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Global Risk Manager

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Global Risk Manager
MULTINATIONAL & SPECIALTY **INSURANCE** PERSPECTIVES

It is interesting times for the multinational insurance sector, or rather, uncertain times.

On the one hand, it appears that the worst of the hard market is over and the buzzword seems to be 'moderation' when it comes to rates and pricing. There is even some talk of flat pricing in some lines, regions and industry sectors. And certainly there is more competition in the market for some business, and insurers with an appetite for risk.

But on the other hand, there seem to be an awful lot of 'challenging' areas being mentioned by insurers. Cyber is the obvious one and it is still a very grim market for buyers in terms of pricing, capacity and exclusions. Then there is nat cat-exposed risk, for which there is little appetite, particularly from reinsurers. On the liability side, US exposures are viewed extremely cautiously by insurers as social inflation continues to be a concern.

And then there are all the wider issues that are having an impact on insurers, like the war in Ukraine and all its knock-on effects, ongoing supply chain problems, and growing inflation globally.

Clearly, insurers have succeeded in pushing rates up in the last couple of years and most have announced vastly improved results. So does that mean rate adequacy has been achieved? Or will all these challenges mean that insurers have to reassess where they are. After all, what we are seeing is merely a moderation in increases – but increases nonetheless.

This uncertainty suggests that market volatility is set to be a feature for a while. And that simply highlights the importance of captives, a tool perfectly designed to try and smooth the volatility of the underwriting cycle. And no doubt explains why the captive sector is thriving.

Brokers are undoubtedly having to work hard for their clients, with such different markets and conditions, from those risks where there is plenty of capacity, to those where it is in short supply, and everything in between.

There has been talk of a bifurcated market and, undoubtedly, loss-affected renewals are being treated very differently to those less affected. It is clear that the quality of submissions is crucial, as is showing that risks have been mitigated. Above all, in uncertain and volatile times, resilience is key.

This issue's regional focus is Europe, and we examine the multinational insurance market and the growing captive sector. We also report on Europe's flood risk and the financial services sector, as well as features on the cyber market, employee benefits, and marine cargo.

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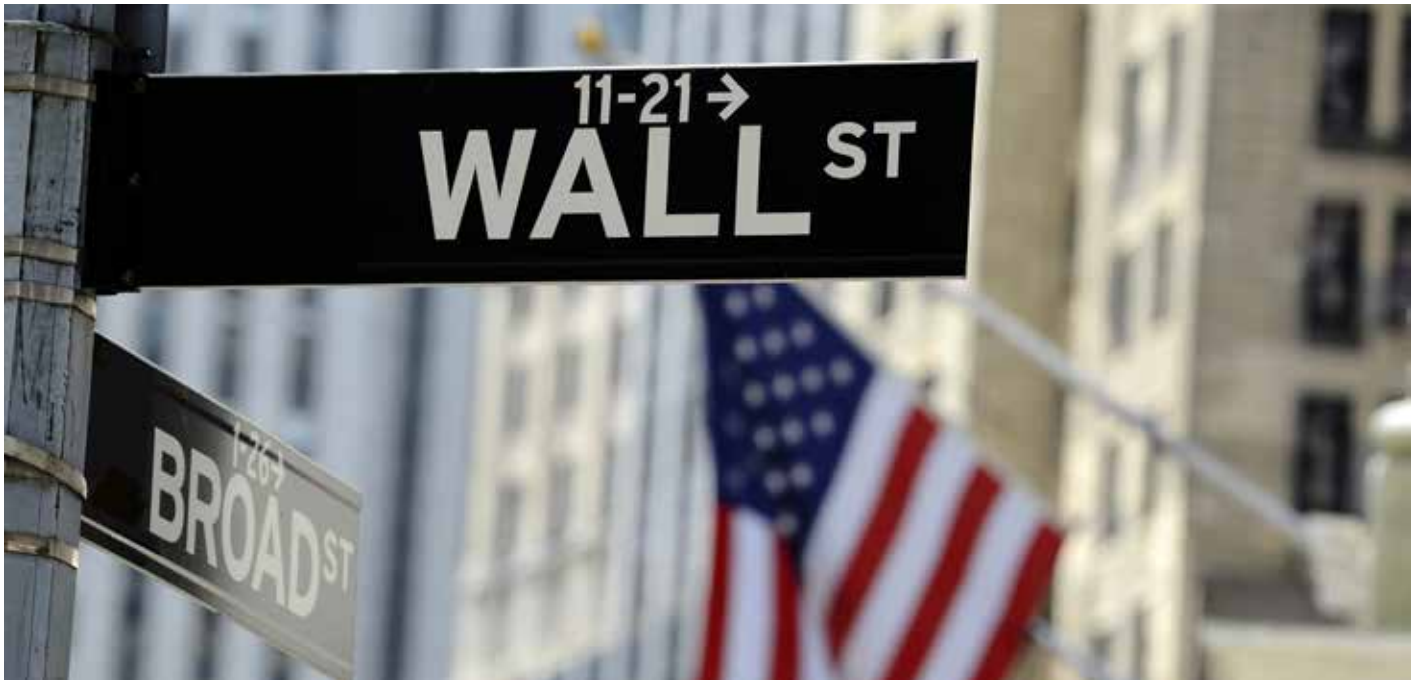
Financial institutions adapt after hard market

Capacity is back into the insurance market for financial institutions, after a hard market that has convinced many companies in the sector to change their insurance buying patterns. *Rodrigo Amaral* reports



The US is the most important financial institutions market for insurers

The arrival of new players in the insurance market for financial institutions (FI) has helped it to turn a corner, and the placement of difficult risks like D&O, errors and ommissions (E&O) and professional indemnity (PI) has become a more realistic prospect in 2022, brokers and underwriters tell *GRM*.

"The situation is definitely improving in the FI market. For a long time, it felt like capacity was being so stringent that insurers almost had to find reasons not to underwrite risks," says Marie Voysey-Moss, associate director for financial institutions at MGB Insurance Brokers. "Now there are more 100% lines available, which is certainly better, because then you can have the main underwriters' actual perspective of the risk instead of multiple capacity exclusions applied."

But market observers stress that the softening of the market remains to a certain extent concentrated on rates. Terms and conditions, including high retention demands, continue to be tight, even though it seems that the process of hardening is coming to an end here as well.

US market

This is the case for example in the US, the most important FI market for insurers, where the reversal of the hard market has been among the most remarkable so far. The latest report by WTW on US FI insurance shows a trend for D&O rates to increase by up to 10%, but tending to flat in most cases. D&O for private financial institutions faces the toughest market as increases can reach 15%.

Asset managers should expect flat to 10% spikes for D&O and E&O blended packages, and for banks, a maximum of 15%-20% increase on their professional liability covers. Insurers should have

the worst time renewing their professional liability policies, with P&C carriers facing increases of up to 30%.

Peter Trochev, senior vice-president and head of financial institutions at Ascot Group, says that even in lines that have for a long time presented a challenge for underwriters, such as D&O and E&O, insurers have had to fight more fiercely than in previous years to maintain their clients or attract new ones.

"Rate increases are limited in the US market, and we are seeing healthy decreases for clients 12 months removed from public-offering prospectus liability," he says. "Many of our insureds purchase blended D&O and E&O policies, and we are seeing competitive pressures among these products. We have not seen a total broadening of terms and conditions so far, however that appears to be the next logical sequence of events."

The arrival of new capacity has been the main factor behind the new market trends. A number of MGAs, in particular, seem to have concluded that the correction has gone on long enough to start offering more robust lines to FIs.

Claims

Observers also point out that a benign claims environment prevalent since before the Covid-19 pandemic is also an important factor, although it may prove to be a test of insurers' underwriting discipline in the future. Some expect that a backlog of litigation caused by the partial workings of US courts during the pandemic may be gradually disentangled, resulting in a flush of D&O, PI or other claims. Forthcoming US interest rate increases can also dam the tide of capital made available to underwriters.

"The added pressure on premium can be attributed to favourable loss trends in our space and increased alterative capacity stemming from relaxed monetary policy over the last decade," Trochev says. "As the Fed reverses course, pricing discipline will be paramount."

The potential impact of protracted court decisions coming mainly from the US, but also from other markets, is one of the reasons why PI is the line that deserves the closest scrutiny by the market at the moment, says Neale Stevenson, financial institutions focus group leader at Beazley.

"2022 is likely to be the plateau of the hard market, even though we are still seeing some rate increases," he says. "D&O today is more competitive, while PI still has a higher barrier to entry, but it has historically been more volatile for FIs."

Due to the potential for claims, Beazley at the moment does not write business domiciled in the US. But a worldwide focus by regulators to improve the lot of retail clients of financial institutions means that it is not the only place from which unwanted surprises can pop up for PI underwriters.

"We have not seen a total broadening of terms and conditions so far, however that appears to be the next logical sequence of events"

Peter Trochev, Ascot Group

PI programmes

Australia has become a very challenging market after regulatory retail market reviews created a tougher environment for banks. The UK is also adopting a growing number of rules to protect retail investors, which is one of the reasons why some pension operators are struggling to place their programmes right now. Stockbrokers with a strong base of retail clients face similar problems, Voysey-Moss stresses.

"FI PI tends to be the toughest cover to provide for most assureds and there are no signs that this will change in the short, medium or long term," says Jane Bennett, the head of the FI unit at Inigo. "Regulators will not ease up, the assured's clients will be no less aware of their rights and they will remain keen on buying financial products."

But risk managers who need to arrange PI programmes may have reasons for hope if they have done their homework. One of the recent developments in the FI space, in Bennett's view, is that the loosening of the market is

putting insureds and underwriters back in touch to actually talk about the risks involved in a placement.

"We are now at a stage where the market is loosening. It is an exciting time as conversations between insurers and clients will focus on a longer horizon," she says. "Risk managers will be really able to come into their own. Underwriters need to understand the business of their clients, their products, geography, governance and reporting. Risk managers can articulate this and differentiate their companies."

"Markets are less overwhelmed and have time to review submissions," Voysey-Moss agrees. "During the Covid pandemic, everybody was so pressurised, they did not have much time to consider risks. But we are seeing more clients' meetings and, even if it is by teleconference, underwriters are willing to spend time talking to clients."

She adds: "Insureds can help this process by knowing their own businesses and devoting time to their submissions in order to give a good description of how they operate. We know when the passion of the client and their understanding of the business show in a submission or a call, it may result in preferential terms."

Changing buying practices

In any case, many financial institutions have adapted themselves to new market conditions by changing their insurance buying practices, says Richard Allen, head of professional lines at Sompos International's Syndicate 5151.

"There is a tendency for large banks to drop their PI covers, and that is something that has happened in the past five years, even ten years in some cases," he notes.

Similarly, institutions that used to buy Side A, B and C D&O coverage are now focusing on the minimum required levels of Side A cover to keep a lid on costs. And some groups have embraced alternative transfer tools with gusto during the hard market.

"Banks are forming captives and taking higher retentions too. And higher retentions, from an insurance perspective, are a good thing," Allen says.

Sompo exemplifies the return of capacity in the market as, in the past 18 months, it has started to look once again at providing cyber insurance to FIs. Ascot is also writing cyber on blended policies for asset managers or other institutions.

Limits on offer are also on the rise, although cautiously so. Beazley offers up to $25m limits for D&O, E&O and crime covers, according to Stevenson. "However, it is very rare that we offer that much. The downside risk of very large lines still outweighs the potential upside," he says.

> **"It is an exciting time as conversations between insurers and clients will focus on a longer horizon. Risk managers will be really able to come into their own"**
>
> *Jane Bennett, Inigo*

"Hopefully more carriers will go back into writing bigger 100% lines, which would be really helpful," Voysey-Moss adds.

Values may trend up as new entrants feel more comfortable offering primary and excess capacity in the market. One of them is Inigo, and Bennett says the specialty insurer has significant ambitions for the FI insurance segment, with a focus on comprehensive crime, PI and D&O. Geographically, the company targets the UK, Europe, Australia, the US, Canada and South Africa.

"In the medium to long term we want to want to be a lead market in the FI space," she says. "In this kind of business, you need to be engaged with the client from the outset of the insurance buying process and, critically, you want to be engaged, if and when there is a claim."

New risks

While new players come into the market, FIs have to tackle new risks and situations that can trigger their covers. Stevenson notes that pledges made by financial groups that they are going to implement ESG policies or sell sustainable financial products to their clients constitute a significant risk factor, not least because regulators themselves have been pressed to stay on top of the matter. One example is the investigation launched in June by the US Securities and Exchange Commission against Goldman Sachs AM for suspicions of greenwashing.

