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AIRMIC CONFERENCE 2022 – DAILY NEWS

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Salaries on the rise for in-demand risk managers

◇ PROFESSION

Ben Norris
news@commercialriskonline.com

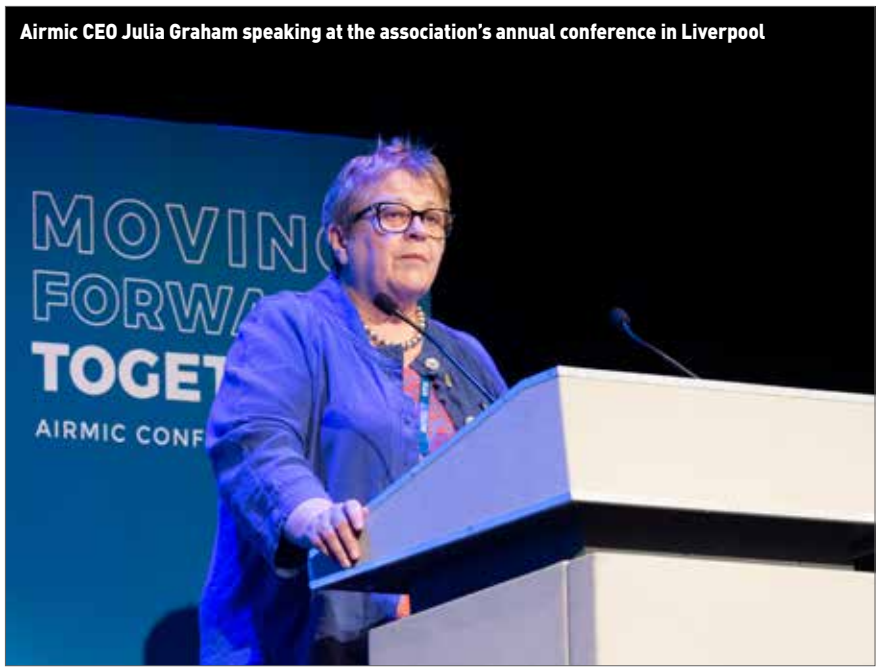
@ComRiskOnline

Demand for experienced risk managers has increased since the pandemic but supply is lagging and pushing up salaries, according to Airmic.

Senior risk professionals are in hot demand as companies look to bolster their risk management in the face of crises such as the pandemic and supply chain woes. However, there is a shortage of top-level risk managers, which is leading to higher salaries and a rise in turnover among Airmic members, according to Julia Graham, the association's chief executive.

"As always with supply and demand, there are probably not enough risk professionals at the top level to fill all the vacancies that exist. So, we are a bit of a victim of our own success. We have been pushing to get risk management and insurance at the strategic level and I think during, and now after, the pandemic, that is exactly what has happened. The demand has gone up but you don't build new professionals overnight so supply is tight," she said.

TALENT: p3



Airmic CEO Julia Graham speaking at the association's annual conference in Liverpool

Pool Re explores widening remit to range of systemic BI risks

Pandemic and cyber on agenda

◇ SYSTEMIC RISKS

Stuart Collins
news@commercialriskonline.com

@ComRiskOnline

UK terrorism reinsurer Pool Re is going to explore potential public-private solutions for systemic business interruption (BI) risks that could see the state-backed entity extend its remit beyond terrorism to a wider range of threats, chief executive Tom Clementi told *Commercial Risk Europe*.

The pandemic highlighted the huge potential costs of BI from a systemic event. The OECD estimates that one month of strict Covid-19 measures lead to approximately $1.7trn in revenue losses for 28 countries.

With pandemic typically excluded from most insurance policies, the vast majority of these losses have gone uninsured and instead fell on business and government. Faced with a large protection gap, many called for the creation of public-private partnership (PPP) insurance solutions to provide BI cover for future pandemics.

In the UK, insurers collectively worked on a potential BI solution based on the Pool Re model, known as Pandemic Re. Separately, Lloyd's proposed a state-backed solution known as Recover Re to provide BI cover for future pandemics, as well as Black Swan Re for broader systemic non-damage BI losses. However, these efforts failed to gain traction.

But while many of these initiatives have since faded away, the debate on

POOL RE: p3

INSIDE–

PROFESSION: Diversity and ESG key to attracting new talent

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As a result, some risk managers are taking on multiple roles at more than one company, according to Graham. "There are some initiatives at organisations that don't need a top professional full time but need someone to fill in on a particular project or venture. So, we are seeing a growing number of people in 'cafeteria' roles where they are head of risk for two or three companies at that strategic level," she said.

The shortage of senior risk professionals is also putting upwards pressure on salaries, the Airmic CEO continued. "We have noticed that income is going up. It has been very static for a couple of years. Now that people are looking for top professionals they are demanding professional salaries, which I think is long overdue," she said during a press conference at the Airmic Conference 2022 in Liverpool.

Many companies are now looking for external risk management support after some risk managers left the profession during the pandemic and supply thins, according to Heidi Carslaw, managing director of insurance governance consultancy Mactavish.

The pandemic has also shaped the role of risk managers in other ways, according to Airmic's *Future of the Profession 2022* report, based on a member survey and launched at its conference. The escalating speed of new, different and emerging risks, is changing all aspects of risk and insurance, the report says. "The risk profession is no longer a back-office role but a strategic capability for any organisation," it adds.

Airmic said it is making progress on its strategy to drive risk management and insurance as integrated professions. More than a third (39%) of respondents said they have responsibility for both insurance and risk management, an eight percentage point increase since 2019.

