Italy

RISK FRONTIERS EUROPE: ITALY

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Lost opportunities keeping Italian risk managers awake at night

The Covid-19 pandemic and the Ukraine war have caused plenty of unexpected consequences, according to a group of Italian risk managers, but it's the risk of lost opportunities that worries them most

◇ MACRO PICTURE

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The complex geopolitical situation looks set to challenge risk managers across Italy as 2022 draws to a close, warned board members of the Italian risk management association Anra.

Speaking as part of this year's Risk Frontiers Europe 2022 survey, Carlo Cosimi, president of Anra, said: "Tensions are rising, not just in Ukraine but also around Taiwan and China. It is something that could trigger at any moment and is adding to the tension."

He admitted that this is just adding a layer of risk and complexity to an already difficult and fast-evolving situation in the wake of the Covid-19 pandemic. A run of crises have resulted in rapid inflation across Italy, as in the rest of Europe, with rising energy prices, extra transport costs and an increase in the cost of raw materials, he pointed out.

Stefano Scoccianti, enterprise risk manager at HeraSpA, said the energy crisis has triggered other risks, which had been unimaginable even a few months ago.

Much like the pandemic triggered unexpected lockdowns and many knock-on effects during the past two years, the risk managers said they are having to evaluate the impact of the energy crisis in new ways.

One of those is social consequences from rising costs. The risk managers do not necessarily fear violence on the streets, but they did say it was impacting everyone.


Carlo Cosimi

Valentina Paduano, chief risk and compliance officer at the Dedalus Group and a member of both Ferma and Anra boards, was among those who is not worried about physical violence on the streets, but she admitted there are plenty of extremely angry people venting on social media.

"We are also seeing a lot of posts from SMEs who are extremely worried by the situation," she said.

NEW GOVERNMENT?

Italy faces an election on 25 September that is likely to lead to a new government. Italian risk managers will be watching closely to see what the future might bring. There is an expectation that a new government might bring new solutions to the energy crisis, which the general public is looking for. But it is not clear how this might impact the corporate sector.

The challenge, the group of risk managers agreed, is that these risks are outside of their control and there is little companies can do to mitigate the risks.

"I am quite worried about the knock-on impact of all of this," admitted Scoccianti "and about what this might trigger next."

For her part, Cecilia Casadei, head of enterprise risk management at Chiesi Group, fears the supply chain problems may well continue into next year.

"The supply chain issues were bad enough before the Ukraine war," she said. "These are tough times and these difficulties are likely to last for the next year. Companies will have to face these challenges and manage them for some time to come."

INFLATION

Marco Terzago, head of SKF Group risk control, said inflation is a "real nightmare". "Unless we have a cap on energy costs it will continue to be so. Italy is home to a lot of SMEs – they are the backbone of the economy – and they are facing very tough times right now," he added.

If increasing numbers of these small companies collapse or close down, larger firms served by those SMEs could face real problems.

Terzago said the current risk landscape is impacting corporate strategies.

"The greatest risk for my company is that we fail to deliver on our strategy. Earlier this year, we took a strategic decision to reshape the organisation into a more regional structure, rather than being organised by product lines as in the past," he explained.

He said the change in strategy was in part triggered by the pandemic but now, in the face of uncertainty and the energy crisis triggered by the Ukraine war, the company must work to successfully implement the changes. It cannot afford being left in limbo over the short term or for its long-term sustainability, he said.

As Cosimi agreed, the risks of lost opportunities remain.

A changing approach to insurance

Commercial Risk Europe asked a group of Italian risk managers how their job has changed in the last couple of years and what new roles and functions they have taken on. **Liz Booth** reports on what they expect in coming years for the role of the risk and insurance manager, and how they are coping with the ongoing hard insurance market

◇ RISK MANAGERS

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The past couple of years have been particularly challenging for businesses as norms went out of the window.

But a silver lining is the new emphasis being placed on the risk management function, agreed the group of Anra board members.

