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RISK FRONTIERS UK

Leading UK risk managers discuss the issues at the top of their agenda.....**19-25**

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A sea-change is coming

Ferma's latest survey of more than 500 European risk and insurance managers has found that risk professionals are finally being taken seriously at board level.

That is a trite statement of course. Risk management has always been a critical part of corporate strategy. But perhaps risk managers haven't always been properly listened to. Well, it looks like things are changing.

The big question of course is why did it take a global pandemic and then war in Europe to wake up to the fact that bad stuff happens and you really ought to have a plan B? A tough one to answer, but with risk managers spending more time than ever in the boardroom, their job now is to ensure they remain there once the neverending run of crises ends and we, hopefully, enter a more stable period.

The fact that Ferma's survey shows that cyber and climate change are two of the big threats facing European companies during the next three to ten years is no big surprise. However, the really interesting thing to come from the research is rising concern over changing customer behaviour.

The pandemic has forced us all to ask big questions: why, how, when, what and with who? Russia's invasion of Ukraine has added further questions.

Risk managers clearly need to help their employers deal with the short-term challenges facing us all. But they also need to ask serious questions about how they can rise to the challenges asked by customers, not least because of ESG strategies.

Things may feel much the same for now and the same responses may satisfy customers for the time being. But arguably this won't be the case over the longer term. Risk managers need to be at the forefront of this transition and rise to the challenge.

In this edition of *CRE*, we take an in-depth look at the results of Ferma's survey, as well as the federation's concerns over the EC's recently proposed Corporate Sustainability Due Diligence Directive.

We also bring you the views of leading risk and insurance managers from the UK, Netherlands and Spain on some of the big issues they face, as part of our Risk Frontiers Europe research.

In addition, we focus on concern over the LMA's cyberwar exclusions, take a look at what looks to be a tricky aviation insurance market for buyers, discuss cyber risks in the construction industry and give an overview of the renewable energy insurance sector.

We hope you enjoy the read.

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Risk managers take on strategic role in face of ongoing crises, finds Ferma survey

◇ ASSOCIATION NEWS

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The seemingly neverending set of crises during the last two years have provided a shot in the arm for risk management and seen a big jump in the number of European risk managers involved in corporate strategy, according to Ferma's latest member survey.

The survey of 556 European risk managers between January and April this year found that 91% are now either fully, mostly or partially involved in corporate strategy. This compares with 55% of respondents when the biennial survey, now in its 11th edition, was previously carried out in 2020.

A presentation detailing the survey findings shows that 61% of respondents are involved in reviewing strategic risks, 40% contribute to strategy definitions, and the same percentage work on sustainability risks and their impacts. Meanwhile, 33% work on scenario business planning and 28% analyse opportunities from strategic risks.

COVID EFFECT

It is clear from the survey results that Covid-19 has played a big part in boosting the standing of risk management.

It found that the pandemic increased the frequency of risk discussion at board and top management level for three quarters of respondents. Some 13% said the frequency has risen by a large extent, 37% to some extent and 26% to a small extent. The remaining 24% said Covid-19 hasn't had any affect at all on risk discussions at board level at all.

> **"The Covid crisis** has actually brought risk management closer to the boardroom and it is more involved now in strategic processes"

Charlotte Hedemark, Ferma board member and chairwoman of its survey committee, said: "The Covid crisis has actually brought risk management closer to the boardroom and it is more involved now in strategic processes. This finding is in line with a survey Ferma recently conducted on corporate resilience, which also found that Covid-19 has raised the profile of risk and insurance management and the profile of corporate resilience."

Karl Johan Rodert, president of Swedish risk and insurance management association Swerma, who also spoke on a webinar to discuss the survey's findings, added that risk management has moved up the agenda during the last two years, spurred by the pandemic.

"It is good that Covid-19 has impacted how top-line management engages with risk management," he said. Risk managers must now ensure that the focus remains at all times and not just during crises, he added. "I hope that is the way we are moving," said Rodert, who is also head of the group risk captive and insurance at Autoliv.

For his part, Marco Terzago, board member of Italian risk management

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79% of European risk managers are involved in ESG risks

association Anra and risk and insurance manager at SKF, said Covid-19 forced companies to engage with the risk management function and helped risk managers get more time with the board. "Boards are now more aware we live in a fragile world and that we need to have more risk management in our thinking," he said.

Ferma's latest survey found that 39% of respondents can contact the CEO directly and indirectly. A further 36% present to the board once or several times per year, and 18% meet the board as requested.

The research shows that the risk management function sits on 56% of risk committees at respondent firms and 39% of audit committees. The risk function contributes to 34% of executive committees and 32% of board committees.

ESG ROLE

The latest Ferma poll also found that a growing number of risk managers are playing or planning to play a specific role in ESG-related risks within their organisations, up to 56% from 40% two years ago.

Some 79% of European risk managers are currently involved in analysing and mapping ESG risks, 74% in risk mitigation and 70% in prevention and adaption measures. Meanwhile, 60% are involved in non-financial corporate sustainability reporting, which Hedemark said is a growing concern for European risk managers.

> **"ESG is a true risk** under the definition of ISO Guide 73. It is really something that is threatening company objectives and it is also an opportunity"

The survey results show that 82% of risk managers collaborate with the CSR/sustainability department. Some 32% reported close collaboration with CSR, up from 20% in 2020, while the percentage with no relationship has fallen from 29% to 18%.

Ferma then asked its members what they see as the greatest challenges facing risk managers wanting to integrate sustainability into the risk management process. The biggest hurdle is difficulty in quantifying sustainability, according to 54% of respondents. Difficulty qualifying sustainability risks came next on 35%, followed by limited knowledge of sustainability risks on 29% and focusing on different time horizons at 24%. Some 19% of risk managers said the biggest barrier is limited collaboration between ESG and risk management specialists.

Terzago said sustainability is a fantastic opportunity for many organisations and risk managers. "It's a true risk under the definition of ISO Guide 73. It is really something that is threatening company objectives and it is also an opportunity. There is only one way to deal with this risk and that is strategically. You need to map ESG risks onto the risk register," he said.

Rodert said cooperation between risk management and ESG teams must go both ways. "The ESG teams can teach us about ESG risks in general and we can help with our ability to assess risks in general, but also with the different tools that we can access from insurance companies and brokers that look at how climate change will affect different areas and risks," he said.

The survey, produced in collaboration with PwC, also found that more than half of the risk managers polled either work closely with IT and information security on cyber risks or are responsible for them directly. Ferma said this shows that risk managers are consolidating their role in managing the cyber threat.

Ferma survey shows cyber and supply chain top risk agenda

Climate change and consumer behaviour longer-term threats

◇ ASSOCIATION NEWS

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63% named cyber risk as their number one concern

Cyber risk and the threat of supply chain failure have shot up the European risk management agenda during the last two years, according to Ferma's 2022 member survey.

Over the longer term, it is clear, however, that while the cyber threat remains a key concern, climate change and the related impact of natural disasters are the main risk.

Uncertain economic growth, partly caused by geopolitical volatility, is another major shorter- and longer-term worry for Europe's risk and insurance managers, based on the latest Ferma poll, carried out in partnership with PwC Europe. Changing consumer behaviour is also seen as a major risk looking forwards.

In 2020, cyber risk took top spot with 48% of respondents identifying it as the number one concern. This year, that figure has shot up to 63%.

Back in 2020, against the backdrop of the arrival of Covid-19 in Europe, uncertain economic growth took second place with 27%. This year, the threat of supply chain failure, not surprisingly, came second on 41%.

Availability of key skills, or the battle for talent, was third two years ago on 22% but has been supplanted by geopolitical uncertainties and uncertain economic growth this time around, in joint third on 31% each.

Data fraud and theft took fourth place in 2020 with 21% and over-regulation took fifth with 19%. Over-regulation still featured this year at fifth place, on 27%.

The top risks identified for the next three years are changing consumer behaviour at 36%, the cyber threat at 35% and uncertain economic growth at 30%.

A big shift is seen over the ten-year outlook, which is of course more remote and thus, less pressing. Climate change took a clear top spot, with 48% of respondents identifying it as the number one risk, while changing consumer behaviour remains a big worry at 24% and natural disasters came third with 21%.

A further interesting question posed in the survey was: what are the top five risks lacking management attention in times of transition?

Climate change came first on 28%, the cyber threat second on 28%, geopolitical uncertainties third on 21%, speed of technological change fourth on 19% and, again, changing consumer behaviour featured on 17%.

MARKET DYNAMICS

The seemingly dramatic rise in risk exposures faced by Europe's corporations during recent times has coincided with a challenging hardening of the commercial insurance market. And Ferma's survey confirmed what we all know: just as corporations needed their insurance partners to step up, they backed away.

The survey results show that European risk managers are facing a triple crunch of rising rates, reduced capacity and more exclusions.

Some 78% of respondents said they are heavily impacted or face a major impact from rising premiums. In addition, 71% face reduced capacity and 63% are having to deal with more limitations and exclusions on specific risks.

Not surprisingly, Europe's risk managers are planning to adapt their insurance strategy during the next two years. Just under three quarters (73%) will focus on risk retention, 35% plan to use their existing captive, 12% to create a new captive and 29% to use alternative risk transfer vehicles.

The survey results support recent statements from brokers and captive managers that interest in captives has risen significantly during the past five years. Back in 2018, 15% of Ferma's survey respondents said they were interested in setting up a captive. This has risen to 47% in the latest poll.

In addition, 41% of respondents believe that some of their company's activities or locations will become uninsurable in the future, illustrating the growing difficulty to insure systemic risks such as cyber and climate change.

Aviation insurance buyers face challenging 2022

Some predict toughest market since 9/11

◇ AVIATION

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Aviation insurance buyers face some of the most challenging renewals in more than a decade, as rising exposures and the war in Ukraine drive up costs, with some experts predicting the toughest conditions since 9/11.

With the easing of Covid-19 restrictions, airline passenger numbers have been recovering from the slump in demand during the pandemic, with growth strongest in Europe and North America. Globally, passenger numbers are expected to hit 83% of pre-pandemic levels this year, up from 47% in 2021, and return to 2019 levels in 2024, according to the International Air Transport Association.

Rising passenger number mean higher exposures for airlines and therefore potentially higher premiums, despite a relatively stable rating environment. And on top of this, the airline insurance market is currently digesting potentially large losses from the Russia-Ukraine conflict, putting rates, terms and conditions under pressure.

> **"The all-risk market** is waiting to see how the Russia-Ukraine losses come through"

According to Peter Elson, CEO of Gallagher's aerospace practice, aviation renewals are likely to be among the most challenging in decades during 2022. "We will see more attention to the structure and quantity of cover and price of cover than any time since 9/11 [the terror attack on the World Trade Centre in 2001]," he told *Commercial Risk Europe*.

The bulk of airline renewals occur in the fourth quarter and Elson's gut feeling is that insurers will be under pressure to increase rates.

"The airline insurance market for all-risks is relatively stable, however it is an uneasy stability due to the expectation of claims arising from the Russia-Ukraine conflict. The all-risk market is waiting to see how the Russia-Ukraine losses come through, where they will land and how their reinsurance programmes may be impacted," said Elson.

Claims related to the Russia-Ukraine war have been notified to the aviation market, which provides both all-risks and war cover under separate aviation war policies to airlines, as well as contingent cover to aircraft leasing companies. About 400 commercial aircraft leased before the war are still in Russia and may be unrecoverable.

In May, the world's largest aircraft lessor AerCap Holdings NV announced it would take a $2.7bn hit after more than 100 of its jets were stranded in Russia. AerCap said it has filed a $3.5bn insurance claim related to trapped aircraft and equipment, and has already received $200m in payments from insurers. Another lessor, Air Lease Corp, said

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in April it would write off aircraft leased by Russian airlines valued at $802m, and that it would seek to recover losses from its insurers.