Just over 30% of risk and insurance managers are also involved in business continuity. "At a time when supply chain disruptions have plagued organisations again and again – first through Brexit, then the pandemic, and now the Ukraine crisis – resilience and business continuity are areas that have become entrenched in the risk professional's role," Airmic says.

Organisations need to build more diverse risk management teams to avoid risk blindspots

ESG has also become an integral part of the risk profession, according to Airmic. Just under half (45%) of survey respondents have responsibilities for ESG. Consequently, risk professionals are seeking to rapidly ramp up their knowledge on ESG issues, in particular climate.

> **"The risk profession is** no longer a back-office role but a strategic capability for any organisation"

However, organisations need to build more diverse risk management teams to avoid "risk blindspots", according to Airmic. Diversity, equity and inclusion (DE&I) was the top ESG concern for risk professionals in the 2022 Airmic survey, after climate issues.

"Building a diverse team of people not only addresses issues of justice in terms of race, gender and other identities. As organisations navigated through the pandemic crisis, and then the Ukraine crisis, the need to eliminate blindspots caused by groupthink has never been greater," says Airmic.

When it comes to diversity, the risk management profession still has some way to go, finds Airmic. Some 60% of Airmic members responding to the survey were male, while 37% were female. The gender split is almost unchanged from 2020.

SYSTEMIC RISKS: Limited backstop could encourage public-private partnership

Continued from page 1

systemic risk and the role of PPPs is still very much alive, and Pool Re will be looking into whether it can help find a solution, said CEO Clementi.

Under Pool Re's five-year plan of works agreed with HM Treasury earlier this year, Pool Re aims to tackle the protection gap for systemic BI risks. The work could potentially see Pool Re expand its role beyond terrorism exposures.

"We are very interested in engaging with government and industry to explore if we can expand Pool Re's remit, or at least find solutions to the systemic risk challenge that the UK faces. Pool Re offers a compelling blueprint for a public-private partnership for the peril of terrorism. But there is a huge systemic protection gap out there in relation to other risks, namely cyber and pandemic," Clementi said.

"How do you fill that gap for hard-to-insure systemic risks? The insurance industry tends to like risks that it can put in a box – that it can compartmentalise, understand where the borders are and thereby more easily quantify and price it. But sideways risk like cyber accumulates very quickly across sectors, geographies and boundaries. The insurance industry does not like that, so there is probably some role for the public sector," he added.

Pool Re's former CEO Julian Enoizi previously explored the concept of Resilience Re, a multi-peril risk pool that would be agnostic on individual risk but responsive to the systemic nature of risk. Such a concept might be worth exploring further, according to Clementi.

"Within the multi-peril systemic risk pool, you could have pandemic, terrorism and cyber. If you were to do that you could build a pool and grow it more quickly. That could be one option. We are certainly looking to try to develop practical recommendations and solutions that we can take to government with the backing of industry," he said.

The UK government has a vested interest in encouraging the private sector to deploy more capital for BI risks but in order to get the private sector to come in, the latter may need some form of limited public sector backstop, similar to the way Pool Re works, Clementi said.

"I don't think we will get another unlimited guarantee from the government for a systemic risk peril, but there could be some form of limited backstop that would encourage a public-private partnership to emerge and thrive," he added.

UK data protection overhaul runs risk of more red tape

◇ DATA PROTECTION

Stuart Collins
news@commercialriskonline.com

@COMRISKONLINE

Proposed reform of the UK's data protection laws could create more, not less, red tape for UK companies and complicate cross-border data exchange, say legal experts.

The Queen's Speech in May confirmed that the UK is to push ahead with changes to UK data protection law, which is currently aligned with the EU's General Data Protection Regulation (GDPR). The proposed legislation follows a consultation last year.

According to Eleanor Ludlam, DAC Beachcroft partner, it is difficult to say how significant the Data Reform Bill will be. "The intention of the government is to take advantage of Brexit and create a 'world-class' data rights regime. People may have argued that we have that anyway, but reading between the lines, they want to reduce the burden on businesses and move away from the costs incurred by businesses on the various components of the existing GDPR regime," she said.

While reducing the GDPR's burden is good in theory, businesses that import or export data will need regulatory 'adequacy' agreements with Europe and other countries. A number of countries have been aligning their data protection regimes with the EU.

While there is legitimate concern over the cost and burden to UK business from data protection impact assessments and responding to data subject rights requests under the GDPR's rules, there are risks in moving too far away from the GDPR and the UK losing its adequacy with the regime, Ludlam said.

"Currently the UK has an adequacy decision [with the GDPR]. The concern is that if we move away from the position as it currently stands too much, then the UK would ultimately lose its adequacy decision. That would be a huge problem for the UK," she said.

> **"Organisations may find** themselves in the position of having to comply with both the new UK legislation and the EU GDPR"

According to Helen Bourne, partner at law firm Clyde & Co, the UK is only at the starting point of what may be a fairly lengthy process towards creating new data protection legislation. "We expect to see the Data Reform Bill this year, as well as a formal response from the government to last year's consultation. The bill will then have to go through the usual parliamentary processes to become law," she said.

The extent to which new legislation departs from the current UK GDPR and Data Protection Act remains to be seen, said Bourne. And she fears UK companies could end up having to comply with the GDPR and new data protection rules in their own country.

"Any major changes will cause an administrative burden on organisations, although the hope is that policies and procedures put in place to comply with the current regulations will form a substantial basis for new requirements. It should also be noted that organisations may find themselves in the position of having to comply with both the new UK legislation and the EU GDPR," she warned.