Stefano Scoccianti, enterprise risk manager at HeraSpA, said colleagues are seeking him out more often than ever as they look to understand the complexity of risks facing their organisation.

He told a group of risk managers meeting as part of the Risk Frontiers Europe 2022 survey that it has been important for everyone to understand the interconnectedness of risks.

"Sometimes we have had to travel to the limits of our imagination to consider potential future events," he said. The risk manager's role is to imagine the unimaginable and then consider its potential impact on the company, added Scoccianti.

This has been tested to the max during the last couple of years by Covid-19 and now challenges thrown up by the war in Ukraine.

> " Sometimes we have had to travel to the limits of our imagination to consider potential future events"

Scoccianti said it is vital that colleagues across any organisation are gaining a better understanding of risk and can then adapt to new challenges.

ASSESSING RISK

Marco Terzago, head of SKF Group risk control, explained that his organisation has a captive that is managed by a different team. However, he still gathers information to help that team assess the risks.

For Carlo Cosimi, president of Anra, a big challenge comes from the tough insurance market conditions. "The insurance market has reduced wordings and coverage, while increasing deductibles," he said.

"The role of the insurance manager has not changed much in the past couple of

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Stefano Scoccianti

years but it has become a more complex job facing a very strong insurance market," he added.

"Now there are emerging risks and we are looking for insurance solutions for those. Climate change is an example of that – what can the insurance sector do to support us?" he continued.

Cosimi said that finding insurers with new solutions is difficult, particularly when tailor-made covers are required.

It has been a tough couple of years dealing with insurers, courtesy of the hard market, he said. "It started for us in 2019 and lasted throughout the pandemic. There were price rises in all lines without exception. What we expect right now is for markets to stop increasing prices and that the next renewal will be more relaxed than in the last two years, particularly on the traditional lines of risk," he said.

RATES

However, Cosimi is realistic that some lines, including cyber and D&O, will remain fairly tough and that rate increases might continue. He also predicted that risks related to natural catastrophe might continue to harden.

"For us it has been made slightly easier because we have had a captive for many years. To help us through this period, we have been able to increase the level of retention into the captive, as well as use the vehicle for trickier lines such as cyber. It has been useful because then we are going to the market and asking for much less cover," he explained.

Terzago added that he has rate rises across the board in the hard market. But some lines, such as financial lines and cyber, have been disproportionally affected, he added.

A big complaint is that it often hasn't mattered whether you were a good or a bad risk, everyone was similarly hit.

"Insurers were asking all of a lot of questions, regardless of how well they knew us, and taking responsibility away from the local offices who knew our businesses. You could not engage with anyone regardless of how high up the insurance organisation you tried," said Terzago.

TRENDS

Like Cosimi, Terzago said his company took on more risk itself to help discussions with the market. This had the bonus of putting the focus on good risk management practices.

Another welcome trend, he said, is that insurers are engaging more experts to help understand emerging risks – something which benefits both insurer and insured.

> " **Now there are** emerging risks and we are looking for insurance solutions for those"

This, said Terzago, is particularly important as 'Industry 4.0' emerges and the internet of things plays a larger role.

Scoccianti said the hard market has forced his company to reassess its hedging strategy. It has analysed its risks carefully and used insurance for critical areas, not just as a blanket cover. "For example, we have looked at our property cover and concentrated on those critical areas," he said.

It is a new approach to insurance that is likely to be adopted for the years ahead, added the risk managers.

ESG: all part of the day job

ESG has become a business buzzword during the past few years but how are risk managers getting involved?

Helping to manage corporate ESG risks and strategy is a new role for many risk managers.

Speaking as part of the Risk Frontiers Europe 2022 survey, Stefano Scoccianti, enterprise risk manager at HeraSpA, said he is among those who have seen his work load increase through more focus on the potential impact of climate change. "We are taking a more systematic approach towards ESG as we consider the potential impact of climate change on our business," he said.

