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Insurance & Risk Management News

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Commercial Risk Europe

Insurance & Risk Management News

Time for a pat on the back?

After a three-year absence because of the pandemic, Ferma is finally holding its in-person forum again in Copenhagen this week. And it is not a moment too soon for the European risk management community to come together to collectively try and tackle what can only be described as a headscratchingly complex risk environment.

Of course, since we last all came together there was the biggest global pandemic in nearly 100 years, which tragically took the lives of so many and caused pretty much the whole world to lock down. Risk managers came to the fore and were charged with not only helping during the crisis management stage of Covid-19 but planning ahead for any future pandemics.

Slowly but surely, risk managers battled through the worst of that terrible disease and just as we appeared to be coming out of the other side, and they could get back to their day jobs, Russia launched an all-out invasion of Ukraine, right here on European soil. Risk managers, now no doubt bedraggled but increasingly sitting close to business leaders, were called upon once more to help their organisations through another crisis as sanctions were imposed and operations and people needing looking after.

We've sat through many Ferma Forum events and seminars that stressed how risks are increasingly interconnected, and frankly it all sounded true but perhaps overblown. And yet what do you know? Risk managers are now having to deal with an inflation crisis caused by supply chain problems following Covid-19 and an energy crisis sparked by Vladimir Putin's invasion. And in turn, the inflation crisis looks set to spark a global recession as interest rates rise and the world faces financial turmoil. Another big problem for risk managers to grapple with.

So, we think the time is right for Ferma members to come together once more and collectively hold hands, before trying to come up with some solutions to today's 'complicated' risk landscape.

And while you are at it, perhaps it's time to sit down for five minutes and give yourself, and each other, a pat on the back just for making it through these last few tough years and helping your organisations do the same.

To help you enjoy this process, we bring you the latest edition of *Commercial Risk Europe*. In this issue, we look at what buyers can expect at 1 January renewals, how net-zero underwriting will likely be with us within two or three years, and cover some of the latest big issues on Ferma's agenda.

We also bring you our final *Risk Frontiers Europe* interviews of the year with leading risk managers from the Nordics and France. And there is much more besides.

We hope you enjoy the read.

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TEAM

CONTENT

Adrian Ladbury, Head of Content
aladbury@commercialriskonline.com

Ben Norris, Managing Editor
bnorris@commercialriskonline.com

Tony Dowding, Editor, Global Risk Manager
tdowding@commercialriskonline.com

Liz Booth, Senior Editor, Special Projects
lbooth@commercialriskonline.com

Nicholas Pratt, Editor, Local Language
npratt@commercialriskonline.com

CONTRIBUTORS

Rodrigo Amaral
Garry Booth
Stuart Collins
Sarah Collins
John Knox

DESIGN & PRODUCTION

Chris Morrish, Head of Production
cmorrish@commercialriskonline.com

COMMERCIAL

Hugo Foster, Head of Sales
hfoster@commercialriskonline.com

OPERATIONS

Annabel White, Group Operations & Events Manager
awhite@commercialriskonline.com

Stewart Brown, Managing Director
sbrown@commercialriskonline.com

EMAIL ADDRESSES

news@commercialriskonline.com
advertise@commercialriskonline.com
events@commercialriskonline.com
subscribe@commercialriskonline.com
enquires@commercialriskonline.com
helpdesk@commercialriskonline.com

ADDRESS

Commercial Risk
Unit 5
Parsonage Farm Business Centre
Ticehurst
East Sussex
TN5 7DL
United Kingdom

MEMBER: Beacon International Group, Ltd.

COMMERCIAL RISK EUROPE SUPPORTS

Insurance market hardening to moderate further at year-end

Some risks will face flat or soft renewals

◇ RENEWALS

Ben Norris
news@commercialriskonline.com

@COMRISKONLINE

European risk managers will continue to face a hardening commercial insurance market at year-end renewals but price rises look set to continue moderating and capacity will be more keenly deployed, with some risks enjoying flat or even softening conditions, according to experts from across the risk transfer industry.

After several years of extremely tough or hash market conditions, things have slowly began to look a bit better for risk managers. While prices rises have continued for most risks and territories during the last 12 months and capacity remains tight, broker indices have confirmed that the market has been moderating. Rate increases have fallen and capacity freed up a touch as insurers begin to get more comfortable with the price of cover.

> "We need to manage our own inflation exposures in underwriting. Essentially, this means factoring in rising claims costs in our underwriting practice"

But risk managers we have spoken to for this issue of *Commercial Risk Europe* – including Amrae's president Oliver Wild, Ferma vice-president Charlotte Hedemark Hancke and former Swerma president Athina Pehrman – have all complained that things remain difficult for insurance buyers.

As we head into 1 January renewals, many risk managers hoped that we might finally start to see the market turn and they would be able to enjoy soft conditions. But just as this may have been on the cards, inflation has hit, there is a war in Europe and cat losses continue to stack up.

Europe has suffered a whole range of extreme weather this year and hurricane Ian has now wreaked havoc in the US, with insured loss estimates above $60bn. On top of this, the reinsurance markets are hardening, with nat cat risks in particular set to attract higher rates that experts

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predict will ultimately be passed on to primary insurance buyers.

MODERATION

So, as we go into the renewals, what can risk managers expect? In short, it seems the market will harden further but things will be easier than the last couple of years as the moderation trend continues.

Ferma president Dirk Wegener told *Commercial Risk Europe* that European risk managers continue to face hard market conditions, which, in his opinion, are "far from over".

"Shortage of insurance capacity, more exclusions and higher premiums are still the norm, which significantly reduce the options available to companies and potentially increase the protection gap," he said.

Wegener added that Ferma is keen to foster "constructive dialogue" with the insurance industry about current market conditions and innovative risk transfer solutions during the Ferma Forum in Copenhagen this week.

Hugo Wegbrans, global head of broking and broking strategy at WTW, said it depends on the risk, but in general the market is now "stabilising", with price rises continuing to come down.

He said the focus among insurers has gone from remediating books of business, which is now mostly complete, to growth mode as they make underwriting profits once again. "That reduces pressure from a pricing point of view," said the broker.

Wegbrans said some areas remain difficult for buyers, with pressure on catastrophe cover, not least from the reinsurance market. Cyber is still very difficult, as are other risks such as supply chain and contingent business interruption, he added.

But moving in the other direction, the global D&O maket, which has been hit hardest over the last few years, is now probably the softest, with rates coming down considerably, continued Wegbrans.

"The rest have pretty much stabilised," he added.

Wegbrans said the million-dollar question now is whether prices start to soften or the higher rates are here to stay.

"Carriers think that the new pricing level is the new normal, whereas clients still feel bruised by the last couple of years and want to see pricing down to a lower level. I think that is the big question that is coming," he said.


Hugo Wegbrans

> **"Carriers think that** the new pricing level is the new normal, whereas clients still feel bruised by the last couple of years and want to see pricing down to a lower level"

His theory is that going forward there will be swings in pricing but not as big as in previous soft or hard markets.