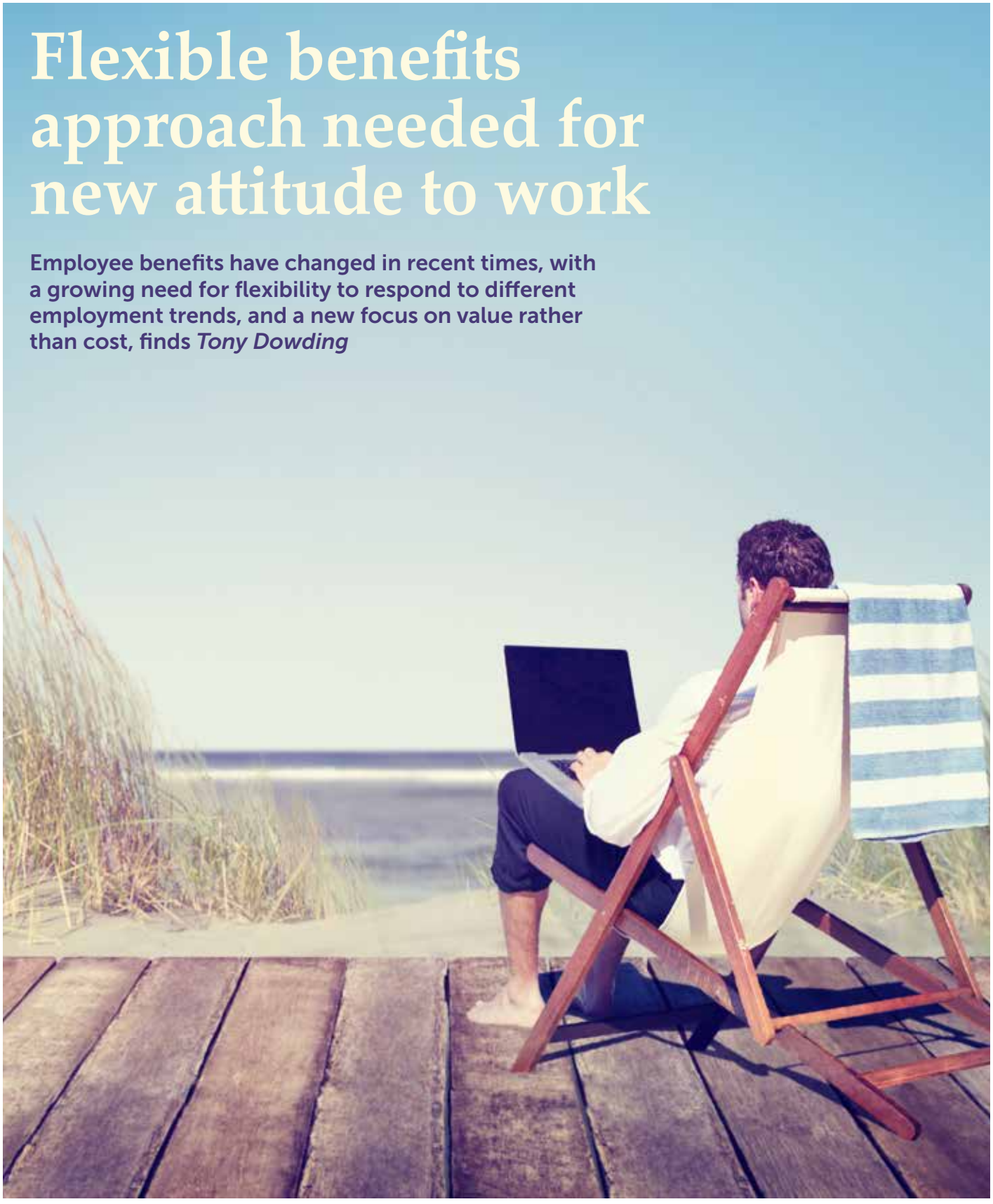
"If a company offers investment funds that are labelled as ESG, they must make sure that they really are ESG," Stevenson says.

Also, during the pandemic, new working relationships have been forged with employees that found out that they can do their jobs anywhere, including abroad. The need to retain talent while respecting a variety of regulatory regimes has led some banks to even create their own offshore locations for nomad workers, in a quest to maintain control over the potential legal issues raised by those new practices, says Nick Elwell-Sutton, a partner at Clyde & Co.

"This way, workers do not create risks by moving abroad without the company knowing it. It will not be surprising to see more companies doing that," he points out.

Flexible benefits approach needed for new attitude to work

Employee benefits have changed in recent times, with a growing need for flexibility to respond to different employment trends, and a new focus on value rather than cost, finds *Tony Dowding*



The world of work has changed dramatically in the last few years, partly due to Covid. There has been a change in the way work is viewed in recent times, with jobs changing more frequently, a move away from the 'job for life' and a desire for greater flexibility in terms of working terms and conditions. All of which, together with the pandemic, has contributed to "the great resignation".

In this context, employee benefits is also changing. Paolo Marini, global head – customer and distribution management, Zurich Integrated Benefits at Zurich Insurance Group, says: "The world of employee benefits is undergoing a profound transformation, spurred by technology, a consumer-centric mindset, new employment models, and accelerated by Covid as well as remote work."

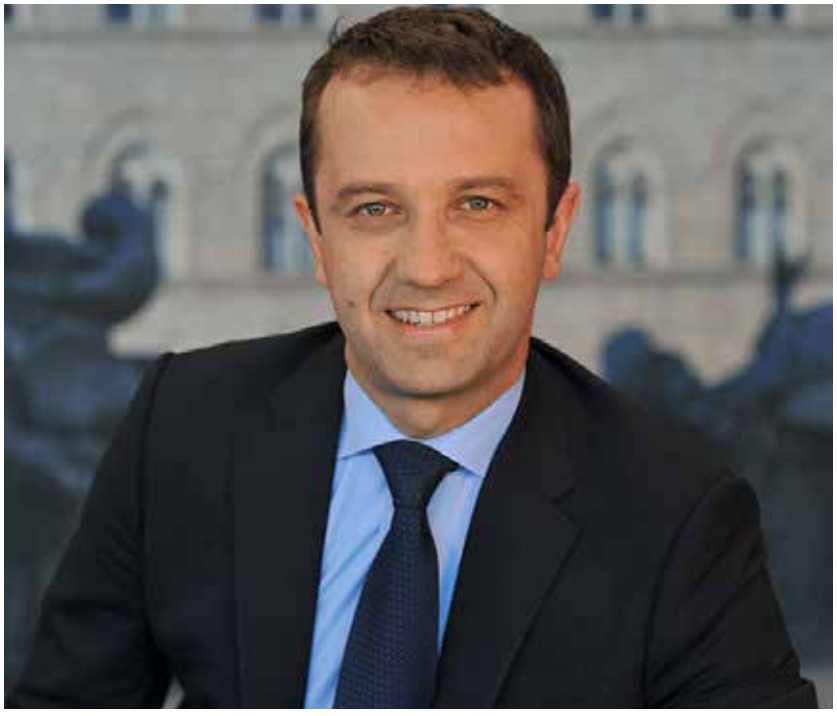
He notes that a few years ago the focus of the industry was on cost reduction and efficiency, but today the focus is more on the value of the benefits. "Perhaps because duty of care has come to the forefront and employers want to be seen as an employer of choice. There is a whole new attention towards the wellbeing of employees, and wellbeing in a very broad sense of the word, ranging from the physical such as health but also mental, social and even financial wellbeing".

He also notes the topic of diversity, equity and inclusion (DEI), and providing benefits that cater toward a different and inclusive workforce. He says that with up to five generations in the workforce, the demand for personalisation, flexibility and portability of benefits has become critical, and this is only achievable via technology.

Mattieu Rouot, chief executive officer, MAXIS GBN, agrees about flexibility: "A job for life is a thing of the past. People, particularly Millennials and Gen Z, are looking for much more flexibility in their career and are happy to explore new opportunities, roles and industries... Reports all around the world suggest employers in almost every industry are facing high levels of resignations. They're looking for ways to keep their most-valued people."

He says benefits, and particularly insurable health benefits, are no longer a 'nice to have' but instead are a deciding factor. "Employers must move with the times. An effective employee value proposition is key for attracting and retaining the most talented people, and a great benefits package is a big part of that. By offering benefits that people value the most, multinationals can try to protect themselves from losing their most talented people," he says.

Ludovic Bayard, CEO of Generali Employee Benefits (GEB), says: "The world of employee benefits has not actually changed, or at least, not with an immediate effect, if we compare it to the 'new economy' industry. The new trends may be more easily observed at local rather than global level. Meaning that worldwide, employees are starting to ask questions like 'Am I covered when I work from home?', and are more and more motivated by tangible short-term experienced benefits and less by long-term coverages such as pensions."



"Employees are more and more motivated by tangible short-term experienced benefits and less by long-term coverages such as pensions"

Ludovic Bayard, Generali Employee Benefits

Centralised programme

With the growing involvement of risk managers in the past decade in employee benefits, there has been an acceleration of the trend to become more centralised, especially in the past two years, according to Gilles Finkestein, global head of customer and distribution management, Zurich Global Employee Benefits Solutions. "Headquarters want to take more control and to understand what they are offering in the various countries and get access to more data, more reporting, more granularity in terms of reporting, and this is where we can see the influence of the risk managers," he says.

Employers in almost every industry are facing high levels of resignations

Michelle Bishop, European team lead, multinational benefits and human resources consulting, Gallagher, says centralisation is not just about realising the immediate fiscal gains through alternative risk financing options, but also about risk management. "This is realised through real-time access to data, reduced administration, improved audit and control, and a single unified strategy through which HR professionals are able to pivot and align more proactively with the organisations and the needs of its employees," she says.

She adds: "Let's not forget that when we are talking about employer-sponsored benefits for the employees, this is an investment in protection of the most valuable capital, the human capital, of an organisation. Most organisations have already established a solid governance model as part of the increasingly important overall ESG approach, and this centralised benefits decision-making strategy also forms part of the foundation for the 'social' in ESG, encompassing people, purpose and culture."

GEB's Bayard says the ambition is to pursue a more centralised approach, by following a joint collaboration between local and global experts to make use of economies of scale. "This, mindful of the local differentiation and heterogenous markets, is where it is crucial to have a common understanding of the information needed at central level to respond to local needs and act together, playing as an orchestra," he says.

Ease of integration

But how easy is it to integrate employee benefits across the globe into a global programme? "It's not easy but if it's done in the right way it will be smooth," says Finkestein. "You should start by selecting the right type of global employee benefits solution because today on the market you can find different types of solutions like multinational pooling, global underwriting, employee benefits captive, and it's not one size fits all. It depends on the risk appetite of the multinational company and on the governance."

Bayard says the integration requires companies to have a level of central governance and international employee benefits strategy to be able to implement it. "This is not a question of 'easiness' but more a question of 'how' companies are organised and the central governance they want to apply. Integration is our main objective when we build our operating framework," he says.

> **"When we are talking about employer-sponsored benefits for the employees, this is an investment in protection of the most valuable capital, the human capital, of an organisation"**
>
> *Michelle Bishop, Gallagher*

He adds: "A common misunderstanding is that global underwriting solutions bring governance on employee benefits to corporates. In fact it is the other way around – corporates need to have in place already a strong governance to successfully implement a global underwriting solution."

Dieter Gistelinck, managing consultant, multinational benefits and human resources consulting, Gallagher, says there are complexities in any global programme, balancing compliance, regulation, market norms and cultural norms. Global programmes should always be designed to reflect and acknowledge the local market but are by no means unachievable.

Selling the programme

One of the big challenges is getting all the different stakeholders onboard, and selling the concept of a centralised employee benefits programme to the board and to subsidiaries. Gallagher's Michelle Bishop explains that having senior buy-in at an early stage helps, as well as a single team guiding the overall process and defined decision-making process. "Key is communication, sharing the business case, ensuring buy-in and input to the process is garnered from an early stage to ensure there are no surprises or blockers when effecting the changes required," she says.

GEB's Bayard says it really depends on the strategy that has been defined. He explains: "The best way to proceed is via a centralised employee benefits programme in close partnership between local and global decision-makers. Centralisation helps companies to understand if there is an alignment of the benefits requirements with the overall strategy and that these are properly defined and communicated. High level of communication is key and it is easily managed thanks to centralised global programmes. It is not so different from procurement activities, where you need to have a common understanding of your objectives. It is possible to give freedom to a specific country but within a common understanding, leading to collaboration locally and centrally from a risk and financial perspective."

Responsibilities and roles

Another challenge when it comes to employee benefits programmes is the question of responsibility and roles of the risk manager and human resources manager. In the past, this has been a contentious area as risk and insurance managers have become more involved in employee benefits and there can still sometimes be tension over roles and responsibilities.

Bayard says: "This can be considered a common stereotype. Companies are governed to work together and achieve common objectives (such as to provide the best possible benefits at the most reasonable costs), and HR and finance need to work in close partnership to

Selling the concept of a centralised employee benefits programme to the board is a key challenge to overcome

fulfil such goals, in alignment with the strategic plan. If this collaboration does not happen or if there is tension between the departments, this is not related to the design and implementation of employee benefits plans but to internal conflicts."

MAXIS GBN's Rouot explains that for captives and other global programmes to be successful, there's a need for collaboration between HR and risk/insurance managers. "By collaborating and breaking down the silos between these teams, there can be benefits for all. For risk and insurance managers, adding employee benefits to a global programme or captive can be more cost-effective for the business. For HR and compensation and benefits managers, the programmes can help them offer more and better benefits for their people. It requires true collaboration but when it's working effectively, it can be rewarding for everyone involved."

Collaboration

There is certainly a greater need for collaboration, according to Gallagher's Bishop. "Creating a global benefits financing programme has become less about just leveraging scale to obtain immediate cost savings but more about the design and claims utilisation information – and that approach needs a combination of stakeholders, responsible for risk management, human resource and governance strategies, to ensure that the outcome is a superior employee experience."

Zurich's Marini says that collaboration between the two roles is the one factor that is critical in either the success or the failure of any consolidated programme. "The companies that do this properly, in a structured organised way, are a handful – really very, very few – and typically these are the larger ones and maybe in some sectors more than others, such as tech companies and professional services firms. However, it is rare and it also boils down often to personality types," he says.

His colleague Finkestein believes that the centralisation of employee benefits programmes is driven by risk managers. "I think a lot of risk managers when they start getting involved in employee benefits, they are surprised and they don't understand why there is such a decentralised approach and so much autonomy and that it's not more centralised," he says, adding that they are used to a centralised approach on the non-life side.

"It is vital to clearly define the roles and responsibilities of each party," says Finkestein. "If the rules are stated clearly from the beginning, that should reduce the number of conflicts."

CAPTIVES AND EMPLOYEE BENEFITS: A PERFECT MATCH?

Many observers have long called for a greater involvement of captives in employee benefits, pointing to greater control over rates, terms and conditions, more flexibility of plan design and wording, and diversification benefits for the captive.

But despite the many advantages, the number of employee benefits captives remains relatively small. Mattieu Rouot, chief executive officer, MAXIS GBN, explains that it has seen a 20% increase in captive clients since the end of 2020, but when compared with the number of captives that exist, the proportion using them to write EB risks is still very small, at about 2%.

"At MAXIS, we believe that a captive is the most efficient and effective way to manage and finance employee benefits. Writing employee benefits risks in a captive gives multinationals greater control, the ability to closely manage global programmes, offers benefits that might be unaffordable through local underwriting, retain any underwriting profit and, if there's already an existing captive in place, diversifying risk. There's a great opportunity out there for multinationals to use their existing captive to offer more and better benefits for their people."

Part of the issue might be resistance from the HR side, as Gilles Finkestein, global head of customer and distribution management, Zurich Global Employee Benefits Solutions, points out: "We do see some resistance from the HR side with regards to a captive because it is not a tool they are familiar with, and the advantages that the HR network could get from being part of the captive strategy are very often not known to the HR people."

Paolo Marini, Zurich

He adds: "They may not know that using the captive could help them implement certain measures, help them to be much more efficient, and even waive some exclusions in policies, especially when it comes to diversity, equity and inclusion, for example with same-sex marriage exclusions in certain countries."

And his colleague, Paolo Marini, global head – customer and distribution management, Zurich Integrated Benefits at Zurich Insurance Group, says it might also be concern from risk managers about the risks that employee benefits might bring into the captives.

