaffordable and will only be available for a handful of resilient businesses," he warns.

> "Clients who have trusted their insurance partners through the tough times have definitely reaped the benefits"
> *Andy Edwards, Miller*

And this means a bigger focus on supply-chain risk management from risk managers and better presentation of risk.

"A strong presentation of the risk that leaves nothing open to interpretation is always the best strategy for an insured – gaps in information and loss records only throw up red flags to insurers," says Edwards. "As ever, insureds with a strong relationship with their insurers, as well as longevity of relationship, are also seeing good results. Clients who have trusted their insurance partners through the tough times have definitely reaped the benefits," he adds.

Morocco: top of the rankings

Physically sited at the top of Africa, Morocco also holds sway as one of the most dominant countries in Africa economically, something that is reflected in a well-balanced insurance market, as *Liz Booth* reports

Business district, Casablanca: the Moroccan insurance sector considers itself a hub for the local region

Morocco is often considered second in insurance markets across Africa, behind only South Africa. The north African country has positioned itself as a giant in terms of African players and the Moroccan insurance sector considers itself a hub for the local region.

The country was impacted heavily by the Covid-19 pandemic, however, and is only slowly emerging from its effects. Omicron has knocked the area back and Morocco was, again, one of the first to impose travel restrictions.

The good news is that half-yearly 2021 data for the insurance sector shows an improvement in performance compared to the first six months of 2020 when the Covid-19 crisis first hit.

According to the data published by the Supervisory Authority for Insurance and Social Welfare (ACAPS), the market has recorded a turnover of MAD28.169bn ($3.15bn) in the first half of 2021, which represents a 3.08% increase compared to the MAD27.326bn ($2.7bn) recorded at the end of June 2020.

With a 56.3% market share, non-life premiums are progressing by 11% to reach MAD15.868bn ($1.77bn). The life activity is posting a 14.2% growth of its turnover with MAD12.301bn ($1.37bn). This class of business accounts for 43.7% of the total premiums underwritten in Morocco at the end of H1 2021. This compares with, say Tunisia, where 2020 premiums amounted to $948,936 in the whole of 2020.

High risk level

It is not all good news: according to AM Best, the country as a whole has a high level of risk, factoring in economic, political and financial system risk, although it remains a slightly lower-risk territory than its neighbours Algeria, Libya and Egypt.

The ratings agency says that political instability weighs heavily on the outlook, as does debt, particularly that incurred as a result of the Covid-19 pandemic in 2020. It cites Algeria and Tunisia as having less manoeuvrability, in particular, leaving Morocco to have fared a little better.

The Moroccan economy has traditionally relied on agriculture, accounting for 15% of GDP and employing 50% of the population. Manufacturing and services have grown to account for 70% of GDP but tourism in particular was hit hard by the pandemic.

The country ranks 53rd out of 190 countries in the World Bank's Ease of Doing Business Index and 80th out of 180 in Transparency International's Corruption Perception Index, highlighting the need for additional reform, says AM Best.

In May this year, Fitch Ratings affirmed Morocco's BB+ rating, saying it was underpinned by a record of macroeconomic stability reflected in relatively low inflation and GDP volatility pre-pandemic, a moderate share of foreign-currency debt in total general government (GG) debt, and relatively comfortable external liquidity buffers. These strengths are balanced against weak development and governance indicators, high GG debt, and budget and current account deficits that are wider than ratings peers.

Insurance market

When it comes to the insurance market, Fitch ratings said it considers insurance regulatory oversight in Morocco as somewhat weak. The insurance market is regulated by ACAPS, an independent organisation founded in 2016.

The 'solvabilité basée sur les risques' (SBR) project is expected to bring the Moroccan solvency regime close to Solvency II standards. The enforcement of SBR would be positive for regulatory oversight, Fitch believes, as the current regulatory solvency requirements are not risk-based.

However, it does not expect SBR to be implemented until at least the end of 2022. Fitch confirmed: "The Moroccan insurance market is well developed compared to regional peers, as it ranks second in Africa by premium volumes. Fitch expects insurance penetration to continue to increase in the medium term in the country, driven by life-business development."

It added that the Moroccan insurance sector is adequately diversified, as premiums in 2020 were divided between life (45%) and non-life (55%). The non-life business mix is dominated by motor insurance (48% of non-life premiums in 2020), while life premiums are mostly traditional savings, with high growth potential in other life branches.

Fitch also pointed out that the Moroccan insurance sector is highly concentrated, particularly on the life insurance side, where three companies wrote 67% of the business in 2020. The reinsurance sector is highly competitive, with two local reinsurers and more than 30 foreign reinsurers operating in the market.

Mohamed Hassan Bensalah, president of the Moroccan Federation of Insurance and Reinsurance Companies, has called on insurers to expand their distribution channels

In terms of individual companies, the ratings agency again affirmed the AAA (mar) financial strength rating of Société Centrale de Réassurance (SCR). The outlook is stable. The ratings agency justified its decision by saying SCR is the dominant company in the Moroccan market, with strong capitalisation and a good financial performance.

In 2020, the Moroccan reinsurer reported a combined ratio of 94%, which improved by one point compared to 2019. Return on equity also improved, to 12%, compared to 11% in 2019.

Meanwhile, another player, Saham Assurance Maroc, is to be renamed Sanlam Maroc, after South African giant Sanlam bought Saham back in 2018. An extraordinary general meeting to confirm the change will be held on 28 December 2021. As of 30 September 2021, the Moroccan insurer achieved a turnover of MAD4.35bn ($476.5m), which represents an increase of 9.5% in the past year.

There is a real drive to improve insurance takeup across the north African country. The president of the Moroccan Federation of Insurance and Reinsurance Companies, Mohamed Hassan Bensalah, recently called on insurers to expand their distribution channels, saying these must evolve through digital and other physical networks such as phone operators and payment organisations.