"In the long run, my guess on pricing is it won't go back to big 50% reductions, although we do see that in D&O now where pricing is coming down after an overreaction. I think in general it will be a bit more stable. So you will see swings of 20% up and down rather than getting back to big reductions and loss-making business," he said.

GOOD NEWS

The good news for buyers as they head into 1 January renewals is that there will be more individual underwriting based on risk profile, and alternative markets available to shop around, Wegbrans continued.

"Clients should go out and have a discussion about where to place their business because there is simply more supply and more opportunities to have these individual discussions again," he said.

Adding: "We have come from a position where insurers made central decisions whether to cover a risk, line of business or geography or not. There were very general rules. What you see now is decisions being given back to underwriters on the ground. If the risk is right and the pricing is right, they will do individual underwriting rather than looking at whole books of business. So, risk managers have gone from a position where they couldn't discuss anything with their underwriters, to now where it is much more about individual underwriting again."

And Wegbrans thinks capacity will be available for most risks now insurers have cleaned up their books and are happier with pricing.

"The hard market over the last 12 to 18 months has not been because of a lack of capacity. The issue was carriers just didn't want to deploy it. I think overall, insurers have the same capacity to work with but they are looking to deploy it in

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Dirk Wegener

a better way and if they feel it is the right price tag, they will come up with the right amount of capacity," he said.

Nick Holmes, head of global placement for continental Europe, Middle East & Africa at Marsh, agreed that insurers are beginning to demonstrate greater ambition to grow their books and take advantage of the better ratings environment. This is putting downward pressure on pricing for new business and creating competition for quality risks without a loss or catastrophe element.

But other areas will continue to be difficult for insurance buyers at year-end, he added.

"It is likely that difficult occupancies, loss-impacted and catastrophe-exposed programmes, will continue to be challenging, as insurers may reduce the capacity and limits," he said.

"Catastrophe risks are expected to continue being challenging following another difficult hurricane season. On the casualty side, US exposures are causing ongoing concern, due to a continued trend of severity, losses and jury awards," said Holmes.

"Frustratingly, insurers are also likely to adopt stricter exclusionary wordings around cyber, communicable disease and ESG, which, in most cases, do not serve the interest of the client or provide clarity," he continued.

But again, he said the D&O market is now softening and experiencing a "more positive trend, especially when compared to prior years marked by tremendous price increases".

Eelco Ouwerkerk, managing director of Aon's Global Client Network in the Netherlands, said the insurance market is not as hard as it was this time last year but expects premiums to still rise at 1 January driven by inflation. However, he said some risks will enjoy flat renewals this time around.

"In a number of lines of business, the technical underwriting price is rising less rapidly than in 2021, but often there are still premium increases," he said.

But Ouwerkerk said there is "slightly' more room for buyers and their brokers to push for what they want in coming renewals. For example, longer-term insurance solutions are back on the table, he noted.

NEW STANDARD

Despite the moderating market, Ouwerkerk stressed that the "new underwriting standard" developed by insurers during the last few years remains in place.

This means buyers will face less flexibility than a few years ago as insurers remain focused on technical underwriting. More risk information is still required and risk management will be key. "Concrete plans and demonstrable progress are important for a good quotation," said Ouwerkerk.

And he still feels decision-making remains more central, with less autonomy given to local underwriters. "There remain more referrals because decision-making power of insurers is organised at a central level… so local relationships are therefore more limited," he said.

Etienne Champion, chief underwriting officer for APAC and Europe at AXA XL, believes the moderating trend in commercial insurance will likely continue at year-end for many risks.

But he said any predictions of market softening have been curtailed by nat cat losses in Europe and elsewhere this year, which have put a brake on any potential price decreases.

Champion added that certain lines will see further rate increases to deal with inflation.

"That is a generalisation because inflation affects each line differently. But for those that don't have regular updates to sum insured such as property or marine values in cargo, insurers have no choice other than to keep the rates slightly up to make up for inflation.

But I think in other lines of business the moderation in price rises will prevail," said the insurer.

He also thinks capacity will remain stable for coming renewals. "I think capacity will remain as it is, which is pretty constrained. We are coming from three years when the capacity has been scarcer and scarcer. So, capacity not increasing but not decreasing either, that is the good news. We have reached a point where I think people have reached stability. The price that we pay to access the capacity on the reinsurance market will be higher but capacity is stable," he said.

Buyers will be pleased to hear that AXA XL plans to give more control to local underwriters.

"If a market hardens, it is because it faces some challenges. The moment you face those challenges, you normally create more referrals to central control. But when you are out of those challenges and you think you have dealt with them, which we do in the main, you should give back to your teams that empowerment. This is one of my priorities at the moment over the next few weeks to walk the walk on this. We are working currently on a series of modifications to our governance to reflect this within our underwriting guidelines and to help our clients," Champion told *Commercial Risk Europe*.

STABILITY

Jeremy Sharpe, global head of distribution at Allianz Global Corporate and Specialty, believes the corporate insurance market has remined "relatively stable" against an "alarming" backdrop of the war in Ukraine, pandemic, looming energy crisis and rampant inflation.

He said ratings have remained "strong" during the past few months but capacity is available for most risks, excluding cyber. Going forward, insurers will have to factor in inflation during the underwriting process, he said.

"Clearly, we need to manage our own inflation exposures in underwriting. Essentially, this means factoring in rising claims costs in our underwriting practice. For most segments, sufficient capacity is available – the only exception being cyber insurance as an outlier. We continue to see a strong interest for captive fronting and reinsurance or alternative risk transfer solutions as companies are looking to self-retain more risks," said Sharpe.