"In my view, this is misplaced in the sense that no matter how well paid people might be in any given country, a death or disability of even the highest ranking individuals in the company will never compare to the burning down of a plant or a flood. So, all of those risks that risk managers are facing on an almost daily basis are huge in comparison to the liabilities coming from employee benefits, which are far more predictable and are composed of many smaller sets of claims."

He adds: "So in terms of diversification of risk, bringing the two together in a captive actually makes a lot of sense. In my view, it's hard to understand why there are not more employee benefits captives in place today."

Finkestein says that ultimately it very much depends on the experience and the risk appetite of the captive. "So what we see, for instance, is that some of our customers start a first phase of an employee benefits captive only with the life and disability and accident covers because they don't feel at ease immediately with the medical side. And then they will extend to medical with the ultimate objective to involve the full package of benefits."

Cyber insurance: Set to stabilise in year ahead as hard market peaks

The global cyber insurance market remains extremely tough for multinational insurance buyers, but there are signs that losses and rate increases are beginning to taper off as risk management improvements filter through. *Ben Norris* reports

Huge rises in cyber rates have seen insureds decrease their limits, increase retentions and consider alternative programme structures

Brokers believe the cyber insurance market could stabilise through 2022 and into next year. Things will be helped by more capacity, which is expected to enter the space, albeit slowly and cautiously, including from the reinsurance market.

But for now, while other parts of the commercial insurance market have finally showed signs of moderation, cyber continues hardening with rates more than doubling towards the end of 2021 and the beginning of this year.

The huge rises in cyber rates have seen insureds decrease their limits, increase retentions and consider alternative programme structures, such as captives, to combat the difficult conditions bought about by heavy losses at insurers. But it seems that price increases may have peaked.

Marsh's latest figures show that while cyber rate increases are still challenging many clients, there is "consistent downward movement" in North America from the record rises seen in December. Rates rose by an eye-watering 133% in December but have steadily fallen each month since to a rise of 90% in April, according to the broker.

Marsh stresses, however, that the lower increases are normally only offered to companies that can demonstrate strong cyber risk controls as underwriters become more selective.

The broker says companies that have not made cybersecurity improvements deemed necessary by underwriters are still facing challenges to secure coverage. If these firms can get cyber insurance, it tends to be "significantly" more expensive and subject to restrictive terms and conditions, it adds.

And Howden reports that while the average

costs of cyber cover rose steeply last year, rate increases slowed in April to 105%.

State of transition

Shannan Fort, partner in McGill and Partners' financial lines team, says the cyber market is still in a "state of transition". "The rate increases are slowing a bit but they haven't stopped yet," she says. "We are starting to see renewals where rating is more predictable, which gives clients a bit of comfort."

Debbie Hobbs, head of cyber, technology and media at Miller, says the cyber market remains in a hard or corrective phase, with the trends seen through 2021 mostly continuing this year.

She explains that cyber premiums have been increasing by 100% on average and it has not been uncommon to see rate increase of more than 300% for risks with no material change in exposure. This is often coupled with higher retentions and more restricted coverage, adds the broker.

But she expects things to look slightly better from the buyers' perspective as we get nearer year-end renewals.

"At the end of 2021, we saw insureds facing significantly higher premium increases than those with renewals earlier in the year... but we expect there to be some relief for insureds towards the end of the year for those that already faced increases of 100% or more," says Hobbs.

"With the ongoing prevalence of ransomware, in addition to the Ukraine crisis, we would expect insurers to remain very cautious and do not foresee a major change in the current market conditions. However, we are starting to see some insurers open up again to new business opportunities, which has come as welcome news after many months of some insurers not considering any new risks. Furthermore, insureds have had to become better risks, which in turn is helping to make risks more attractive and insurable and will, in turn, result in a more stable market," she adds.

Loss experience

Fort also thinks the market will begin to move in buyers' favour and is optimistic about how things will look this time next year. But she stresses this will depend on the loss experience of insurers, and how well their risk selection and the work put in by risk managers to meet underwriting standards starts to pay off.

"Ideally it would start to level off towards the end of the year and beginning of next but that will be driven by claims experience. I think the severity of claims has dropped and is improving, but it is a bit less clear how much the frequency is improving," says Fort.

"The risk selection by the market over the past couple of years should be having a positive impact. Insurers should be seeing a decrease and improvement in both frequency and severity of losses for these efforts to have been successful. They should be seeing a better overall protected client," she continues.

Howden believes that cyber insurance rates, which rose by more than 120% in the first quarter of 2022 according to its figures, could stabilise for buyers later this year if ransomware activity continues at lower levels.

The broker adds that recent improvements in profitability at cyber carriers could attract new capacity into the market and help buyers.

David Rees, executive director at Howden, says the stage is therefore set for cyber prices to moderate. "Whilst the value of cyber insurance continues to prevail for the vast majority of buyers, pricing is now approaching the limits of economic viability for some. Compounded increases from here are not sustainable, which, assisted by the more favourable claims environment that appears to be manifesting this year, is likely to moderate or even stabilise pricing," he says.

Howden says risk management demanded by insurers to secure cover and increase cyber resilience is already impacting ransomware frequency. And the brokers note that the war in Ukraine has, at least for now, seen the number of cyberattacks ease off, despite initial fears that ransomware attacks would increase.

Rates stabilising

Marsh too is increasingly optimistic that North American cyber rates will stabilise this year, amid signs that rises are already beginning to taper off.

In its second-quarter update on the US and Canadian cyber market, the broker says things are expected to remain challenging for buyers for the foreseeable future, given ongoing accumulation and systemic risk concerns. But it says there is growing evidence that steep rate increases seen during the past several quarters are moderating as attritional losses are better controlled and premium growth exceeds incurred losses.

"As we look ahead at the rest of 2022, there is reason for cautious optimism that rate increases will stabilise and insurers will reward strong cyber hygiene controls," says Marsh.

Market conditions are likely to be helped by rising competition and new capacity, it continues.

"As underwriters gain more confidence in pricing cyber coverage following a period of

"Insureds have had to become better risks, which in turn is helping to make risks more attractive and insurable and will, in turn, result in a more stable market"

Debbie Hobbs, Miller

adjustment, there is increased competition and interest from new entrants, increasing the likelihood of rate moderation," says Marsh.

Capacity issues

The brokers agree that capacity has been harder to come by in the cyber market, with most insurers taking their line size down to $5m. But Fort says things are moving "modestly" in the right direction here too, with a few more carriers offering $7.5m or even larger lines.

"So it is trending positively but we are not yet out the woods and it is still very challenging," she says.

Fort adds that many buyers now need to access the global market to get the cover they want.

Hobbs tells a similar story. "Capacity in the cyber market has been reduced, with insurers taking a more conservative approach... building large insurance programmes has become a more difficult and time-consuming process," she says.

"However, we have started to see a slight shift with increased capacity being deployed and more competitive rates, as carriers look to hit budget and the US domestic markets start to step back in to providing terms at lower attachment points," adds the broker.

"We have also seen the introduction of a small handful of new entrants to the market, which will bring some additional capacity to London on an excess basis," she continues.

Fort says some risk managers have failed to get the full cyber cover they wanted, particularly for ransomware.

"There are times when markets are imposing restrictions or sublimiting cover so buyers aren't able to achieve the limit they want for specific elements of cover. That is definitely still happening. A lot of the difficult area is ransomware, not just extortion but general cover around this risk," she says.

But generally there has been enough limit in the market for most buyers, Fort continues. What has stopped most risk managers from getting the limit they desire is the cost of cover, she explains.

Hobbs says it is important to strike the right balance between limits and coverage. "More restricted coverage is helping carriers get comfort with providing capacity and in deploying larger lines, thus helping build larger towers," she says.

Terms and conditions under pressure

The broker also explains that cyber underwriters are only quoting for risks within their core appetite and have stripped out those that no longer fit within their strategy. This has seen cyber terms and conditions come under pressure.

"It is trending positively but we are not yet out the woods and it is still very challenging"

Shannan Fort, McGill and Partners

"Contingent business interruption is being stripped out of policies and the trigger for coverage often being restricted to security failure only. The imposing of ransomware restrictions continues, but the major change has been the tightening of war exclusions. This, of course, was on the cards with the introduction of the LMA clauses, but has no doubt been exacerbated given the Ukraine-Russia crisis. We have also recently seen the imposition of specific exclusions for Russia," says Hobbs.

Fort agrees that terms and conditions have been curtailed but says cover remains in important areas. "There is still a market for cyber physical damage within the cyber market. There is still a market for cyber as a peril-type product within the cyber market. So, while there are variations in terms and conditions, not everything is restrictive," she says.

Meanwhile, captives have become an increasingly attractive option for cyber risk, especially for healthcare, financial services, retail and manufacturing firms, says Marsh.

"The number of captives writing cyber more than doubled at Marsh in the past five years, as clients continue to look at different ways to utilise them to best fits their needs. Some are using captives for retention purposes when buying larger limits, while others are using it to offset a significant rate increase or fill missing capacity in a programme," the broker says.

Challenging times but improving market

The marine cargo market has seen a slowing down of the hard market as competition in the insurance market takes hold and rate 'adequacy' has been achieved by insurers. But the sector is still dealing with the challenges that came to the fore in the pandemic with supply chain issues, port congestion, container fires and natural catastrophes increasingly affecting marine cargo. *Tony Dowding* reports

Demand for marine cargo insurance has remained relatively stable, despite the challenges brought about by the pandemic

The pandemic caused a number of challenges for the cargo sector, including the production of goods being delayed, along with route disruption or port/country closures and restrictions. But according to Grace Jeffreys from the cargo team at Miller, demand for marine cargo insurance has remained relatively stable, despite the challenges, although she notes that globally it is estimated that more than 60% of the world's cargo is underinsured.

The pandemic saw methodology changing for insureds, she says. "For example, in relation to apparel, the methodology 'just in time', became 'just in case'. Due to this change, imports increased, along with warehousing levels. This is not necessarily because insureds were buying more product, but they were buying increased product levels in advance to ensure that they could service their clients while taking into account the abovementioned challenges."

Market trends

Brokers agree that while rates are still increasing in most cases, the hard market has moderated in 2022. Gallagher says in its latest cargo update that in 2021, the average rate rise in the London cargo market decreased from about 23% at the beginning of the first quarter to about 3% at the end of the last quarter, largely due to new entrants to the market.

"This doesn't mean a return to the lows of the 2016 soft market but there is more certainty around pricing and more options for insureds, especially where there are large turnover changes. The market is starting to see the benefit of rising commodity prices and economic recovery

stimulating growth," says Gallagher in the update.

Miller's Jeffreys says: "Over the last six to nine months, we have seen a transition from the hard market trends that we have seen over recent years in the London cargo market. Within this period, we have seen a move towards profitability for insurers. The absence of large catastrophe losses (which the London cargo market has been hit heavily with over recent years) has ensured insurers are in a strong position to maintain an era of stability for ratings and premium levels alike."

She adds: "Insurers across the market have addressed their ratings to ensure adequacy and have been stringent with their policy wordings – discipline is the trend and brokers have and will continue to show their value when it comes to complex risk transfer purchasing for clients. The additional capacity that has entered the market has increased competition but underwriters are still being disciplined and pushing for modest rate increases. Following the attainment of 'adequacy', we are seeing single-digit rate increases becoming the 'norm', with flat renewals becoming more readily available to those accounts within insurers' appetite, and a good loss record."

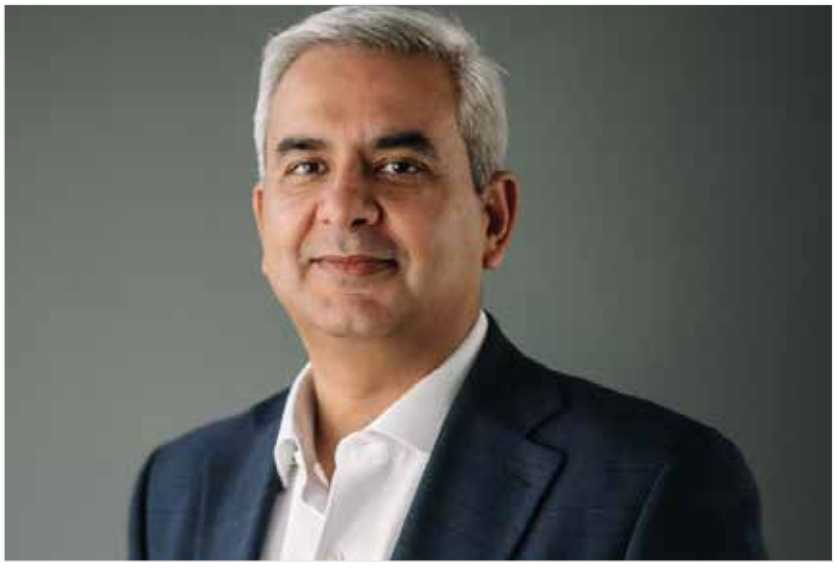
However, while the London cargo market is stabilising for now, Gallagher warns that as the war in Ukraine intensifies and ports and global supply chains reach breaking point, "it's unlikely we've seen the last of tough conditions".

In the US, it is the same story of moderating increases in 2022. According to WTW's *Insurance Marketplace Realities 2022 Spring Update*, insurers remain focused on bottom-line profitability, with continued scrutiny of insuring terms and conditions and capacity deployed, but insureds can anticipate a more predictable approach from cargo insurers at renewal.

However, WTW says certain business segments and exposures are subject to more scrutiny than others, such as temperature-sensitive products, pharma, automobiles and high-hazard cat exposures. Detailed exposure information and risk differentiation remain crucial to securing favourable terms and conditions.

Capacity in the London cargo market is growing, with new entrants. Miller's Jeffreys says there has been a large increase in competition in the London cargo market, following a large influx of capacity and a return to underwriting profitability.

"We saw the entrance of new capacity, predominately within the last 12 months, which ended up being more than was withdrawn during the hard market phase. This level of capacity into the cargo market was more than we had anticipated, and consists of both Lloyd's and MGA capacity. This level of capacity has not only served for placements where there was a complete lack of appetite, but it has also ensured that there are more options for buyers when they are looking to place their insurance here in London," she says.



"We continue to see major incidents involving fires on large container ships, and now the emphasis is also shifting to car carriers and ro-ro vessels"

Captain Rahul Khanna, AGCS

Supply chain disruption

The pandemic highlighted supply chain susceptibility to disruption and, according to Jeffreys, it has been viewed as the 'black swan' event that will ensure many companies transform and develop their supply chain model, in order to mitigate the risks of disruption in the future.