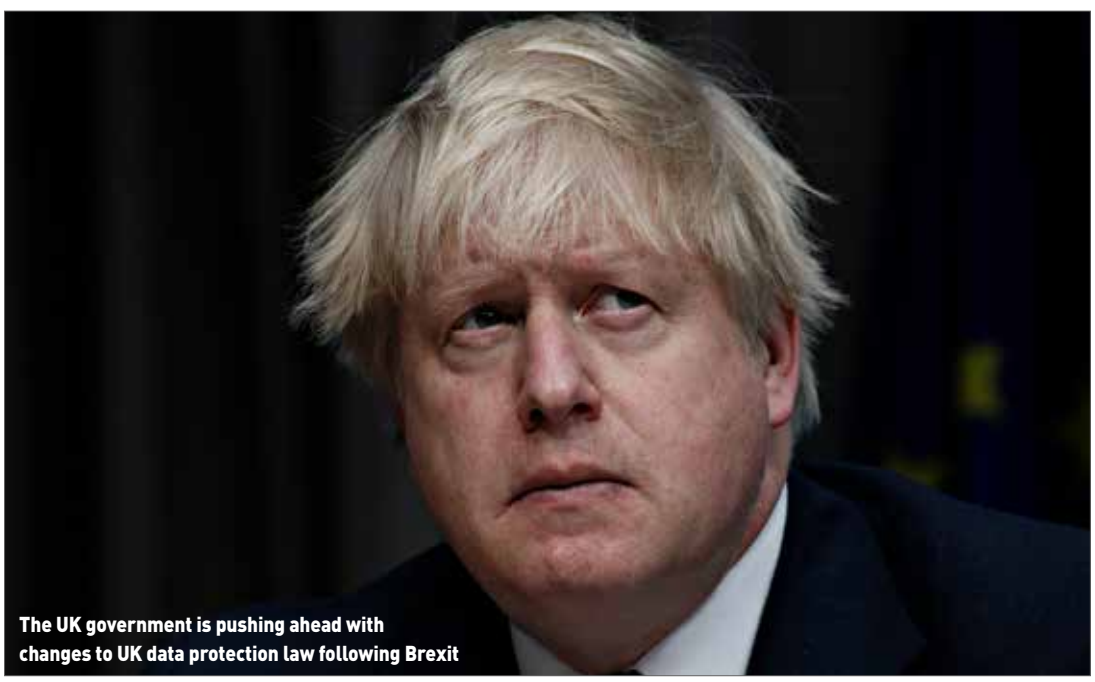
"There is a distinct irony in the promise of a reduction in the current administrative burden, which if anything is likely, on a practical level, to increase given that divergence between EU and UK law will not be easy to navigate," she added.

The UK could look to the US, where privacy laws are less stringent on data use and consent, when reforming the Data Protection Act, according to Hans Allnutt, partner at DAC Beachcroft and leader of its cyber and data risk team. "Politicians could look to the US and think we could be doing wonderful things with data and innovate, but we are bound by the GDPR. So where do we want to set protections between individuals and corporations?" he said.

"We thought we had got there with the GDPR, in terms of where the lines have been struck. It turns out it may be rewritten again in the next few years and who knows where the line will be drawn," he added.

The UK's proposed data protection regime is part of a wider trend for differing national regulations, according to Brian Warszona, UK cyber deputy practice leader at Marsh. "The Data Reform Bill will set a separate regional regulation, which we are seeing a lot of. We will see more [national regulations] and it will get confusing, creating a minefield of different regulations for multinational organisations," he said.

"Now we are even seeing derivative claims in the cyber space, which is just starting to kick off. In addition, some of these law firms are finding hundreds of thousands of individuals and will bring them to court, with the threat of [claims in the] tens of millions of dollars, using these regulations in different countries," he added.



The UK government is pushing ahead with changes to UK data protection law following Brexit

Market hardening losing steam amid signs of plateau

Things set to improve further for buyers in short to mid term

◇ MARKET

Ben Norris
news@commercialriskonline.com

@COMRISKONLINE

Brokers, risk managers and insurers agree that the UK commercial market is looking better for buyers, with signs of softening in some lines. While there is variation on timeframes, they generally expect the market to move further in buyers' favour in the short to mid term, with Marsh predicting further softening this year. But there are clouds on the horizon in the form of inflation and the war in Ukraine, which could still prolong the tough environment.

According to Marsh's risk management placement leader Clarissa Franks, there are spots of softening in the UK market and she believes it is set to tilt further in buyers' favour.

She said things are getting easier for buyers, with some price reductions now available and insurers struggling to secure the rate increases they anticipated. And Franks expects more aggressive softening towards the end of the year as carriers try and meet growth plans.

The broker expressed a word of caution though. Franks feels that while rates and capacity are improving, terms and conditions remain a "frustrating" and difficult area for UK insurance buyers.

Speaking to *Commercial Risk Europe* at Airmic's 2022 conference, she said: "The UK market is not still hardening, it is in general getting easier and the range of outcomes for buyers is now becoming quite variable.

"There have been several examples in property, casualty and D&O of price reductions. We are not talking huge percentages but certainly some examples of 10% rate reductions. That is off the back of at least two years of renewals with increases, and some, like in D&O, huge triple-digit rises. So, those renewals aren't costing less than pre-Covid but the environment is more interesting for buyers and there is a bit of a different power balance from a supply-and-demand perspective," she said.

"It is still a market where you have to broke pretty hard and clients need to take the time to engage with insurers, but it is nowhere near as challenging as it was. This improvement has occurred this year with average rate increases down again in the second quarter over the first," the broker added.