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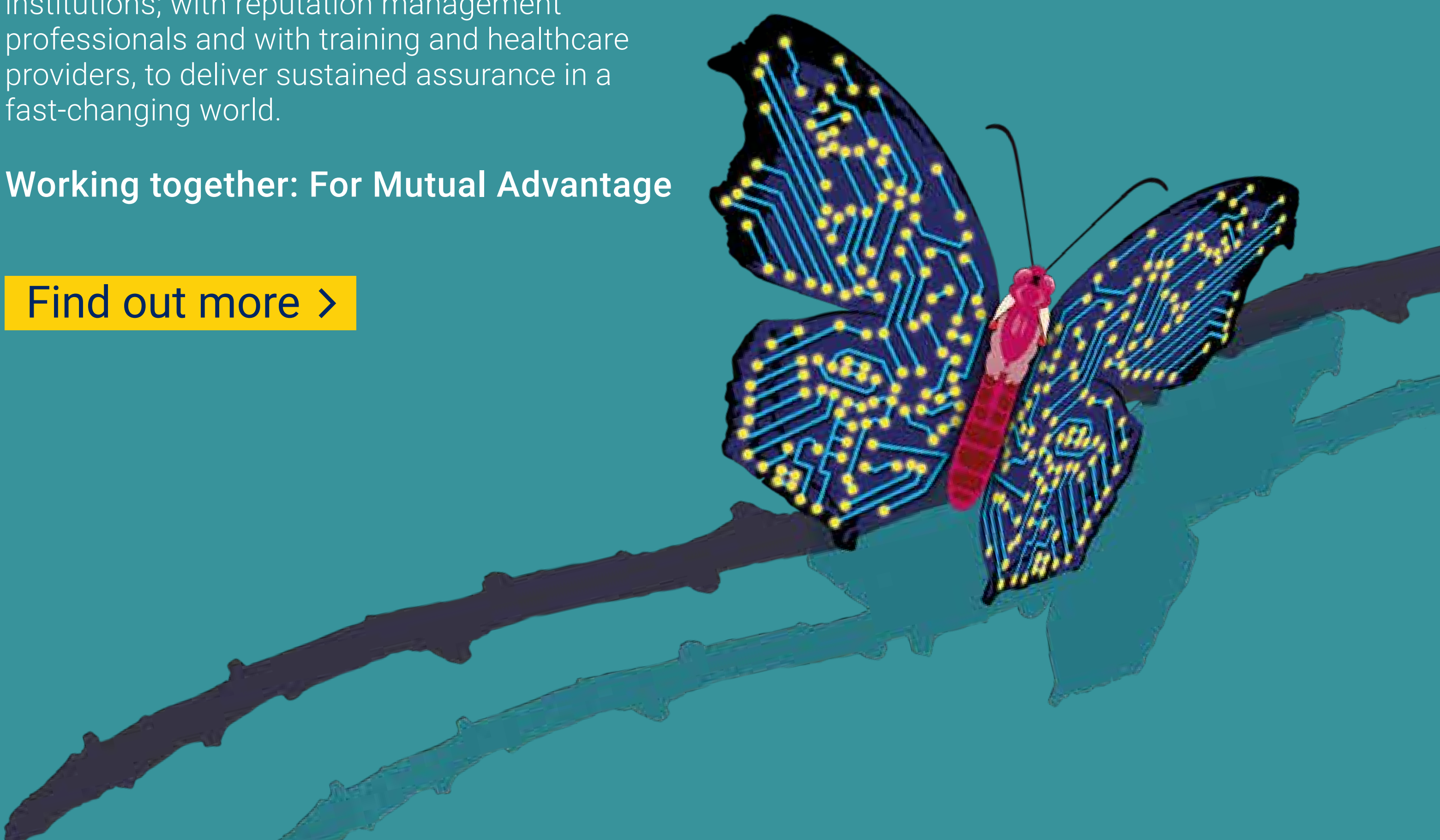

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Marsh urges buyers to prepare for net-zero underwriting

◇ SUSTAINABILITY

Stuart Collins
news@commercialriskonline.com

@COMRISKONLINE

Risk managers need to prepare for net-zero underwriting that is likely to influence pricing, terms and conditions in the next two to three years, according to Marsh.

Most large corporate (re)insurers have made sustainability pledges, and many have signed up to the UN's Net-Zero Insurance Alliance (NZIA) that commits them to transition their underwriting and investment portfolios to net zero by 2050. The industry is now in the process of translating these commitments into underwriting operations, setting underwriting criteria and targets for insurance-associated greenhouse emissions.

However, insurers' handling of the transition has come in for criticism. In a recent report, Ferma said insurers are not doing enough to help clients through the energy transition. In particular, Ferma called out a lack of adequate cover for emerging green technologies, as well as past activities, such as coal or mining.

> **"Over 90% of global** GDP has committed to net zero by the middle of the century, so the insurance industry is responding to that"

Even some insurers have questioned the practicality of net-zero commitments. Last year, Chubb's chief executive Evan Greenberg warned that companies that declare themselves to be net zero could face lawsuits if they overpromise. He claimed insurers are not yet able to accurately measure the carbon footprint of their investments and underwriting portfolios.

And, according to Amy Barnes, head of sustainability and climate change strategy at Marsh, some insurers have not managed client expectations as well as they could, as they translate net-zero commitments into underwriting.

"The way some insurers have communicated and treated clients – clients that have been with them for many years – has not always been executed well," she told *Commercial Risk Europe*.

Customers disagree over how heavily insurers should be influencing the transition through underwriting, said Barnes. "There is not a consensus that insurers should be acting. There are a number of clients who believe this is an issue for governments, not insurers. However, there is a critical mass in net-zero alignment – there are now 29 members of the NZIA – and it may be hard for [buyers] to select against insurers that are aligned to net zero," she added.

INEVITABLE

While the role of insurers in carbon transition can be debated, net-zero underwriting is inevitable, according to Ryan Bond, head of climate and

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sustainability insurance innovation at Marsh. "There are different perspectives across a spectrum. However willingly, begrudgingly or kicking and screaming, insurers are working on the assumption that this is something that has to be considered," he said.

"There are a range of opinions. But over 90% of global GDP has committed to net zero by the middle of the century, so the insurance industry is responding to that and recognising that its business models need to transform because the global economy has committed to that transformation," said Barnes.

Climate change is also a threat to insurers' business models. "In a worst-case climate scenario, the frequency and severity of insured losses is expected to rise, and we could see increased potential for war and conflict, as well as supply chain disruption, which will impact the insurance business. Insurers are also under pressure from stakeholder activism, as insurance is a lubricant to the economy," noted Barnes.

Net-zero underwriting, whereby insurers start to make underwriting decisions based on insurance-associated greenhouse gas emissions, is therefore coming and likely to be a feature of renewals within the next two to three years, she told risk managers.

A significant number of commercial (re)insurers have withdrawn their support for thermal coal, Arctic oil and gas exploration, and oil sands. A smaller number are beginning to scale back their oil and gas underwriting. Some insurers have also made noises around moving away from the most carbon-intensive activities in sectors like shipping.

"Although some insurers do 'prohibit' certain fossil fuel industries like coal, we do not yet see insurers using information on greenhouse gas emissions to set pricing or terms and conditions," explained Barnes. "Beyond the prohibitions on certain industries, we see limited evidence of underwriting decisions – risk-quality decisions – being made using carbon data, because there is no intrinsic link with carbon intensity and hazards, or the likely frequency and severity of loss," she said.

Marsh has, however, established relationships between good ESG and risk quality in several lines of business, including D&O and workers compensation.

"If ESG and sustainability mean organisations should be governed by a


Ryan Bond

"The reality is that the insurance industry and the wider corporate community have yet to fully readjust their goals"

more balanced approach of priorities across profit, people and the planet, the reality is that the insurance industry and the wider corporate community have yet to fully readjust their goals," said Bond.

SUPPLY AND DEMAND

However, as some insurers move to net-zero underwriting, corporate insurance buyers will likely start to see their organisations' emissions and transition plans reflected in their insurance, Barnes explained.

"As the NZIA is implemented, we can anticipate the supply-and-demand dynamics around carbon intensity of clients will start to inform pricing. Can we see carbon intensity being a feature of terms and conditions or pricing as net-zero-committed companies steer their portfolio? I think we will, although we do not yet know exactly how that will play out," Barnes said.

Supply-and-demand dynamics could influence pricing for carbon-intensive companies, she continued. "Clearly, if there is a move away from [high carbon intensity risks], it may reduce competition and available capacity for certain risk, which in turn could affect pricing," she added.