He said the Covid-19 pandemic has forced insurance professionals to reinvent themselves and adopt new methods. Now, he added, it was time for insurance intermediaries to also accelerate their digital transformation.

Distribution has been cited as one of the main challenges facing the sector, along with collection and repayment of premiums and competition. Bensalah has called for changes in the year ahead to make the sector more resilient.

Takaful insurance

Growing the market and accessing new populations has resulted in the development of Takaful insurance. On 25 October 2021, new rules came into play with ACAPS publishing a circular on the application of Insurance Code measures related to Takaful insurance.

The first chapter is devoted to the Takaful insurance contract and management regulations of the Takaful insurance fund, while the second chapter deals with Takaful insurance and reinsurance companies. It sets out the administrative regime for these companies and the financial system of the Takaful insurance fund, as well as regulating companies that exclusively carry out reinsurance operations and their governance system.

The first branches of takaful business will be mortgage Takaful, consisting of death cover for the borrower, multi-risk residential property cover and savings products.

Reports suggest there is a large untapped market, with real estate 'murabaha' financing amounts totalling about MAD16bn ($1.7bn), without any cover available as yet for the death of borrowers. ACAPS and the Higher Council of Ulema hope other Islamic insurance products such as work accident, group life and illness. will follow.

Issam Achiki, head of the monitoring and standardisation department of ACAPS, has been reported as saying that the insurance regulator is now vetting applications for Takaful licences. He says that if the applications of those seeking licences are in order, a "reasonable time" for the effective start of Takaful business activity to take place would be at the beginning of 2022.

Cyber insurance

Like most insurers worldwide, Moroccan carriers are grappling with cyber cover. Capacity is reported to have fallen back in the past year after a poor loss record from repeated cyberattacks and ransomware.

According to a 2021-2022 whitepaper on the European, Middle Eastern and African insurance markets released by SIACI Saint Honoré group, a European provider of insurance risk management consulting and brokerage services, this market situation is expected to continue for the next two years. Reinsurers will continue to be very selective about the risks they write and the capacity deployed will also be reduced.

"We have seen an average rate increase of around 30%, with some customers having to absorb up to 100% of the rate increase. The trend is expected to continue with an average increase of around 20%-25% for the next year," states the whitepaper.

The whitepaper explains that data breaches in the MENA region are known to be particularly costly, well above the global average cost of $3.86m. It cites a lack of awareness and commitment to cybersecurity and warns that, in addition, many businesses still operate without a solid business continuity and disaster recovery plan, resulting in longer downtime and affecting more customers when these attacks occur.

The report points out that the local market has very limited capacity, with the exception of a few regional players that have cyber capacity of about $5m, while the reinsurance market is led by a few multinationals whose capacity has been reduced. As a result, it said, underwriters are extremely cautious in terms of exposure.

Night market, Marrakech: tourism in Morocco was hit hard by the pandemic

Captive interest on the up

While not a common solution, interest in captives in the Middle East is growing, albeit from a low base. And there are options in the region, with four captive domiciles established, says *Tony Dowding*

Bahrain is one of four locations in the region that have introduced dedicated captive-specific legislation

The captive concept is not new to the Middle East. Indeed, some oil and gas companies in the region have been using captives for many years. However, these have tended not to be domiciled locally. One of the biggest, Al Koot, was initially incorporated in 2003 as a captive insurance company for Qatar Petroleum, but has since become a commercial insurer and reinsurer.

Until fairly recently, the concept was not very well understood other than by the very largest companies. So while captives are not new to the region, it has been a slow burner. Sebastien Loeffel, network partner relationship manager at AXA XL, says that while captives do exist, the use of captives is very limited and is growing at a slow pace.

But there are some signs that interest in the captive solution is increasing. According to Marsh's recent 2021 *Captive Landscape Report*, between 2015 and 2020, captives have grown in every region globally – noting that the Middle East, where the existing number of captives was low, saw large increases. It says the number of captives with Middle East parents has increased by 20%.

According to an AM Best report published in the summer, interest in captive insurance companies is growing in the Gulf Cooperation Council (GCC) region as international commercial insurance rates harden. In the report, Best says that rising open market prices have sparked interest beyond the traditional users of captives in the energy and heavy industry sectors, and state oil enterprises.

It adds that the introduction of captive-specific regulation and the availability of

experienced third-party captive managers to oversee the operations have made the process of establishing a new captive easier at the same time as hardening markets provide a strategic rationale for captive sponsors to retain more risk.

Rising interest

James Battersby, chief broking officer for central and eastern Europe, Middle East and Africa, Willis Towers Watson, agrees that the hard market is having an impact in the region.

"Interest in the captive concept has grown in the past few years as the hard market has taken its toll," he says. "To date, most captives of Middle East-based companies have been formed in offshore captive domiciles, where the experience and supporting infrastructure for operating captives is well established. The introduction of captive legislation within the Middle East region may encourage prospective captive owners to consider locating their captive locally, but for many companies new to the captive concept, they have preferred to trust in tried-and-tested managers and talent pools (both managers and non-executives)."

He adds: "As captive owners get used to the rhythm and requirements of captive ownership, some of these companies may look to lift and shift the captive to their preferred Middle East domicile, but we are not there yet."

According to Best, existing GCC captive sponsors typically operate in sectors where the business model requires a large insurable fixed-asset base. Property, engineering and energy risks tend to dominate captives' portfolios, with policies often including substantial business interruption limits. They also write liability covers, including D&O. It notes that historically, most captives in the region have acted as reinsurance captives, using a fronting commercial insurer to issue the insurance policy, and then retroceding most of the risk in the international reinsurance market.