"Port congestion has become a challenge in marine cargo insurance, as it has led to an accumulated level of cargo at ports (and manufacturing locations while goods are in store awaiting transit), which can lead to the limit of liability that is set on an individual policy being exceeded, leaving both insurers and insureds exposed and vulnerable to claims in excess of what has been prepared for," she says.

She adds that port congestion can also lead to delays for insureds, which are not typically covered under a cargo policy as it does not often cause physical loss or damage to the majority of goods. But she says that as the economy and logistics industry recover, these issues are expected to be alleviated.

Other problems for the sector include lost containers at sea, as a shortage of available vessels

60%

OF THE WORLD'S CARGO IS ESTIMATED TO BE UNDERINSURED GLOBALLY

has led to a substantial increase in full containers shipped on a single sailing, leading to several incidents of containers lost overboard, according to WTW.

Cargo fires

Allianz Global Corporate & Specialty's (AGCS) notes in its latest *Safety & Shipping Review 2022* that cargo fires are a growing concern, with misdeclared and dangerous goods a recurrent issue for container shipping, while lithium batteries are an emerging risk for both container ships and car carriers.

"Fires onboard large vessels remain the top issue for the shipping industry. We continue to see major incidents involving fires on large container ships, and now the emphasis is also shifting to car carriers and roll-on roll-off (ro-ro) vessels," says Captain Rahul Khanna, global head of marine risk consulting at AGCS in the report.

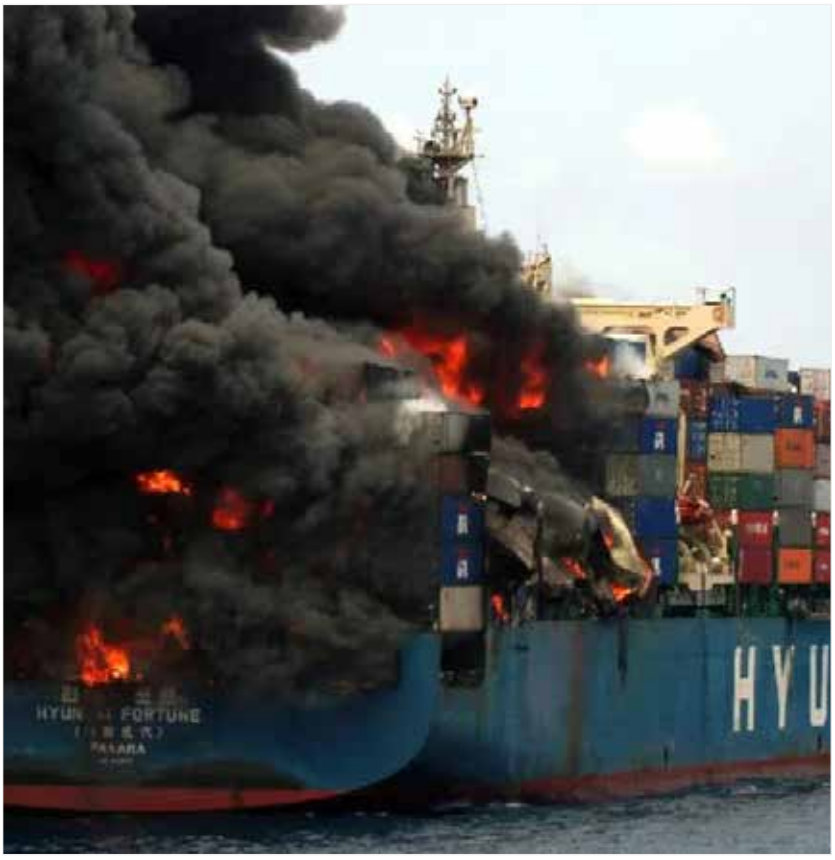
Randy Lund, senior marine risk consultant at AGCS, adds: "The size and design of large container ships and ro-ro car carrier vessels makes fighting fires extremely challenging. Fires need to be contained quickly, yet it may take several hours to get to the base of a fire on a container ship with as many as 20,000 containers onboard, stacked ten high."

The AGCS report states that it is estimated that about 10% of all containers loaded onboard ships contain declared dangerous cargo. However, about 5% of containers shipped consists of undeclared dangerous goods – either due to administrative error or being deliberately misdeclared.

Also in the report, Régis Broudin, global head of marine claims at AGCS, says container stack collapse and the loss of containers at sea can have serious safety and environmental consequences, particularly if dangerous cargo is involved. "There are questions around the potential for misdeclared cargo weights and lashings, but the problem may be another consequence of large vessels. The larger the vessel, the higher the containers are stacked, and this may cause issues in bad weather, which is likely to become increasingly severe given climate change," he says.

The problem of container losses on ships was highlighted earlier this year by GDV, the German insurance association. It said better lashing and securing of containers on deck, the use of anti-roll tanks on vessels and an effective system of checking the weight and quality of containers should be used to tackle the growing problem.

"We have to put a stop to this development – cargo losses pose a threat to both the crew and the ship, they are expensive and they contribute to marine pollution," said Anja Käfer-Rohrbach, deputy CEO of the GDV. "The main problem is that the common practices for lashing and securing containers are no longer compatible with the sailing characteristics of large containerships."



Cargo fires are a growing concern, with misdeclared and dangerous goods a recurrent issue for container shipping

Role of technology

Technology is playing an increasingly important role in the sector, both in terms of claims information and mitigating risk. Miller's Jeffreys says technology has become an essential requirement in relation to marine cargo underwriting, by ensuring stronger decision-making and a better understanding of claims.

And technology has been developed that allows both the insured and insurers to mitigate risk, she explains: "For example, there are systems in place that monitor the temperature of goods throughout the supply chain. Therefore, if a loss was to occur, it becomes easier to discover at which stage of the supply chain the loss originated and determine the cause."

She adds: "Having access to this useful data is invaluable as it allows insurers to make more informed underwriting decisions, and also allows insureds to ensure they have the appropriate protections in place throughout the supply chain to protect their goods. Overall, this drives a culture of risk awareness and good practice."

State of the global insurance market for multinationals

The hard market has been making it tough for companies for a couple of years. But now there appears to be a moderation of increases, although it varies by class and geography. For multinationals, this means a complex situation across the global insurance programme, but in general such programmes remain popular, while at the same time there is some leveraging of local market conditions. *Tony Dowding* reports

Numerous surveys and indexes from brokers and carriers are suggesting a mixed picture for the current state of the global insurance market for multinationals. The hard market is undoubtedly still here but most lines are moderating to some extent, with some outliers such as cyber and nat cat-exposed property.

Marsh's first-quarter 2022 *Global Insurance Market Index* shows that global commercial insurance prices rose 11% year over year, marking the fifth consecutive reduction in rate increase since global pricing increases peaked at 22% in the fourth quarter of 2020. But it was, however, the 18th consecutive quarter that composite prices rose.

In general, rates continue to exceed loss-cost trends for virtually all major lines of business, according to Erik Miller, director, AM Best. "A notable exception here is US workers compensation, with prices definitely moderating due to competitive markets and a continuation of lower loss-cost trends. For some classes of business, rates remain particularly strong, most notably in cyber, the US commercial and personal auto segments, and also property markets, where loss costs have been elevated. But overall, it is fair to say that the hard market remains broadly intact, though moderating."

Different lines, different challenges

It clearly depends on regions and line of coverage but one thing that is clear is that cyber remains a challenging market, regardless of country or client, according to David Rahr, global leader, Marsh Multinational. Cyber insurance pricing continues to show significant rate increases — 110% on average year over year in the US and 102% in the UK for the quarter. Rahr says this

Cyber remains a challenging market, regardless of country or client

is leading to changes in retention levels, limits placed and programme design.

He notes that property underwriters have raised concerns about food production, warehousing and paper/pulp risks in the UK, driven by significant industry-wide loss experience and reduced global capacity. And European markets have expressed concern for the pricing and limits placed under US liability programmes, leading clients to explore higher retentions, captive participation and limit structure as a way to optimise their programmes, says Rahr, adding that catastrophe prone property risk remains challenging in every market, regardless of occupancy.

Reto Collenberg, head international programmes APAC & EMEA, Swiss Re Corporate Solutions, says the current market situation is complex and there's not one single state of the market. He says that clearly there are different pressures in different lines of businesses, but generally, the high global economic inflation is driving up the costs of insurance claims significantly.

From a casualty perspective, he sees two main factors shaping the market. The first is exposure to the US, the most challenging environment. "Multinationals with heavy exposure to the US are experiencing significant corrections, particularly non-US-headquartered clients (perhaps because of long-term agreements), which have not yet had the level of rating correction seen by many US-headquartered businesses. The litigation environment in the US is not showing any signs of slowing down, with some extraordinarily high settlements," he says.

The second factor is large accounts, because the bigger placements, regardless of country, usually have major exposure to the US and other higher-risk legal environments with increased injury and damage awards. "The challenges for brokers remain, with many carriers reducing the limit and looking to secure more rate, given the volatility and perceived underpricing of these deals," he says.

He adds: "The biggest accounts are still getting rate increases, albeit smaller single digits, so we are seeing a slowdown. We expect this, however, to be challenged by underwriters because of economic inflation."

Distressed lines

Ian Long, head of international programmes proposition at Swiss Re Corporate Solutions, notes that on the casualty side, the main distressed classes are higher-risk segments such as automobiles and automobile suppliers, pharmaceutical, and chemical/agrochemical with latent exposure, while energy remains a challenge exacerbated by ESG dynamics.

"The biggest accounts are still getting rate increases, albeit smaller single digits, so we are seeing a slowdown. We expect this, however, to be challenged by underwriters because of economic inflation"

Reto Collenberg, Swiss Re Corporate Solutions

On the property side, he says high hazard occupancies are experiencing significant double-digit rate increases, while customers with considerable exposures to natural catastrophes are seeing higher premiums with a heavy emphasis also on secondary nat cat perils, such as flood, hail and wildfire.

Brian Grabek, EVP, multinational leader, Sompo International, notes that multinational insurance business "is typically more complex to service and implement, and therefore is, to some extent, somewhat incubated from volatility in the wider marketplace", adding: "But these risks are not immune to the pricing changes we are seeing across the industry. While there's been some moderation in rate increases for less catastrophe-prone property business with a clean loss history, property catastrophe and cyber are two lines where – globally – rates are not moderating."

He continues: "Property catastrophe and cyber risks are still hardening, with more moderate hardening pretty much across the board. Noteworthy industries here include automotive manufacturing, commercial aviation, and food and beverage. Global supply chains for certain sectors are under duress and that results in material issues for some risks. The real estate sector is also seeing

Many foreign underwriters have concern about automobile liability risk in the US and the impact of 'social inflation' on claim judgments

hardening of rates, largely due to the Covid-19 pandemic and its after-effects."

Hardening market conditions are expected for financial lines, catastrophe-exposed commercial property and cyber, according to Best. "The strongest pricing increases have occurred in cyber, US commercial auto, and certain excess and surplus property and financial lines due to incurred losses," says AM Best's Miller. "The general casualty business also appears to have more pronounced rate level increases, at least partly reflecting social inflation in the form of rising jury awards, third-party litigation financing, and legislative actions, especially in the US."

Miller notes that while inflation is very high globally, a large part of that is being driven by fuel, shipping/trucking and storage costs. "This means it is hitting countries very differently depending on what they happen to import versus what they export. This can affect claims costs and make markets more distinct than usual. Based on feedback we've received, insurance markets remain a bit tighter throughout Europe, Latin America and most of Asia, where rate over loss cost trends lag behind the US," he says.

Terms and conditions

The hard market has not just been about pricing. Just as difficult for companies has been the tightening of terms and conditions, and in particular, exclusions. So has there been any sign of an easing of terms and conditions as prices moderate?

"Terms and conditions tend to erode most significantly only after pricing erosion has run its course, the latter of which has not generally occurred," explains Miller. "Some of these may be easing a bit due to some more competition and tightening of coverages but rates need to keep up with loss costs, which are showing no signs of abating due to inflation, supply chain, climate risk and social issues."

Sompo International's Grabek says that in the property space, "we are seeing a big shift to company forms, away from manuscript forms", adding: "Companies are starting to focus more on margin clauses and occurrence limits of liability endorsements, for example, especially where valuation is an issue. That is a key concern right now, given the supply chain difficulties that some companies are experiencing and the increased costs of rebuilds and so on. In addition, of course, there is a lot of exclusionary language for countries like Russia, Belarus and Ukraine, currently."

Capacity challenges

Capacity remains a challenge as insurers' appetite for certain lines wanes as losses increase, notably for cyber and ransomware. Swiss Re Corporate Solutions' Collenberg says capacity remains an issue, and in particular, industries with a greater dependence on supply chains could face capacity challenges.

"But the market isn't sitting still, and brokers are working hard to provide customers with the capacity needed and exploring different options, and in general we see the major carriers still bringing down exposure by reducing line size," he says. "We are not seeing new carriers aggressively

entering the market, or pure opportunistic capacity at this stage. The market is looking for stability, so the customers have expectations of the nature and quality of capacity in hard market conditions."

Best's Miller says that in the global reinsurance market, Best has definitely noticed primary writers holding onto more risk than usual during the January 2022 renewal cycle. He says this was not only due to pricing, but reduced capacity levels with those who deploy capital into the market being more selective and discerning in terms of volume and business lines.

Sompo International's Grabek says there is still a great deal of capacity available, with new entrants looking to write this business. He says there are pockets where capacity is more scarce, highlighting property catastrophe, cyber and global auto manufacturing. He also notes that the ability to obtain contingent business interruption coverage has also been affected by current events and limits have significantly dried up.