CAPACITY IMPROVEMENTS

Things are also looking positive from a capacity perspective, according to Franks. She said insurers are now going into growth mode, which should free up yet more capital and in turn deliver further, stronger rate softening as the year progresses.


Clarissa Franks

"There is a bit of a different power balance from a supply-and-demand perspective"

"Almost every single insurer I talk to is talking about growth. And this story about pivoting to top-line growth is the same irrelevant to the size of the carrier. If every insurer actually hits their growth targets over the next three to five years, I don't think there is enough premium in the market to satisfy this demand. So, the supply of capacity and growth ambition is on the rise. For example, one insurer entering the UK market used to have $5m lines on property and now has $150m. So, we are seeing huge changes in terms of new entrants. And for the existing big markets, I don't think there are any instances of any significant capacity reductions, apart from cyber," she said.

Interestingly, Franks added that discussions with insurers suggest many may have overestimated how long rate increases would last and at what level. She believes carriers will therefore come under pressure to meet growth targets, based on current numbers.

"Insurers have a budget for writing new business and their renewal rate, and I don't think they are getting it. So, I think that during the latter part of this year, insurers will have a realisation that in order to hit the numbers and get to where they want to be in three years' time, there may be some more softening of the market as a result, to win business. I think it will probably get more exaggerated as you get towards the end of the year," said the broker.

TERMS

But despite good news on rates and capacity, Franks said the problematic area continues to be terms and conditions. She said this is leaving risk managers extremely frustrated by a whole raft of blanket exclusions and loss of cover, which is ultimately threatening the credibility of insurance.

"So, the terms and conditions remain a real battleground for us because we just don't think the way these clauses are drafted matches anyone's intent. This is the bit of the market that still feels hard. It is really unsatisfactory from the industry perspective and [in terms of] how credible insurance is," she explained.

Aon's chief broking officer within its commercial risk UK team, Angela James, agreed with Franks that the rating environment is starting to shows real signs of moderation. "The degree of increase has dampened and reductions in D&O may be achievable… with D&O forecasts for low single-digit rate reductions client-dependent," she said.

"Overall we have started to see some signs of market stabilisation, with a slowing of increased rating in certain lines of business such as property, casualty, motor and D&O… but lines such as cyber have remained more volatile due to underwriting appetite," she added.

James said capacity is available for most lines of business but deployment remains "disciplined". And she too feels that the market remains most difficult when it comes to terms and conditions.

There is "still scrutiny on terms and conditions in most lines of business, discipline remains", she said.

James added that there is "a lot going on at the moment", from inflation to the war in Ukraine, which makes the future state of the market difficult to predict.

"The impact of the Ukraine/Russia situation is yet to be seen. There are clearly lines of business with direct impact – aviation, political violence, marine and surety – and there will be an effect on rates and coverage in these lines to some extent. As the extent of the impact on insurers and reinsurers becomes apparent, this will influence the degree of impact on each line, with treaty renewals remaining in 2022 and early 2023 being an indicator," said the broker.

GREEN SHOOTS

Airmic's latest member pulse survey conducted in March also found that the pace of UK insurance market hardening had slowed since late last year and there are signs of "green shoots" for buyers, but concerns remain that things could deteriorate.

The survey also revealed that the market is still very difficult for UK cyber buyers. Airmic believes that while record cyber rate premium increases for cyber are tapering, increases of more than 100% are still common. One tenth of survey respondents experienced cyber rate increases of more than 400%.

"Premium rates, and the scope of cover and capacity, have continued to disappoint," states Airmic in its March 2022 *Harsh Market* report detailing the survey findings. "Nevertheless, the latest survey results here suggest signs of 'green shoots', where the pace of the hardening is slowing, in line with other surveys on the market. But we are not out of the woods yet and premium rates for cyber are skyrocketing," it adds.

Updating *Commercial Risk Europe* ahead of the Airmic conference, Martin Smyth, group insurance manager at Next and chair of the association's insurance Special Interest Group (SIG), said from his

perspective and following discussions with peers, the UK insurance market is "very much a mixed bag".

It depends upon the line of business, said Smyth. "For things like D&O, for example, I think most large corporates now are generally either seeing single-digit increases or, indeed, decreases. Some have managed to get a sizable decrease," he said

"Casualty and motor are basically flat... a few increases in some areas but overall flat," he continued.

"In other lines, like property, the market still feels like insurers are trying to drive rate but there is appetite to write business out there. It very much depends on the quality of the risk. For good risks, there is appetite," said Smyth

Like everyone else, he said cyber is the "standout" and is hardening for pretty much every buyer in the market.

Barring cyber, Smyth feels capacity levels are generally "pretty good" for Airmic members. But he said things are difficult on property excess layers, particularly if companies have complex property arrangements with big BI exposures.

Things are bit more mixed when it comes to terms and conditions, said Airmic's insurance SIG chair.

"There is a bit around communicable disease exclusions or sub-limits and a move to restrict cover for other risks. Where underwriters face cyber exposure in other lines, property for example, some exclusions are beginning to creep in. On the one hand this is producing more clarity, but on the flipside you could see it as simply a restriction in cover," he said.

HARDENING SLOWS

Sean McGovern, CEO of UK and Lloyd's at AXA XL, said the market continues to harden pretty


Sean McGovern

much across the board but not at the same pace seen in previous years.

"The current cyber insurance and catastrophe insurance markets are very challenging for buyers, however. Increased frequency and severity of incidents are driving high levels of rate change," he said.

But McGovern feels the general market hardening is "primarily on the pricing front", with overall terms and conditions "steady".