Middle East domiciles

Should Middle East companies look to local centres to domicile their captive, there are a number of choices, with similar legislation and rules and regulations. The four that have introduced dedicated captive-specific legislation are Bahrain, Qatar, Dubai and Abu Dhabi. The regulations have tended to be modelled on international best practice, with similar features to well-established captive domiciles such as Bermuda and Guernsey.

The Bahrain Monetary Authority issued its first licence for a captive insurer in 2003. The Dubai International Financial Centre (DIFC) was established in 2004, followed by the Qatar Financial Centre (QFC) in 2005, introducing a regulatory regime for captive insurance in 2011, including protected cell company (PCC) legislation. Abu Dhabi Global Market, an international financial centre, opened for business in late October 2015. All four domiciles have PCC legislation.

> **"The introduction of captive legislation within the Middle East region may encourage prospective captive owners to consider locating their captive locally"**
> *James Battersby, Willis Towers Watson*

The Abu Dhabi Global Market is a financial free zone that offers 100% foreign ownership, a 0% corporate tax rate, and application of common law. Similarly, the DIFC's legal system and courts follow a common law framework and the centre offers 100% ownership and provides a 40-year guarantee of zero taxes on corporate income and profits, as well as the UAE's network of double-taxation avoidance treaties with regulators and central banks. Marsh has a captive management operation in the DIFC and Abu Dhabi Global Market, while Aon also has an operation in Abu Dhabi.

Last year, the DIFC published new rules for the regulation of captives. Speaking at a webinar held by AM Best in January 2021, Ronny Vellekoop, senior executive officer at Marsh Captive Solutions, said the DIFC's insurance regulations made it an attractive domicile, through applying rule waivers and rule modifications. "The DIFC has recognised that with the increased interest in captives, they need to amend their regulations slightly, based on the rule waivers and modifications that were happening anyway. So, a consultation paper came out a couple of months ago which stated that the rule waivers and rule modifications that had already been applied over the last 15 years or so should be formalised in the rulebook," he said.

He added that the new regulations will make it far clearer for potential captive owners. "The regulations are clearer and more in line with other more established domiciles such as Guernsey or Bermuda. So, now a lot of domiciles look very similar. The rules in Guernsey are very similar to the rules in Bermuda, and are now also very similar to what we see in the DIFC. Cost-wise, regulation-wise, those financial centres are very similar, and the differences are just nuances," he said.

Tough conditions in MENA markets

Insurance markets in the Middle East and north Africa (MENA) have not escaped the impact of the global hard market – indeed, lack of reinsurance capacity has meant that for larger risks, pricing has seen big increases and capacity can be an issue, says *Tony Dowding*

According to AM Best, the MENA reinsurance market has long suffered from weak pricing, driven by ample supply, creating challenging operating conditions for the region's reinsurers. It notes that available reinsurance capacity in the MENA region comes from many sources, with global reinsurers, regionally domiciled players, as well as reinsurance groups from Africa and Asia all operating in the market.

Traditionally, MENA has offered diversification for reinsurers as a result of the low level of catastrophe risk. But Best notes that several regional and international players have withdrawn from the market, often because they have struggled to generate sufficient returns.

"For the past several years, reinsurance market conditions across the region have been characterised by highly competitive pricing, an abundance of capacity, as well as incidences of large losses," says Best.

There are other pressures on the market. The insurance markets of the Gulf Cooperation Council (GCC) have been affected by Covid-19 and oil price volatility. An Aon report, 2021 Insurance Market Review – Middle East, notes that insurers in the Middle East are altering their pricing to offset losses, volatility and low interest from the global market. It states: "Even though the Middle East region is relatively small, the impact of the hard market is severe. Certain insurance products, such as property and construction, saw premium increases of 30% or more on 'clean' risks."

Sseveral regional and international players have withdrawn from the MENA market

'Two-tier' market

The insurance market in the MENA region is much like other regions currently in that it is

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somewhat 'two-tiered', based on occupancy and client profile, according to James Battersby, chief broking officer for central and eastern Europe, Middle East and Africa, Willis Towers Watson (WTW). "What we mean by two-tiered is that for smaller, less complex risks that can be absorbed by local and to an extent regional markets, there remains an abundance of capacity and therefore competition. For larger or more complex risks, where perhaps the local or regional markets need help, we continue to see less capacity on offer and what is available is normally more expensive," he explains.

He adds: "From a coverage perspective, underwriters are continuing to remediate their books and the industry is tightening up on certain perils, such as communicable disease cover (exclusions) and 'silent' cyber. Insurers are generally making coverage amendments at renewals driven by coverage restrictions that were imposed at the renewal of their treaties."

Anne Vinny, chief underwriting officer, commercial insurance, Middle East, Zurich Insurance Group, notes that market conditions continue to remain hard, especially on the larger risks that require significant reinsurance capacity. She says this is driven by the adverse weather events and disasters faced globally, especially in the US and Europe. "Although the Middle East has not been affected by any major nat cat events, the frequency of wind and wet perils and floods in territories like Oman and other GCC countries has increased over the years and impacts the loss activity, resulting in terms which reflect the exposure," she explains.

There is some positive news in the markets. Joseph Bejjani, chief distribution officer GCC and North Africa, AIG, says that although some players have decided to exit different MENA markets, new players are entering or expanding their existing presence, noting that the United Arab Emirates (UAE) remains an attractive market, while Saudi Arabia and Turkey are growing extremely quickly, together with Morocco and Egypt.

Sebastien Loeffel, network partner relationship manager at AXA XL, says post-pandemic recoveries are generally better than initially anticipated. "As the market is still not fully mature, the dynamics are still changing, but authorities are doing their best to educate local businesses to make the most of the insurance mechanism for risk transfer," he says.

But he adds: "Capacity remains a major concern in the region as, comparatively, there is very little local capacity deployed and what exists is mostly driven by reinsurers from western markets. This means that global capacity and rate issues are echoed here in the local market."