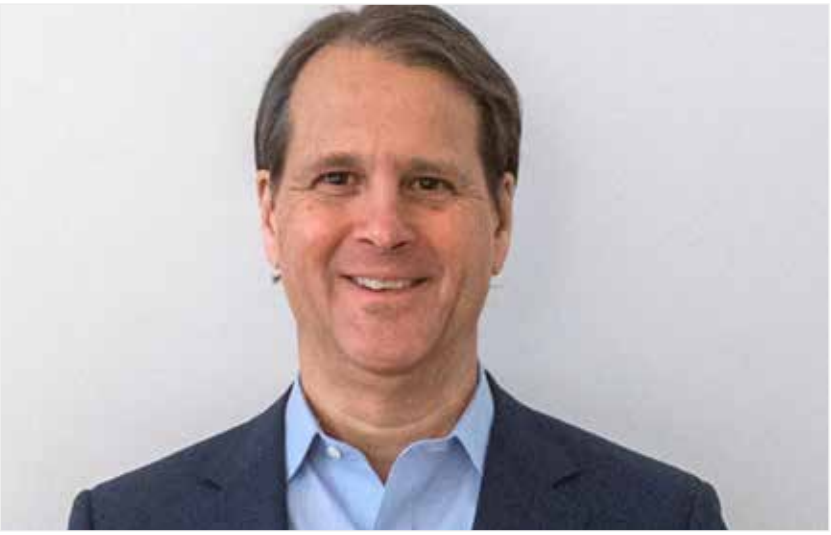
Impact on global programmes

So what impact is all this having on global insurance programmes? Are there signs of programmes being broken up into regions? The answer seems to be that global programmes continue to be popular, even moving into the mid-market sector. But at the same time, there is an element of picking the best coverage available, or taking advantage of local markets in specific areas.

Insurers point to growing interest in companies looking to have controlled master programmes for their exposures overseas, including mid-sized firms looking for programmes that are multi-Latina, pan-European, or pan-Asian. This growing interest is driven by compliance requirements, complex supply chains and a desire for consistency of cover.

Marsh's Rahr says global programmes remain a key strategy for multinational companies to manage risk consistently, control cost and drive efficiency. "Given the challenges faced by every global company over the last few years, each client is looking for an advantage to improve their cost of risk. We are seeing some clients leverage local market conditions to secure broader coverage and purchase additional limits," he says.

Examples of this are the local placement of Japanese earthquake coverage, and for some companies doing business in the US, to have a separate liability tower, he explains. "Many foreign underwriters have concern about automobile liability risk in the US and the impact of 'social inflation' on claim judgments. In each example, the clients would be pursuing more competitive local solutions, or securing coverage unavailable through the global programme," says Rahr.



"Given the challenges faced by every global company over the last few years, each client is looking for an advantage to improve their cost of risk"

David Rahr, Marsh Multinational

Greater complexity

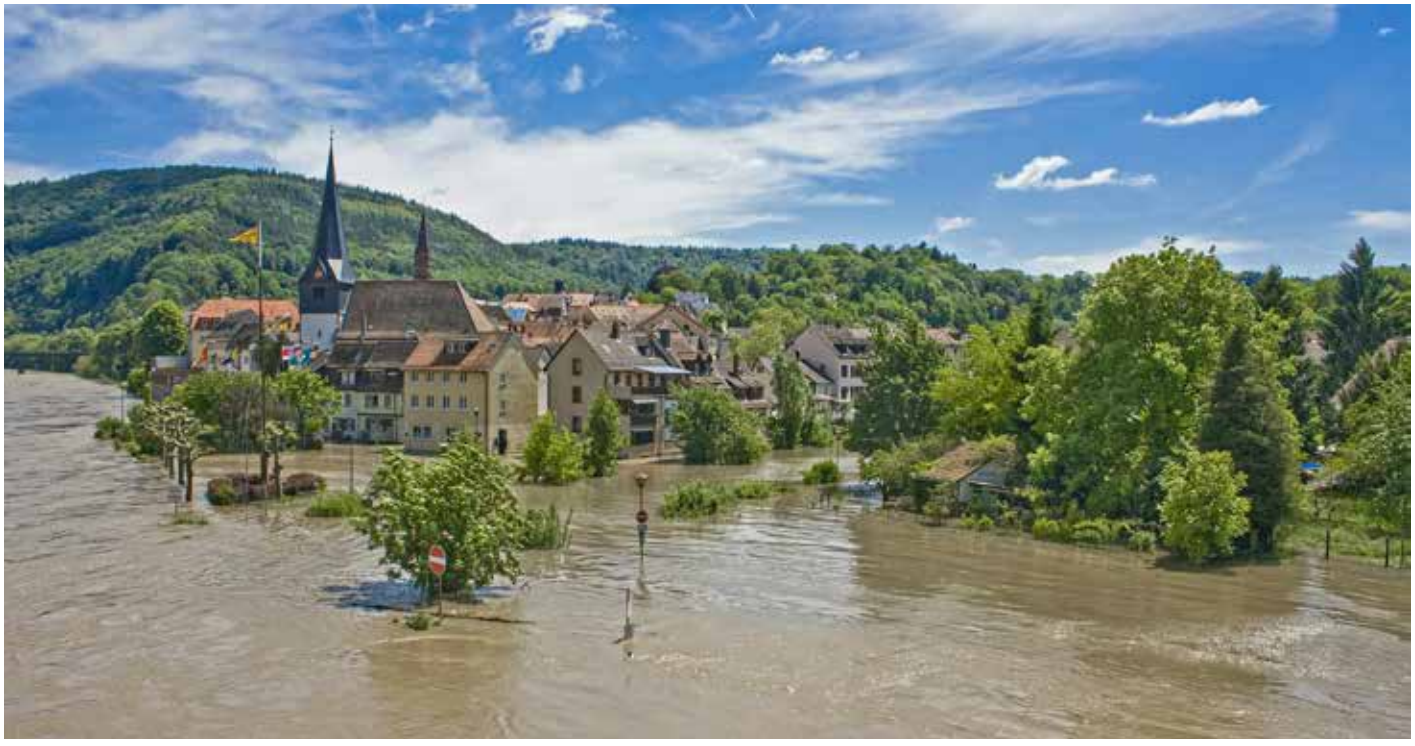
What is clear is that global insurance programmes are becoming more complex as a result of nationalism, war, sanctions and greater compliance requirements. While global programmes remain a leading strategy for multinational corporations, Rahr says: "The Ukraine conflict has taught us, however, that underwriters are prepared to exclude additional countries and add coverage limitations should new conflicts develop in other parts of the world."

He adds: "We have also seen an increased focus on insurance tax and regulations, with many tax authorities focusing their efforts on auditing global insurance programme structures and reviewing premium allocation methodology. We've seen this in a number of countries, including Australia, Belgium, Canada and Germany."

Sanctions too are making things more complex. Swiss Re Corporate Solutions' Long says: "Cross-border premium payments in and out of sanctioned countries are not possible, which will impact payments back to a co-/reinsurance panel, unless received prior to imposed controls. Local claim registration and documentation generally is possible for pre-existing policies, with limitation and loss assessment field activity heavily dependent on the availability loss adjusters."

Flood risks grow in Europe

The frequency and intensity of flood events is on the rise and, if insurers and policyholders do not work to mitigate their effects, the ability of the market to provide coverage against this peril could be compromised. *Rodrigo Amaral* reports



Flooded Neckar river in southern Germany: Europe was hit by summer floods last year that cost the lives of about 200 people in Germany alone

The intensification of flood risks was put under the spotlight last year when Europe was hit by summer floods that cost the lives of about 200 people in Germany alone, in a disaster that has been qualified as the costliest nat cat event ever reported in the region.

Economic losses reached €46bn, of which €11bn were covered by insurance, according to Munich Re. Of that total, €33bn were registered in Germany, where the level of insurance cover amounted to 25%. The numbers show not only the violence of the floods, but also the low penetration of flood insurance even in a wealthy market like Germany.

"There is still a huge protection gap when it comes to flood risk," says Bernard Reinhardt, a director at Verisk Extreme Event Solutions in Munich. "This is true across the world, but also in developed countries in Europe."

The protection gap should worry authorities and businesses alike. Even before last year's disaster, MarshMcLennan reported that the number of flood events reported every year increased by 181% in the two decades after 1980. They caused damage worth more than $1trn, or 40% of all that was attributed to nat cat losses in the period. Moreover, this accelerating trend gives no signs of losing steam. In fact, scientists have warned that climate change is making the problem worse.

Climate change

The European Insurance and Occupational Pensions Authority (Eiopa) published in May a whitepaper that claims both river and coastal floods will have a stronger impact in Europe's insurance market in the short term because of climate change. "Global warming, and the

consequent increase in the water evaporation and water-holding capacity of the atmosphere, is increasing the likelihood of heavy precipitation and consequently exacerbating flood risk especially in highly urbanised or flood-exposed and low elevation areas," the authors warn. If other factors such as snowmelt and the level of urbanisation and land use are added to the equation, there are plenty of signs that the severity of floods could increase in the future.

"Not long ago, we would have very cold weather in the winter and many busted-pipes claims. That stopped about ten years ago," says Mike Hurry, technical manager of private clients and estates at McLarens. "In the past five years, we have seen the kind of monsoon rainfalls that are more characteristic to the Far East, and their intensity has increased."

In 2021, the German and wider European floods took many observers by surprise. Exceptionally high volumes of rainfall were concentrated in a very short period of time, causing overflows beyond the major rivers, such as the Rhine and the Elbe, that floods usually originate from. The speed with which rivers went up reduced the efficiency of early warning systems, and even houseowners and companies that had plans to mitigate the impact of floods struggled to act in a timely manner. A high volume of debris carried by the flows caused extra damage to properties and the clogging of bridges, some of which were partially destroyed.

"Looking at the flow of the rivers, from tier two or tier three tributaries to the largest river systems, the flow rates for the most affected were quite exceptional, exceeding an estimated return period of several hundred years. For individual affected locations, it was quite an extreme event," Reinhardt says.

But he adds that its exceptional character does not imply that the event was unique, or that its impact could not have been mitigated. Michael Szönyi, flood resilience programme lead at Zurich, agrees, adding that the floods were surely not unprecedented, as there are reports of other similar events in Germany early in the 20th century. He is also not too happy with the classification of the event as purely a natural disaster.

"It seems to suggest that we cannot do much about it, but there is so much we can do. The technologies are well established," he says.

Loss prevention

The authorities can help by implementing better-thought-out building regulations, so that housing units and industrial premises are not built in areas exposed to floods, or are mandated to equip themselves with technologies that can reduce their impact. Most of the properties at risk, however, were built some time ago, and it is up to their owners to take the adequate measures to face the next disaster.

"We must make sure that no human life is lost, which is really important, and then keep the financial losses down. There is much more that we can do in terms of prevention"
Michael Szönyi, Zurich

Insurers have drawn handbooks of measures for businesses that include an extensive list of preparatory actions. They include the identification of nearby rivers, streams or lakes, the protection of below-ground-level premises and moving the most valuable equipment and machinery from lower to upper floors in order to reduce the risk that they will be affected. Roofs and drainage systems must be inspected frequently, the company must be in touch with the authorities that monitor rain intensity or water levels, and a team of contractors must be ready to effectuate repair works right after a flood event takes place.

"We must make sure that no human life is lost, which is really important, and then keep the financial losses down. There is much more that we can do in terms of prevention," Szönyi says. "If we keep building hospitals with machinery that is worth €1m in the basement in flood zones, it is not a surprise when we see multiple €1m losses in individual properties."

The effort can be very much worth it. Szönyi tells the tale of a Zurich client in Germany that suffered losses of more than €100m during a flood event back in 2010, but later worked on a range of mitigation actions to be ready for the next time a disaster hit its facilities. Which happened to take place last summer, when the same client suffered no significant losses despite the violence of the floods.

Natural hazard insurance density

There seems to be much work to do in this area, however, as experts noticed that a significant number of high-value insurance claims were filed after the 2021 floods, indicating that many businesses were ill prepared for the event. But another useful development would be to increase the coverage of insurance in Europe.

As of today, it is estimated that natural hazard insurance density in Germany, including flood insurance, stands at about 50% and has not budged for years. In other countries, such as the Czech Republic, Hungary, Poland and Slovakia, flood insurance penetration has been on the rise, but remains low, Eiopa points out in its report.

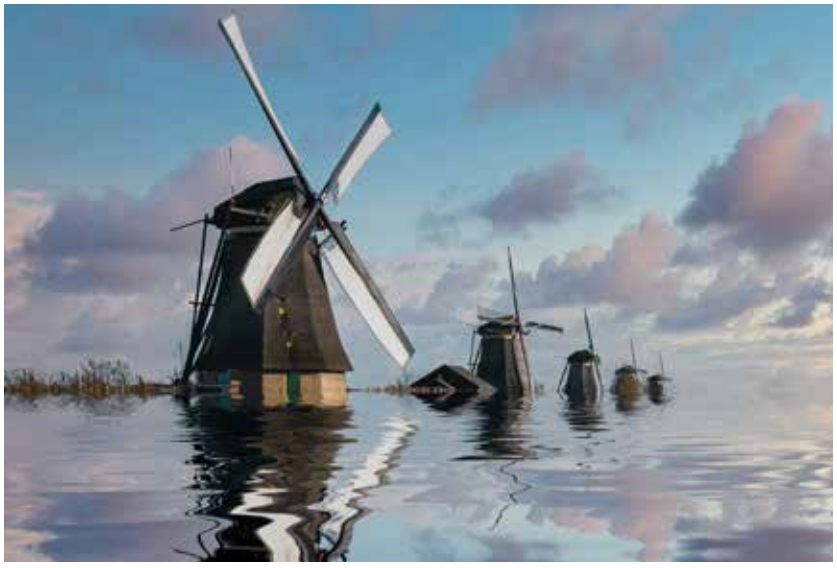
"A lot of education about flood insurance still needs to be done," Reinhardt says. "If we look at economic losses, flood has always been a major peril in central Europe. But the takeup of insurance is very low compared to that for wind. That is possibly why it has been not at the forefront of people's minds in the insurance industry."

Some countries like Spain, France, Belgium and Romania have managed to spread flood insurance penetration by adding mandatory natural catastrophes fees to property insurance policies. The UK dealt with a lack of capacity by creating Flood Re, a public-private partnership, while several other markets have implemented or are discussing the creation of voluntary or semi-voluntary flood insurance schemes. In Germany, discussion was triggered after last year's floods about the creation of an opt-out system where flood covers would be made mandatory to property policies, but buyers would have the right to refuse the cover if they wanted to.

Coverage restrictions

But the demand side may not be the only cause of concern in the future. With losses piling up, insurers may become wary of providing cover in the most-affected parts of Europe.

"We have seen more restricted covers, especially for flood risks in Europe in local policies. And we have seen some flood exclusions too," says Victoria Jewell, head of real estate at McLarens.



Eiopa says flood risks are already usually excluded from policies in the Netherlands

Eiopa says flood risks are already usually excluded from policies in the Netherlands, where only some carriers will take river flood risks, while covers against events originated by major dyke failures are harder to find. Companies across the European Economic Area (EEA) surveyed by the regulatory body said they expect an increase in frequency of floods in most European regions, and higher claims payments as a result. Their ability to raise rates accordingly may determine whether flood risk capacity will be available or not for property owners.