According to Elson, Russia/Ukraine-related losses have yet to play out. "It is reasonable to expect that, given there appear to be large losses from the Russia-Ukraine conflict, programmes will be called upon to respond and pay claims. At this stage, a lot of those claims have not yet fully crystalised in insurers' books, and some have not even been formally posted with the market. Where those losses fall ultimately is yet to come to a conclusion," he said.

Despite the potential scale of losses, "ample cover" is still available in the aviation all-risk and war markets, albeit at a higher cost, Elson said. The Ukraine war has had an "immediate impact" for some ancillary covers, for example the war risk market has responded quickly and with substantially higher pricing, he explained. However, the core all-risk product is relatively stable, he said.

"Short of peace breaking out tomorrow, these events are pushing towards claims being lodged and paid by the market, and the market responding with some pricing reaction. Insurers will also be looking more closely at their customers' risk profile, their aggregate [exposures] and how to manage those, while at the same time making sure the market continues to provide a good and viable product," said the broker.

The immediate impact of the war in Ukraine has been on hull war capacity, appetite and pricing, according to David George, managing director for aviation at Marsh Specialty. "We have already seen some major withdrawals from the market, which is perplexing given that no claims have been paid as far as we are aware and rates are increasing by circa 100%," he said.

Capacity is available for most airline placements, however the higher the aircraft values the more of a squeeze there will be, said George. "Insurers are generally maintaining US dollar capacity but now applying this to annual aggregate limits, not aircraft values. This will potentially restrict placements and it appears that aggregates will be restricted to 3x maximum hull values," he said.

PROFITABILITY

The main airline insurance market has remained competitive throughout the pandemic and continued to provide broad cover and stable pricing for clients, according to George.


Peter Elson

"Insurers will also be looking more closely at their customers' risk profile, their aggregate and how to manage those"

"These conditions attracted new players to market and unlocked dormant capacity from existing insurers during the pandemic. While rates have been artificially high, in many cases due to reduced exposures, there is a sense among the underwriting community that current premium levels are below those required to sustain profitability," he said.

"Marsh highlighted this to insurers during the pandemic and the problems that were being stored when traffic returned to 'normal'. We have been successful in managing rates and premiums for many clients as the pandemic subsides," he added.

Capacity in the aviation hull and liability market remains positive, continued George "We do not expect there to be a shock change to this, or premium levels, while the claims outcome of the Russian conflict is undecided," he said.

However, insurers are seeking various coverage restrictions, including geographic limits to exclude Russia, Belarus, Crimea and Ukraine, said George. "Some insurers are indicating that they will not provide coverage for *force majeure* landings in these countries, which we believe is an unreasonable position," he added.

George feels that coverage negotiations will concern clients more than premium increases in the next renewal season. "One of the biggest risks for all aviation policyholders at the moment is the cancellation provision following the hostile detonation of a nuclear weapon. Within the liability policy this is automatic and immediate, and could in effect ground the global fleet without notice in the event that a tactical nuclear device is employed in a local theatre of war," he said.

"We are working with the market to address this, however insurers are so far reluctant to act or to consider steps to have a framework in place to reinstate policies on a pre agreed basis," he added.

PRICING

Prices in the airline insurance market are likely to be driven by the aviation reinsurance market, which could see large losses from the Russia-Ukraine conflict, according to Elson.

"The shape and direction of the market will be determined more this year than in past years by what happens in the reinsurance market, in particular reinsurers' assessment of the impact of Russia-Ukraine losses and their response to it," he said.

"Renewals for airlines are more complex than they have been for many years. We see very clearly that airlines today need more visibility and creativity and attention to the structure and pricing of cover than they had done for many years in the softening market, where pricing and costs were reducing and therefore not so much preparation and skill were required to get a reasonable result," Elson said.

To get the best treatment at renewal, buyers engage with the most experienced and resourced brokers and start their renewals early, according to George and Elson.

"The days when it would be okay to come in a week or two before renewal and expect a satisfactory outcome – that is not the environment we are in. The difference between getting a good outcome and a poor outcome is a lot of work with the market and broker well in advance of renewal," said Elson.

Underwriters are keen to explore ways to differentiate between clients, said George. "We recommend that buyers develop greater knowledge of a particular risk by accessing services through either risk management bursaries provided by insurers, or with their broker," he said.

Ferma raises concerns with EC over Corporate Sustainability Due Diligence Directive

◇ COMPLIANCE

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The Federation of European Risk Management Associations (Ferma) is concerned about key aspects of the recently announced Corporate Sustainability Due Diligence Directive (CSDD), urging the EC to consider a more focused approach to due diligence and calling for more clarity when it comes to civil liability under the proposed rules.

The EC laid out its proposals for the CSDD in late February. The directive aims to foster sustainable and responsible corporate behaviour throughout global value chains. Companies will be required to identify and, where necessary, prevent, end or mitigate the adverse impacts of their activities on human rights and the environment.

The directive aims to make sure that big European companies and those in high-risk industries take a leading role in mitigating human rights and environmental risks across their value chains, while supporting small companies to do the same.

The directive could come into force as early as 2025 but experts say it may well take longer.

If approved, the rules will apply to the biggest EU firms and those in high-impact sectors. Just short of 13,000 EU companies would fall under the directive's reach.

The EC explained that the rules would be enforced through national administrative authorities appointed by EU member states, which could impose fines for non-compliance.

The proposals also introduce civil liability, so that victims have the opportunity to take legal action for

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damages that could have been avoided with appropriate due diligence measures.

Ferma previously told CRE that the directive puts forward "ambitious and far-reaching proposals" but said there is a "real need for more clarity in certain areas", particularly around its definition of value chains.

The federation has now had time to consider the proposals in full and believes they represent "another important step forward to the adoption of a robust enterprise risk management (ERM) approach, which will be key to complying with CSDD requirements".

MAIN CONCERNS

But in its new position paper on the directive, Ferma raises two main concerns about the CSDD. The first concerns the practical difficulties in implementing due diligence across entire value chains. The second is the "uncertain" civil liability placed on European firms by the proposals.

Ferma tells the EC it sees three big problems regarding sustainability due diligence within value chains under the CSDD as it currently stands.

It foresees "negative implications" if companies implement the due diligence process proposed in the directive to the letter. For example, companies might have to end business with suppliers operating in countries that fail to comply with environmental or human rights requirements, said Ferma.

"How are companies with, for example, tier two suppliers working in countries with weak records on human rights, such as China, expected to mitigate or bring to an end the full range of potential and actual adverse impacts?," it asks the EC.

"How is it possible for businesses to deal with a monopoly supplier of a specific commodity or good being located in a country with environmental standards not in line with those in the EU?" it continues.

Ferma also tells the EC that getting access to the information required to comply with the CSDD could cause risk managers and their companies problems.

"Based on the experience of some Ferma members with existing legislation in this field (eg the *loi relative au devoir de vigilance* in France, and the *Lieferkettengesetz* in Germany), we can say that the ability of EU enterprises to access the appropriate information about suppliers, as well as identify the appropriate sources of

The EC laid out its proposals for the CSDD in late February

information could be challenging. Further, taking into account and analysing the entire value chain in many cases would go beyond the contractual relationships and would require extraordinary additional resources. This could especially be the case where suppliers are located outside of the EU," it says.

And third, Ferma believes companies could have problems providing evidence that they are complying with the rules on value chains.

"In the instances where an adverse impact cannot be brought to an end, there will be challenges for companies to demonstrate best efforts have been made, or even more concretely, the appropriate actions have been taken. As such, how are companies expected to make this auditable and therefore audited? And what is actually going to be audited?" asks the federation.

RISK-BASED APPROACH

To help tackle some of the problems envisaged by Ferma, it recommends the EC considers a "more risk-based and focused" approach to direct suppliers. It puts forward a proposal that would ask companies to only carry out sustainability due diligence on their direct suppliers but with a requirement for those suppliers to then focus on the next tier down.

"This could be done through a 'cascade process', where each company would oblige (by contractual agreement, for example) their direct suppliers (tier one) to apply the same due diligence process on the suppliers of their suppliers (tier two), and so on," Ferma tells the EC.

The federation is also concerned about civil liability implications from the CSDD proposals.

"Ferma understands that the civil liability regimes will eventually be framed by member states. We are therefore concerned that gaps may arise across countries, or even be reinforced. This possible patchwork of regimes can contribute to an already challenging compliance map for multinational companies operating in different EU member states. Furthermore, it could lead to an unlevel playing field," it says in its position paper.

And Ferma "regrets" that there is no clear definition of damages in the CSDD proposal.

"This creates an uncertainty that has (un)clear implications on the scope and perimeter of liability for companies. Furthermore, this is a very challenging area for enterprises right now in the realm of risk transfer: there is less and less coverage available, and further uncertainty in this area could potentially leave many companies more exposed to financial difficulties from lack of coverage," the federation argues.

Ferma therefore calls on the EC to come up with a minimum "harmonised" civil liability framework under the CSDD at EU level, in order to "minimise gaps" across EU member states and "be clearer regarding the notion of damage".

INCREASING COSTS

Its position paper also warns that the CSDD is very likely to increase costs for European companies, consumers and society, especially if the rules come into force too quickly.

So, Ferma urges the EC to leave sufficient time to ensure companies have the appropriate systems and processes in place under their ERM to comply with the CSDD's requirements.

Ferma also told *Commercial Risk Europe* back in March that interaction between the CSDD and separate Corporate Sustainability Reporting Directive, which has been in the pipeline for some time, may cause headaches for business because the two sets of rules have different scopes and won't come into effect at the same time.

This is despite the EC wanting them to work hand in hand, with the due diligence directive enforcing accountability and the reporting directive focused on transparency.

Work needed on LMA cyberwar exclusions to address buyer concerns

Frank discussions must drive adaption

◇ CYBER

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Buyers, brokers and insurers need to have open and frank discussions about the Lloyd Market Association's (LMA) cyberwar clauses, which are causing risk managers concern and are yet to be embraced by the market, according to experts from across the risk transfer divide. The good news for insurance buyers is that key insurers seem willing to adapt the clauses, but one leading figure from the industry stressed that the final wordings should resemble those launched by the LMA at the end of last year.

The LMA published four model cyberwar exclusion clauses in December. The model wordings state that losses from nation-state cyberattacks will no longer be covered. Although they are designed to be used by Lloyd's syndicates, many LMA wordings form the basis of market-wide exclusions.

However, take-up of the LMA cyberwar wordings has been tentative so far, with buyers not yet sure exactly what they exclude and brokers not entirely happy with the clauses.

One of the key concerns around the cyberwar exclusions is attribution. In order to trigger a war exclusion, the carrier must first prove that a cyberattack was carried out or sponsored by a nation state. However, insurers do not have the means to attribute cyberattacks

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Russia's invasion of Ukraine has heightened the risk of state-sponsored cyberattacks

and governments may have political motivations.

Martin Smyth, group insurance manager at Next and chair of Airmic's Insurance Special Interest Group, said the clauses are bringing a "new level of uncertainty" just as the cost of cyber cover shoots up.

"When you get something like this – untested, new market exclusions – you do start to think about how it will impact the policy wording. Particularly as that piece of paper has just got much more expensive," he told *Commercial Risk Europe*.

Smyth feels that the clauses have yet to be "concisely" explained to buyers, so more discussion is needed.

"There needs to be more engagement between insurers, brokers and buyers to find out what the clauses are trying to exclude and whether it is something that buyers are prepared to accept," he added.

DISCUSSION NEEDED

Jean Bayon de La Tour, head of cyber for continental Europe at Marsh, said during a recent webinar that the broker is unhappy with the LMA's cyberwar wordings. He explained that Marsh has used some amended versions of the clauses but stressed more discussion is needed to come up with something that suits both buyers and insurers.

> **"There needs to be** more engagement between insurers, brokers and buyers to find out what the clauses are trying to exclude"

"Basically, the goal in discussions with insurers is to understand what is too big for the insurance industry – and unfortunately, we need to exclude it – and what is big, but is sustainable in the insurance market," he said.