"I am seeing a higher level of interest in ESG now, even though we consider climate change to be a medium- to long-term risk," he added.

Carlo Cosimi, president of Italian risk management association Anra, has also seen a shift in emphasis during the past year. "It is now very much part of our enterprise risk management approach," he said. "We are trying to identify and evaluate the risks but ESG is part of the group risk profile now."

His company has been working on TCFD disclosures and there is increasing interest from across the business in the related risk evaluations that are underway.

Working for a Sweden-headquartered company, Marco Terzago, head of SKF Group risk control, said no one would be surprised to know ESG has been on his agenda for some time. "We are still extremely interested in any risks related to sustainability and ESG standards. We have a net-zero approach and I report to a director who reports directly to the CEO," he said.

Cosimi added that his team supports a dedicated and specialised team within the business to consider ESG risks. He would like the insurance sector to share more information and data on how it approaches such risks.

Valentina Paduano, chief risk and compliance officer at the Dedalus Group and a member of both Ferma's and Anra's boards, does not believe that ESG will really change the risk management function. She sees an increasing emphasis on ESG but says her work continues in much the same way as before, considering risks to the business in any shape they might take.

"We might be factoring in new risks but that does not fundamentally change my job," she concluded.

Rising supply chain regs set to increase corporate risk

◇ SUPPLY CHAIN

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Italian risk managers are watching and waiting to see whether and how their government will adopt changing European supply chain regulations.

With new rules coming into force in Germany on supply chain and modern slavery, the Italian risk managers say European rules are likely to follow. The German Supply Chain Act 2023 is expected to have far-reaching implications for the German market – and for all businesses doing business with a German company.

Companies will be required to have a much more in-depth knowledge of their supply chains to ensure that modern slavery does not exist anywhere in the chain. This, of course, can be hard to do for a business with hundreds of suppliers, supplied in turn by thousands more.

The question is: how quickly will the Italian government react? The forthcoming election is expected to usher in a new political approach and risk managers are understandably playing a waiting game to see what happens.

IMPACT

Speaking as part of the Risk Frontiers Europe 2022 survey, Valentina Paduano, chief risk and compliance officer at the Dedalus Group, said: "Such [modern slavery] rules would have a major impact in Italy.

"From a corporate perspective, it will be very important to consider this kind of topic using a risk-based approach to mitigate the exposure as much as possible. But it will require a huge effort by the company to remain compliant," she added.

New rules are coming into force on supply chain and modern slavery

> "Modern slavery rules would have a major impact in Italy"

The good news is Paduano believes this will offer a new and exciting opportunity for risk managers to play an even larger role in their organisation. "We can help develop the right processes within each of our organisation. We can understand the risks and measure the new exposures."

Stefano Scoccianti, enterprise risk manager at HeraSpA, agreed that new rules could well result in a new approach to compliance and suggested risk managers start doing "their homework" today.

He said any new regulations will expose companies to reputational risks if they do not comply. His company already operates in a highly regulated environment and Scoccianti fully appreciates the risks that companies face if they are not fully compliant.

However, he welcomes law changes that better protect employees, particularly those from the poorest backgrounds who are at greatest risk of being trapped in a modern slavery environment.

But the danger remains, he said, that regulation can strangle business in red tape and there has to be a balance struck.

BIG CHANGE

Cecilia Casadei, head of enterprise risk management at pharmaceutical Chiesi Group, also works in a highly regulated sector. "We are quite used to managing new regulation. But this is a big change in terms of the management of the supply chain and it could be a challenge for risk managers," she said.

Casadei said it is important to be prepared because some regulatory restrictions necessary for environmental protection and to make business more sustainable can lead to changes in business processes.

The new rules also increase the risk of reputational damage should something go wrong, the group of risk managers agreed.

Marco Terzago, head of SKF Group risk control, said that recent restructuring will mean that, within his company, the different regions will have to step up and take greater responsibility for compliance with existing and new regulations.

They will have to consider rules governing sustainable supply chains, as well privacy regulations and codes of conduct for his sector.