According to Eiopa, premiums have already risen due to higher flood risks in Italy, Ireland, Germany, Greece and Cyprus, while underwriting processes have been updated in Belgium, the Czech Republic and Ireland. Reinsurance agreement adjustments are under discussion in Belgium, the Czech Republic, Germany, France, Ireland, Luxembourg and Iceland, while Italian insurers are studying how to incentivise mitigation policies and impose higher deductibles or policy restrictions.

"Insurance companies may decide to raise their risk-based premiums, to counterbalance the increase in flood risk caused by climate change," Eiopa warns in its whitepaper. The entity estimates that flood risks exposures amount to €11.6trn in the EEA, with France and Germany leading the field, followed at some distance by Poland and the UK.

There are not clear signs that the market will turn its back on flood risks in Europe in the short term, but the worst-case scenario is not hard to imagine. One just has to look at the US state of Florida, where even state-owned insurance schemes have been reluctant to offer capacity to property owners.

Captive movement gains momentum

Self-financing risk makes more sense than ever at a time of increased volatility and uncertainty across the corporate P&C landscape says Vincent Barrett, MD of captive and insurance management at Aon. *Garry Booth* reports

Anecdotally, there's been an uptick in captive use, with parents increasing their captives' retentions or limits on existing cover, while captives are also said to be expanding into new lines of business. Is that your experience?

Yes, we are seeing captive owners becoming increasingly prepared to retain larger portions of their traditional property and casualty risks. We are also seeing clients grapple with emerging risks and considering the captive as a platform from which to build a risk financing strategy.

The results of Aon's 2021 Captive Benchmarking Survey revealed a 73% increase in premium retentions since 2018, with significant increases in the utilisation of captives for what can be considered the more traditional risk types (including a steep 361% increase in property damage/business interruption).

Globally, we have seen a pronounced increase in captive programmes supporting more flexible employee benefits (EB) schemes, going above and beyond the coverage limitations in the market. Market capacity and pricing are driving this change, which is in addition to companies with active diversity and inclusion programmes looking for wider coverage than is available as standard in the commercial market. We expect to continue to see greater use of captives in this area to provide more uniformity of EB cover across multinational organisations.

There has been a pronounced increase in captive programmes supporting more flexible employee benefits schemes

What about new uses?

Alongside more traditional risks such as property damage/business interruption and general liability, numerous organisations are innovating and using their captives to support their risk management strategy for several hard-to-place

or emerging risks, like cyber and environmental. Increased interest in captive utilisation for ESG is observable as companies become more familiar with their trading impact on the environment and their ability to reduce this impact.

In addition to sharp increases in environmental liability (up 400% since 2018), the associated ESG risks have led to conversations around 'green captives' and the potential for captives to play a part in the financing of transition and litigation risks, and to invest assets into ESG funds to align the captive strategy with that of the parent company.

These trends are representative of the new forms of volatility that organisations are facing and, consequently, the ways in which captive utilisation is evolving. Cyber is another line that has hardened significantly. Our data shows that during the last five years, cyber has seen a 650% increase in captive premium. This is also a trend that we expect to continue throughout 2022 as the cyber insurance market continues to be turbulent.

"We are also seeing clients grapple with emerging risks and considering the captive as a platform from which to build a risk financing strategy"

Vincent Barrett, Aon

How is the risk landscape changing? What are the forces at work?

The risk environment within which multinational organisations operate is undergoing an unprecedented rate of change, which will have direct implications on how their captives operate.

The continued digitalisation of the global economy and the reliance on technology as a business enabler, the global pandemic and its numerous effects on how companies operate and trade, the battle for talent, the volatile geopolitical landscape in addition to climate change and the recognition of the importance of ESG in how businesses operate, have all created significant volatility challenges for organisations.

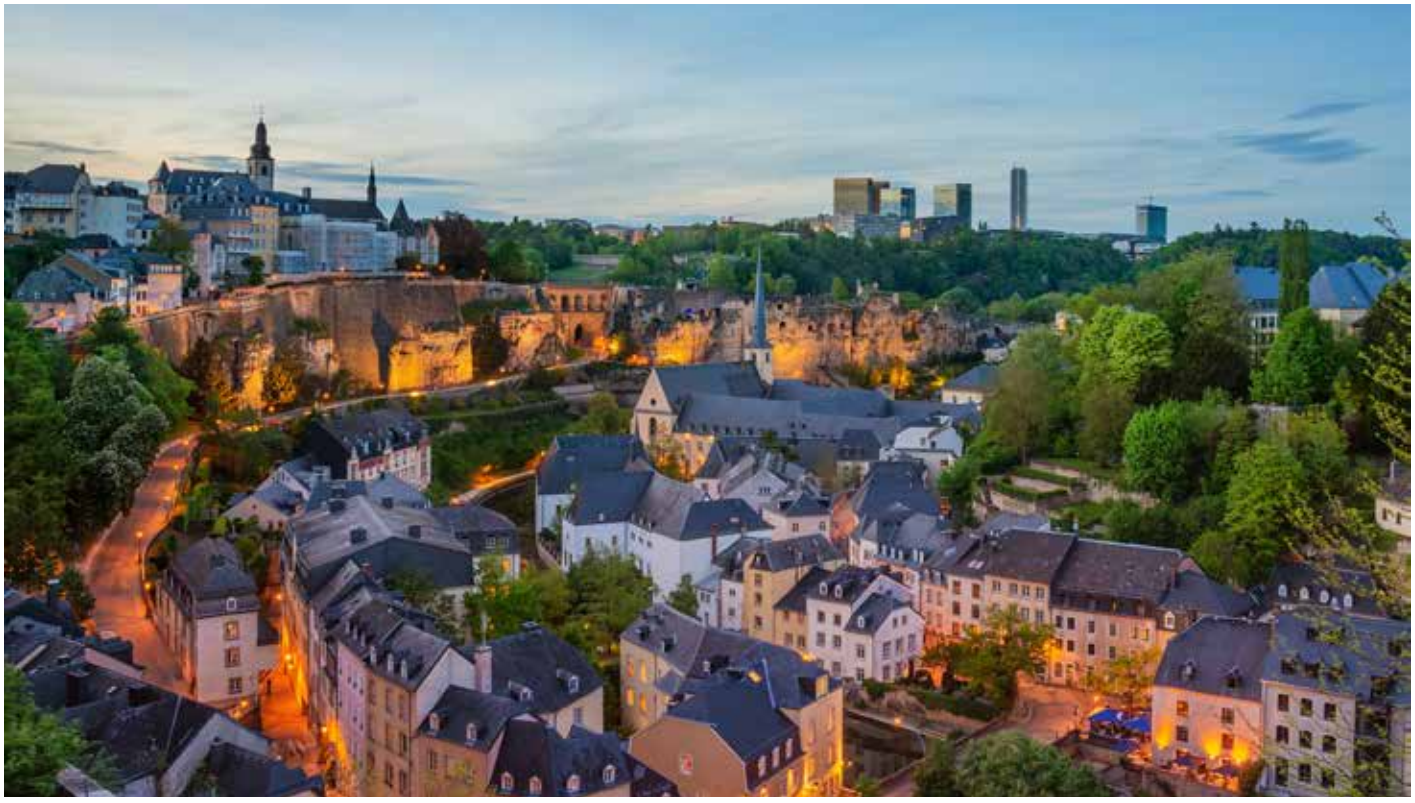
Understanding how each of these factors shapes the risk registers of organisations and how a captive can help manage these new forms of volatility is an area in which Aon is actively supporting clients. The captive has a prominent part to play across these new risk types, whether it is through using the captive to achieve better risk finance outcomes on intangibles such as cyber and IP, by using the captive as a way to gain an advantage in the battle for talent through enhanced EB programmes, or by managing and improving ESG-related risks through our proprietary 'Green Captive' framework.

The interconnectivity of these risks is interesting to observe and understand, noting for example that an organisation's position on ESG will impact its IP portfolio as it develops more sustainable products, which in turn impacts its ability to attract and retain socially and environmentally conscious employees. These factors ultimately determine the ability of the organisation to operate successfully. Being able to develop a captive strategy that holistically supports a portfolio is becoming increasingly necessary.

What kind of challenges does expanding captive usage pose, for example around data availability and underwriting talent? Are there ESG factors to consider?

There will always be a need for innovation to manage the challenges associated with risk. This gives rise to other challenges around traditional versus alternative approaches to how things are done. In the context of insurance, these risks, by definition being new or emerging, have a paucity of data points and do not lend themselves to stochastic modelling.

We therefore need to create underwriting methodologies based more on scenarios and alternative quantification methods than we tend to see on lines of business such as PDBI. We also need to 'socialise' the new captive strategies to all stakeholders, including regulators, which is



Luxembourg continues to show growth as a captive domicile

an important part of the process. We see this as an inevitable and necessary evolution of captive usage as they adapt to the new reality of the risk universe of 2022 and beyond.

In addition to greater use of existing captives, is there any evidence of new captives being formed, or more companies exploring the captive route for the first time?

We have seen a significant increase in the level of enquiry across all geographies and industry segments, during the last 18-24 months in particular. The number of captive feasibility studies we have performed during this period has increased, and the number of licensed captives under Aon management increased from 928 to 1,001 in 2020-2021.

The level of enquiries so far in 2022 suggests that growth will continue during the next 24 months. These numbers do not include individual cells, and the growth of Aon's PCC facility White Rock continues to demonstrate exceptional growth, both as a stepping stone to a captive strategy and as a mechanism to access capital in an efficient manner.

> "The number of captive feasibility studies we have performed in the last 18-24 months has increased"
>
> *Vincent Barrett, Aon*

In a European context, what are the captive domiciles of choice today? Are 'onshore' captives likely to gain traction?

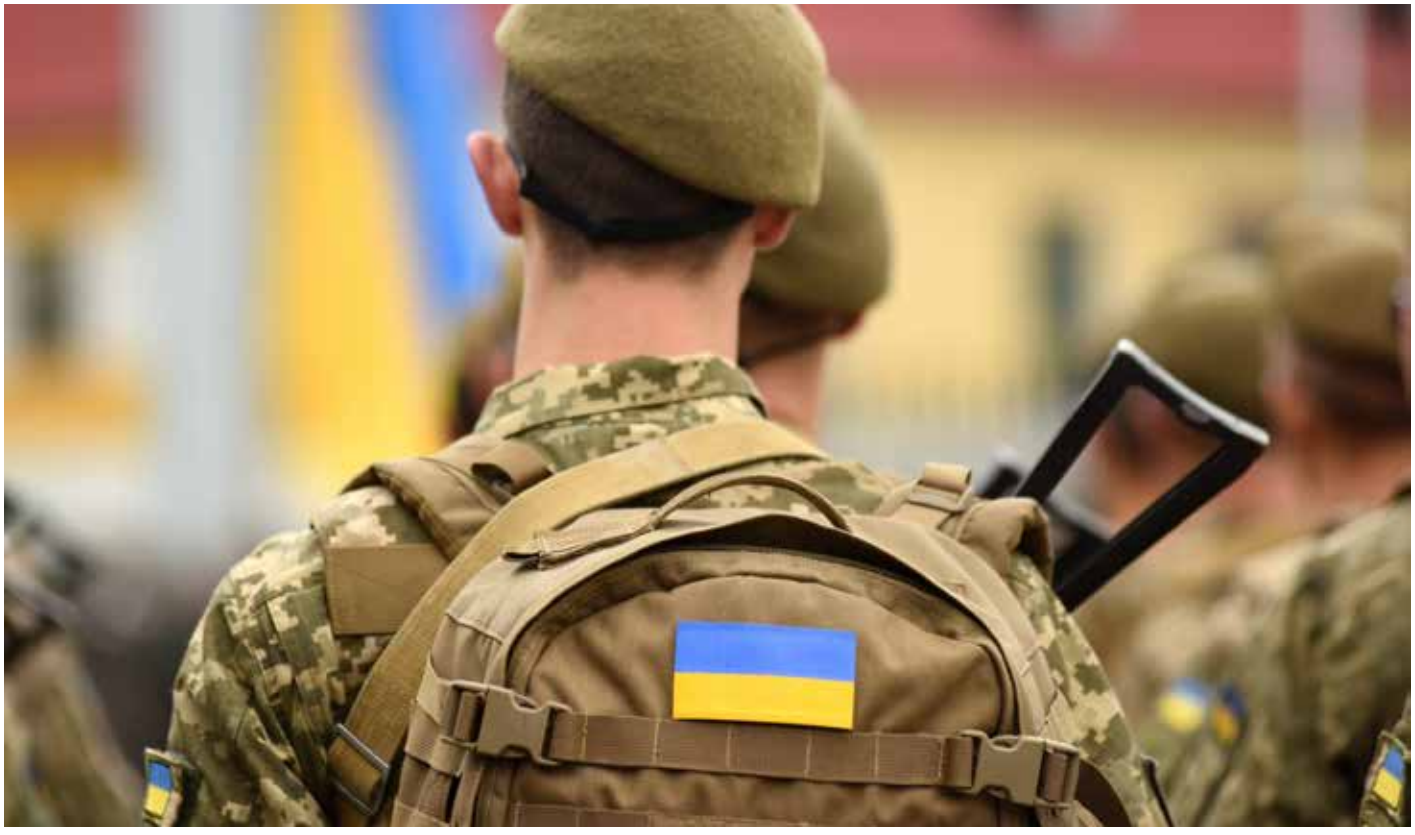
The European domicile landscape is quite varied, with an abundance of healthy competition. The most suitable domicile is a multidimensional consideration dependant on numerous, sometimes quite nuanced factors.

Matching the correct domicile to the client's needs is an important aspect of the feasibility study, to which Aon pays particular attention. In this context, we have seen growth across regions – enquiries and establishment activity are evident across all of our European and Middle East domiciles.

The definition of 'onshore domicile' is debatable but the largest domiciles by number, being Guernsey and Luxembourg, continue to show growth – suggesting that the traditional captive domicile continues to be the preferred choice for most organisations. That underlines the fact that a well-developed captive infrastructure and a domicile that can address the nuanced needs of a successful captive strategy remain of paramount importance.

Captive sector flourishing as market challenges remain

The abrupt hardening of the market in 2020 and the continuing, albeit moderating, increases in most lines have seen the captive boom of the last couple of years continue into 2022. And the expectation is that captive usage will continue to flourish, writes *Tony Dowding*



The conflict in Ukraine is one of several issues adding complexity and uncertainty to the landscape

It is no surprise that a hard market has seen an increase in captive formations. Lorraine Stack, managing director, Marsh Captive Solutions, International, says the historic growth seen since 2020 is definitely continuing in 2022, noting that Marsh formed more than 200 new captives globally in the last two years and the formation activity is not slowing down.