And speaking at Advisen's cyber risk conference in London last month, Neal Pal, senior product development specialist at Marsh, said the market is on a "journey" to come up with cyberwar exclusions that work for everyone and believes the LMA wordings need adapting to calm buyers' fears.

He said some buyers are uncomfortable with the fact that they are now being asked to move from a short cyberwar exclusion, or none at all, to one of the LMA wordings, "which is a big jump".

"A lot of our clients have a war exclusion… but just a couple lines long, which only excludes kinetic war between sovereign nation states. And now they are being asked to move to the LMA 5667 or other exclusions that are a page or a page-and-a-half long. I am not saying one is right and one is wrong. What I am saying is there is a big transition, going from a very short exclusion that clients have been used to over a number of years to something that introduces a number of new concepts, some of which have not yet been been defined in the exclusion itself or don't have an established meaning in English law, and that at the moment there isn't any illustrative guidance on," said Pal.

"I think that sets the scene as to why it has been difficult for some policyholders and, I think it is fair to say, same carriers, to adopt the exclusions right from the get-go," he added.

The broker said many policyholders haven't yet had the chance to properly engage with the wordings and the "raft" of new concepts and terms that they need to get to grips with.

He said it is therefore important for brokers to talk with insurers to understand exactly what they are trying to exclude and communicate that with clients.

"That is the piece that is missing at the moment. It is our responsibility as a marketplace, whether you are on the insurer or broker side of the fence, to

always bear in mind what the client is looking for," said Pal.

"We have also got to think about the final destination. I don't think we have currently reached a consensus as to what that destination is. What is the tolerable exposure that carriers are willing to take? What is the minimum exposure that clients need to have covered?" he continued.

Pal made it clear to insurers that clients ultimately will make the decision whether or not to buy cyber insurance that includes a war clause. "Whether the war exclusion is right for their exposure will be a big decision that clients will have to make," he said.

STEP FORWARD

Fellow panellist Lyndsey Bauer, partner at specialty Lloyd's firm Paragon Brokers, said the existing frameworks governing cyberwar clauses needed to evolve and the LMA wordings are a "step forward".

"But I don't think we are at the end of the road yet," she added.

"So, this is a journey – we are not at the end product and there are practicalities in the LMA versions that need to be addressed," said Bauer. She believes the clauses will push the conversation forward even if the endorsements are not taken up as currently drafted.

"We are moving fast towards consensus but it is going to take time. People need to put in the time to understand the framework and interrogate questions with claims teams or with underwriters themselves," said Bauer.


Julian Miller

"I think one of the four clauses will be suitable for most risks"

Helga Munger, senior cyber claims manager at Munich Re, said the insurance industry is prepared to have open discussion on the LMA's cyberwar clauses and listen to buyers' concerns.

"We have that responsibility to be prepared to sit down, discuss them, explain the thinking and also be flexible. They suit very well the purposes they were designed for. Are they the only exclusions that will suit? No. They are the best I've seen so far, but I think we should be very open as an industry to having those conversations and making sure people feel comfortable when we explain how these exclusions work," said Munger.

The insurance industry should advocate for the new clauses, explain the wordings and adapt where necessary, she continued.

But Munger stressed that the insurance market is "very keen" to see cyberwar exclusions that "look like these clauses, that feel like them and would operate in a similar way", so it has "a degree of comfort" with the risk.

"There is not exactly a timeframe but we are determined to continue to work with people throughout this journey to get a higher adoption rate for these clauses or something similar," she added.

Munger made clear that the LMA and wider insurance market are simply looking to exclude "intolerable" risks such as cyberwar.

Julian Miller, partner at DAC Beachcroft, said the LMA clauses aren't prerfect and conceded there will be coverage disputes over the wordings.

"But actually they are pretty good," said Miller, "and I encourage people to look at them closely."

"I think one of the four clauses will be suitable for most risks," he added.

Construction sector needs to up its game on cyber risk management

Joel Appelbaum (left) hosted a panel on the rising cyber threat, at Commercial Risk's recent Construction Risk Management Conference

Insurance alone not the answer

◇ CONFERENCE

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A race to upgrade and digitalise workflows in the commercial construction and infrastructure industry, akin to an "arms race", is exposing the sector to potentially major cyber risks, just as the appetite of insurers is reducing, according to experts at *Commercial Risk*'s recent Construction Risk Management Conference.

The construction sector is relatively immature in its adoption of technology but is fast trying to catch up, largely through the use of building information modelling during the last decade, which experts say is transforming the way that the architecture, construction, engineering and facilities management industries work together.

> **"There is now an** arms race occurring to adopt technology in a collaborative way, using the internet of things and the like"

This collaborative approach is based on shared information models that are developed and maintained across the lifecycle of the building or infrastructure. But adopting such methods of working comes with inherent cyber risks.

Experts at our recent event agreed that the construction industry needs to up its game on cyber risk identification and management. It cannot just rely on cyber insurance, which has become scarcer and more limited in recent times, they added.

INCREASED CYBER RISK

"The sector is quite immature in this respect but there is now an arms race occurring to adopt technology in a collaborative way, using the internet of things and the like. This is really opening up the sector to cyber risk in a way that has never been seen before. This goes all the way to the control of buildings and infrastructure," pointed out Nathan Jones, director of cyber, infrastructure and built environment specialist, at Aon Mergers & Acquisitions in London.

David Warr, cyber and TMT underwriting manager at QBE Europe, agreed that cyber risk is on the rise in the construction sector.

"It is seeing increased automation. For me, the use of technology and efforts to streamline and improve processes has delivered efficiencies but also increases the risks faced," he said during a panel

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hosted by Joel Appelbaum, chief content officer at the US-based International Risk Management Institute.

Aon's Jones said that while the adoption of such technology brings benefits in terms of efficiencies, data sharing and transparency, the relative immaturity of the construction sector in this area too often leads to serious cyber exposures.

"Firms have to show that they are able to control the process and are monitoring the information, but too often there is no such big vision. I have been involved in critical infrastructure projects in which information is flying around and it is not encrypted or controlled. This is a far greater risk than in the past. Training of people is critical," he said.

Jones added that the sector also needs to wake up to the cyber threat within its supply chain, because often that is where the "crown jewels" are held.

"With cyber you have to look for the threat. You need to go into the deep dark web and bring in specialist organisations that can do that in different languages and build a profile of the threats. When you do this, you invariably find that you are exposed through your suppliers. Almost on a daily basis you need to be looking at how vulnerable you and your supply chain are because the supply chain holds the crown jewels," he said.

HARDENING MARKET

Risk and insurance managers across all sectors in Europe have had to face a rapidly tightening and hardening cyber insurance market during the last few renewals.


QBE's David Warr (right)

"Cyber cover is immensely difficult to place in the infrastructure sector"

The construction sector is no different, according to the experts.

"Cyber cover is immensely difficult to place in the infrastructure sector. Initially, we do controlled exercises. Traditionally, you would work with the IT team, but actually this is a business decision because it is about whether you are going to pay a ransom, what public relations activity would be needed and the like," said Jones.

"At the same time, the risk is growing rapidly. We used to see one or two pieces of malware doing the rounds – now it's six to eight. Also, malware and wiperware – whether you pay or not – increasingly destroys the chips, so you need to rebuild the network and secure new chips that are currently impossible to secure. These are big business decisions," he continued.

Risk and insurance managers need to demonstrate that they are on top of cyber risk to secure adequate coverage.

"The landscape has changed materially in the last few years. Ransomware dominates most claims that we are seeing. Risk controls are needed to secure coverage. There need to be well-defined response plans and regular backups of data," said Warr, at the event sponsored by Aon as headline partner, and also by Swiss Re Corporate Solutions, QBE, Zurich Insurance, Sedgwick, Scor and Jupiter Intelligence.

"If the measures are in place, you can often get the quotes from the market. But the rising cost of the claims and complexity is inevitably impacting rates. There will be some firms that are not demonstrating risk controls that will struggle to find cover. Well-managed firms will find cover but in smaller amounts than two to three years ago," he added.

Jones agreed that risk managers need to be prepared for a lengthy and detailed discussion with the market.

"Cyber insurance was seen as the tool to solve the problem, but now it is just a tool. In the past, arranging this cover could take four weeks, but now it can take six months. If you can't demonstrate to the market that you are on top of the risk, it will be really hard," he said.


Aon's Nathan Jones (right)

Growing renewables market faces evolving risks

Capacity for offshore wind is tight

◇ RENEWABLES

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The renewables sector is set for rapid growth, but energy companies and their insurers face rising natural catastrophe and business interruption exposures, as well as supply chain and technology risks.

A global effort to transition from fossil fuels is underway. The result is a huge investment in renewable energy sources, such as wind, solar and green hydrogen. Some $755bn was invested globally in the energy transition last year, up 27% on 2020, according to Bloomberg. Annual global clean energy investment will need to more than triple by 2030 to about $4trn if the world is to achieve net-zero emissions by 2050, according to the International Energy Agency.

The share of renewables in the world's energy mix is expected to double in the next 15 years, says Max Benz, head of energy and construction at AGCS. In Germany alone, planned investment in net zero is expected to triple by 2030 to €860bn, of which €415bn will go into the energy sector, finds analysis by Boston Consulting Group.

"These are huge investments and in a very short period of time," says Benz. As a result, renewable insurance premiums are predicted to grow by an annual compound rate of 14%, mirroring the growth in investments, he says.

The majority of growth will come from solar and wind, where technology is relatively well established, explains Susana Huete Santos, energy underwriting manager for Spain at AXA XL. Insurers are comfortable with such risks and market capacity should keep pace with growth in the renewable sector, she says.

However, the increasing size of wind farms, turbines and solar parks, particularly in catastrophe-exposed areas, will increase exposures and offshore wind projects are becoming more technically challenging, Huete says. Substation transformers, which connect entire wind or solar projects to the grid, also represent a large business interruption risk, she explains.

CHANGING RISK PROFILE

Typically, the onshore wind and solar market has been characterised by high-volume but low-severity losses, dominated by machinery and electrical breakdown incidents, according to Warren Diogo, head of renewable energy for London market and Europe at Sompo International. However, the traditional risk profile of renewables is changing, he says.

Larger and more remote offshore wind projects will increase exposures and require more insurance capacity

There has been growing concern around large losses in the onshore wind and solar market from extreme weather events, according to Diogo. "Non-traditional cat perils, like tornadoes, hailstorms or wildfires, which we refer to as secondary perils, have caused some of the largest single losses to the renewables market, particularly hurting those carriers writing larger line sizes," he says.

"There has also been a concerning number of larger losses from turbine fires and turbine collapses too, often caused by lightning strikes, and a result of larger, more severe convective storms. This trend of larger, severe losses is something underwriters and clients need to consider and adapt to," he adds.

With many of the ideal sites for wind and solar projects already taken, companies are looking to more remote locations to develop installations, explains Diogo. "Often these are coastal areas, for example, and more prone to extreme weather-related events," he says.

Wind farm developments are planned in the US hurricane-exposed Gulf Coast, as well as in Taiwan

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and Japan, which have earthquake, tsunami and windstorm risks.

Aggregate exposures will become a growing area of focus for the renewables sector, predicts Diogo. For example, as more wind and solar installations are built, particularly offshore, more aggregate capacity for convective storms is needed. "This aggregate issue will certainly become a challenge for some energy underwriters in the near future," says Diogo.

According to Benz, natural catastrophes and business interruption are the largest insured exposures for renewable investors. Offshore wind farms are particularly challenging as projects are increasingly located in more remote and hostile locations. There are currently a number of proposals to build large offshore windfarms in deep water far out at sea, which require long connections to land and substantial underwater infrastructure, like substations and connectors. Remote installations are also more expensive to repair and replace.

Insurers have recently seen some of the largest claims for offshore wind, in particular for damage to converter stations and underwater connector stations. These are few in number but they are expensive to repair and losses are significant, says Benz.