And when it comes to pricing, McGovern argued that the pace of risk-adjusted rate change is "minimal" when overlaid with inflation.

He said there continues to be abundant capacity in the market, following a "host of startups" launching in 2020/2021 that are now "actively building books of business".

And he noted that the hard market was created almost exclusively by a collective need for insurers to return to profit, rather than capacity constraints. "This is the first time I've witnessed the market turn in this fashion," said McGovern.

He thinks the market will harden further in 2022. However, the good news for buyers is he too thinks things will likely start to plateau sooner rather than later, with 2023 or 2024 marked for change.

"We're already seeing rate increases beginning to level off, indicating that in 2023 or 2024 we can expect to see the market plateau," said the insurer.

But he believes that long-lasting inflation could put pressure on insurers' margins and support the hard market for a bit longer.

Andy Fitzgerald, director of UK regions at QBE, said the ratings environment has shown "greater consistency and more moderation" in 2022 than during the past few years. However, he warned that pricing still needs to reflect rising exposures for many risks and the impact of inflation.

Individual risks with a poor loss history will see rate increases, so proactive risk management remains key, said Fitzgerald.

He said capacity has remained fairly static this year across the market and risks with heavier exposures remain difficult to place.

He also thinks terms and conditions have tightened post-pandemic. "The insurance industry has placed even greater emphasis post-pandemic around working with customers to make sure they fully understand what is covered and what is not, in a clear and concise way. We need to continue to listen to how our customers' needs are changing and ensure that their policies respond appropriately in those areas where we have appetite to write business," said the insurer.

Legal tide turns towards buyers as insurers face 'skyrocketing' Covid BI exposure

But many carriers not conceding on denial of access after AXA ruling

◇ LEGAL

Stuart Collins
news@commercialriskonline.com

@COMRISKONLINE

Recent court decisions in the UK point to a new wave of Covid-19 business interruption (BI) claims and "skyrocketing exposures" for insurers, according to law firms.

Since the Supreme Court judgment in the UK's Covid-19 BI test case last year ruled largely in favour of policyholders, insurers have paid out more than £1bn in BI claims. These were mostly to small to medium-sized enterprises (SMEs). However, a number of Covid-19-related claims are being litigated and could provide cover for larger firms, while triggering a flood of costly claims for insurers.

"Undeniably the direction of travel has been in the direction of policyholders," according to Aaron Le Marquer, a partner at claimant law firm Fenchurch Law.

"The Financial Conduct Authority (FCA) test case went very much in favour of policyholders, as did the Supreme Court. After a couple of summary judgements (*TKC v Allianz* and *Rockliffe Hall v Travelers*) that followed the test case, it looked like the tide might have turned and that further claims could go the way of insurers. But since then, it has flipped back in favour of policyholders," he said.

Significantly, AXA recently decided not to appeal the March judgment in *Corbin & King v AXA*, which gave the policyholder a favourable interpretation of prevention-of-access wordings for non-damage BI cover. The upcoming £1bn case of *Stonegate v MS Amlin*, which is due to commence on 13 June, could be even more significant because its decisions on aggregation and quantum would affect a wide range of polices.

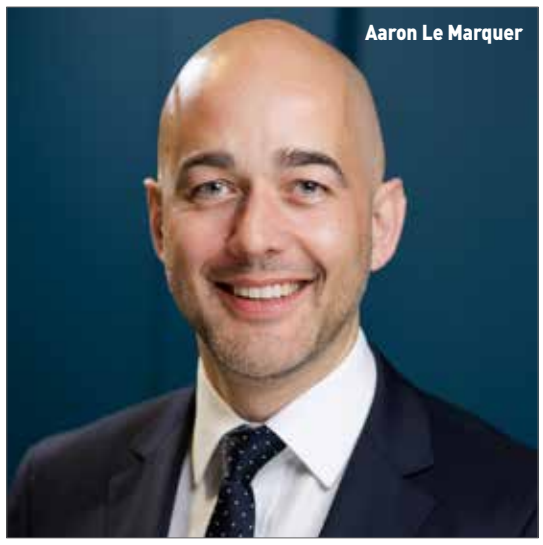
Another case that could have a wider impact is *Smart Medical v Chubb*, which will test disease-at-the-premises clauses when it goes to trial in October. The wording was not covered by the FCA test case and most insurers have not paid out for BI losses under such exclusions.

"*Corbin & King v AXA* and the China Taiping arbitration have turned the tide when it comes to prevention of access, and it looks like the door has been opened to thousands more claims now in that regard. On disease-at-the-premises wordings, it is clear from recent decisions that it is likely to go for policyholders as well, while the aggregation cases this summer could well go against insurers. Policyholders definitely have the wind behind them," said Le Marquer.

FINAL BILL

The insurance industry could face a final bill for Covid-19 BI claims of several billion pounds.

According to FCA data, insurers have paid just over £1bn in claims so far. But data only covers claims where coverage has been accepted by insurers, and it only applies to SMEs. "The Stonegate claim alone is worth over £1bn and you can be certain there are many claims out there in the high tens of millions. So, insurers only have to face a handful of those to see their exposure skyrocket," said Le Marquer.


Aaron Le Marquer

"This [*Corbin & King*] decision opens up the possibility of more claims"

Corbin & King v AXA was an important case for policyholders and the market in general. The case re-litigated the coverage position of prevention-of-access or denial-of-access wordings that were unsuccessful in the FCA test case and not appealed at the Supreme Court. However, the court ruled in *Corbin & King v AXA* that there was coverage for BI losses under AXA's denial-of-access wordings.