But what is more surprising, she says, is that historically, in challenging market cycles new formation activity tended to happen in a handful of domiciles, "but this is the first time we have seen formations in every domicile, even in some of our more mature locations".

The hard market may be moderating but Stack says many buyers are approaching their fourth renewal with the bar set considerably higher, at a time when expenses are coming under increasing pressure. And she points to coverage restrictions being introduced by insurers in some areas such as cyber.

And with issues such as the conflict in Ukraine, rising inflation, natural catastrophes and weather related events adding complexity and uncertainty to the landscape, she sees more and more companies looking for alternative risk financing mechanisms to lessen their reliance on the commercial insurance market.

She also explains that Marsh has seen a shift in the landscape during the last two years, as enquiries are coming from companies of all sizes and not just those with large premium spend that would have been more traditional players in the captive space.

"Over 70% of our new formations globally in 2021 were captives writing less than $5m in premium. This signals a trend of increased sophistication around the approach to risk financing among smaller companies, along with an increased awareness and understanding of the captive concept... The level of new enquiries coming to our consulting teams around the world is still high, indicating that formation activity will continue even as pricing moderates," she says.

It is not just captive formations but greater utilisation of existing captives being seen in the market. As Derek Bridgeman, managing director within the SRS European Management Group, explains: "Those with existing captives are keen to understand how the captive structure could be used to further support the group's overall insurance placement, while those without captives wish to evaluate and understand the potential financial and strategic benefits which could be derived from a captive vehicle."

Marine Charbonnier, global programmes and captives regional director, Europe, AXA XL, says the insurer has seen an increase in cessions to captives these last few years. "Clients are exploring new ways to transfer and manage their evolving and emerging risks using their captives, and we anticipate the growth the captive market is experiencing will continue in the second half of 2022 and through 2023," she says.

The truth is, through 2020/2021, brokers and risk managers often faced a situation whereby there was no economically acceptable market solution available, says Bridgeman, adding that the speed of the market change and the scale of the hardening caught many risk managers short with no alternative options.

"The captive, therefore, provided an alternative that enabled the group to mitigate the effects of the hard market. In many cases, the captive was used to manage the volatility effect on premiums and deductible levels. The response of captives to the significant challenges encountered through the hard market has resulted in validation and internal buy-in as to the value a captive can provide," he says.

According to Bridgeman, a captive represents a longer-term risk financing strategy and one that delivers stability in costs and a buffer against market cycles. "Even as the hard market abates, rates remain high, supporting captive formation, and the desire to protect against market cycles is front of mind. It will be a while until risk managers feel confident in the ability of the insurance market alone to provide stable risk financing solutions," he says. "The expectation is that, as long as challenging terms exist within the commercial markets, corporates will continue to explore ways in which they can reduce their dependence on these markets."

"The response of captives to the significant challenges encountered through the hard market has resulted in validation and internal buy-in as to the value a captive can provide"

Derek Bridgeman, SRS European Management Group

New uses or traditional focus?

With the growth in captives and the greater use of existing captives, clearly many captives are focused on traditional property and casualty (P&C) lines where the hard market has most impact. But there are also signs of expansion of the use of captives into new areas and new risks, and greater innovation in the sector.

Francoise Carli, Zakubo Consulting, notes that the hardening market "has been a fantastic booster for growth and innovation in captives", adding: "Most large corporate see their insurance prices increase drastically, independently of their risk profile or claims background. Therefore, increasing the share of the risk taken is a natural

Captives can play a role in supporting the risk analysis and the mitigation processes with regard to ESG ratings

process if insureds can afford it, especially if risks are properly managed."

She sees two main areas that could be more visible or attractive in the coming months. The first is cyber risk, where prices and capacities are becoming unrealistic but the risks are still there and are increasingly being scrutinised by boards and top executives. "This trend will give room to a lot of innovation for all digital solutions to be covered, including perhaps their impact on business interruption," she says.

The other major change to be expected is the growing influence of the multiple indexes and rankings that all large corporates are trying to match, such as the Dow Jones Sustainability Index, or FTSE4Good Index, according to Carli.

"All these rankings contribute to a better understanding of the values of the mother company, and captives can play a role in supporting the risk analysis and the mitigation processes. This will strengthen the insurers and financial markets' trust in the company, and will push captive owners to improve their prevention schemes and to develop their risk anticipation processes. There is no doubt that this will help in creating new coverages," she says.

AXA XL's Charbonnier says the majority of captives are focusing on traditional P&C lines, but she is also seeing clients place new and emerging risks into their captives, such as environmental impairment liability, employee benefits, or for some, niche risks specific to their group's activity.

"Historically, captives have been used by clients to underwrite high-frequency, low-severity risks, but in recent months many have been using their captives to underwrite less traditional lines of coverage such as cyber. We have also seen increased interest from those more sophisticated captive clients for parametric solutions," she says.

Marsh's Stack says that given market conditions, captives are absorbing higher retentions in traditional lines such as P&C. But she says Marsh is also seeing more captives participate in less-traditional coverages such as D&O, cyber, crime, and excess liability – often where the captive will absorb higher retentions but also where the captive will cover exclusions in commercial insurance policies.

As an example, she explains that D&O was not historically a common coverage written by

> **"[Increased board scrutiny] will give room to a lot of innovation for all digital solutions to be covered, including perhaps their impact on business interruption"**
> *Francoise Carli, Zakubo Consulting*

captives. Just over 50 of the more than 1,500 captives managed by Marsh are writing the coverage, but she notes that D&O premium has increased 50% in the last year to more than $75m, showing that many captive owners are using their captives to fund increased retentions. And she points to a continuing rise in affinity business, where companies are entering the insurance business via a captive to offer competitive insurance to their customers and influence total product cost.

ESG and captives

In the last year or two, there seems to have been a lot of talk about ESG and captives, and undoubtedly there is a role to play for captives to play here. "Captives have an intrinsic role to play across all aspects of ESG, in fact the opportunities are endless for this transformative financing mechanism," says Stack.

For example, she says that within a transitioning energy context, captives can fund coverage gaps, enhancing resilience to environmental risks. And captives are also highly likely to be used to provide customised coverage for exclusions and perils that commercial insurers will struggle with, given the pressures of carbon-neutral underwriting commitments, she explains, adding that captives may also be used to provide third-party coverage for sustainable activities related to parent industries.

"From a social perspective, we expect to see an increase in employee benefit captive utilisation for companies keen to enhance D&I positive benefits across their organisation. We also expect to see captive investment strategies being used to support sustainability and socially responsible activities in line with parent ESG frameworks," says Stack.

Charbonnier says AXA XL has an increasing number of clients that have been including ESG information in their risk presentation, which she says is a welcomed trend for insurers. "When ESG is embedded in a company's operations, there seems to be a strong [positive] correlation to their loss ratio. And captives are well positioned to contribute to identifying a company's ESG challenges and helping them address these," she adds.

SRS's Bridgeman says there are a number of opportunities for captives to play a role in ESG, not just in support of environmental initiatives but across the whole ESG framework, such as enabling green industries to thrive by providing guidance on insurance structures and provision of insurance facilities to industries looking to transition to greener products, as well as the provision of innovative insurance products to address the volatility in achieving ESG goals.

He adds: "Ultimately, captives drive corporate behaviour, reducing risk through awareness and reward. Captives also facilitate the centralisation of data and governance, which allow corporates to ensure that they are engaging and supporting specific, measurable, achievable objectives for their corporate goals."

Zakubo's Carli says captives are efficient tools to understand, measure and mitigate new risks that traditional insurers do not want to bear. "Through their enterprise risk management, most large captive owners have found ways to measure the impact of certain risks, and can design products with no or little risk transfer to the market, to support some of their critical risks. This has been the case for years in environmental risks, with remediation financing for example," she says.

"This could and should be extended to all kinds of climate risks, to pandemic issues, to scarcity issues relative to water or energy. If captives cannot be involved in risk bearing at the beginning – due to the lack of existing data – they can be very active in risk monitoring and ESG strategy implementation of actions until they can cover them, and their impact on other aspects of the business. This is another positive chance for captives to contribute to their mother companies' global strategies," says Carli.

SOLVENCY II REVIEW: PROPORTIONATE TREATMENT FOR CAPTIVES?

The EU is currently carrying out a review of the Solvency II directive, and the hope of captive owners and managers is that captives will be treated more proportionately as a result.

"Initial review points have been broadly well received," says SRS's Derek Bridgeman. "However, there are many in the industry who feel that more could be done. Although there are certain captives writing risks of a commercial nature, the majority insure/reinsure the risks of the parent group and its subsidiaries. To that end, the captive industry is pushing for more proportionality from supervisory bodies around the way the captives are regulated. Particularly within the EU's solvency II regime, there are many who feel there could be more proportionality applied to capitalisation and reporting requirements."

Marsh's Lorraine Stack says she welcomes the fact that captives are on the European Insurance and Occupational Pensions Authority (Eiopa) agenda and are recognised as a specific business model deserving proportional treatment. "However, the criteria which EIOPA proposes to use to determine if a captive can apply the tools are likely to create challenges for many captives," she says. "The restrictions on intercompany loans to 20% of total assets in particular will be challenging."

She says that it is conceivable that this could lead to an erosion of the European capital base, because captive owners may withdraw capital rather than increase an existing intercompany loan, adding that once equity leaves captives it is very difficult to get it back, so this could prove a counterproductive measure.

"Captives have an intrinsic role to play across all aspects of ESG, in fact the opportunities are endless for this transformative financing mechanism"

Lorraine Stack, Marsh Captive Solutions

New European onshore domiciles on the way?

A handful of European countries are considering the implementation of a domestic captive regime. *Tony Dowding* reports

The captive sector has long been divided between onshore and offshore domiciles. In the last 20 years, the vast majority of new domiciles have been onshore in the US as states saw the success of the likes of Vermont, Hawaii and South Carolina and rushed to get a slice of the action with captive legislation, many of them very successfully such as Utah, North Carolina and Nevada.

In Europe, the situation has been slightly different. While there are many onshore domiciles, no new domiciles have appeared. There are established domiciles such as Luxembourg and Dublin, together with Sweden, Switzerland, Denmark and the Netherlands.

One of the advantages of onshore domiciles is that there are less requirements for the captive to be operated at arm's length, providing greater parental control and involvement. But the downside it that where there is no specific captive legislation and captives are simply treated as insurance companies, there can be heavy regulation and much greater capital requirements.

Which is why there have been calls from many in some European countries for changes to allow the greater use of captives locally, with specific legislation and separate treatment of captives.

Marine Charbonnier, global programmes and captives regional director, Europe, AXA XL, explains: "Historic domiciles, such as Luxembourg, Ireland and Switzerland remain popular, but we are also seeing increased interest in onshore domiciles, at this stage mostly for new captives. In some countries, clients are responding to their risk management bodies having expressed a preference for captives' governance to be more explicitly linked to the risk management of the parent company, and are thinking about domiciling their captive closer to home."

A number of countries, including the UK, France and Italy, are at various stages of exploring or implementing domestic captive regimes, according to Lorraine Stack, managing director, Marsh Captive Solutions, international. "Increased choice of jurisdictions is always a good thing and the fact that more countries recognise the value of captives is a strong indicator of the positive perception of captives across the region," she says.

Marine Charbonnier of AXA XL says they are seeing increased interest in onshore domiciles

However, she adds: "It will be interesting to see how successful these locations will be in developing a local captive industry, given the relative proximity of large captive domiciles with highly developed supporting services and players. It's unlikely we will see existing captives moving with any speed to newer locations but certainly these will be important domiciles to consider for new captive formations of domestic companies."

France

One of the first countries to look at a new domestic captive regime was France. The captive discussion was initiated last year and a final ruling was expected by the end of 2021. "Unfortunately, due to European constraints in the setup phase, it was not possible to achieve this deadline," says Francoise Carli of Zakubo Consulting.

She explains that at the beginning of 2022, France was under strong political pressure due to the presidential re-election, and she says it

was obvious to many stakeholders that the new captive scheme would not be back on the stage until the summer or autumn of 2022, when the presidential and parliamentary elections will be over.

"Should this reform be in place for year-end 2022, in the 2023 finance law, there are numerous potential new captives and redomiciled captives we can expect from very large groups and for specific high-risk industries, says Carli. "Studies are on hold but files are still open, waiting for the right signal. The process has gone too far to be cancelled now but the priorities have changed, and the economic situation may slow down the final steps."

UK

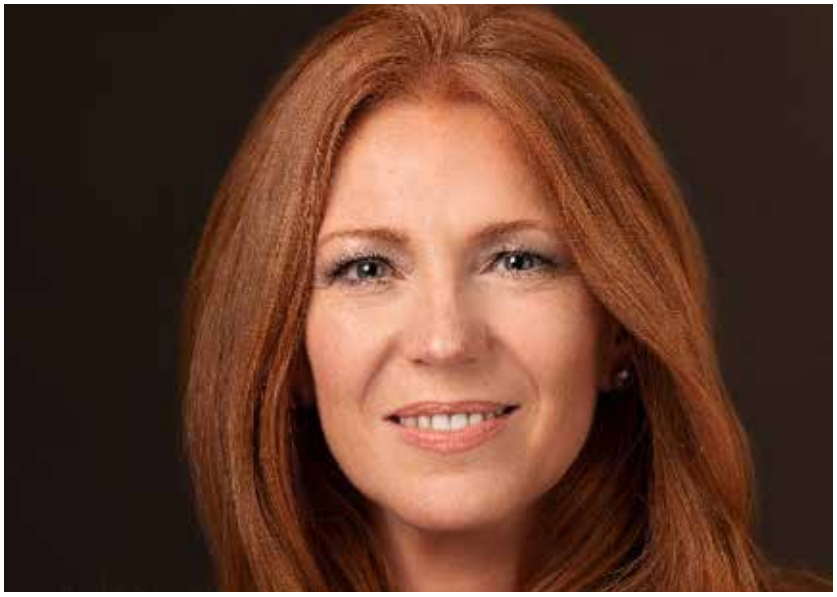
Another country looking at bringing in specific captive legislation is the UK, partly driven by perceived Brexit benefits. Caroline Wagstaff, CEO of the London Market Group, says it has started the conversation with government and the Prudential Regulation Authority (PRA), and those discussions are progressing. "There are a number of compelling reasons that the UK would be a really strong domicile proposition but we are not complacent [about the fact] that it is a challenge. The needs of captive owners in terms of regulatory understanding etc are very specific," she says.