Larger and more remote offshore wind projects will increase exposures and require more insurance capacity, as well as raise questions around the skills and specialist vessels required to repair turbines and substations, says Benz.

Some projects also have large contingent business interruption exposures, where windfarms or solar projects are reliant on third-party-owned infrastructure, such as a converter station, to supply power to the grid. "Contingent business interruption is a difficult topic as the accumulation control is very sophisticated and our industry has not yet found a proper solution to deal with that," says Benz.

"As an insurance industry, we need to keep an eye on accumulation of nat cat exposures, although onshore installations can probably be well distributed. But for offshore wind this is more critical," he says.

Diogo also notes that renewable energy installations are becoming increasingly interlinked and interdependent. For example, in the German North Sea, several windfarms are clustered in the same area and share many of the same offshore grid connections. Subsea export cables and offshore substations present a single point of failure that could affect multiple windfarms and all the associated electricity generation at once.

"With long lead times, limited specialist vessel availability and current supply chain constraints, wind farms can be left unable to export electricity for very long periods. This type of contingent business interruption is perhaps the most underrated exposure in the offshore market and in a perfect-storm scenario could ultimately present a market-changing loss event," says Diogo.

EVOLVING TECH

Unlike the traditional energy space where technology is mature, technology in the renewables sector is advancing all the time, explains Diogo.

"The renewables market is constantly striving to reduce costs, increase scale and efficiency and, therefore, is always pushing technological boundaries. There is underlying design and prototype risk here in this rush to build new, larger and more efficient turbines, for example," he says.

One concern for insurers is the exposure to serial losses, especially in a fast-growing market, according to Benz. "With newer technologies, and particularly fast-growing investments, technology may not yet be 100% fit for purpose. If new technologies are rolled out to hundreds of windfarm installations, you run the risk of serial losses. One technical fault can be multiplied several hundred times," he says.

"Looking at the huge investment we are anticipating in wind and also hydrogen, we have to observe very carefully whether contractors have the experience of the latest technology and that they don't take shortcuts, just for the sake of delivering more in short periods," says Benz.

$755bn

was invested globally in the energy transition last year, up 27% on 2021, according to Bloomberg

He doesn't anticipate capacity issues for the green energy market overall. "For onshore wind – where growth is rapid and the values at risk are usually small – there is ample capacity and competition. For offshore wind, it is a different picture and the market is less competitive," he says.

So, offshore wind may find things more difficult, says Benz. "Offshore wind installations are becoming bigger and more complex, and there are only a few companies in the insurance market with the underwriting, claims handling and risk engineering knowhow, as well as the capacity, to lead those. And new technologies out at sea will need to be carefully analysed," he explains.

After several loss-making years, followed by rate corrections and improved terms and conditions, the renewable energy insurance market has shown early signs of a return to profitability, says Diogo. This, combined with an influx of ESG-driven capacity for 2022. has resulted in "some [market] softening", he says.

"This is somewhat premature, given that lessons are still to be learned from the loss-making years, and that many future risks – associated in large part with climate change – are proving to be very challenging to quantify and adequately price," Diogo warns.

INFLATIONARY PRESSURE

The renewable sector, like many others, is being hit with supply chain disruption, shipping delays and inflationary price increases, which is leading to higher replacement values and increased costs of business interruption, according to Huete.

"With inflation, clients should re-evaluate their assets, and this is something all insurance companies should be looking for. To replace a turbine today will not be the same price as a year ago. Sums insured need to be accurate, and with supply chain delays and inflation, future business interruption losses are uncertain," she says.

UK

RISK FRONTIERS EUROPE: **UK**

Ahead of the Airmic conference this month and as part of our Risk Frontiers Europe survey, Liz Booth spoke to some leading UK risk managers about the big risk and insurance issues at the top of their agenda.
To take part in the survey, please visit: **https://www.surveymonkey.co.uk/r/RF-22**

Claims inflation and supply chain set to upset calming insurance market

◇ MARKET

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UK risk managers are growing increasingly concerned that claims inflation risks leaving organisations dangerously underinsured.

As far as risk managers in the UK are concerned, claims inflation and supply chain challenges are building into a hornet's nest.

Speaking to *Commercial Risk Europe* as part of our Risk Frontiers Europe survey, sponsored by HDI Global, one risk manager, who preferred to remain nameless, said it is a "dangerous" time and inflation will be a "big challenge" going forward.

"We always write some inflation into the insurance contacts, say 5% or 10%, but now we are faced with much higher numbers than that and we could land up with some gaps in our programmes," he said.

> **"We need a new** approach to risk management and a new approach from insurers. It is a new world for insurance"

The risk managers all agreed that claims inflation is becoming a bigger part of their conversations with insurers.

"There is talk about inflation clauses or index-linked deductibles, or even greater limits on policies," said one risk manager.

"It is often worse for smaller companies that have lower limits on their policies. In the past, they would have retained say ten or even 20 claims each year because they were below the insured limits. But now these are coming in as claims because of the higher value of the losses," said another.

Adding: "That could make them less attractive as a risk for the insurers in the future. It is a fine balance for insureds and insurers alike."

Overall, the risk managers surveyed had been relatively comfortable with the state of the insurance market. While rates are still high, a certain calm had emerged with most companies able to find sufficient capacity as prices stabilised. Now, some uncertainty has returned.

VOLATILITY

That volatility was top of mind for Julia Graham, CEO of UK risk association Airmic. Speaking at a recent *Commercial Risk* conference, she told delegates: "There are competing forces at play, which the industry is struggling to deal with. That is the turbulence that we are seeing in the world and the velocity of that change.

"We are seeing an increase in the once-in-a-generation event – we have had four of those in the last four years," Graham continued.


Julia Graham

She said the result is a surge in mid-policy changes, while the war in Ukraine is bringing economic uncertainty. Overall, Graham felt risk managers are entering an era of continued uncertainty.

Alexander Larsen, chair of the Institute of Risk Management (IRM) Energy Special Interest Group and president of Baldwin Global Risk Services, is concerned about the growing risk of uninsurable assets.

He pointed to cyber as an example and stressed that risk management has a big role to pay in tackling this risk.

"Cyberattacks are happening all the time now. Maybe we shouldn't expect the insurance market to take on the risk of that for us. Maybe it is up to us as risk managers and as organisations to address these risks ourselves," said Larsen.

"I saw an article recently in which a company explained how it had saved millions on its insurance bill by adopting stronger risk management policies. Maybe that is the one good thing to come out of the recent hard market. It is about considering risks, optimising the risks, reassessing your risk appetite and then approaching the insurance market," he added.

However, there are some challenges with this approach. Not every company operates in the same way and many companies place insurance buying within the finance team, which doesn't always have much engagement with the risk department.

> **"We are seeing an** increase in the once-in-a-generation event – we have had four of those in the last four years"

Larsen urged risk managers and their financial counterparts to have more dialogue, so that risk management can play a bigger part in reducing insurance costs. "In many cases, it makes sense to have risk management and insurance buying within one department, or at the very least to have them working closely together, so that the process can be optimised," he said.

One of the other survey participants agreed that risk managers and insurance buyers need to tweak their approach.

"We need a new approach to risk management and a new approach from insurers. It is a new world for insurance. Take cyber, it is difficult to understand the quantum of the risks involved. That makes it hard for insurers to get the premiums right. Companies must become more involved in measuring their risk exposure, their risk appetite and their approach to insurance," they said.

TIME TO SHINE

Overall, the risk managers felt that it remains a time to shine internally. Insurance is no longer a once-a-year conversation, they agreed, and companies are definitely waking up to the concept of risk management, placing risk managers in a stronger position within their organisation and elevating the risk management conversation internally.

But they also agreed that there remains a need to drive risk management through the company's culture from top to bottom.

"Ultimately, it is about resilience. Insurance will always play a role in that but risk management has to happen internally first," one of the risk managers said.

The group also wanted to see greater innovation from insurers in the face of changing risk, including more product innovation. "Maybe we need more index insurance rather than the traditional cover," said one survey respondent.

But whatever the future shape of cover, the risk experts agreed that insurance remains a key mitigation tool that they will continue to rely on in the face of sudden and unpredicted shocks.

"We need collaboration," said one. "This is not a one-sided conversation. We need to talk to insurers and brokers and they need to talk to us. We know there are certain products and risks that the insurance market is not keen on at the moment but they need to talk to us about workable solutions."

"The key is in sustained collaboration with the insurance market. The one thing insurers could improve on is sharing information. They sit on massive amounts of data and information that could help us better manager our risks, but we struggle to get them to share," he continued.

Adding: "Ultimately, it helps us to derisk and the benefit for insurers is that it also helps them to better understand our risks. This is to our mutual benefit – actually to the benefit of all stakeholders. Looking to the long term, we all want a healthy insurance market so the question really is: how can we be working better together?"

Risks piling up as world lurches from crisis to crisis, warn risk managers

The world remains an incredibly volatile place, with businesses having to adapt quickly to the latest challenge. A group of UK risk managers spoke to *Commercial Risk Europe* as part of our Risk Frontiers Europe 2022 survey about some of the key issues troubling them....

◇ RISKS

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New shocks are hitting business in wave after wave at the moment, and risk managers fear that a global recession could be the next big challenge.

UK risk managers worry that the number of businesses that went under during the Covid-19 lockdowns will be dwarfed by what is to come.

They also suspect that some of those businesses that only just survived the pandemic have been so weakened that they will not survive another major blow.

One risk manager from the construction sector explained that his firm has been relatively insulated from much of the supply chain disruption because of the way it operates, relying on locally sourced materials wherever possible.

He said, however, that the supply chain crisis is playing into wider concerns about the state of the economy and whether the world tips into recession.

Alexander Larsen, chair of the Institute of Risk Management's (IRM) Energy Special Interest Group and president of Baldwin Global Risk Services, thinks a big recession is now a major threat.

Larsen said many experts believed a recession was looming even before the Ukraine crisis, because of already rapidly rising energy costs, a big jump in inflation, supply chain disruptions and Covid-19. If a recession was expected prior to the Ukraine war, it is even more likely now and should at the very least be on risk radars, said Larsen.

He also believes risk managers need to look at emerging risks over a longer time horizon and think, for example, about the potential knock-on effects from the Ukraine war.

"I don't see the Ukraine war itself as a risk; it is an unfortunate reality and one that businesses and countries alike will need to deal with. In fact, the war in Ukraine could lead to a number of risks that organisations need to be considering," said Larsen.

He believes we need a huge shift in thinking, potentially led by risk managers.

"We shouldn't think of our-post Covid world or Ukraine war as the 'new normal'. Instead, we should think of it as the new reality – it is not normal, it is different. We need to understand what's different, adapt

to it, consider what risks could result from it, and then build that into organisation strategies – risk-based strategies. Organisations also need to ensure that their strategies can continue to adapt to ongoing changes," he said.

Another risk manager pointed to shorter economic and risk cycles as a concern. "Historically, we used to have a new economic cycle every 30 years. But now we have had the 2008 market crash, then another crisis in 2014 and then of course Covid in 2020. And now we have Ukraine. The cycles are getting shorter each time and that should be a huge concern to everyone," they said.

PEOPLE RISK

People risk is another big issue for the UK risk managers we spoke to.

"It is definitely right up there as a risk – second behind the state of the economy. Everyone is struggling, companies and insurers alike. Nobody can find enough staff, let alone fully trained staff. The difficulty with bringing in those without the necessary experience or qualifications is that they will need training; and right now we don't have enough people to do the job, let alone to train others. It is a huge challenge," said one.

"We need to bring new people into the industry – both insurance and risk management – but how do we attract them?" asked another.

Of course, it is not just about a talent shortage within the risk management sector. As one of the risk managers pointed out, a wider lack of talent increases the risk facing organisations. "We all know that human error adds to risks massively, and this is a serious conversation for boards from all types of business," they said.