SPONSORS

A year of uncertainty but Italy proving resilient

◇ HDI GLOBAL

Alberto Bellomi, country manager in Italy for HDI Global, says risk managers are looking for a consistent and insightful relationship with their insurer at this time of uncertainty

The war in Ukraine has put political risk back on the agenda, from sanctions and supply chains, to international insurance programmes.

But, according to Alberto Bellomi, country manager for Italy at HDI Global, the key is in providing the right levels of service to clients.

"Risk managers are really looking for full commitment from their insurance partners. They are looking for solid solutions for their international programmes. They need 100% quality of service, insightful responses and they need their needs to be met, especially now that there is so much uncertainty."

Bellomi is convinced that HDI can meet the needs of its customers and provide answers with its expertise as a carrier currently leading more than 5,000 international programmes worldwide and with a global network of internal and external partners in 177 countries.

It can also offer individual solutions in the few remaining countries on the globe where no particular network partner has been consciously selected.

Bellomi stressed that risk managers have to ensure their operations remain compliant with the latest sanctions, however fast moving.

But Ukraine is not the only risk facing Italian risk managers.

Alberto Bellomi

> **"Risk managers are** really looking for full commitment from their insurance partners"

"Pandemic risks are still high on the agenda," commented Bellomi, "with Covid-19 in its third year. Many companies are managing to deal with the pandemic; nevertheless, it still makes life and business harder."

Another risk is cyber, added Bellomi. "We are seeing a dramatic rise in ransomware attacks. Escalating cyber risks are also a consequence of home and hybrid working.

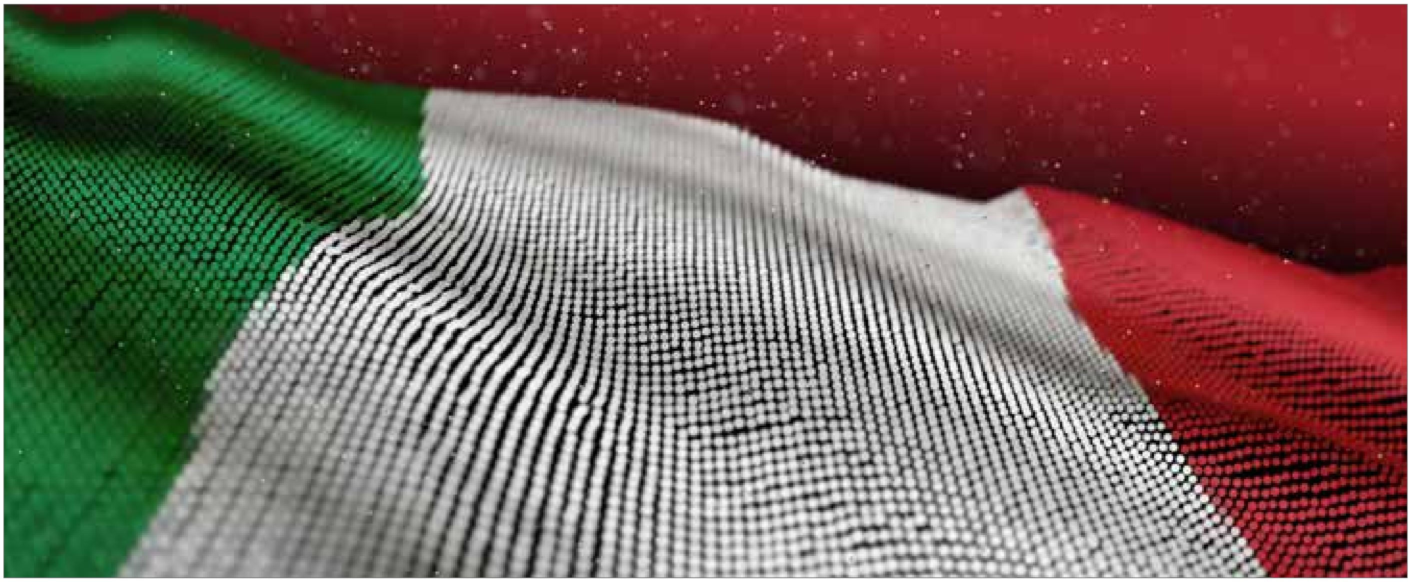
"Cybersecurity is one of the main risks that needs to be measured and covered. And I'm not talking about only corporate risks, but also midsized companies need consultancy and assistance. They both operate worldwide and consequently they need global coverage and global support. Cyberattacks are getting more professional and sophisticated, and this trend requires continuous improvements and updating."