The NZIA and Partnership for Carbon Accounting Financials aim to launch a global standard to measure and disclose emissions attributable to insurance underwriting portfolios, also known as insurance-associated emissions, later this year. NZIA members will then be expected to publish their first interim science-based targets six months after the publication of a Target-Setting Protocol, which is scheduled to be released by January.

A significant proportion of the commercial insurance market are members of the NZIA and therefore committed to implementing the framework and publishing net-zero targets within the next year. Many other insurers will watch the progress of the NZIA as they develop their net-zero underwriting.

So, buyers will likely start to see the emergence of net-zero underwriting in coming years as the NZIA accounting framework is implemented, according to Barnes and Bond. "In the next two to three years, we can expect insurers to figure out how they will [implement net-zero underwriting criteria]. It will be phased in, probably more prevalent in certain industries and regions," said Bond.

Even when insurers have net-zero underwriting criteria in place, underwriters will not automatically penalise carbon-intensive industries, hopes Barnes. She believes there will be a spectrum of response from insurers.

"Some hard-to-abate industries, like construction and aviation, do not yet have [sustainable] alternatives at scale. Decarbonising some of the most carbon-intensive industries is non-trivial and not straightforward. Our expectation is that insurers will want to see that insureds are making efforts in the right direction," she said.

Having a single net-zero framework should be positive for insurance buyers, according to Barnes. "Customers are worried that each insurer will take a different approach and it becomes very difficult for them to navigate. Having alignment around a single framework, and we hope it is a good framework, will provide more certainty for clients, rather than 50-plus insurers doing their own thing," she said.

CHALLENGES

But insurers face significant challenges to incorporate information on emissions and transition plans into underwriting, according to Bond. "The absence of a clear understanding on how insurers may use this information across their portfolios or on individual risks creates uncertainty and concerns for risk managers and customers," said Bond.

The framework will enable insurers to account for insurance-associated carbon intensity, but it will be up to each insurer to decide how they use this to steer their business, said Barnes. However, in order to take a more nuanced approach to underwriting carbon-intensive activities, insurers will need to understand an organisation's transition plans, she added.

"Insurers, brokers and clients will all need to undergo training and education in order to understand the transition and incorporate it into insurance," said Barnes.

"This is one of our biggest concerns. We have a population [of insurers, brokers and buyers] that does not have the vocabulary of climate change, or maybe even understand the definitions for Scope 1, 2 or 3 emissions. They are smart people but they have to learn something new. We all need to recognise that there will be a period of friction and turmoil, as the industry adjusts," she said.

Corporate insurance buyers are concerned they will face a barrage of information requests from insurers. While the industry is likely to use third-party data, risk managers may want to supplement this with their own information, advised Barnes.

"Insurers are trying to make net-zero underwriting as simple as possible, and many are procuring third-party data to satisfy these additional information requirements.

"For companies in more carbon-intensive industries, and therefore under more scrutiny, I would want to own my narrative, rather than have insurers rely on third-party data," she said.

Hardening reinsurance market set to prolong primary buyers' pain

◇ REINSURANCE

Ben Norris
news@commercialriskonline.com

@COMRISKONLINE


Mike Van Slooten

Heavy losses, inflation and rapidly rising interest rates are combining to drive reinsurance market hardening, particularly for nat cat risks, as we head into year-end renewals, with brokers and ratings agencies predicting that this may well prolong difficulties in the primary space, as insurers pass higher costs onto corporate risk managers.

The reinsurance market initially started to harden following heavy nat cat losses over recent years. Things were already set to get worse for buyers at 1 January renewals on the back of rising inflation and unrealised losses hitting reinsurers' results. Then, hurricane Ian came along to potentially make things even more difficult.

Mike Van Slooten, head of business intelligence for Aon's Reinsurance Solutions, told *Commercial Risk Europe* that underwriting results were the bright spot for reinsurers in the first half of 2022, but hurricane Ian now threatens to derail outcomes for the full year.

Van Slooten views this as a large loss that will exacerbate existing difficulties in the property catastrophe market.

"Results in this line have been challenging over the last five years and the volatility has concerned investors. Some reinsurers were already dialling back their risk appetites, while others have been reinforcing their commitment to the class. The latest loss will provoke another round of reassessment," he said.

Supply-side constraints are coinciding with an expected increase in demand for nat cat cover, as buyers look for additional limit to offset the effects of inflation.

"There is an issue when it comes to the provision of property-catastrophe coverage. This is really being driven by losses in the previous five years."

And Van Slooten believes that inflation is going to be the big topic leading into end-of-year reinsurance renewals.

"Reinsurers are going to be pushing cedants very hard in terms of what strategies they are using to manage inflation. Reinsurers are very concerned about loss cost inflation that hasn't been taken into account in the negotiating process," he said.

"In the meantime, interest rates are rising more quickly than expected to head off the inflationary threat. That is generating significant unrealised losses on bonds, which are undermining earnings and capital positions in 2022. In the longer term, higher interest rates are a clear positive for industry profitability, as they will result in higher investment returns, but in the short term, we're going through quite a difficult adjustment period," he added.

Van Slooten said, however, that things are looking better for reinsurance buyers beyond nat cat risks.

"Reinsurers pulling back from nat cat business can create additional capacity elsewhere and it seems to me that appetites remain reasonably strong for casualty and specialty business, for example," he said.

And Van Slooten firmly believes there will continue to be strong competition for good business among reinsurers.

"Reinsurers will be looking for greater transparency at these renewals. If the business has performed well, supporting

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Damage caused by hurricane Ian in Naples, Florida

data is of good quality and views of risk and inflation are properly articulated, good outcomes are still possible. Cedants that are not in this position will likely be facing some very difficult conversations," he said.

PRICING

Like others we spoke to, Van Slooten thinks it is likely that higher overall reinsurance costs and falling capacity for nat cat risk will ultimately be passed on to primary buyers, and corporate risk managers will start being quoted higher prices for nat cover amid less capacity.

"You have had primary and retro pricing moving ahead of reinsurance for quite a while, and there is evidence now that reinsurance is playing catchup. The recent narrative has been that while rates in commercial insurance are still going up, the increases have slowed. However, I think there is going to be a tendency going forward for higher reinsurance costs to sustain pricing on the primary side as well," he said.

"This is not easy for anybody, I fully recognise that. But when you see these nat cat losses increasing on a global basis and everybody being affected by inflation to a greater or lesser degree, the logical conclusion is that everybody will have to pay more to some extent," added the reinsurance broker.

Brian Schneider, senior director in Fitch's insurance team, told *Commercial Risk Europe* that the overwhelming consensus at the reinsurance industry's recent Monte Carlos Rendez-Vous was that market hardening will continue into 2023 at January renewals, even in the absence of significant catastrophes in the second half of this year.

HURRICANE IAN

Of course, since that meeting, hurricane Ian has ripped its way across Florida and other parts of the US, causing insured losses estimates at the time of writing up to $63bn.