THE ESG FACTOR

Unsurprisingly, climate change is high on the risk agenda.

Those with business interests in more vulnerable parts of the world said they are already factoring in the increased risk of catastrophes. "It takes a finger on the pulse at all times," said one of the group.

> **"Will the insurance** industry support us if we try to design hydrogen-fuelled products?"

ESG is an increasingly important part of risk and strategic conversations, the survey participants agreed.

"It is part of everybody's job," said one of the risk managers. "It cannot be left to one tier of an operation; everybody needs to embrace these ethics and to ask questions about every aspect of their job. In that way we can achieve much more."

Another said there is a real role for insurance to play in enabling, rather than blocking, development.

"Take the new fuels, for example. Hydrogen is one of them. There is a buzz around the potential use for hydrogen, but will the insurance industry support us if we try to design hydrogen-fuelled products?" said one.

Others echoed these concerns, saying insurers need to be much more proactive in developing insurance solutions for new technologies. "Companies want to operate in a greener way but we also need to know that we have the backing of our insurers," said another of the UK risk managers.

The survey participants stressed that ESG is something risk managers have in the back of their minds all the time. And they feel there is a real opportunity for risk managers to shine within their organisations by proposing risk mitigation solutions.

Hydrogen-powered tram, Germany

Labour forces dominate UK insurance market thinking

Post-pandemic thinking and the desire to change lives are driving huge change in the UK labour market and, as Stephanie Ogden, country manager for HDI Global UK and Ireland, discusses with Liz Booth, challenging the insurance sector

◇ MARKET

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The 'great resignation' is very much a fact of business life in 2022, even though it is not being discussed as much as it should be, says Stephanie Ogden, country manager for HDI Global UK and Ireland, who believes that the shifting sands of the employment market are impacting the insurance sector as a whole.

"People are coming out of the pandemic with different views of how they want to live their lives. Many do not want a standard nine-to-five job anymore and that is having a huge impact," she says.

"It is not just about us as insurers, it's also affecting our clients," adds Ogden.

She fears that ultimately it might affect the risk profile of companies, as the battle intensifies to ensure the right people are doing the right jobs. It is also hard to predict how long term the trend will last, but for now it is presenting real challenges for everyone, says the insurer.


Stephanie Ogden

SUPPLY CHAIN

Ogden also points to supply chain as a growing risk. "We are having many conversations about supply chain risks, and related to this, how we should be reserving for the cost of future claims. Previous modelling is not necessarily appropriate nor applicable," she says.

Ogden says insurers are talking to clients to ensure they are sufficiently covered for growing costs and are reviewing policies. But she warns: "I am not sure it is enough."

> **"People are coming** out of the pandemic with different views of how they want to live their lives"

Her concern lies in the rapidly rising costs of energy, exaggerated by the Ukraine war, combined with the geopolitical shifts we are seeing.

"We are in an environment which feels more volatile than ever," says Ogden.

EVERY CLOUD

But one silver lining Ogden identifies is that insurance has grown in importance around boardroom tables. "I think pre-Covid-19, in the majority of circumstances, insurance was discussed once a year at renewal and that was that. But it is now fast becoming a standing board agenda item," she says.

And within the insurance sector, the relationship between broker and insurer is

starting to change, she continues. This is something Ogden encourages as brokers and insurers increase their dialogue. "As a tripartite relationship with the client, we all work together on potential pinch points and look for solutions," explains the insurer.

ESG

More open discussions also help in the growing ESG environment because they allow insurers to deliver the right solutions to their clients at the right time.

Ogden, however, has a word of warning. "No-one should be paying lip service to ESG – this is something that must go right through the business. None of us can afford to ignore the wider environment around us," she says.

Ogden believes that insurers can enable clients to make a smooth transition from fossil fuels through continuous dialogue, so that both clients and insurer can understand the changing nature of their risks.

WORDINGS

She also feels that it is time for the insurance industry to stop arguing over every single policy wording and acknowledge that insurance was designed to help clients in an emergency.

Greater innovation around wordings will support evolution and continue to make the industry more client-centric, she adds.

Technology will have a crucial role to play in this, enabling insurers and clients to better match their requirements. But there is still more investment needed before the insurance industry maximises the benefits of the digital age, adds Ogden.

COSTS

Above all, she is aware of the need for clients to reduce costs where possible. Some of that might come from the better use of technology, but it might also come from a switch away from traditional markets to alternative risk transfer solutions.

Captives lead the way, and conversations continue with many clients about captive solutions, says Ogden. However, they are not for everyone and require enormous commitment and investment from clients, she adds.

Conversation is critical at every stage of the process and that it unlikely to change in the year ahead, she concludes.

Eco building in Westminster, London, UK

"No-one should be paying lip service to ESG – this is something that must go right through the business. None of us can afford to ignore the wider environment"

Spain

RISK FRONTIERS EUROPE: **SPAIN**

Leading Spanish risk managers discuss what they see as the slightly improving state of the commercial insurance market, their desire to see insurers raise capacities now results have improved, and supply chain risk that is topping their agenda. Rodrigo Amaral reports from Spain as part of our Risk Frontiers Europe 2022 survey, sponsored by HDI Global. To take part, please visit: **https://www.surveymonkey.co.uk/r/RF-22**

Insurance market hardening has eased a touch in Spain, say risk managers

Cyber and finpro remain a big challenge

◇ MARKET

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Daniel San Millán

Spanish companies continue to face a hard insurance market but rate increases have slowed in several lines and risk managers say they have been able to find the capacity needed for most of their programmes.

But the Spanish risk and insurance mangers that we spoke to for our Risk Frontiers Europe 2022 survey noted that the exceptions are finpro and, in particular, cyber, where the market continues to be as hard as nails and capacity is well below levels demanded by buyers.

"Capacity is available in the market right now but it is expensive. And capacity issues remain with cyber and professional indemnity," said Daniel San Millán, president of Spanish risk management association Igrea.

In his view, the property market has loosened up a bit and even D&O is not under the same kind of pressure of the past two years. The placement of professional indemnity (PI) risks, however, remains a challenge for buyers in Spain. For example, there is virtually no PI capacity for construction projects that last five or six years, San Millán pointed out.

Ivan Delgado de Robles, risk manager at ACS Servicios y Concesiones, has also witnessed a less unfriendly market overall, especially compared to recent renewals.

"This year, we have found the capacities we need in conditions that we can consider 'acceptable'. But in previous years, although we did not have to reduce our limits, we had to take exclusions, higher deductibles and disproportionate rate increases," he said.

For her part, Lourdes Freiria, general director of risk and insurance at Grupo San José, said she was able to find enough protection for her main P&C programmes at reasonable terms and conditions in the latest renewals.

"However, in some segments we cannot say that the capacities on offer are adequate, and even less that prices and conditions are acceptable," she said. "I believe that D&O, cyber and fraud are clear examples of that."

CHALLENGING

Even though the hard market is not as dramatic as in the past couple of years, placements continue to be very challenging, said David González, the director of risk and insurance at Sacyr.

"We have been able to obtain our capacities but with a complexity that we had not seen in the past 15 years. When it comes to prices, they have not been reasonable for us as insurance buyers, that is for sure," he said.

Adding: "The hard market, in addition to restricted capacities, has also brought a reduction in the range of limits. The result is that one is paying more for a narrower perimeter of insurance protection. In some lines, when one goes to the market, the capacity is limited, and this limited capacity is not the one that you were expecting to find in terms of the depth of coverage."

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González noted that problems are even found in some segments of the property market.

"In waste recycling, capacity is very scarce and the little that is available is offered at prices that are not worth it. The solution then is to opt for self-insurance," he said.

A risk manager at a large Spanish retailer who asked not to be named, expressed a similar view. They noted that cyber capacities could not be found and there is little reason to feel more upbeat about this part of the insurance market.

"The situation in the market is not going to improve in the short run, at least not in 2022 and 2023," this risk manager said.

This is a stark change from the situation that buyers faced in the recent past, when carriers pushed cyber insurance at very competitive terms.

"Five years ago, when we bought a property or casualty policy, insurers would practically gift us a cyber cover on top of it," Delgado de Robles said. "Now it is an odyssey when a company has to buy cyber insurance. If previously it was possible to buy £40m of limits, now insurers will barely offer £10m."

González stressed: "The line that concerns me the most is cyber. Finpro as a rule has been difficult to find capacity, but it is hard to see the future of cyber insurance. Perhaps we must start considering the possibility that it is not an insurable risk in some of its extremes."

This is a huge concern because Spanish companies feel they have growing need for protection against cyber risks.

"Cyber is the top risk for companies today. No matter the sector, we are increasingly exposed to higher insecurity in the digital world," González remarked.

> **" Risk managers** must be able to work with technology and have data analysis capabilities"

SELF-INSURANCE

With placement still challenging despite the deceleration of the hard market, risk managers have dusted off their captives to increase risk retention and obtain larger limits.

"Companies that do not have a captive will suffer more than those that do. The market is imposing higher risk retentions and the most efficient way to retain risk is with a captive. And even if we may see at some point a softening of prices, it looks unlikely that it will happen with retentions," San Millán said.

Risk managers at companies that still don't have captives are looking at the best options to get into the retention game.

"We do not have a captive because, at the moment, it does not figure as the best solution to transfer our risks, and to set one up is not in our plans in the middle or the long run," Freiria said. "However, we have found ourselves, in some specific segments and projects, forced to increase our retention levels significantly and for that reason we are very interested in studying all the alternatives to traditional insurance," she continued.

"The captive is not a tool to solve current market difficulties. It is a strategic tool to manage similar situations in the future with more efficiency," González said. "We are studying it right now. We see captives as a very interesting proposition, as the hard market could happen once again in four or five years from now."

RISK MANAGER PROFILE

The risk managers also believe that the search for more sophisticated risk transfer solutions has raised the profile of risk managers in the business community.

"The insurance side of the risk management function has gained relevance in the past two years due to the hardening of the market. I have seen several smaller companies becoming interested in creating the role of insurance manager. In a situation of high prices and restricted capacities, it is something that can make a difference for a company," González said.

And Delgado de Robles stressed that, as a result of increasingly complex renewals, risk managers will need to continuously sharpen their skills.

"Risk managers will need to become more specialised. Not least because insurance will be ever more customised and specific to the needs of each client. Insurers now require much more information before underwriting a risk. Companies need increasingly comprehensive covers, and to obtain that they will need to rely on data analysis and the running of risk models. Risk managers must be able to work with technology and have data analysis capabilities," he said.

Buyers urge insurers to give back lost capacity as results improve

◇ CAPACITY

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After years arguing that the hardening market was a necessary correction to balance their books, insurers have posted decent results that show the sector is back on a solid footing. So Spanish risk managers believe the time has come to return some of that windfall to clients through higher capacity and better services.

"As their results have improved, insurers need to put capacity back on the table. That would be the best service they can provide us," said David González, director of risk and insurance at Sacyr. "What they can offer buyers is capacity at reasonable prices for covers that are better adapted to companies' needs. In the past two years, many covers have been emptied of substance."

Iván Delgado de Robles, risk manager at ACS Servicios y Concesiones, agreed.

"If they want to help their clients, insurers must allocate more capacity to make it easier to place risks, to eliminate some of the exclusions that have been imposed lately and, very importantly, to improve claims settlement processes. With the hard market, the settlement of claims has become much more complex," he said.

DISCONNECT

The fact is that clients are distinctly unhappy to see underwriters making a big fuss about their good results in public, while claiming that they cannot offer better rates and conditions when discussing renewals.

"It looks great to me that insurance companies have posted excellent results of late. But it does not sound right that they boast about it. And it is even worse when brokers do it," Delgado de Robles said.


Lourdes Freiria

" It is necessary that [the insurance market] once again provides solutions that are sustainable and acceptable"

"After all, they are making money because rate increases have been out of proportion. Anyone can do it that way."