"Underwriters are continuing to remediate their books and the industry is tightening up on certain perils, such as communicable disease cover and 'silent' cyber"

James Battersby, Willis Towers Watson

Distressed lines

There are of course a number of distressed lines in the region, generally reflecting the global picture. The two mentioned most by insurers and brokers are D&O and cyber.

D&O continues to be challenging, and Aisling Malone, head of executive & professional lines, Middle East, Berkshire Hathaway Specialty Insurance (BHSI) points out that while there has been more capacity available in recent months, programmes with large limits (over $50m) can still prove hard to place in full. "Similar to the rest of the world, D&O programmes for US-listed companies in particular are very difficult to fill and there is very limited capacity for programmes with SPAC/de-SPAC exposure. D&O programmes for locally-listed companies are under less pressure but capacity on prospectus liability/POSI for newly listed companies is still in relatively short supply," Malone says.

However, she adds that the hardening market for D&O does appear to have peaked. "Rates continue to increase but more moderately than previously, with capacity returning to the market both from new entrants and existing players. We expect to see rate increase continuing into 2022 nevertheless," she says.

Fahad Al Rakhis – head of specialty lines, commercial insurance, Middle East, Zurich Insurance Group, says: "We are still seeing capacity scarcity across financial lines; and cyber markets continue to reduce line sizes further, which drives rates positively. The main reason for the increases is the correction in the pricing and controlled line sizes in some industries, which was affected heavily during the pandemic."

WTW's James Battersby says there is severe dislocation in cyber as insurers manage systemic risk and a significant increase in the frequency and severity of ransomware. He explains that as well as hardening on prices/retentions/capacity/coverage, there is an increased focus on risk selection. "Most carriers now carry out internal assessment of prospects/clients, done by in-house cyber experts, and cover may simply be not available for risks that do not have state-of-the-art IT security and processes. We are seeing an increased number of prospects unable to find insurance no matter the rates available," he says.

An area to watch out for is energy liability, which has struggled for the past couple of years, says Battersby, noting that prices are starting to moderate, although risk profile, limits purchased and industry sector continue to influence the ultimate pricing outcome.

And a broader point for the MENA market is the impact of ESG, says Battersby. "Projects with negative ESG impacts are becoming 'red-list' items regardless of risk profile. While thermo-coal has been in the spotlight for some time, carriers begin to focus more on local ESG-related issues such as works taking place in natural parks. Additionally, carriers no longer review ESG practices on the specific project in question and will review the insured's business profile as a whole.

"In addition, there is a considerable reduction in capacity for projects with tailings facilities, be these new or refurbished, wet or dry. Fossil-fuel projects, including oil and pipelines which have been historically considered more favourably, are now becoming distressed, with lobbying of insurance companies by NGOs etc not unheard of," he says.

> **"As the market is still not fully mature, the dynamics are still changing, but authorities are doing their best to educate local businesses"**
> *Joseph Bejjani, AIG*

Global programmes

Currently, energy/construction are the main lines in the MENA region in terms of multinationals and global programmes, according to May Hleileh, underwriting manager – energy, commercial

There is severe dislocation in the cyber market

insurance, Middle East, Zurich Insurance Group, although the insurer is starting to see growth from other sectors.

"We are seeing many of the energy and construction companies investing globally and growing exponentially with complex programme requirements. The industry has been heavily hit in the last couple of years but we are now seeing positive upward movement," she says.

AIG's Bejjani says that energy programmes are the largest in the region when it comes to multinational programmes, given the region's economy. "However, multinational programmes on property and casualty continue to be in higher demand, especially in the real estate, retail and logistics sectors, as companies tend to consolidate their books and benefit from economies of scale," he says.

Construction

Bejjani notes that construction remains the largest single sector in the GCC, and public projects lead that sector in the larger economies: UAE, Saudi Arabia, Qatar, Kuwait and others. As a result, Bejjani points out: "CAR is a main line for most general insurance companies across the GCC and north Africa, where projects have witnessed a surge before the last 18 months and are now recovering. CAR rates and deductibles continue to increase quickly while capacity is scarce. This trend is expected to continue in 2022."

The Aon report states that construction insurance markets in the Middle East have been hardening since 2019 and can be attributed to reinsurers pulling out from the region and large losses due to weather-related perils, which historically were rare in this part of the world. As a result, the report notes: "Even for new projects, the markets are seeking a minimum of two or three times the premium rate that they used to charge in the past, of course with a lot of limitations on the coverage element... Current challenges are expected to continue during 2021 and the situation is expected to worsen in terms of market capacity as well as meeting the requirements of the clients."

Zurich's Vinny says the construction market continues to remain hard, more so in respect of the restrictive terms, conditions and limits available. She says major projects that were either delayed or suspended due to the pandemic or finance-related reasons are now being revived, and these mid-term projects are facing challenges in placements because of limited reinsurance capacity and appetite.

Project length and annual construction coverages continue to be challenging, with international carrier autonomy withdrawn from the region to be centralised within London and continental Europe, according to WTW's Battersby. However, he adds that local capacity within MENA remains stable with several A-rated carriers available to provide supporting capacity on complex projects, and there is a constant level of capacity at lower security ratings with carriers willing to engage in the lower-value projects of less than $50m in contract value.

"Rates continue to increase but more moderately than previously, with capacity returning to the market both from new entrants and existing players"

Aisling Malone, BHSI

Limited international capacity

Lead lines within the region remain scarce with limited international capacity as yet unwilling to support local leading (re)insurers, but the outlook looks positive, he says, with additional local carriers beginning to offer capacity on a speculative basis and regional carriers expanding their geographical remit beyond their domiciled terrorism. While pricing increases have begun to tail off, pressure remains on coverage offering with a tightening of wordings and a continued increase of deductibles, both cat and non-cat.