Experts have warned that if Ian causes losses of this magnitude, it could be a capital event for reinsurers and will exacerbate the mismatch between supply and demand in the P&C reinsurance market.

Speaking before Hurricane Ian hit, Robert Mazzuoli, a director at Fitch, said hardening will differ across the various lines of business at year-end, with property cat cover hardest hit as some reinsurers withdraw capacity after suffering losses.

"We expect prices to go up most – so double-digit in nominal terms – in property cat and retro and far less in casualty lines," he said.

Mazzuoli added that capacity will be restrained at year-end for certain peak risks exposed to nat cat risk, such as US hurricane.

"This means prices will go up, limits will also rise to accommodate for inflation and terms and conditions will tighten. Reinsurers may also move away from quota-share treaties and prefer XL-covers if they feel cedants are not pricing the insured risk adequately," he predicted.

And the bad news for readers of *Commercial Risk Europe* is these price rises and tightening conditions will likely be passed onto insurance buyers, said Mazzuoli.

"The pressure on primary insurers will rise to pass on higher claims and reinsurance costs to their clients. This should still be easier to achieve in the commercial space than in the retail space," he said.

Mazzuoli also noted that higher claims on the back of inflation will first be felt in property lines but are likely to eventually spill over to liability, D&O or workers comp as wages go up in response to inflation, and social inflation gathers speed again as courts start to work off the backlog

HEADWINDS

Johannes Bender, director at S&P Global Ratings' insurance practice, paints a similar picture of hardening reinsurance markets and insurers ultimately passing on higher costs to their customers.

"Hardening pricing is expected to continue across the board in view of headwinds heading into the next reinsurance renewals in 2023," he said.

"But it looks like the price cycle is becoming even more regionalised and price increases are more pronounced in

"Trying to factor inflation into premiums collected today for claims that are going to come in over the course of the next one to five years is extremely difficult"

lines of business and regions where losses have occurred," he continued.

"The important question will be if rate increases are fully matching or exceeding claims inflation going forward. In property, catastrophe business rate increases have been more pronounced driven by large losses in recent years but also by a divergence of natural catastrophe risk appetite among reinsurers," added Bender.

Carlos Wong-Fupuy, senior director of global reinsurance ratings at AM Best, said investors are getting nervous about the volatility of results, and carriers on both the primary and reinsurance side have been shifting their business models away from catastrophe risk into casualty, specialty lines and excess and surplus.

As a result, appetite for catastrophe risks has diminished "significantly", he said.

"We see some serious pressures toward the renewals for 1 January. Negotiations are going to be tough. There is pressure for commercial lines business to retain more risk. Everybody is trying to move to higher layers of protection. Rated insurers are trying to reduce the volatility of their results. But we have started to see the first signs of that stabilisation of results during this year. We expect that to continue," he added.

Wong-Fupuy said the reinsurance market remains well capitalised but funds aren't being allocated for volatile risks, such as property cat, as they once were.

INFLATION

Greg Carter, managing director of analytics in EMEA and Asia-Pacific at AM Best, said inflation is the elephant in the room and no one is quite sure how things are going to develop.

He said inflation is proving an "enormous" challenge for reinsurers because the costs of everything is going up. "Trying to factor that into premiums collected today for claims that are going to come in over the course of the next one to five years is extremely difficult. No one seems to have a clear picture of what to do about that," he said.

Ferma's president says pan-European vehicle for systemic risks not dead

SYSTEMIC RISKS

Adrian Ladbury
news@commercialriskonline.com

@COMRISKONLINE

Dirk Wegener, president of Ferma and global head of corporate insurance at Deutsche Bank, has told *Commercial Risk Europe* that while there has been little progress on a pan-European insurance-based vehicle to cover systemic risks, the European risk management federation is not ready to abandon the idea.

Calls for national public-private partnerships (PPPs) to cover risks such as non-damage business interruption (BI) caused by systemic threats were made when it became clear the commercial insurance market was unwilling and unable to cover BI losses following Covid-19 lockdowns.

As the insurance market moved into 'exclusion mode', risk and insurance managers worked with insurers and brokers to come up with potential solutions that could involve insurers backed up by state funds. But these concepts have, so far, failed to take off.

Ferma called for a pan-European solution. However, sadly, this concept also appeared to fall on deaf ears as the pandemic was rapidly followed up by Russia's invasion of Ukraine, pushing everyone into short-term crisis mode again.

But Wegener said the concept is not dead. He explained that Ferma recently took part in a very positive roundtable meeting organised by the Organisation for Economic Co-operation and Development (OECD), which proves there is still strong support for the idea.

"The momentum was unfortunately lost because of other crises caused by the war in Ukraine. The EC is dealing with inflation, the energy crisis and other pressing matters, but this still has a priority. At the end of June we were invited to participate in a roundtable on the topic by the OECD. It was recognised that the insurance market could not handle this alone and that a PPP-style scheme would have clear advantages over pure spending of government money after the event," Wegener said.

"This is encouraging because the consensus was that a system similar to the one we proposed, based on risk management and supported and administered by the private insurance sector, could be the way ahead to deal with systemic risks such as pandemics,

Dirk Wegener said governments will need to support the PPP concept financially

cyber and natural catastrophe risks. The capability of insurers to assess and price risks and deal with claims would be critical. There was huge concern in the room about the ability of the insurance sector to bear the full impact alone," continued Ferma's president.

Governments around the world are currently highly concerned about finances and will not welcome another request for funding. But the PPP concept could well work if all the key players can be brought to the table to thrash out a balanced solution. It does, however, need to be done on a pan-European basis, said Wegener.

"We will need governments to support the concept financially above a certain primary layer taken by the insurance market. Hopefully, at a later stage, politicians will find the time to take the concrete steps required to make this real. There are national solutions for terror and natural catastrophes but we are now living in a global world, so national solutions are not fit for purpose for such cross-border systemic risks. Ferma will continue to push in this direction," he said.

> **"Hopefully, at a later stage,** politicians will find the time to take the concrete steps required to make this real"

Battle lines drawn over mandatory security for ELD

The EC is preparing a revision of the Environmental Liability Directive that could well go against the wishes of Europe's risk managers and the insurance sector. **Adrian Ladbury** reports

◇ LIABILITY

Adrian Ladbury
news@commercialriskonline.com

@COMRISKONLINE

The European Commission is forging ahead with its proposed revision of the Environmental Liability Directive (ELD) to give the regime more teeth. The revision could see the introduction of mandatory financial security to pay for cleanups and enforce the 'polluter pays' principle (PPP) once and for all.

As part of the review, a call for evidence was conducted towards the end of last year followed by an open public consultation until 4 August, and a targeted consultation with stakeholders in June.

The next step is an ELD stakeholder meeting on 22 November in Brussels. Then a study will be delivered to the EC next April to help prepare the revised directive.

But the European risk management and insurance sectors do not believe that a revision of the directive is needed at this stage.

Ferma believes the focus should instead be on working out how to raise awareness of the regime among the SME community and trying to make environmental liability insurance coverage more available and affordable.