Daniel San Millán, president of Spanish risk management association Igrea and risk manager at Ferrovial, said the situation today is "far too comfortable for insurers and brokers alike".

He believes that even if a degree of market correction was expected, some of its consequences, such as a blanket disregard for risk management programmes, has been an excessive reaction to the previous soft market. And he is not optimistic that the situation will change in the near term.

"Right now, I cannot see the quality of risk management influencing decisions by underwriters. It is true that they are asking for two or three times as much information as they did before, which is not bad, but it does not seem that this is having the impact that it should," San Millán said.

Lourdes Freiria, general director of risk and insurance at Grupo San José, believes that the insurance market is set to continue playing its key role in transferring corporate risks. "But for that, it is necessary that it once again provides solutions that are sustainable and acceptable for the companies that buy their covers," she pointed out.

POSITIVE TRENDS

Meanwhile, San Millán has spotted some positive market trends, such as slightly more devolved power and decision-making in the hands of global carriers' Spanish subsidiaries, although he noted this remains far below pre-pandemic levels. And there are small signs that competition among insurers could start to pick up steam, he added.

"I have talked to some insurance bosses who say that their headquarters are starting to make a little more pressure for growth. If that is the case, it will lead to a market that is a tad softer," he said

But Delgado de Robles warned that M&A activity in the market could have the opposite effect and stifle the return of competition between insurers and brokers.

"Consolidation in the insurance market is something that risk managers must keep an eye on. A lack of alternatives in the market is a problem for companies," he said.

Delgado de Robles also urged carriers and brokers to provide better services, particularly when it comes to global programmes.

"They must manage global programmes more efficiently. We have had issues with some of our leaders in the management of documents and red tape. In some departments, insurers and brokers are making us work with junior underwriters who do not have the knowledge required to work with complex projects. It is important to value experience in the market," he said.

Supply chain woes top the risk list for Spanish firms

Port of Valencia, Spain

◇ SUPPLY CHAIN

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The Covid-19 pandemic, a global logistics nightmare and Russia's invasion of Ukraine have put pressure on commodities markets and supply chains all around the world. It is no surprise then that the topic ranks high on the risk agenda of Spanish companies.

Social unrest and ESG issues are also a big concern currently, said leading risk managers taking part in the Spanish leg of our Risk Frontiers Europe 2022 survey.

They highlighted how even sectors that are not normally prone to supply chain disruptions have been affected by the events of the past few turbulent years.

"The subject that worries us the most at the moment is the enormous increases in commodities prices, as they can completely unbalance our budgets," said Lourdes Freiria, general director of risk and insurance at construction firm Grupo San José. "And the risk of supply chain disruptions has also emerged as one of those that require more vigilance from companies since the start of the Ukraine war," he continued.

> **" Supply chain is not** usually a problem for us, but it has become one in recent times"

Daniel San Millán, president of Spanish risk management association Igrea, added: "Supply chains have been broken for months in sectors like car-making and it should continue to be difficult at least for the next 12 months."

FEELING THE HEAT

Supply chain disruption has been particularly felt by industries like car manufacturing, electronics and retail. But even construction companies, which are more often than not spared such problems, are now feeling the heat.

"Supply chain is not usually a problem for us, but it has become one in recent times. Previously, there was no lack of cement, concrete or wood products, but now there is," said Iván Delgado de Robles, risk manager at construction and concessions firm ACS Servicios y Concesiones.

"It is due to the cost of energy, the high price of commodities and, in Spain in particular, transportation disruptions. Many construction sites have been halted in Spain due to supply chain problems," he said.

For companies that work with long-term projects resulting from public tenders, the challenges are compounded by inflation.

"If a company enters a public tender with a budget based on an estimate of commodity costs, but seven months later the prices are much higher, that is a problem," Delgado de Robles said.

David González, director of risk and insurance at construction group Sacyr, believes that supply chain risks will remain a problem for the foreseeable future because disruptions have been caused by long-term geopolitical and economic trends, as well as events such as the pandemic and the Ukraine war.

"More than the pandemic, it is the current situation and the future

deglobalisation that will put pressure on supply chains," he said.

"Deglobalisation has become a reality. I believe all countries will become more protectionist," Delgado de Robles agreed.

MORE HELP NEEDED

Risk managers would welcome more help from the insurance market in the form of covers to help mitigate the financial impact of disruption. However, most business interruption policies in the market today require physical damage to be triggered, which is not the case with many of the current problems.

"Many clients would pay attention to non-damage business interruption covers if they were available in the market today," González said.

"I see the market very reluctant when it comes to supply chain insurance," agreed San Millán, who is also the risk manager at Ferrovial, the construction and concessions group.

He stressed that the factors driving supply chain disruption have impacts well beyond the balance sheet.

"The management of inflation and energy prices is a huge challenge, a big risk for economies and companies. And the growth of inflation is fuelling social instability," he said. "We have seen protests and strikes here in Spain, and they may spread to other countries if inflation is not dealt with in an emphatic way."

Social unrest is firmly on many companies' risk radars and adding to the challenges of placing insurance programmes, the Spanish buyers said.

"In some regions like Chile, because of the protests that took place there in recent years, covers for strikes, riots and civil commotion have been excluded from our property policies," according to Delgado de Robles. "We had to solve this problem by purchasing terrorism policies with those covers, as they are demanded by the authorities for concessions," he added.

ESG AND SYSTEMIC RISKS

Social discontent can also pile more pressure on companies to do their part in tackling the big issues facing societies today. This is why risk managers must pay more attention to ESG risks, the Spanish risk managers said.

"ESG risks are now of great relevance for all companies, but especially for

> **" In all renewal** questionnaires, be it for casualty, financial lines or cyber, insurers are asking many more questions about ESG"

those that are listed on stock exchanges, as in our case," Freiria said. "The risk management department is well familiar with those risks, their assessment and treatment, and of course we are involved both in the management and the reporting of ESG risks."

And so are insurers, which are being urged by stakeholders to focus on sustainable underwriting practices.

"In all renewal questionnaires, be it for casualty, financial lines or cyber, insurers are asking many more questions about ESG. Companies' internal ESG processes will be audited by insurers – it is a vital part of the future of the business," San Millán said. "Adapting ourselves to these new questions is taking a toll. But soon we will see it as something normal, as sustainable processes will be more efficient and so will ESG reporting," he continued.

ESG is closely related to systemic risks like climate change, and risk managers are involved in discussions about how to better manage such threats. The pandemic and the explosion of cyber risks have highlighted, however, how hard it is to transfer these risks.

Spain has a successful cat pool in the shape of Consórcio de Compensación de Seguros, and ideas have been floated for similar solutions to help transfer systemic risks. But little, if any, progress has been made so far.

"The management of systemic risks requires collaboration between the public and private sectors. The insurance sector cannot assume them. But for that to happen, political will is necessary and I do not see it today. It is understandable, as there are other priorities and agendas that have pushed this subject aside, but we should keep pushing in this direction," said San Millán.

"The best way for the state to participate in the financing of systemic risks such as cyber is to devise solutions that make the risk attractive for insurers and reinsurers, for instance by fiscal or regulatory means," González added.

Sustainable transport in Bilbao, Spain: ESG risks are now of great relevance for all companies

SPONSORS

Rising claims costs likely to maintain ratings momentum, says HDI's Aznar

◇ HDI GLOBAL

Risk managers, insurance buyers, brokers and insurers must work together as costs escalate and organisations risk being left underinsured by inflation, according to Juan Aznar, HDI Global's country manager for Spain.

Speaking to *Commercial Risk Europe* as part of our Risk Frontiers Europe survey, he added that Spanish companies were facing tough economic times before the outbreak of war in Ukraine but now the fear is that the situation may get event worse.

Like so many in Spain, Aznar is concerned that claims costs will rise yet again in the wake of the Ukraine invasion, with the problem already acute because of the pandemic.

By way of example, he highlighted a Latin American claim for a factory fire. The original prediction was that rebuilding the factory would cost about $50m, well under the insured limit of $250m. However, the claim costs have actually escalated to $300m. While the claim has been settled, it highlights the very real risk that companies could be underinsured.

PLUGGING GAPS

Aznar said HDI Global is working very closely with broking partners and insured clients on insured values, to make sure any gaps are plugged.

"The problem exists on all kinds of risks," said Aznar. "It is not only affecting properties but even motor claims. If people can't get car parts quickly, repairs are delayed and the cost of the claim mounts," he said.

"So, claims will be more expensive as a result, which means that unfortunately, premiums are likely to have to rise," added the insurer.

While watching the Ukraine situation closely, Aznar said the biggest impact for firms in Spain is likely to be economic.

"And we had some quite challenging economic problems before the war started,"


Juan Aznar

he said. "Inflation was already running at 6.5%, with predictions that it could reach double digits. This is having a very direct impact on insurers and their clients, as the cost of claims increases massively."

With supply chain problems mounting too, Aznar warned of a perfect storm ahead. Like so many others across Europe, the Spanish are watching the cost of energy very closely too.

Many of HDI Global's Spanish clients are involved in heavy manufacturing, which consumes massive amounts of energy. The country is moving towards renewable sources of power but the transition period is likely to be tricky, Aznar warned.

This led him onto thoughts about ESG and the way that risk managers are increasingly factoring these principles into their operations. "Most of our clients are very concerned about this and doing a lot of work around ESG."

Sadly, Aznar worries there is a risk that ESG issues may be one of the first things to be forgotten as focus turns to war in Ukraine. "The first priority is logistics and making sure supply chains function," he suggested.

PARTNERSHIP APPROACH

And he stressed that insurers and their clients must work in partnership to navigate their way through the crises ahead.

Spain enjoyed a soft insurance market for much of the past 15 to 20 years, but the last 24 months have seen a hard market and more attention being paid to risk management and insurance programmes.

Aznar is pleased that both risk management and insurance buying have gained importance within companies, and is eager to work as closely as possible with clients to ensure their programmes are fit for purpose.

"We see a new enthusiasm for insurance," he said. "In the past, visits from our risk engineers were not necessarily totally valued, but today the doors are being thrown wide open as companies appreciate the risk-prevention conversation more than ever."

In addition, the larger Spanish companies have well-functioning risk management teams, with the expertise needed to manage their complex programmes, said Aznar. The trend among these larger players has been to retain more risk, rather than choose the captive route, he added.

Sharing knowledge and using expertise is critical for both insurer and insured, said Aznar. "We want to support them [our clients] and to be by their side if there is a problem and claims materialise," he said.

The Spaniard believes it is equally important that insurers share their challenges with insuredss so that the process is fully transparent for everyone. "It is important that we share our challenges with insureds so there can be full understanding about why we need to increase prices, for example, or to lower capacity," he told CRE.

And there remain some challenging areas in Spain, Aznar added.

"Before the [Ukraine] war, I would say that nationally, premium rates were not necessarily reducing but were stabilising. It remained difficult for pharma, food, and recycling risks – capacity for recycling risks is particularly challenging. Overall, however, you could have said that prices might rise by say, 5%," he pointed out.

"But now, with the [Ukraine] war, I am not sure what will happen. As insurers, our investment portfolio is very important and it is difficult to predict what will happen in the coming months," he added.

Netherlands

RISK FRONTIERS EUROPE: **NETHERLANDS**

Dutch risk managers need to up their game as risks escalate and insurers stand firm

Adri van der Waart, director of global insurance at engineering firm Arcadis, recently handed over the presidency of Dutch risk and insurance management association Narim to Albert van Haastrecht, head of the corporate insurance department at construction and engineering company Ballast Nedam.

Commercial Risk Europe's Adrian Ladbury carried out a joint interview with the two experienced risk managers for this year's Risk Frontiers Europe survey, ahead of Narim's Annual Congress. He found that Dutch risk managers have been going through a rough time under the combined pressure of dealing with Covid-19 and then Russia's invasion of Ukraine, coupled with continued hardening in the corporate insurance market. Trust and partnership, the theme of the Narim Congress, clearly need to be rebuilt between Narim members and the insurance market to help rise to the challenges ahead.