Nat cat risks also remain high on the agenda, confirmed Bellomi, who commented: "We saw some major claims last year from nat cat events like storms Bernd, Uri and others."

The supply chain is increasingly a major focus for clients, he said, adding that rising tensions at the beginning of August between China and Taiwan – a country with a huge percentage of the worldwide semiconductor production – fuel supply chain uncertainties further.

BUSINESS INTERRUPTION

According to HDI Global's recent experience, more than half of the damage caused to companies relates to business interruption (BI). In a lot of cases, the financial loss due to the BI is much higher



than the actual loss to property from, for example, fire, explosion, or natural hazards.

Bellomi also warned: "In some cases of major losses, the BI sum insured or the indemnity period for example are insufficient or not properly measured. Too many circumstances are not properly analysed.

"As a result of the growing complexity of industrial supply chain networks and the spread of production and markets around the world, we suggest our clients conduct a very deep preventive analysis to identify which increased BI risks exist and to recommend counter measures."

This is even more important at a time when the economy is under stress. The good news, said Bellomi, is that the Italian economy has fared well post-pandemic, mostly because of domestic demand and falling unemployment.

"And I would like to connect that current situation in the Italian economy with the current insurance market," he said.

"Our Italian portfolio needed a correction, after more than 15 years of soft and very untechnical rates, which were not sustainable anymore. So, we needed to review our prices, risk by risk and client by client. I'm talking not only about price increases but also about a more balanced calibration of the scope of coverage."

Bellomi continued: "Our customers' risk and insurance managers understand that the main aim is to secure their businesses with the best-rated insurance companies, those most consistent and reliable, to guarantee their sustainability and a long-term relationship. In this even more uncertain period, customers need certainties."

"We are seeing a dramatic rise in ransomware attacks. Escalating cyber risks are also a consequence of home and hybrid working"

CAPTIVES

A year ago, there was plenty of talk of new captives and Bellomi reported: "We are experiencing the opening of new captives – in some cases it is just a preliminary study, while some have already been established."

Sectors like pharma, which did not suffer during the pandemic and actually made sufficient profits, have enough capital to inject into new captives, he said.

"For those that don't have enough premium to create a captive, there is an increased interest in protected cell captive (PCC) structures. PCC structures can also enable smaller companies to benefit from the captive system, due to the reduced workload, faster system and need for less capital."

BLACK SWANS

So, what about potential new risks, particularly 'black swan' events?

Bellomi commented that customers and brokers should certainly surround themselves with experts to monitor any threats.

One known risk is climate change and the increasing need for companies to maintain their ESG compliance. Bellomi said: "Risk managers are developing a role within the governance of their companies."

He added that industrial insurers have always been enablers of innovation and progress. "We also want to play this role as ESG is becoming more widespread and is becoming an important part of our own strategy as well as the strategies of our clients.

"Part of our role is offering support during the green energy revolution," Bellomi continued.

He said it is key for insurers to work closely with clients and adopt a strong ESG approach. "This is not only done by means of green investments or reducing one's own carbon footprint with less long-distance travel or energy-saving buildings. We provide our customers with coverage as they move towards carbon-neutral technologies. Together with our clients, our experts evaluate these new risks and reduce them to an insurable level.

"In Italy, we are successfully developing these coverages and we are following our clients in their new business approach."

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