It strongly argues against the introduction of mandatory financial security for environmental liability because it thinks this will take focus away from preventing and managing environmental risk and thus defeat the object.

Ferma president Dirk Wegener summed up the federation's position neatly in interview with *Commercial Risk Europe*. "The ELD does not need to be updated. We are not in favour of the EC pursuing a line of action that will require companies to take out mandatory financial security, which often means a mandatory insurance scheme. This will discourage firms taking the necessary prevention measures and possibly disincentivise the pursuit of enterprise risk management. We don't think that kind of an update will be helpful," he said.

The EC is pushing ahead with its proposed revision of the Environmental Liability Directive

"We are not in favour of the EC pursuing a line of action that will require companies to take out mandatory financial security, which often means a mandatory insurance scheme"

Wegener added: "The problem with the current ELD it that it has not really come to life. The level of applicability across the EU is very diverse, which makes it difficult for cross-border operations. We would be more in favour of having the EC focus on a level playing field across Europe."

REVISION

So why does the EC think that the ELD needs revising at all? Well, the European Court of Auditors (ECA) strongly laid out the reasons for a

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revision in a report published in July 2021.

It stated that the 'polluter pays' principle is simply not working. "While the principle is generally reflected in the EU's environmental policies, its coverage remains incomplete and it is applied unevenly across sectors and member states. As a result, public money – instead of polluters' – is sometimes used to fund cleanup actions," the auditors pointed out.

The ECA reported that nearly three million sites in the EU are potentially contaminated, primarily by industrial activity and waste treatment and disposal. Six in ten bodies of surface water, such as rivers and lakes, are not in good chemical and ecological condition. Air pollution, a major health risk in the EU, also damages vegetation and ecosystems.

The auditors said that all of this entails significant costs for EU citizens. "The 'polluter pays' principle holds polluters responsible for their pollution and the environmental damage they cause. It is polluters, and not taxpayers, who are supposed to cover the associated costs," stated the ECA.

One of its biggest concerns – particularly at a time of stretched budgets – is that very often, site contamination happened so long ago that polluters no longer exist, cannot be identified, or cannot be made liable.

It pointed out that this 'orphan pollution' is one of the reasons why the EU has had to finance remediation projects that should have been paid for by polluters. "What is worse, EU public money has also been used contrary to the 'polluter pays' principle, for instance when authorities in member states have failed to enforce environmental legislation and make polluters pay," stated the ECA.

This is where the thorny matter of mandatory financial security and insurance comes into play.

"The auditors underline that, where businesses do not have sufficient financial security (e.g. insurance policy covering environmental liability), there is a risk that environmental cleanup costs will end up being borne by taxpayers. To date, only seven member states (the Czech Republic, Ireland, Spain, Italy, Poland, Portugal and Slovakia) require financial security to be given for some or all environmental liabilities. But at EU level, such guarantees are not mandatory, which in practice means that taxpayers are forced to step in and pay for cleanup costs when a company that has caused environmental damage becomes insolvent," the ECA pointed out, strongly hinting that the EC ought to make financial security mandatory across the EU.

These comments were followed by a report produced by an expert advisory group the EC is using to help draft its ELD revision.

Taxpayers are forced to step in and pay for cleanup costs when a company that has caused environmental damage becomes insolvent

"Where businesses do not have sufficient financial security, there is a risk that environmental cleanup costs will end up being borne by taxpayers"

It also noted the potential need for mandatory financial security, partly because of a supposed lack of adequate insurance cover across Europe.

"A study prepared for the European Parliament concluded that the problem of insolvency can be addressed through mandatory financial security. For example, Portugal imposes mandatory financial security for all environmentally risky activities identified in the ELD. Portugal accepts a wide range of financial security instruments, including insurance policies, bank guarantees, environmental funds and own funds. Portugal did not report any cases of insolvency that prevented the application of environmental liability," the report states.

"As part of the 2017-2020 Multi Annual Work Programme, the Commission funded a study (*Making the Environmental Liability Directive More Fit for Purpose*) on the availability of and demand for insurance policies in member states. It found that insurance policies for ELD liabilities, the most popular instrument for financial security, were not widely available across the EU, and did not exist in some member states. It also found that availability did not necessarily correspond to demand, and that there were countries where availability was high, but demand was low. However, the study also showed that in member states where financial security for ELD liabilities was mandatory, the obligation drove the development of insurance market," notes the report.

The report adds that as part of its 2021-2024 work programme, the EC plans to encourage member states that have not introduced mandatory financial security for ELD liabilities "to consider extending existing mandatory financial security requirements […] to include requirements for liabilities under the ELD", and "to consider imposition of secondary liability on other persons such as directors and officers and parent companies".

"Mandatory insurance in the area of environmental protection may disincentivise proper and robust risk management"

PROBLEMS

Ferma's comments on the consultation made it crystal clear that it believes this would be the wrong direction to take.

"Based on Ferma's discussions with its members on the ELD, we would like to highlight the following problems, according to the professional risk management community. There is a lack of awareness and therefore room for improvement in awareness-raising. We found that among SMEs in most markets, and even larger companies in certain markets, there is an overall lack of awareness of ELD. Related to that lack of awareness, we have also received feedback from our members that essentially says it's too soon to make any meaningful conclusions or evaluation of the ELD because it is still – relatively – recent history and there is a lack of data/awareness," it said.

"We have also heard from our members that there are indeed differences in approach to ELD cross-border. This has prevented, for example, companies finding insurance coverage cross-border," added Ferma.

"While we do agree with the finding contained in the European Parliament's report that insurance takeup in some (many) markets is still relatively low and that this is due to a lack of awareness, we are of the strong view that making insurance mandatory is not an appropriate solution. Quite aside from the fact that mandatory insurances do not always appropriately adapt to the specific risk coverage needs of clients, and that they can effectively act as a tax, mandatory insurance in the area of environmental protection may disincentivise proper and robust risk management," continued the federation.

"Through our conversations with our members regarding ELD, specifically the point about insurance, we hear the following: In general, for large companies there are no real problems with finding insurance coverage. In certain markets (such as Germany) we know that corporates are able to purchase this insurance as part of general liability policy. However, for SMEs, insurance coverage is a problem, as is the affordability. This is likely to be linked to lack of awareness in this population. Cross-border coverage is a problem for multinational corporations. This could be linked to the known problem of variability of implementation of ELD in the EU. Instead of mandatory financial security, Ferma is very much in favour of companies using robust risk management," it concluded.

EFFECTIVE MEASURES

Insurance Europe, which represents the European insurance sector, is in full agreement.

"Insurance Europe recommends that the focus should primarily be placed on ensuring that effective measures are being taken throughout the EU to prevent and mitigate any potential environmental accidents. In particular, the whole body of European environmental law must be fully implemented at national level and provisions should be introduced for competent authorities to oversee and, if necessary, ensure compliance," stated the federation in response to the ELD consultation.