To take part in this year's survey, please visit: **https://www.surveymonkey.co.uk/r/RF-22**

Cyber, supply chain and battle for talent key risks for Narim members

◇ RISKS

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Cyber, supply chain and the battle for talent were identified as three of the key risks currently facing Narim members as they seek to help their companies recover from Covid-19 and deal with the broad macro implications of the Ukraine crisis.

Albert van Haastrecht, head of the corporate insurance department at construction and engineering company Ballast Nedam and new president of Narim, focused on cyber risk, which is a fast-emerging threat for the construction and engineering sector.

"One big risk is clearly the shortage of skilled employees, which is a real problem across Europe in this sector. The other big risk is cyber. Only recently I was talking to a broker who said there are now daily attacks on the supply chain. This is a real problem and needs a concerted effort to better mitigate and model this fast-rising risk. This is a problem that we all face and it needs collective action. We have to make sure our building information models – shared information models developed and maintained across the lifecycle of the building or infrastructure project – are updated to reflect this risk," he said.

Adri van der Waart, director of global insurance at engineering firm Arcadis and former president of Narim, also focused on cyber. "Of course, we still have natural catastrophes that continue to rise in value and severity, and political risk is high currently. Cyber is a big problem because we are always behind the hackers it seems and exposures could be very, very high, especially in construction, engineering and infrastructure. And don't forget we also still have the challenge of data privacy," he said.

Van Haastrecht said the big worry is that cyber risk potentially runs across the whole supply and distribution chain. "Out on site, you do not need a computer to put buildings together, but the whole process relies on computers now, as in all other sectors. It's all connected and therefore vulnerable if the risk is not well managed," he said.


Albert van Haastrecht

Van der Waart agreed. "We have seen how systems can be disrupted and then the whole business comes to a halt. Business continuity could be affected in a minor way or it could be very large. Major attacks have the potential to cause disruptions and cease work for weeks. We can't live with that level of risk," he said.

SUPPLY CHAIN

Supply chain risk is another big headache for risk and insurance managers currently, and particularly so in the construction and engineering sector that is having to deal with scarcity of materials and rising prices across the board.

"This is another major challenge for the construction sector and most others. You have the dual problem of securing the materials you need at a reasonable price as they continue to rise. Near-sourcing is a possibility and could be done to ensure that the goods needed are available. One of the main problems in this respect is the trade war between the US and China. I suspect we will see more and more products brought back to Europe," said Van Haastrecht.

"You also have to bear in mind that as the Asian economy develops and matures, the price of labour and material will rise anyway, and that is already happening. So, long-term supply chains will evolve anyway and higher costs will have to be accepted," added Van der Waart.

TALENT

The former Narim president also warned that the battle for talent is intensifying. "This is a problem across all sectors – hospitality, schools, construction – all are struggling to fill vacancies. We have the lowest unemployment levels ever in many European countries. The unemployment rate in the Netherlands in April was 3.2%, down again from 3.8% in December last year. I saw recently that the ratio of job seekers to vacancies is 1:10! This is also because of the ageing population of course, which is a big problem," he said.

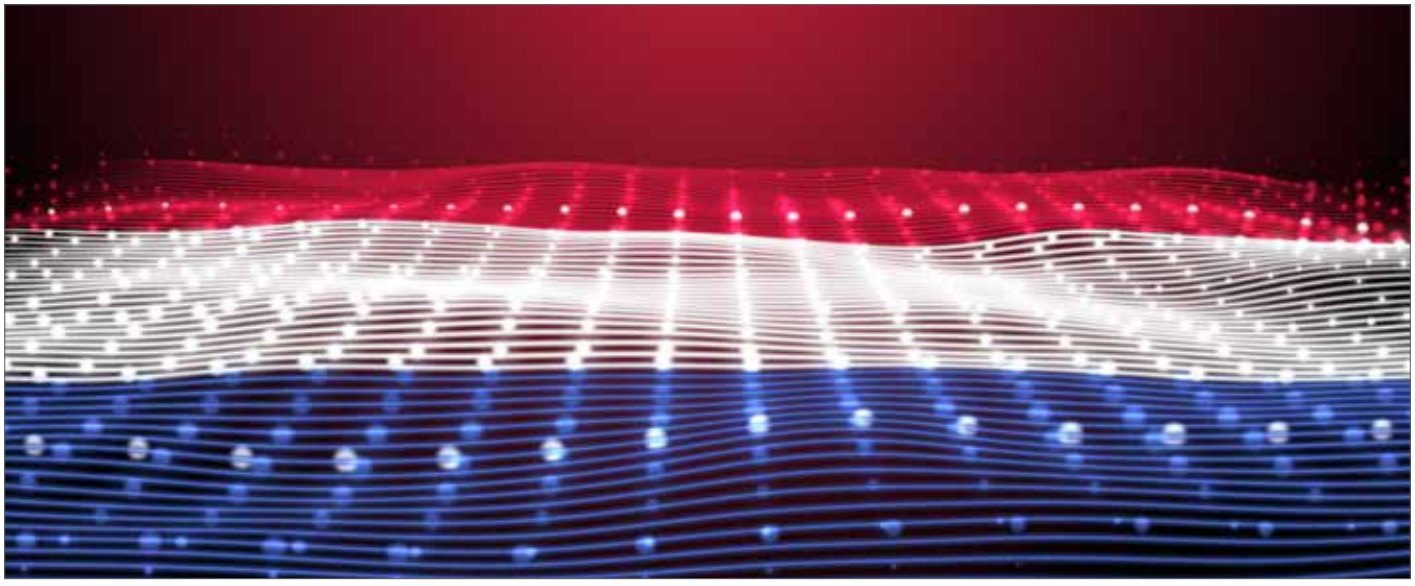
According to Van Haastrecht, the solution to this problem is investment and a marketing push. The rules of the employment game have changed and companies need to adapt, he suggested. "This needs investment by companies and they have to actively go out and seek and attract talent. They need to reach out to the schools and universities and compete. It also needs a marketing effort to make your sector more attractive," he said.

Van der Waart pointed out that this applies as much to the insurance sector as any other. "The insurance sector, insurers and brokers, have work to do this in regard. They need to work harder to attract the right people," he said. "This is essential because relying on IT systems to do the work is not the answer with larger complex business insurance in particular. We saw the limitations of this approach in recent renewals during lockdowns," Van Haastrecht agreed.

Part of the answer to this challenge is improving corporate image by stressing ESG credentials and therefore becoming more attractive to younger talent, the Narim leadership agreed.

"I see recently that the insurers and reinsurers like to address this topic and it's not just about image. Swiss Re for example has asked us what we are doing on ESG, as part of its underwriting criteria. Also, standards and methods are changing in construction. We are seeing a move towards wood-based construction and away from steel and concrete. This is important because younger people really care about how a company performs from an ESG perspective," said Van Haastrecht.

Time for the insurance market to rebuild trust after difficult period



◇ MARKET

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It's been a tough time for risk managers across Europe during recent renewals, as they had to cope with a rapidly hardening market at the same time as Covid-19. Narim members experienced the same challenges as peers across Europe in trying to secure adequate coverage at fair prices, while carrying out negotiations online with underwriters deprived of flexibility by head office.

The sometimes brutal renewals in 2019 and 2020 may not have been repeated to the same extent in 2021, but it remains a tough market in key lines such as professional indemnity and cyber for Narim members.

Leaders of the Dutch risk and insurance management community are hoping that the return of face-to-face meetings will help deliver more constructive discussions based on risk profile, risk management investments and claims experience, which start a process of rebuilding trust and partnership in the market.

> **"Cyber has become** a crazy area. We have seen premium levels rise two to three times"

But Dutch risk and insurance managers are advised to start discussions early, do their homework and prepare for more tough talks. They are also advised to assume the worst, have alternative options ready and be prepared to seek new carriers if things do not work out as hoped.

LITTLE IMPROVEMENT

Adri van Der Waart, former Narim president and director of global insurance at engineering firm Arcadis, saw little improvement during his latest renewal. "This was the worst year yet for me, not so much in terms of price but more conditions. It has taken so much time, detailed information requirements, more conditions as well as prices going up. This is not impossible to solve but it has become very difficult, especially in professional indemnity," he said.

"Also cyber has become a crazy area. We have seen premium levels rise two to three times as the sum insured fell by two to three times. There is less capacity from insurers, so it was hard to finalise the cover. The company naturally asks: why are we suddenly paying so much? But it is difficult to justify not buying the cover from a D&O perspective," he added.

Albert van Haastrecht, head of the corporate insurance department at Ballast Nedam and president of Narim, found the last renewal better than the last couple of years but was still not happy.

"I actually found that the last renewal was not as bad as previous renewals over the last three to four years. But I was still disappointed. There was not much room to discuss alternatives and explain the risk in detail. It was really just a market discussion, not about the details and underlying exposures. Underwriters just do not seem to have the time to analyse and price the risk properly, or have local decision-making

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authority. This is a combination of lack of staff and being directed by instructions from headquarters far away, often in the US. One insurer told me he had to charge 15% more and could not be flexible on that via higher deductibles!" he said.

Van der Waart added: "Even if you have a great claims experience you find this, and then even excess layers at $40m are demanding increases even though we should be receiving credits for the last ten years."

CYBER

Cyber insurance has been a real problem area for Europe's risk managers during the last few renewals and this trend continues, according to the Narim leaders.

"All the insurers created specialist operations for cyber in the soft market but the appetite is just no longer there. It takes more time to invest in this area. They naturally want to be there because it is a rapidly emerging market with large fresh premiums but it is not that easy. Even for simple insurance such as property it takes time," said Van der Waart.

Van Haastrecht said, however, that the return of face-to-face discussions has helped. "I found the final outcome better than in recent renewals and faced less restrictions. I could actually sit down face to face with the underwriter, which really helps. During Covid, it was all done by mail, videoconferencing and so on, which was not the best environment for such discussions," he said.

STRATEGY

Younger Narim members will never have experienced such a tough market, so the obvious question for two such experienced risk and insurance managers is: what is the best strategy in such an environment?

Van Haastrecht stressed the need to start early and make regular contact with your carrier. "As ever, start early. The reaction from insurers has been delayed in recent renewals so you need to give yourself plenty of time. You have to prepare well, start early and stay in contact with the insurer on a regular basis, not just once a year," he said.

"Meet them during the year, perhaps in June, to explain what is happening with the company and tell them what you expect in the next renewal. Certain topics like cyber need to be discussed. To be fair, I think that many risk managers became lazy during the long soft market and things have changed dramatically. It takes a big effort now," he added.

Van der Waart agreed that early movement is key and advised Narim members to prepare for different scenarios. "You have to be early, be prepared, do your homework and have your arguments ready to bounce back. You have to consider everything, all scenarios. You have to be ready to walk away from your regular insurers if things do not go well. Insurers can walk away at the last minute in such a market and leave you with a big headache. Be ready to change underwriter. This may not be viewed as fair. Nobody wants to break a ten-year relationship. But you need to be prepared and have a strategy," he said.

Van Haastrecht and Van der Waart advised Narim members to seek out alternative markets such as London to help complete their programmes.

"We strongly believe in long-term relationships but it has to come from both sides. One leading Dutch insurer, for example, recently just pulled its property capacity from our programme. So, you have to meet new carriers, such as in the London market, and introduce yourselves," said Van Haastrecht.

Van der Waart said this is the reason Narim chose the theme of trust for its annual congress. "Trust is the basis of our business. We have to go back to basics and rebuild that trust after a difficult period. You cannot do business together if there is no trust. This went missing during Covid. Video meetings for 30 minutes are no replacement for proper face-to-face meetings, during which the message can be properly delivered. Face to face engenders trust," he said.