FLOODGATES OPENED

AXA's decision not to appeal the decision in *Corbin & King v AXA* opens the "floodgates" for policyholders, according to Karim Oualnan, commercial litigation partner at JMW Solicitors.

"Many insurers initially rejected many business interruption claims, but this latest decision opens up the possibility of more claims for business interruption losses from business owners. The judgment is of significant interest to policyholders whose business interruption insurance claims have been flatly rejected by insurers on the grounds that a notifiable human disease must have manifested at the premises, or be proven to have manifested within a local radius for cover," he said.

"It is an unequivocal victory for the policyholder claimant and will certainly give policyholders and their solicitors renewed optimism for a second wave of business interruption insurance litigation. The judgment also represents a blow to insurers who have denied claims on the basis that such clauses were not covered in the test case and cover does not extend to losses which flowed from measures taken by the government on a national scale," Oualnan said.

However, while the judgment on denial-of-access wordings is good news for AXA policyholders, it won't automatically apply to similar wordings used by other insurers, explained Le Marquer.

"You would think that other insurers with similar wordings would now accept coverage under prevention-of-access wordings generally, but that has not proved to be the case. There is such variety of wordings in the market, and the court in *Corbin & King v AXA* made it clear that its decision was only made on the AXA wordings, which were different to the wordings covered by the FCA test case," he said.

Some insurers are taking a "hard line" on coverage under denial-of-access wordings and further litigation now looks likely as other policyholders test their wordings in courts, he continued. A number of potentially large claims hinge on denial-of-access wordings, he added.

"A few insurers have taken a pragmatic approach. But many have not and have said they are sticking with their position on denial-of-access wordings and will not negotiate and settle claims. But there are policyholders with big losses under those wordings that will just have to litigate them," said Le Marquer.

"We do expect a second wave of prevention-of-access BI coverage litigation. As policyholder representatives, we say that the prospect of other policyholders with similar wordings achieving the same outcome is high," he added.

MEGA CLAIM

The next big case to watch is *Stonegate v MS Amlin, Zurich and Liberty Mutual*. The "mega claim" will examine the critical issue of aggregation and whether insurers are able to deduct government support, namely furlough payments, from claims payouts, explained Le Marquer.

Stonegate is in dispute with its insurers over a BI claim relating to 760 hospitality venues affected by Covid-19 under the Marsh Resilience wording, which was confirmed as responding to pandemic losses in the FCA test case. Coverage is not being disputed but the quantum of insured loss is being litigated, explained Le Marquer, whose firm is representing Stonegate.

The insurers contend that Stonegate's losses are aggregated as one single BI loss and its claim is therefore subject to a single sub-limit of £2.5m. Stonegate, however, says it is entitled to claim multiple £2.5m sub-limits for each of the 760 affected premises. Insurers have so far paid Stonegate £14.5m, but the pub chain argues that it is owed more than £1bn from its insurers.

If the court rules in favour of Stonegate on the aggregation issue, it will directly affect other policyholders and insurers with Marsh Resilience wordings.

The outcome of the case will in part depend on the court's interpretation of the term "occurrence" under Stonegate's policy, and would therefore have a bearing on other policies that use occurrence wordings, as well as potential future reinsurance disputes.

"The outcome of the Stonegate case will determine aggregation and quantum issues for a lot of other wordings in the market too," said Le Marquer.

Pool Re to invest in terrorism risk management solutions

◇ TERRORISM

Stuart Collins
news@commercialriskonline.com

@COMRISKONLINE

Pool Re is embarking on a new chapter that will see the UK's state-backed terrorism reinsurer modernise its reinsurance offering, invest in risk management solutions and explore options for systemic risk, according to its new CEO.

Pool Re is starting a new chapter after a challenging few years. In 2020, the reinsurer's future role looked uncertain after its reclassification as a government entity by the Office for National Statistics and the launch of a five-year review by HM Treasury. In 2021, CEO Julian Enoizi announced he was stepping down after eight years at the helm.

The reinsurer has since appointed Tom Clementi, formerly CEO of Lloyd's insurer MS Amlin Underwriting, as its new CEO. Crucially, it recently reached an agreement with the government on its future status, governance and scope of works under the HM Treasury five-year strategic plan and framework agreement.

The agreement, approved by Pool Re members and its board in March, included a five-year extension to the government's unlimited guarantee, which acts as the ultimate backstop should Pool Re's resources be exhausted by a catastrophic terrorist attack.

GOOD OUTCOME

"We are in a good place now that the HM Treasury review has been finalised. We kept the unlimited guarantee, which sits as the cornerstone of our scheme, which was a good outcome for Pool Re. We have also retained our mandate from government to continue to try to return risk to the open market," says Clementi, who started his new post in April.

The framework also sets out Pool Re's role and relationship with HM Treasury as an 'arm's-length' body. The board of Pool Re remains responsible for setting its strategic direction and governance, while the pool's funds remain in Pool Re's sole ownership.

"We are now an arm's-length body of HM Treasury and have formally signed up to the [HM Treasury] framework agreement, and need to figure out how to become a good arm's-length body, and engage fruitfully and meaningfully with government," says Clementi.

He says that one of the standout successes of the review is a reduction in the price of Pool Re's terrorism reinsurance, which should result in lower insurance prices for policyholders and in turn encourage more businesses to adopt vital terrorism cover.

"Together with the unlimited guarantee from HM Treasury, which enables Pool Re to provide comprehensive terrorism cover, including for CBRN [chemical, biological, radiological and nuclear], we believe this significant price reduction will help provide increased resilience for businesses across the country to terrorist events," says Clementi.