"Mandatory financial security requirements would interfere with the development of a market for ELD insurance in the few markets where it has not yet fully matured. It would not serve as a solution to the low uptake of insurance cover because it would not solve the lack of reported incidents, sub-optimal enforcement and slower developments in emerging markets. Furthermore, sufficient insurance is available in most markets, even though most member states do not have mandatory financial security in place," continued Insurance Europe.

It will be interesting to see how this discussion pans out during the stakeholder meeting in Brussels next month.

The ECA report gave some pretty clear evidence suggesting that the ELD as it stands is not fit for purpose and needs a rethink. And pressure appears to be building for mandatory financial security on a pan-European basis. So it seems that Ferma and Insurance Europe will have to work together to present a strong and united case against its introduction, to win the day.

Ferma urges OECD to exclude captives from BEPS tax guidelines

◇ CAPTIVES

Ben Norris
news@commercialriskonline.com

@COMRISKONLINE

Ferma has urged the Organisation for Economic Co-operation and Development (OECD) to amend its coming technical guidelines designed to tackle tax challenges from digitalising the global economy, so that captives are recognised as regulated insurance entities.

As the proposals stand, captives are not recognised as providers of regulated financial services and, consequently, national lawmakers could impose higher tax burdens on them when the new two-pillar guidelines are issued.

The OECD carried out a consultation on the guidelines that ended on 19 August. Regulated financial services are one of two sectors in the guidelines that qualify for "exclusions of revenues and profits" from the scope of the tax charges advised by the OECD.

Ferma is concerned that captives have not been recognised as regulated financial services (RFS) entities by the OECD, which could mean that their owners – multinational corporations – have to pay additional taxes that may threaten the validity of these important risk transfer vehicles.

"European captives are regulated insurance entities, Ferma reminds the Organisation for Economic Co-operation and Development. Refusing to classify European captive insurance companies as 'regulated financial services' could undermine the valuable risk management function they fulfil for their owners," Ferma told the OECD.

Ferma's Laurent Nihoul said Solvency II clearly recognises captives as insurance undertakings

Ferma stated its support for the OECD's push to modernise tax systems but argued strongly against the latest proposals on captives.

"Ferma reminds the OECD that captives domiciled in the EU are already regulated under Solvency II and as such meet all requirements set up by the OECD for any undertaking to be recognised as RFS," said the risk management federation.

Ferma also emphasised that there is "no specific reason to unfairly single out captive (re)insurance undertakings and prevent them from being recognised as RFS, since they meet exactly the same requirements as all other insurance and reinsurance undertakings that will benefit from the exemption".

Laurent Nihoul, Ferma board member with responsibility for captives, said captives perform genuine and heavily regulated (re) insurance activities by mobilising capital to cover insurable risks in exchange for an arm's-length premium. He said Solvency II clearly recognises captives as insurance undertakings.

> **"Refusing to classify** European captive insurance companies as 'regulated financial services' could undermine the valuable risk management function they fulfil for their owners"

Ferma stressed to the OECD that captives can support enterprises in managing cyber and other large and complex risks. This has become increasingly important as capacity in the commercial insurance market has contracted and become more expensive, Ferma pointed out.

"Captives are efficient risk management and financing vehicles that supplement the imperfect offer from the private insurance market to large commercial insurance buyers," said Nihoul.

Some 33% of respondents to Ferma's 2022 European Risk Manager Survey said there has been a large reduction in cyber insurance during the past two years, and 18% said natural catastrophe coverage had shrunk. Looking further ahead, 41% of the respondents said they were concerned that some locations or business activities could become uninsurable.

Nearly half the respondents to the survey (47%) said they were considering using a captive this year to better face risks to come. This compares with just 15% in 2018. Risk managers said they expect to make more use of their captives for all lines of business during the next two years.

As Ferma's report, *Captives in a Post-BEPS World*, stresses: "Captive insurance can make a real contribution to the enterprise risk management of multinational groups, while at the same time complying with fiscal and tax regulations."

Nordics

RISK FRONTIERS EUROPE: **NORDICS**

Risk managers vent frustration at insurers' retreat

A fall in capacity and a rise in premiums are leading Nordic risk managers to look beyond the insurance market to mitigate their risks

◇ MARKET

Nicholas Pratt
news@commercialriskonline.com

@COMRISKONLINE

September was a pivotal time for Nordic risk managers as their associations were able to hold their first in-person events since the pandemic. After a three-year absence, there was a lot for risk managers to catch up on given how the risk landscape has altered in that time.

"In the EU, we are in a critical state," said Lene Ritz, corporate enterprise risk and insurance manager at Danish shoe manufacturer ECCO.

As the pandemic subsides, an energy crisis, war in Ukraine and an escalation in natcat events have emerged. Risk managers in the Nordics are facing many of the same macro issues as others across Europe – skyrocketing interest rates, double-digit inflation, global supply chain pressure and an overheated labour market.

However, the feeling among Nordic risk managers we spoke to as part of our *Risk Frontiers Europe* project is that insurers have not stepped up to meet the rising risks. They point to a reduction in capacity for construction all-risks, large D&O placements and cyber.

"The next six months will be tough," said Ritz, who is also a board member of both the Danish risk and insurance management association Darim and the European federation Ferma. "We are facing a lack of insurance capacity on one side and economic sanctions [connected to the war in Ukraine] on the other. And the energy crisis is affecting every company and all risk managers need to urgently review their energy supply."

Nordic countries' proximity to both Russia and Ukraine puts them on the front line of the energy crisis. In late September, both Denmark and Sweden reported gas leaks in the Nord Stream 1 and 2 pipelines that carry Russia's natural gas to the EU.

There is also reputational risk for Nordic companies still doing business in Russia, plus the risk of falling foul of various sanctions imposed at both a national and EU level.

All of these events have conspired to put risk management in the spotlight but also highlighted a potential skills shortage in the profession. "There is a higher demand for risk and insurance managers, so we need to be prepared and to have the necessary competencies," said Ritz

"This state of needing new talents in the profession will continue for years to come, so it is up to us in the profession and the organisations such as Darim to get younger people into the industry."

STATE OF THE INSURANCE MARKET

Darim recently polled its members on their areas of concern. At the top were supply of new materials and the food crisis, the energy crisis, global trade, insurance and political risk.

Claims handling, D&O and captives have also been important issues this

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year. "The possibility of using a captive in the Nordics has increased," said Charlotte Hedemark Hancke, Ferma vice-president and senior risk manager in customer success risk assurance services at software company SAP.

"The hardening market has left risk managers looking for options beyond insurance. It is both the increased premiums and the reduced capacity for certain risks. This is especially true for things like cyber and pandemic. It was predicted back in April that rates would be high and that has proved to be the case, and it is visible with an increasing trend in exclusions," she said.

Darim members have also had to focus on cyber risk and travel restrictions, as well as the Russia-Ukraine war and sanctions. "Some member companies were unsure if they should continue doing business with certain companies with ties to Russia," said Hedemark Hancke.

Swedish risk management association Swerma held its annual forum recently, titled 'Living the New Normal'. It covered a variety of macro topics such as the social media landscape and so-called 'infodemic', the changing climate and rise in political risk.