Defects exclusions remain under the microscope, according to Battersby, with few carriers willing to consider the wider 'improvements'-based exclusions that were synonymous with the last decade; and

Port of Jeddah, Saudi Arabia: the regional marine market has followed the global and London marine markets

'consequences' now becoming the standard after a spate of high-profile losses. He adds that quality of technical information to underwriters and insured engagement with the (re)insurance market are seen as beneficial and often welcomed by carriers.

Energy

As for the energy market, Battersby believes that especially in upstream energy it is difficult to get local or regional markets to quote. "They are far happier following some kind of lead capacity from a reputable international insurer. The established Gulf market is something of an exception but even their appetite appears to fluctuate," he says.

In terms of ratings, upstream energy has been relatively unaffected by the ratings environment seen everywhere else in the past three years, and rates remain relatively flat, he says, while downstream energy is slightly different and rates continue to harden in the region of 5%.

Emir Erdur (head of casualty, Middle East, BHSI, believes that capacity is slowly coming back in energy casualty markets, putting pressure on rate increases. "While in the past we used to see 30%-40% increases on renewals, we are now more experiencing increases in the region of 10%-15%. Going into 2022, the increase is likely going to dip to single digits. Rate increase is less so for the offshore energy casualty market but more for onshore and chemical exposures," says Erdur.

Marine

As for other classes, the picture is generally of rates increasing, as with the rest of the global market. The Aon report notes that the regional marine market has followed the global and London marine markets, albeit slowly in terms of hardening of premiums and terms as well as reduction in capacity, and most insurers in the region have stricter and/or reduced marine capacity than they had previously. Cargo continues to be sought after by most insurers and there is more than adequate capacity in the region, although challenges remain. The report says that the regional hull market hasn't performed well over the years and most policies are subject to a minimum 10%-20% increase, even for those with a clean loss record history. Aon adds that major regional insurers have

> **"While in the past we used to see 30%-40% increases on renewals, we are now more experiencing increases in the region of 10%-15%"**
>
> *Emir Erdur, BHSI*

imposed stricter underwriting measures and guidelines to ensure profitable underwriting for their hull portfolios, due to sustained poor results.

Meenakshi Srinath, head of marine, Middle East, BHSI, says project cargo with delay-in-startup cover remains less attractive to insurers, particularly for difficult cargo such as arms and ammunition as well as pharmaceutical business, but adequate capacity is available from local insurers for standard risks as they are well supported by their treaties.

"Overall, the market is very competitive for standard risks and for risks that have good loss histories. Over the past couple of years, terms and conditions for complex risks have hardened, but to a much lesser extent than what is experienced in the London market. With improved underwriting results and additional capacity entering the market, we are sensing the market softening," says Srinath. "On the other hand, as economic activities pick up around the globe, we expect that there will be more requirement for reinsurance capacity, which could turn or stop the 'softening' market trend."

"Over the past couple of years, terms and conditions for complex risks have hardened, but to a much lesser extent than what is experienced in the London market"

Meenakshi Srinath, BHSI

Regulatory issues

Regulatory standards vary across the region but AM Best notes the development of more robust regulatory frameworks in all GCC markets, for example. It points in particular to the recent introduction of more stringent regulatory requirements in countries such as Saudi Arabia, the UAE and Qatar, which have prompted companies in these markets to implement more robust risk management and governance frameworks. Kuwait, which Best says is historically viewed as having underdeveloped insurance regulation, has begun to take steps to enhance supervision of insurers, with the introduction of a new insurance law (Law No. 125 of 2019 on the Regulation of Insurers).

As far as the implementation and maintenance of global programmes in the region goes, AIG's Bejjani says there are a few issues to consider, including requirements to have local retentions (Saudi Arabia, Egypt, countries of francophone Africa, Algeria), mandatory reinsurance and local underliers for the majority lines of business. But he adds that a well-structured multinational programme would take all of this into consideration.

AXA XL's Loeffel says there aren't any major issues with incorporating MENA operations into global programmes but adds: "With the implementation of VAT in the region, certain basic requirements are to be followed in line with best local standards, which may be perceived as issues. However, it's a change that needs to be incorporated to make transactions smoother."

In general, the region's territories do not impose insurance premium tax (IPT). According to a recent guide to IPT compliance produced by Sovos, there is no IPT in Bahrain, Qatar or Saudi Arabia. In the UAE, there is an annual fee due to the UAE Insurance Authority, which is calculated on total written premiums net of locally incoming reinsurance premiums, charged on life insurance, health insurance, and property and liability insurance.

As for VAT, it was introduced in UAE in 2018, levied on general insurance and reinsurance business where the insured party is resident in the UAE, says the Sovos report. The supply of insurance and related services to a recipient established outside the GCC implementing states is zero-rated.

In Saudi Arabia, VAT on insurance and reinsurance business where the insured party is resident in Saudi Arabia was introduced in 2018. In Bahrain, VAT applies to general insurance including health insurance, while in Qatar, financial and insurance services are exempt from VAT.

Global programmes: The view from the market

Contract certainty, use of network partners and selling the concept are all important issues when it comes to global insurance programmes, as well as the complexity of the whole process. *Global Risk Manager*'s editor *Tony Dowding* talks to some of the leading global insurers about how the market is tackling some of these issues...

Participants

Tony McHarg, head of multinational – international, AIG

Kevin Hegel, regional head of global client services and multinational, Allianz Global Corporate & Specialty (AGCS) regional unit, London and Nordics

Marine Charbonnier, global programmes and captive director, Europe, AXA XL

Marcel Weiss, global head of international programmes, commercial insurance, Zurich Insurance Group

Patrick Eder, international programmes underwriting liability, commercial insurance, Zurich Insurance Group

Kelly Heath, head of business transformation, international programmes, commercial insurance, Zurich Insurance Group

What is being done to remove some of the complexities around establishing/maintaining a global programme? Is greater digitalisation the answer?