Wagstaff explains that for a captive regime to succeed in the UK, the PRA must work with government to create a new class of insurer – captives – and develop specific guidance for captives that focuses on reduced prudential risk assessments, a swifter approval process (30-60 days from application to licensing), reduced reporting requirements, lower capital requirements and a reliance on wider group functions such as auditing, etc.

"The most successful domiciles have a dedicated captive regulatory unit and while this may not be feasible from the start, the PRA should ensure sufficient capacity is available to respond to captive enquiries and applications in an expediated process," she says.

Wagstaff says the UK government has shown itself "willing to engage on the issue, and we are working with them to understand the size of the prize".

She adds: "A committed and proportionate regulatory regime is now the biggest factor in domicile selection for captive insurers. An ambitious regulatory model for captives, combining a proportionate risk-based solvency regime with London's global reinsurance market, would make the UK a unique and attractive location for captives," she says.



"It's unlikely we will see existing captives moving with any speed to newer locations but certainly these will be important domiciles to consider"

Lorraine Stack, Marsh Captive Solutions

Wagstaff acknowledges that the captive sector is a mature market with some well-established and highly effective captive domiciles, but believes a UK captive domicile would offer an extensive financial services ecosystem, noting that it has London-based global brokers with extensive captive consulting experience, an unrivalled range of local banking and asset management options, and the world's largest and most sophisticated reinsurance market.

"We would also expect UK companies to strongly consider a UK offer, given all the advantages it would bring to their operations. It should also be considered that the UK could bring back the public sector captives that are currently in offshore locations such as Guernsey and the Isle of Man," says Wagstaff. "The scope for captives is also widening and many industries are adopting or expanding their use of captives, including healthcare, manufacturing, retail/wholesale, and communications, media, and technology."

In a separate move, Lloyd's has resurrected its captive plans from some years ago, although as Marsh's Stack points out: "The Lloyd's initiative is likely to be suitable for a limited number of large multinationals with global fronting requirements whose premium spend is in the tens of millions. This profile represents an important but relatively small number of captives in existence today."

MGAs: A growing role in multinational insurance

Managing general agents have become firmly established in the insurance market, especially in Europe, providing specialty, non-standard coverage. *Tony Dowding* talks to *Mike Keating*, CEO of the Managing General Agents' Association

How important a role in large corporate/ multinational insurance do MGAs, MGUs, coverholders etc play?

Mike Keating (MK): MGAs are playing an increasingly important role within large corporate and multinational insurance programmes, in particular through enabling brokers and risk managers to place cover for specialist, complex or unusual risks. And that is because MGAs provide the specialist underwriting expertise, knowledge and products that are outside of the normal conventional offerings of the insurance market. MGAs are unlikely to provide a whole multinational programme but will help make up the complex non-standard and niche covers within one.

Has this role grown in recent years? What has driven this?

MK: The role of MGAs in large corporate and multinational lines has grown exponentially in recent times. This growth is being driven by a mixture of factors, including a contraction in risk appetite from the conventional insurance market, with capacity being channelled instead towards specialist underwriters within the MGA sector. Another major factor in the attraction of the MGA market has been the improvement in understanding and knowledge by risk managers, financial directors and their brokers of their operations' own risks and the need for those to be covered and mitigated.

In what areas do MGAs provide solutions for large corporates/multinationals?

MK: The range of non-standard solutions available to large corporates and multinationals is constantly growing and includes cover for risks outside of run-of-the-mill, traditional insurance cover. These covers range from the likes of cyber through to specialist financial lines and difficult, unusual or challenging manufacturing processes.

How do the large global insurers work with these companies? What advantages do they have for insurers?

Mike Keating says MGAs are unlikely to provide a whole multinational programme but will help make up the complex non-standard and niche covers within one

MK: Global insurers are increasingly investing in the delegated authority market and deploying capital to those MGAs that are able to demonstrate clear underwriting expertise in particular market segments or product lines, excellent risk selection and forensic pricing, underpinned by quality data and management information. The model enables global insurers to play, and operate, in areas of the insurance and risk market they would not be able to without investing heavily in their own infrastructure – from underwriting expertise, through to systems and resources. A good MGA that really knows its market can provide a great return for a carrier's capital and help it fill gaps in the cover it can provide to the market.

Are MGAs and insurtechs the future for innovation?

MK: Innovation sits at the heart of the MGA model and is part of its DNA, something that holds true for both established players and new startups. And that is because MGAs are not hindered by legacy systems or slow corporate structures, and are nimble and flexible by nature. A good MGA will be continually looking to the future, working closely with the market and brokers to identify and deliver new solutions for clients. And while some MGAs may be insurtechs themselves, a lot of MGAs also work closely with other non-MGA insurtechs, such as for third-party data and other services.

Digital solutions are evolving to manage complex global programmes

The commercial insurance market is playing catchup in the shift to digitalisation and there are calls for greater collaboration among insurers, their customers, brokers and other stakeholders to develop solutions that will make the service delivery to customers more efficient

There is room to improve digital relationships among the stakeholders in global programmes

"We really do live in an unconnected reality if we're honest with ourselves," said Jonathan Newbery, head of digital experience – Zurich Commercial Insurance. A lot of people are handling data and performing repetitive manual tasks that create "huge inefficiencies" and reconciliations, taking enormous amounts of time and costing a lot of money, he said.

Newbery was speaking at the Global Programmes Conference 2022 held by *Commercial Risk* in London. He was joined by Tom Richardson, group insurance director at Associated British Foods.

Some progress, but more opportunity

A lack of digital solutions makes administering global programmes – already a complicated and complex business – even harder and more inefficient, according to Newbery.

Zurich has addressed the issue with real-time data-sharing through application programming interface (API) solutions. The technology, believed to be the first offered by an insurer to international customers, allows risk managers to receive and send data to the insurer through their risk management information system (RMIS).

But Newbery knows there is still room to improve digital relationships among the stakeholders in global programmes.

"What we're focusing on is system-to-system connectivity with APIs," he said of Zurich's work to provide seamless information exchange. And while that is the current leading solution, the future will likely bring even more advanced systems.

"What's the next thing that's coming?" he asked. "Is it digital ecosystems or could it be something that none of us have even heard of yet? This

is not a one-and-done fix and forget. This is something that evolves and all of us need to prioritise as we move forward."

A joint effort is needed

Newbery continued: "The industry is going to need to move together on this one... We need to be able to design solutions that fit our customers," as well as brokers, other insurance carriers and various partners, "wherever they are on their digital journey."

Adding: "Some are already there, they are ready, and we need to have the sophisticated solutions to be able to exchange with them. Some people aren't quite there yet but have the ambition. How do we support them as an industry to get to the point where we can exchange data that way?"

There are others who may not have given much consideration at all to adopting digital solutions, Newbery said, and will need a lot of support to be ushered into the age of connectivity.

Richardson agreed that the commercial insurance space is lagging other sectors when it comes to digital advancements. He recalled a meeting with peers from similar-sized multinationals who were asked in a straw poll how many were exchanging data with their insurers.

"I was, frankly, amazed at how many people are still emailing spreadsheets to their carriers to provide renewal information," Richardson said. "We're talking multibillion-dollar organisations that are essentially keying stuff into spreadsheets and then emailing it across. That has implications for data security and accuracy."

That's a process that Richardson said has been around since he entered the field about 20 years ago and is "pretty surprising, actually, given how much innovation there has been in the wider world". Relying on such archaic processes for so long is a "massive missed opportunity" for RMIS providers, insurers and risk managers, he added. "We have a greater need than ever to explain the complexities of our organisations to our carriers."

There are efforts to address these issues, Richardson said, but a lack of consistent data formats makes facilitating the exchange of information among various systems difficult. "For me, the prize on getting this right is big enough that it is worth the industry working harder together to overcome some of these problems of consistency," he added.

That's an opinion shared by many in the risk management community, Richardson said. All stakeholders in the value chain will benefit from digital solutions, he added. "We all have to be part of this process because we can't ignore it, it's not going away."

"We can make it a way less painful world for everybody and that is, ultimately, customer value"

Jonathan Newbery, Zurich

The role of insurtechs

As insurers increasingly partner with insurtechs, there are opportunities for those firms to add value in the growing shift to digital solutions, Newbery said. When considering whether to collaborate with an insurtech, we need to consider how the firm's operations and data can be integrated into Zurich's business, he said.

"We need to understand what value we're trying to drive," Newbery said, and "what the ultimate value to the customer is."

"I agree with that, absolutely," Richardson said. More data isn't necessarily better, he pointed out, and an insurtech that proposes to work with a risk manager needs to offer more than just a promise of providing additional information that can be passed along to an insurer. "It's great to know more about the risk, for sure, but unless that means I can get access to more capacity or get a better price or better terms and conditions, am I as a customer going to pay just to know more? No, I'm not."

There is some urgency to getting digital solutions in place in the global programmes and large commercial domestic spaces, Newbery said. "If we come to the Global Programmes Conference 2026 and we're still talking about this, I think there's a bigger problem," he said.

The more repetitive tasks, reconciliations and other unnecessary work that can be stripped out of the process of sharing risk management and insurance information, the faster and more seamless processes become, Newbery said. "We can make it a way less painful world for everybody and that is, ultimately, customer value."

Easier times or more of the same?

Market conditions are easing for global programmes but rates are still increasing, albeit more slowly and there is likely to be little change in the next 12 months. As a result, corporate retentions, and the use of captives, are continuing to growing strongly. *Tony Dowding* reports from *Commercial Risk*'s annual Global Programmes Conference

Keynote speaker Andreas Berger told delegates that ever-rising inflation is set to lead to further P&C market hardening as insurers face up to higher claims

Conditions are easing for global programmes but there are still many challenges ahead and insurers are warning that things may not improve much in the next year, which may well explain the continued growth in the captive market. That is according to speakers at *Commercial Risk*'s latest conference, 'Managing global programmes in a changing world'.

In a session on market conditions, Clarissa Franks, UK placement leader, Marsh, said average rate increases are reducing on most lines, with the exception of cyber. She said she is not saying the market is softening but she is seeing a broad range of outcomes and achieving rate reductions for some programmes and increases on others, but generally the trend is getting easier. "It feels like a much easier trading environment to me in most areas of the market," she said.

For example, on D&O, a troubled line in the last couple of years, she said clients were beginning to be able to build towers of capacity again, so there is more confidence in the market.

Inflation to keep market hard

However, insurers were less positive. For example, the keynote speaker Andreas Berger, CEO of Swiss Re Corporate Solutions, told delegates that ever-rising inflation is set to lead to further P&C market hardening as insurers face up to higher claims and ensure they avoid a liability crisis similar to the 1980s.

Berger warned risk managers that the insurance market will need to harden in both liability and other P&C lines to avoid the market getting into trouble again.

"We expect claims inflation to impact P&C insurers' profitability in 2022, leading to further market hardening in 2023. That is at least what the models say at the moment," he said. "In the face of rising inflation we must avoid the trap of reduced premiums, because we always have to make sure that inflation is factored into our costing and reflected in pricing," said Berger.

And Tony Hills, client executive, QBE, said market conditions have eased, and broadly the pace of increase is lifting. But he also warned that the impact of high inflation would mean insurers will not have the returns from the investment side of the balance sheet to supplement any underwriting losses, as many insurers de-risked previously by moving out of equities into bonds.

Differentiation and data

Elke Vagenende, global head of multinational, AIG, said the result of all of this was a trend towards differentiation, between those who actively manage the risk and want to work together with insurers on the data and risk information, and those who don't. She said the latter will struggle.

"I think it is important to pay more attention to data," she said. "There will be more questions, and all that information is increasingly used on the underwriting side." She said risk managers that don't have the data should think about how they can obtain it, because it will be extremely difficult in coming months and years to get what they want without a clear understanding of how their company operates.

Bart Smets

"It feels like a much easier trading environment to me in most areas of the market"

Clarissa Franks, Marsh

Bart Smets, head of insurance and risk at Umicore, agreed, saying the more information that can be provided the better. "Much more information is required to get good pricing. The more information you can share with your insurer, the better. Don't be reliant on just basic information or data that you get from brokers. Try to explain to the market what your intentions are in the next five years or so, and that is crucial to getting a good deal," he said.

No shift in market?

Despite the moderation in price increases, Hills said he believed that in 12 months' time, the market will be in a very similar situation. He said all the features that led to the current situation, such as Brexit, a drop in economic confidence, a deterioration in prior underwriting performance, continued increase in nat cat events, claims inflation and social inflation, are all still around, and added to that now has been the war in Ukraine. "I would question whether we will see a fundamental shift in the way the market is going to operate over the next 6-12 months," he said.

In response, Smets said the market needs to be careful that it doesn't continue to push prices higher and reduce cover too much: "Groups

Another session at the conference heard that companies are increasing retentions and making use of captives to fund those retentions

will start to consider whether it is useful to take out insurance or should we take the risk on our balance sheet? It might be a turning point for the market."

Record-breaking time for captives

Captives have clearly been booming in recent times. Another session at the conference heard that companies are increasing retentions and making use of captives to fund those retentions.

Robert Geraghty, senior vice-president, international sales leader, Marsh, highlighted the growth in captives, calling it a "monumental, record-breaking time for captives". He said 200 new captives have been set up in the past two years by Marsh clients, while existing captives managed by the broker have seen a 25% increase in gross written premiums in the past two years to $68bn.


Elke Vagenende

Stephen Morton, multinational head of complex accounts, AIG, said: "Risk, and the unpredictability of risk, is on the up, and as a result, retentions are on the up. A captive is a long-term strategy and is accretive to the benefits of a multinational programme... Captive retentions have definitely increased, due to a lack of capacity and a requirement of higher deductibles."

He said he has seen captives not just playing in the traditional primary buffer layer, but also sitting in excess layers where additional capacity is required, with an 'upside-down' structure where the first layer is taken by the re/insurance market and the captive sits on top. Morton noted that captives are also being used to fill holes in the various programme towers where capacity is not available or deemed too expensive.

He said he has seen quota share participation become more prevalent, and seen captives used to reduce coverage gaps as a result of narrower policy terms and conditions or to increase sub-limits, and to manage some of the newer risks such as future pandemics. He concluded that it is a record time in terms of captive feasibility studies and the potential for captives "is at a peak".