REDUCED PRICING

Pool Re will reduce the scheme's overall pricing by an average 20% in a drive to allow more businesses to access terrorism reinsurance. The extent of the reduction will vary according to geographical location and could be as high as 30% in non-urban areas. The reduction should lead to a "commensurate reduction" in insurance prices, although scheme member insurers are responsible for setting pricing for their own policyholders.

The price reduction, which will come into effect from October, was made possible through a combination of improved understanding of terrorism risk, reduced retro-reinsurance costs and better modelling, explains Stephen Coates, chief underwriting officer at Pool Re.

"We made the argument to government through the review that scheme pricing should reduce. We have not had a significant claim since 1996, and during that time reinsurance rates have come down significantly. Our own retrocession costs have reduced since 2015 by about 15%-16%. But the main reason is our better understanding of the risk due to our investment over the past three or four years in modelling and quantifying the threat," he says.

STRATEGIC PLAN

HM Treasury's strategic plan gives Pool Re a "full in-tray" for the next five years, according to Clementi. The scope of works includes plans to modernise Pool Re's reinsurance offering, moving to a treaty reinsurance model. It also includes 'bifurcation' of member retentions to enable Pool Re's insurers to retain more conventional terrorism risk without increasing their exposure to non-conventional terrorism risk.

"We need to ensure the reinsurance scheme, which has been operating for 30 years, is fit for purpose and meets the needs of all our stakeholders. The move to treaty and to bifurcate terrorism risk will help us to modernise the scheme and return risk back to the private market, and will give our members greater flexibility to charge what they feel is appropriate to their policyholders," says Clementi.

Pool Re also plans to grow out its terrorism risk management business Pool Re Solutions, which conducts risk analysis and provides risk management tools and advice to large companies. Subject to HM Treasury approval, Pool Re Solutions plans to build out a self-service terrorism risk management portal with tools and information to assist companies.

Pool Re already offers a free vulnerability self-assessment tool (VSAT), through which large companies can receive a loss mitigation credit if they meet certain criteria. Pool Re recently revamped VSAT by increasing the credit to 10% of premium, up from 7.5%, and increasing discounts for self-insurance.

"It's early days and the scope of works was only finalised last month. But we are confident and there is plenty of good work lined up to return risk to the private market and develop the risk management piece. That is front and centre to the resilience piece – to try to stop things happening in the first place, rather than just being there with a big cheque book post-event. We have good plans in that space, driven by Pool Re Solutions," says Clementi.

Pool Re's strategy will also see the reinsurer explore potential solutions for systemic risks that are either too large or difficult to quantify, such as pandemic and cyber. "The really exciting conversation is around the systemic risk piece. We are part of that conversation and if we can come up with sensible suggestions, which can be sold to government and that the insurance industry can get behind, I think we can have a really important role to play," says Clementi.

"If the insurance industry runs away from systemic risk, it will cease to be relevant. The insurance industry plays a central role in society and the economy but it is good at excluding risk. If we keep bolting water-tight exclusions to policies and running for the hills, we will lose our relevance," he says.

Pool Re reviewing terror definition as threat evolves

Stuart Collins
news@commercialriskonline.com

@COMRISKONLINE

Pool Re is going to review the current definition of terrorism within its cover under a five-year plan recently agreed with HM Treasury. The review is in response to the changing nature of terrorism risk and lessons learnt from the Covid-19 pandemic, which sparked coverage disputes over business interruption losses.

"The pandemic was in large part a 'failure of coverage design' that left some insurers in court haggling over policy wordings," according to Tom Clementi, Pool Re CEO. "We do not want to end up in that place again the next time there is an event of a systemic nature, which could be terrorism or cyber. More clarity around the demarcation of these things is important, as insurers need to understand what is covered in order to quantify it and price it, and then try and sell it," he says.

Pool Re is not set on redefining terrorism but is committed to a review under its scope of works, Clementi explains.

"Where you draw the line between terrorism, political violence, criminality and mental illness is not very clear. One aspect of the scope of works is to look at whether the definition of terrorism needs modernising. We may be opening up a pandora's box. We are not committed to doing it but we are committed to exploring whether there is value in modernising it," he says.

According to Clementi, the terrorism threat has shifted towards people and is less directed at property. Pool Re was established in 1993 in response to market failure triggered by the bombing of the Baltic Exchange in the City of London. The threat to property is still present but, overall, the terrorism threat has evolved and become more diffuse and harder to predict, says Pool Re's CEO.

Reputation risk and ESG: An evolving picture

Managing the potential threats to reputation is near the top of most c-suites' agendas and most companies' risk registers. At the same time, companies across all industries are embedding and enhancing their ESG policies. The need to get this right, and the increased scrutiny from stakeholders means that managing and mitigating reputation risk has become even more of a priority for many companies. **Heyrick Bond Gunning**, CEO of global intelligence and cybersecurity consultancy S-RM, **Rebecca Curtin** and **Natalie Gregory**, both senior underwriters at AXA XL, explain to *Commercial Risk*'s **Adrian Ladbury** the ways in which clients can keep up to speed with this evolving area of risk

◇ REPUTATION RISK

Adrian Ladbury
news@commercialriskonline.com

@COMRISKONLINE

In the words of legendary investor Warren Buffet: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

It has become clear that reputation risk is now very much on the radar of c-suites and risk management teams.