ALTERNATIVES

One obvious option for risk and insurance managers during a tough market is to seek alternative markets and options such as captives to manage the insurance cost. The risk managers agreed that this is a sound strategy for Narim members. They also pointed out that market intelligence, gathered by talking to peers within the association, can be important.

"Narim has three member groups really. These are large multinationals that will usually already be using the London market, medium-sized companies that rely on their broker and can go to the London market if needed, and local SMEs that do not go to the higher-level market because they can find what they need in the local Netherlands market," explained Van der Waart.

"Mid-sized companies have to be prepared to go out to new markets, because in certain


Adri van Der Waart

markets there is simply not enough appetite any more. Being an active Narim member helps because you can talk to your peers and find out some critical intelligence. Strangely enough, not all the information in the market naturally makes its way to you. It really benefits Narim members to engage in this dialogue with fellow members and hear things that your broker may not be aware of," said Van Haastrecht.

There has been interest in captives since the onslaught of the hard market and Narim has seen enquiries rise from members. But as Van der Waart and Van Haastrecht pointed out, it is not a simple decision.

"There is great interest, yes. We have a captive and I have advised fellow members on this, but only three of them – small numbers. I know there is a broader interest in captives worldwide, driven by the hard market. But this is not a simple step to take. You have to be very clear on what you are doing, why you are doing it, appreciate the costs and reporting requirements involved and, above all, ensure that your risk management is in order," said Van der Waart.

"The key point is that if your risk management is not good don't do it! We have been looking at captive options – full captive, virtual captive, protected cell company, or other forms of retention financing, but so far we have stayed with the traditional insurance market. First of all, you have to have a very clear picture of your claims and costs to ensure the risk can be profitable. If so, it is clearly an option in this market," concluded Van Haastrecht.

UK Data Protection Law reforms: divergence from EU rules on the cards?

◇ DATA PROTECTION

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On 10 May, the UK government confirmed plans to introduce a new Data Reform Bill in the Queen's Speech to mark the state opening of parliament. The aim of the bill is to ensure that "UK citizens' personal data is protected to a gold standard".

This follows a consultation, published in September 2021, in which the UK government announced its vision to develop a separate data regime from the EU data protection laws, following Brexit. The consultation focused on five objectives:

> **" The government** has described the current legislation as 'highly complex and prescriptive'"

- Reducing barriers to responsible innovation
- Reducing barriers on business and delivering better outcomes for people
- Boosting trade and reducing barriers to data flows
- Delivering better public services
- Reform of the Information Commissioner's Office (ICO).

The consultation closed in November 2021, and as yet there has been no formal response from the government. There has been little further detail given on the content of the forthcoming Data Reform Bill. However, here is what we do know.

REFORM OR REPEAL OF UK GDPR AND DATA PROTECTION ACT?

The government has described the current legislation as "highly complex and prescriptive", encouraging "excessive paperwork" and creating "burdens on businesses with little benefit to citizens".

The government aims to "take advantage of Brexit" to create a world-class data rights regime, allowing a new pro-growth and trusted UK data protection framework that reduces the burden on businesses and boosts the economy.

An analysis by the Department for Digital, Culture, Media and Sport

indicates that reforms will create more than £1bn in business savings over ten years by reducing burdens on businesses of all sizes.

This suggests the government may be envisaging significant change to the current regime, which is likely to result in reform, or even repeal, of the current UK GDPR and Data Protection Act.

MODERNISATION OF THE ICO

The bill will ensure that the ICO has the capabilities and powers to take stronger action against organisations that breach data rules.

It will also include rules that require the ICO to be more accountable to parliament and the public than it currently is, and give citizens greater clarity on their rights.

DATA USE AND SHARING

There is an emphasis on enabling public bodies to share data more efficiently, so that delivery of services can be improved for the public, via a more "effective delivery of public healthcare, security and government services".

The government also intends to create a "clearer regulatory environment for personal data use that will fuel responsible innovation and drive scientific progress", as well as simplifying the rules around research to "cement the UK's position as a science and technology superpower".

> **"Any major changes** will cause an administrative burden on organisations"

MOVE AWAY FROM 'BOX TICKING'

In introducing the bill, the government has indicated that it sees some of the current legislation as unnecessarily administrative. It has said that the new bill will increase the competitiveness and efficiencies of UK businesses by reducing the burdens they face, "for example by creating a data protection framework that is focused on privacy outcomes rather than box ticking".

It has also said it will design a more flexible, outcomes-focused approach to data protection that helps "create a culture of data protection, rather than 'tick-box' exercises".

COMMENT

This is the starting point for what may be a fairly lengthy process to create a 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.

The extent to which new legislation departs from the current UK GDPR and Data Protection Act therefore remains to be seen. 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.

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.

◇ LEGAL EYE: THE BRIEFS

EU to expand scope of cybersecurity rules

◇ EU member states have agreed new rules to strengthen cybersecurity requirements and risk management for more critical large and medium-sized businesses, including their supply chains.

Proposed by the EC in 2020, the NIS 2 Directive expands the scope of cybersecurity measures to public electronic communications, digital services, waste water and waste management, manufacturers of critical products, postal and courier services, public administration and the healthcare sector, including medical device manufacturers.

NIS 2 will also require companies to assess cybersecurity at businesses in their supply chains, as well as making top management accountable for breaches of cybersecurity obligations. Member states will have 21 months to transpose the directive into national law after it is published in the *Official Journal*.

Brussels airports fined under GDPR for use of thermal cameras

◇ Two airports in Brussels have fallen foul of Belgium's Data Protection Authority (DPA) over their use of thermal scanners, in a case that could have repercussions for businesses that attempted to run health checks on customers during the Covid-19 pandemic.

Brussels Airport Zaventem and Brussels South Airport Charleroi were fined €200,000 and €100,000 respectively under the GDPR for using thermal cameras to check passengers' temperatures in case of Covid-19.

Anyone with a temperature higher than 38°C was then subjected to an additional check and asked fill out a questionnaire detailing their symptoms, which was stored by the airport. According to the DPA, the airports did not have the right to process sensitive health information.

Google and AI firm DeepMind sued for misusing health data

◇ A new lawsuit filed on behalf of 1.6 million NHS patients in the UK is seeking damages for the misuse of confidential medical records by Google and its sister AI firm DeepMind Technologies.

Law firm Mishcon de Reya said Royal Free London NHS Foundation Trust agreed a deal with Google and DeepMind in 2015 to develop a healthcare app, which gave the tech companies access to and use of medical records without the patients' consent.

In 2017, the UK's Information Commissioner's Office (ICO) found Royal Free London breached data protection laws when it transferred patient data to DeepMind. It stopped short of fining the hospital but the ICO asked it to change procedures and conduct an independent audit of the trial.

The new litigation has been brought before the High Court of Justice by patient Andrew Prismall, on behalf of 1.6 million other patients. Ben Lasserson, partner at Mishcon de Reya, said: "This claim is particularly important as it should provide some much-needed clarity as to the proper parameters in which technology companies can be allowed to access and make use of private health information."

Cyber capacity problems mounting as buyers battle to secure cover, warns broker

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A growing number of companies are now unable to buy cyber cover because of capacity restraints and dwindling carrier choice, warned Shannon Fort, partner, financial lines-cyber at McGill & Partners.

Speaking during Advisen's 2022 Cyber Risk Insights Conference in London, Fort said she is seeing more companies than ever before unable to secure cover from cyber insurers in the London market and beyond.

"It is a bit disconcerting I think to see that happening for the first time," said the broker, during a panel debate on the state of the increasingly hard cyber insurance market.

Fellow panellist Alec Cramsie, head of London wholesale cyber and tech at Beazley, argued that cyber insurance buyers still enjoy a competitive London insurance marketplace and most can therefore find cover. But he agreed it wouldn't be good for insurance buyers or carriers if this situation changed.

"I think it is still a market. So what I think is a good risk, others might think differently. We will have people that look at data and analyse it differently and make different decisions. So as long as there is a market, there will probably be a home for most companies seeking insurance. What would be a concern is if we got to the stage where there are too few markets and there were no choices. I think that would be a shame for this market because to me that sounds like it would be shrinking," said the insurer.

However, Fort responded: "I think arguably some of us might say we are a bit too close to that for comfort."

Cramsie conceded that insureds with a poor cyber risk profile might struggle to secure cover but made the point that insurers shouldn't be expected to take on bad risks that are likely to lead to losses.

"Arguably, if you have such a poor risk profile, should we take on the risk as insurers of something that we know is potentially going to give us a loss? I think this is where data can help us make much more important judgements about our insureds. I think the market has come from a place where it has been trying to sell a product, to now trying to define what is sustainable in our market. It's not that we don't want to pay claims but we want to pay the right sort of claims. So we don't want to walk into known losses. Should we be insuring someone who just wants to move a business risk onto our balance sheet? I am not sure we should," he said.

Michael Shen, head of cyber and technology for the London market at Canopius, said if insurers' demands on companies to improve their risk profile were pushing out a disproportionate amount of cyber risks from the market, buyers would have a big problem. But he does not think that is happening today.

"I don't think we are there. From what we have seen, probably 90% of the risks that are being asked to make these controls are able to do so," he said.


Shannon Fort

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Ferma continues battle to get proportionate captive treatment under Solvency II

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The European risk management federation Ferma has held two recent meetings with the French government, which holds the presidency of the Council of the EU, to drive home the importance of ensuring captives are treated more proportionately under the EU's Solvency II directive.

Ferma reported that the meetings were held with the French Treasury, to "discuss some critical elements of the Solvency II proposal".

"More specifically, Ferma has pushed for a more proportionate and risk-based framework for (re)insurance captives," said the federation.

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The capital adequacy and reporting regime is currently under review. Ferma is targetting the French government because it is driving political discussions between EU member states during its presidency of the Council of the EU.

Ferma said there is hope that a general approach to the treatment of captives under Solvency II can be formed by the end of June.

"Ferma continues to push for an outcome that is favourable for captives," it added.

Ferma welcomed proposed changes to Solvency II back in January that would strengthen the concept of proportionality, and in particular the creation of a new classification of "low risk-profile undertakings" that would clearly help captives gain lighter treatment under the regime.

But the federation called for a further revision that would enable captives to be treated as low-risk undertakings automatically, unless there are clear reasons to apply the full criteria.

Ferma has argued that it is in everyone's interest for Europe's businesses to more effectively manage and transfer their risk using captives.

January's proposals for updating Solvency II explicitly recognise that captives need to be treated differently. But Ferma said they need to go further in the current market.

German risk managers remain unimpressed by insurers' performance at renewal

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The reputation of leading industrial and specialty insurers among their key German customers has not improved much since this time last year, as buyers continue to struggle to find adequate capacity at fair prices in key lines such as D&O and cyber, according to the results of a survey by the GVNW.

The GVNW represents risk and insurance managers at many of Germany's leading corporations. It carried out a survey on their recent renewals experience and found members very unhappy with the way in which they had been treated by carriers in terms of what was – or wasn't – on offer, the imposition of unjustified price increases, additional exclusions and poor communication.

The GVNW's latest survey findings do not show a great change for the better, with roughly the same level of dissatisfaction as last year. The survey found that some 92% of GVNW members who took part experienced higher premiums, and 81% lower capacity by sum insured. Some 77% suffered more restricted coverage and exclusions, while 71% reported lower and new sub-limits – a question asked for the first time in this survey.

Overall, 70% of members said they had experienced poorer availability of insurance coverage than in the last survey. The only improvements were seen in communication and claims settlement.

There was no real improvement in the overall rating of the industrial insurance market's reputation, with 57.3% of GVNW members rating it as satisfactory, against 47% last time. Some 23.6% said it is poor, versus 25.3% in the previous study, and 19.1% as good or very good, against 24.2% the year before.

Brokers fared reasonably well and it seems are being used more often by big German companies, which have traditionally carried out their own broking through in-house intermediaries. This is presumably because of the need to seek scarce capacity in international markets such as London.

German insurance buyers have turned to London to find scarce capacity

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