Tony McHarg: We are well past the point where we can execute global programmes without also investing in market-leading technology, from a service delivery perspective, a general compliance standpoint and also from a claims perspective.

Tony McHarg

Any carriers that don't have a technology platform sitting behind their multinational programmes will be limited going forward. And that's one of the reasons why there are relatively few players who can truly handle very large and/or complex programmes. It requires building the architecture of the programme, then managing the programme in terms of policy issuance and premium payments etc, and lastly, handling and tracking claims electronically.

Technology is hugely important in terms of adding greater transparency and control, and the insights that can be extracted from the claims data. You can get better information from the losses, which you leverage into being more strategic and then feed all of that back into the first part of the cycle – the architecture of the

> "Any carriers that don't have a technology platform sitting behind their multinational programmes will be limited going forward"

programme. So it's also about managing in a far more proactive way, using technology as a partnership and programme enabler.

Kevin Hegel: Global programmes are meant to make life easier for a customer, not more complex. Our customers' business is already reaching across multiple borders, and establishing a global programme provides them with a compliant and cost-effective solution to ensure their risks are all covered. It allows centralised control over their coverages and therefore should provide peace of mind that where our clients have risks, we are able to support them.

With that said, global programmes provide customised service responding to cross-border exposures, while accounting for ever-changing regulatory and fiscal environments. Every programme client benefits from a dedicated team of specialist underwriters, programme handlers, claims experts and risk engineers. All are there to build the optimal programme structure, to anticipate issues before they arise and to coordinate seamless service delivery. Digitalisation supports those processes and the transparency of a programme, but having the right team, knowledge and structure in place are as impactful in driving a smooth implementation and maintenance.

Marine Charbonnier: Implementing and managing a global programme involves collecting consistent and standardised data on the company's assets and operations around the world. And yes, digitalisation has a key role to play in overcoming the complexities associated with global programmes.

On the claims side, technology has enabled claims to be settled more quickly and efficiently even in the most challenging of circumstances. If used effectively and alongside pre-agreed guidelines, information on changes in risk exposure and the status of claims can be communicated in a consistent and transparent manner. But tools are only one part of this – you still need clear and regular communication between all parties involved.

Marcel Weiss: Investing in and implementing, for example, robotic process automation, automated or application programming interface solutions were only the very early start of digitalisation and the way we use and share data together with our customers. Looking into the future, digitalisation will further reduce existing complexity even more than today by developing, for example, smart systems, digital product configurators or digital wording libraries. The purpose of that will be not only storing data in user-guided systems in a digital way, but also to achieve full transparency by linking digitalised key data, implementing seamless electronic end-to-end data transfer between all involved parties of a global programme, and allowing real-time data processing globally.


Marine Charbonnier

How is the industry tackling the issue of contract certainty? Is the situation improving?

Marine Charbonnier: Contract certainty remains a key talking point as it helps to ensure speedy and effective local policy issuance, and provides centralised control and transparency of local policy coverage. For example, effective local policy issuance starts with ensuring proactive management during the pre-bind phase.

It's important for global programme insurers and brokers to work closely with clients to undertake deep dives into challenging countries, especially those where local regulations are ever-changing on issues such as exportability, premium payments or local pricing requirements.

Kevin Hegel: There have been a variety of approaches to improve contract certainty across our industry, such as implementing globally aligned wordings (replacing good local standards), reducing repeat data-entry processes, and review of drafted wordings by a producing entity prior to issuance. Knowing what we can and cannot issue in countries well in advance due to prior

> "It's important for global programme insurers and brokers to work closely with clients to undertake deep dives into challenging countries"

experience also assists with providing contract certainty. Each of these steps has been shown to effectively improve a company's contract certainty in its policies.

Patrick Eder: Writing international liability insurance business by way of international programmes across the globe requires high technical and insurance expertise from anyone involved in the process. Since 2016, we have implemented a fully automated contract certainty process to deliver high-quality local policies to customers, and to avoid potential leakage caused by mistakes like missing exclusions. Since this process has been in place and with the experience we have gained, we can see an improvement in the contract certainty ratios – in fact they are now very strong and solid. The implemented process has therefore improved the quality of the local policies.

Tony McHarg: Contract certainty begins and ends with empowerment and accountability across broker, client and insurer. An informed, collaborative and technology-enabled approach is critical, as is early, proactive and ongoing engagement across global and local stakeholders. This facilitates an understanding upfront of the client's needs and preferences against market practice and requirements – necessary to establish corresponding timelines for consistent issuance and clarity on servicing. It also ensures adequate time to work through regulatory changes, client nuances and the like, to ultimately deliver a meaningful risk management strategy.

How can insurers ensure the quality of service from their networks?

Kelly Heath: Insurers' networks are typically formed of owned operations as well as non-owned or partner companies. Quality of service is ensuring that both owned and non-owned networks are operating seamlessly and complying with the high standards of the global insurer, as well as delivering against customers' expectations. Factors like financial strength, compliance aspects, their operational fitness and how well they run their business are essential to know.

Removing system breaks, reducing handoffs and streamlining all the various inputs and outputs that occur, which often lead to errors and delays, and connecting parties to common platforms, will in the end increase an insurer's ability to deliver quality of service across the network quickly, seamlessly and with very little effort. This includes connecting internally as well as externally with customer and broker platforms, as well as with partners.


Patrick Eder

With so many parties involved, it is crucial that people are properly communicating with each other, whether it be on the customer, broker or insurer side, and on both the global and local side. The global insurer strives to ensure they have people who understand the need for good customer experience, have the right mindset and keep the customer at the forefront of their minds every day.