The prevalence of social media and the speed at which information, or misinformation, can be spread means that companies are becoming increasingly vigilant about the threats to their reputation and the need to assess, mitigate and manage those risks before they materialise. An increased emphasis on companies' ESG practices has given greater impetus to the need to manage reputation. The pandemic only sharpened this focus, according to Rebecca Curtin, senior underwriter at AXA XL.

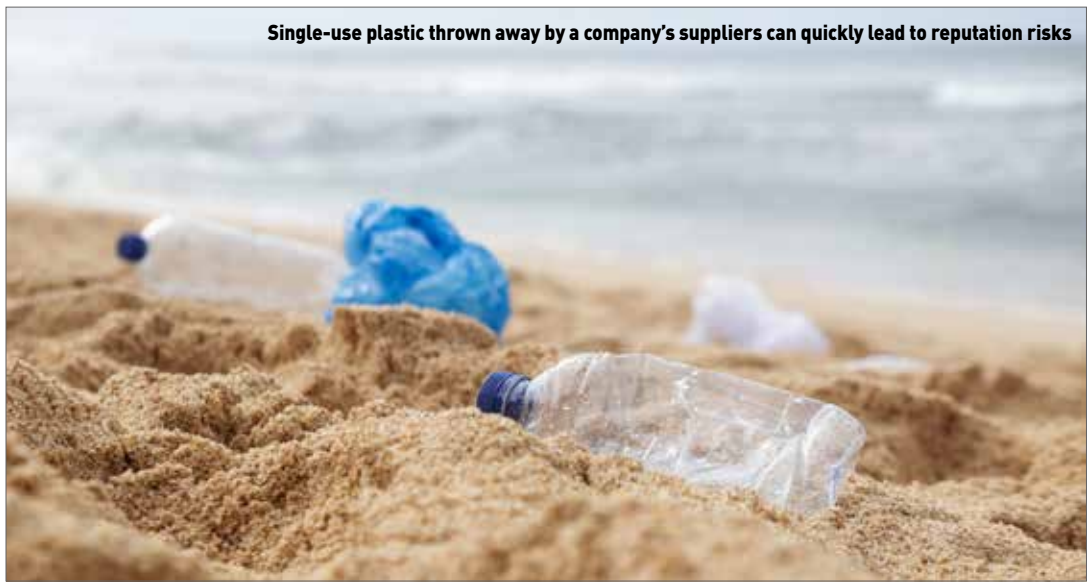
"In the past few years, ESG has risen up the corporate agenda and is now a strategic priority for companies across all industries. Over the course of the Covid-19 pandemic, stakeholders – be they clients, shareholders, employees or others – have placed even greater importance on the ESG practices of the companies they interact with. The pandemic made many of us reconsider the ways in which we work, live, eat, travel and so on," she explains.

TRANSPARENCY

ESG is, by its nature, inextricably linked to reputation. ESG policies are effectively pledges to act in certain ways, to uphold certain standards of corporate behaviour and best practice, for the good of the environment and society. And this extends to supply chains too.

"Greater transparency means that stakeholders can easily access information about labour issues in a supply chain, or the amount of single-use plastic thrown away by a company's suppliers, for example. Getting this wrong can have major consequences. Reputation risk management must, therefore, be viewed through an ESG lens – from the outset," says Natalie Gregory, senior underwriter at AXA XL.

As the old cliché goes and as every risk manager knows, prevention is better than cure. It is important to get ahead of situations, to prevent them from developing into a crisis, where possible. It is also important to have crisis management plans in place should a situation unfold, and these plans should be updated and rehearsed regularly.



Single-use plastic thrown away by a company's suppliers can quickly lead to reputation risks

"When we work with clients to help them manage their reputation risks, we perform a deep dive into their company's operations, to identify potential issues and to put in place measures to prevent problems happening," explains Curtin.

"But this is not a one-time solution. Situations can change – sometimes overnight. The rapidity with which certain situations can escalate, whether for geopolitical, social, environmental or other reasons, means that companies must be alert to the changing threat levels and potential risks," she adds.

ONE STEP AHEAD

S-RM, the global intelligence and cyber security consultancy that supports AXA XL's reputational risk insurance solution, monitors political and sanctions developments around the world. While this has typically been necessary in developing economies, recent events in Europe have underscored the importance for companies in keeping abreast of these situations that can escalate quickly.

"Monitoring services also provide intelligence to clients about other potential risks to reputation, such as human trafficking – a problem that increased dramatically during the worst of the Covied-19 pandemic," explains Heyrick Bond Gunning, CEO of S-RM.

"This monitoring capability, which would be practically impossible for clients to perform on their own, enables companies to react swiftly to potential threats and keep abreast of fast-moving situations," he adds.

MANAGING THE RISK

Even when companies have examined the potential risks to their reputation, and understood the potential risks along their supply chains, things may sometimes go awry. So, companies must ensure they have a crisis management plan in place that is revisited frequently to ensure it is up to date.

"When a crisis does occur, a reputational risk insurance solution can help companies to respond swiftly and will fund expenses such as additional communication support to ensure companies are on the front foot and can stem the potential damage to their reputation," says Gregory.

"Claims notifications for our solution are intended to come directly from a client's leadership team. Both we, as an insurer, and our clients want insurance that can be triggered quickly, helping to contain the size of any potential claim," she says.

CONSTANT EVOLUTION

As recent geopolitical events have shown us, situations that might threaten a company's reputation can escalate quickly.

"The use of social media as well as the increased focus on ESG and company ethics will mean companies must remain hyper vigilant to ensure that they are not – even perhaps inadvertently – risking damage to their reputations. Risk management has an important role to play here – in an advisory capacity as well as a financial one," concludes Gunning.