Tony McHarg: What we have learned is that the quality and efficacy of multinational service are directly linked to understanding local market requirements, together with relevant network capabilities, insights and relationships, connecting with client, broker and insurer stakeholders across the programme lifecycle and integrated network; and communicating clear programme delivery responsibilities, dependencies, timelines, issue escalation and a resolution framework. All of which must be underpinned by integrated network management, technology and transparency.

Marine Charbonnier: It's important for risk managers to work closely with their brokers and insurers to understand variations in regulations, such as the differing levels of compulsory local cessions by line of business. While regulation is harmonised, it's not uniform, and buyers of insurance need to have confidence that they're complying with the rules in the various countries in which they wish to purchase coverage.

It also goes without saying that the capabilities and expertise that reside within the lead insurer's global network are a critical success factor. While we're continually improving our systems and processes to support the needs of our

> "We have implemented a fully automated contract certainty process to deliver high-quality local policies to customers"

global programme clients, one of the most important lessons we've learned during the past decade is the importance of developing and nurturing personal relationships with the people working on the ground in different countries. A successful global programme network relies upon the insurer's ability to execute quickly and accurately, providing up-to-date information to an overseas office or hub.

Kevin Hegel: There are a variety of approaches and areas an organisation can tackle when approaching the service quality of their network. For example, utilising the real-time data to proactively engage with partners is key. Also, an insurer typically targets the speed of policy/invoice issuance and payment collection. Regular review and tracking globally are used to ensure quality standards within our partner network, together with performing due diligence checks on each of our partners and being in regular contact with them to anticipate any issues, and monitoring of policy wordings being issued to ensure alignment to global instructions.

To what extent can premium allocations and/or retention levels be used to encourage or reward/penalise local operations' attitude to loss control and the wider risk management objectives of the group?

Tony McHarg: Striking the right balance between global and local risk retentions and premiums is integral to optimising multinational programme design and delivery within an organisation's wider risk management strategy and related risk financing objectives.

Organisations with relatively mature and established risk management policies, programmes and performance (at both corporate and business unit level) commonly seek to optimise their retentions and self-insurance levels, based on exposures and expected losses, while at the same time reinforcing risk management through local 'skin in the game' risk sharing. Often aligned with variable retentions, premium allocations are also used to differentiate local/business unit risk profiles and retentions, as well as wider risk management effectiveness and/or incentivisation.

Achieving the best possible balance between retentions and premiums at both local and global programme level requires that there are clearly demonstrated and detailed risk profiles and risk management programmes, differentiating across an organisation and against wider industry benchmarks.


Kevin Hegel

Marine Charbonnier: A centrally managed global programme can help to strengthen risk management awareness and practices at both the enterprise and local levels. Global programmes often lead to deeper, more effective partnerships between clients and the risk consulting teams who focus on assessing, monitoring and minimising risks, particularly at major locations in different parts of the world.

Global programmes can also help to promote greater safety and enhanced protection among local subsidiaries. When allocating premiums and setting retentions for local operations, for instance, the corporate risk manager has powerful levers for rewarding those subsidiaries that are successfully minimising their exposures and vice-versa.

While hardly a new issue, compliance remains a top question/concern for two reasons. First, regulations concerning local retentions are evolving in many developing countries. Second, governments in mature markets continue to enact regulations impacting particular business activities and risks. It's therefore important for clients to obtain the right advice early on to ensure compliance for the placement as well as the critical timelines for inception of cover, such as cash before cover, or premium payment warranties.

Kevin Hegel: When it comes to premium allocations, we adhere to the arms-length principal and allocate premiums according to the calculated risks, exposure and scope of cover of our insureds in each country as part of their global programme. If local entities move forward with risk mitigation strategies or engineers to review sites, this can help push down local

> "If local entities move forward with risk mitigation strategies or engineers to review sites, this can help push down local premium allocations due to risk improvements"

premium allocations due to risk improvements. Policy retentions have also been shown to help local insureds' view on loss mitigation if they then feel the impact of each individual loss with a higher retention on their policies.

How can the global programme be sold successfully to local operations and subsidiaries within a group? What are the common sticking points and how can they be overcome?

Kevin Hegel: Being included within a global programme has advantages to a local risk manager. So, positives that could apply for them are: cheaper policy premium for their policy as it was negotiated on a global scale, expanded coverage compared to local market standards, global experts who support claims handling, and a wider assortment of high-quality risk engineers. A common sticking point could be the local insurer relationship, but discussing the above advantages for them locally will hopefully win them over. From the insurer's side, having local buy-in on the implementation/coverage is key and we're here to support this process.

Marcel Weiss: International programmes are centrally purchased, managed and coordinated by a corporate customer. This allows full transparency and provides local units with the same comprehensive insurance coverage as the holding company. Integrated local policies are supported by DIC/DIL covers, and then managed and coordinated by a master policy. This harmonises the coverage, helps to avoid protection gaps and provides a holistic view of the insurance programme.

Additional advantages include cost efficiency, one entry point at the insurer's side, and a strong global team available with cross-functional expertise such as underwriting, risk engineering, claims experts and service specialists.

A fully-fledged international insurance programme has many more advantages than a standalone or coordinated policy approach. And digitalisation is allowing insurers to reduce the complexity of programmes and ensure seamless data and information transfer – not just for large corporate customers but also for international mid-market customers.

Marine Charbonnier: In the current climate, risk managers' concerns are not just around retention levels or terms and conditions; they're also seeking support from their partners. We believe that long-term relationships are key to a global programme's success. Setting up and running a global programme requires specialist knowledge and good communication. We want to understand each client's business and their evolving risk picture, to help them make the global programme work as a cornerstone of their risk management strategy.


Marcel Weiss

Tony McHarg: Successful global programme adoption and implementation often depends on an organisation's ability to provide clarity of organisational risk management and risk financing objectives, as well as global and local accountabilities. It also depends on communication of specific global programme alignment benefits and staggered implementation, either by line of business, global business unit(s) or region(s).

As for common 'sticking points', transition from local purchase to global programme can be seen as a challenge to local decision-making and local insurer relationships, while individual local policy pricing may be presented as lower than under a global programme 'allocation', albeit this can arguably be described as 'comparing apples and oranges'. Another sticking point can be the existence of locally specific coverage elements that are not similarly reflected in the proposed global programme 'good local standard' policy.

These challenges, and likely others, are best addressed through alignment with the success factors discussed earlier, together with tri-party (client/broker/insurer) engagement in the development and execution of a detailed programme implementation plan. This typically includes global and local communication between all parties to address organisation- and programme-specific challenges, through either programme design and/or organisational decision-making.

> "A fully-fledged international insurance programme has many more advantages than a standalone or coordinated policy approach"

Growing role for captives

There is no prerequisite for a global programme to involve a captive but it can play an important role, especially given its flexibility, access to reinsurance markets and control of retentions. *Tony Dowding* reports

A captive is a highly flexible tool and can be easily incorporated into a global insurance programme, and indeed can become the focal point of the programme. It can take a vital role in managing local retentions, premium allocation and utilising the reinsurance markets.

A captive's involvement in the setting and funding of retentions can be invaluable to a global programme. A captive is the one of the most cost-efficient ways to fill the gap between the group retention and the local retention levels, with bulk buying concentrated in the captive. The captive can then allocate retention levels among the subsidiaries and operating units of the group.

Central focus

As well as funding retentions, a captive can be used to provide a central focus for the programme, by reinsuring all the primary policies that are issued at local level. It can then reinsure either with the local reinsurer, if that is a legal requirement, or with the worldwide reinsurance market.

Where some classes must be insured locally and others can be insured with a non-admitted insurer, the captive can be used to centralise the arrangement, insuring the non-admitted classes directly and reinsuring the admitted classes via a fronting insurer.

Another useful advantage of a captive is that it facilitates the ability to allocate premium to subsidiaries and operating units, and thereby improve loss control and risk management. This is one of the major benefits of a multinational insurance programme, providing central control for the encouragement of risk management and loss control.

Above all, a captive can provide greater transparency on a group's risks globally, increased control and bring greater stability to its insurance programmes.

Flexibility

Stephen Morton, multinational head of complex accounts, AIG believes that the current hard market environment presents an opportunity for brokers and insurers to create joint, scalable captive solutions that provide benefits both locally and at a global level. He says that as coverage becomes more expensive in the traditional market, one of the greatest advantages of a captive is the ability to craft bespoke terms and conditions at a lower rate.


Stephen Morton

He explains: "The programme flexibility granted by a captive is often one of its greatest benefits, as the traditional market offerings may not provide sufficient capacity or coverage terms. A captive can step in to cover these gaps and the owner can then choose to retain those risks or, or if capacity is available, directly access the reinsurance market. For many companies, using a captive to help manage a global programme is a way to centralise and optimise a multinational insurance programme's retention strategy and meaningfully manage global risk."

Paul Wöhrmann, head of captive services EMEA, APAC and LatAm, commercial insurance, Zurich Insurance Group, says: "We have observed that a captive self-retention within the primary layer of an international property programme provides financial incentives to reduce future frequency claims through active risk management and

> **"Using a captive to help manage a global programme is a way to centralise and optimise a multinational insurance programme's retention strategy and meaningfully manage global risk"**

A centrally coordinated global programme can be the most efficient way to manage risk for some international companies

the systematic identification, assessment and improvement of risks."

Marine Charbonnier, global programmes and captive director, Europe, AXA XL, says that for many of their international clients, a centrally coordinated global programme is the most efficient way to manage their risks. "Using a captive as part of their programme can be an effective way for them to retain some of their risks – usually the first layer of their exposure – and to get a handle controlling their losses," she says. "This allows captive owners to take meaningful retentions at the parent level – rather than at the local level – and in turn, to have greater oversight with regards to the cost of their risk globally."

One of the many advantages of a captive is the ability it offers corporates to utilise the global reinsurance markets. And this has great benefits for global programmes, as Wöhrmann explains: "I believe the access to the reinsurance markets through a captive can be an interesting opportunity for captive owners to navigate the hardening market."

He continues: "Overall, my experience has taught me that, in the context of international programmes, captive owners use their reinsurance captives mostly to optimise insurance and reinsurance structures. They will also look to benefit from arbitrage opportunities in the markets (pricing, coverage and capacity) as well as look to strengthen the core business of the captive owner, develop new solutions for new risks and also to merge two worlds (life and non-life) into one reinsurance captive."

Alternatives

The flexibility of the captive as a risk financing tool also means it can offer new types of covers, such as parametric. "We're seeing a rising demand for more sophisticated approaches," says Charbonnier. "Embedding parametric coverages into captives has several benefits for captive owners. First, they are attractive because they provide speed and certainty of payment. They also enable captives to accept risks that they would not ordinarily be able to underwrite, as well as offset some risks that they may otherwise find hard to place in the traditional insurance market. It subsequently allows them to build up more powerful data on those risks and become an even more useful tool in their owners' overall risk management strategy."

Morton adds: "The most successful insurance programmes maintain a balance of risk retention, traditional and alternative risk transfer, with a strategy that adapts to and achieves a smoothing effect across changing market cycles and risks. The benefits of self-insurance, including having greater control over risk financing and risk management, as well as customisation of loss control and claims mitigation strategies, remain relevant when prices soften again."

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>
> *Paul Wöhrmann, Zurich Insurance Group*