"A changed risk landscape means new ways of working and continuous risk management and assessment have never been as important and useful as they are at the moment," said Karl-Johan Rodert, Swerma president and insurance/captive manager at Autoliv. "The new normal seems to be constantly changing."

But, from speaking to risk managers at the event, the dominant theme was the deteriorating relationship between commercial insurers and their clients.

Risk managers have been left chasing capacity in a number of lines for both traditional and emerging risks.

"We are even chasing capacity on product liability, which had been abundant for years," said Athina Pehrman, board member SEB boards in the Baltics and director of group risk management, captive and insurance at Autoliv.

It is a similar story for other well-established lines like property and machinery breakdown. Meanwhile, emerging risks like cyber are experiencing a rise in retentions as well as a reduction in capacity. "You won't even get a quote without some significant skin in the game," said Pehrman.

Consequently, risk managers are increasingly looking beyond the insurance market. "The insurance industry has always been very traditional and insurers thought they were driving the market. But we passed them long ago. Their declining risk appetite is decreasing the number of options available for us. The external insurance market is nowadays less able to help you," said Pehrman.

With the risk appetite of insurers declining, captives have become a good option for larger insurance programmes or certain specialty lines, said Pehrman. "We saw captives closing down in Europe because of the administrative burden following regulations such as Solvency II, but with how the world is evolving and the hardening market, captives are going to be much more widely used by companies," she said.

"Some businesses are doing great things with their captives. For example, they are using it for their workers compensation insurance programmes and other insurance solutions," said Pehrman.

She called on insurers to talk to risk managers and find out the type of innovation they desire.

"Some commercial insurers have been genuinely innovative in their use of parametrics and catastrophe bonds. But in general, the development of new insurance products has been a very slow process," she said.

In some areas, insurers could become irrelevant, warned Pehrman. "They need to pay attention to the increasing use of captives. Some brokers have become better at driving innovation, new risk transfer solutions and finding the right carrier. And what makes the right carrier? It is a combination of state of mind and resources/capability, and having enough in-house skills, experience and global reach," she said.

Sweden has experienced the same challenges as other European insurance markets, said Laurence Eeckman, vice-president, group risk management at Swedish home appliance manufacturer Electrolux. The country's risk managers have had to deal with tightening terms of conditions, higher premiums, increased exclusions and reduced capacity.

Similarly the energy crisis is as acute in Sweden as other European countries. "The Swedes are suffering and there is some anxiety for a manufacturing company," said Ferma board member Eeckman. "The transition to alternatives will take time. In the long term we need to find alternatives, but in the short-term this may mean a greater reliance on fossil fuels than would have been hoped for."

BUY-IN

Another challenge facing Swedish risk managers is getting boards to buy new cover when existing policies are getting harder to place.

"Business interruption (BI), cyber and financial lines are all really difficult. We understand that insurers have suffered a lot of losses and need to get back to profitability. But we don't have the coverage we had before – it has got worse," said Eeckman.

"That is a problem for the board. We are asking them to buy new insurance products for new risks but we can't extend existing products like BI or cyber because of war or other exclusions. It is hard to persuade the board to buy new insurance products for emerging risks when they are facing more exclusions on their existing policies," she added.

The insurance market is not moving as quickly as the risk landscape, which has led to a shortage of new covers. This clearly leaves risk managers and insureds with a problem.

"We need insurers to be with us now, rather than after the transition. We are getting more digital and facing ransomware risks... We need to have more customised insurance and more collaboration and not simply come up with more exclusions," said Eeckman.

"Maybe this means more involvement with the captive so that both insurer and insured have more skin in the game. We cannot have these systematic exclusions and the idea that insurance is a one-size-fits-all solution. There has to be dialogue," she continued. "We need more engagement."

This is where risk management associations like Swerma can help, said Eeckman. "We need to use the scale of the associations," she said.

But she stressed that individual risk managers must also step up to the plate and look at alternative risk management options to traditional insurance.

"It is typical in a hard market that insurance capacity reduces… and some risk managers have never worked in such an environment. But you can't just accept it; you need to do something about it. The risk landscape has changed and I am convinced this means more use of alternative risk transfer, self-insurance and captives – this is what the c-suite is after," said Eeckman.

Risk and reward in the energy transition

Commercial Risk Europe talks to **Charlotte Hedemark Hancke**, Ferma vice-president, leading Darim member and senior risk manager in customer success risk assurance services at software company SAP, about the risk implications of the EU's Green Deal, the rise of ESG and the role of risk management associations at a time of crisis

◇ ESG

Nicholas Pratt
news@commercialriskonline.com

@COMRISKONLINE

The Nordics has long had a reputation for prioritising sustainability. This was underlined in September when Denmark became the first United Nations member state to pay DEK100m (€13.4m) in loss and damage compensation to developing countries for the impact of climate change.

According to Denmark's development minister Flemming Møller Mortensen, it was time for action and not just words. The same sentiment could be extended to risk managers as a wave of ESG-themed rules and regulations come into effect.

In 2020, the EU approved the European Green Deal, ushering in a wave of sustainability initiatives across all sectors. There is also the European Commission's directive on corporate sustainability, which was adopted in February 2022 and requires even more transparency and governance from companies.

It will also require more attention from risk managers, said Charlotte Hedemark Hancke, Ferma vice-president, leading Darim member and senior risk manager in customer success risk assurance services at software company SAP.

"If you want to ensure compliance with forthcoming EU acts, more resources will be needed within the risk management function as the scope of the risk assessments will be extended. You will need to have a governance structure in place, with the IT systems to support these new requirements," she said.

There may be additional workload from the ESG-related reporting requirements


Charlotte Hedemark Hancke

but there will also be benefits, added Hedemark Hancke. "It helps us in the risk management function and it creates a stronger link with purchasing and sustainability teams. The ESG-related risks are more complex to understand, including the extended impact on the supply chain. Furthermore, it will give the business more insight into risk at an enterprise level, as well as a holistic view of the value chain and the environment we operate in."

There are also the change management challenges that come with any new regulatory initiative. "We still see this resistance when we talk to a risk owner but they need to consider the ESG impact. Normally we only consider our own exposure but now you have to expand that to your supply chain. It is not just about short-term profitability but also long-term sustainability," said Hedemark Hancke.

For example, there are numerous ESG-related investment risks, such as a company's inability to attract funding or investment because it does not meet certain sustainability standards.

"It is a challenge for risk managers to deal with this process," said Hedemark Hancke. "In 2021, we started to assess non-financial risks and look at mitigation measures and decide what we could disclose. It created a lot of internal attention and more visibility on ESG. We also ran workshops to create stronger internal alignment and not these departmental silos.

"And for external reporting, we have advanced risk systems and a new impact category to enable the capture of ESG risks. These risks may not affect SAP directly – it is more about the wider environment," explained Hedemark Hancke.

RISING TO THE CHALLENGE

She also believes risk management associations such as Darim and Ferma can help their members rise to the ESG challenge.

"We had an open dialogue with Darim members and intend to set up smaller working groups – a process that is only just starting. Companies have to prepare themselves for those Green Deal rules, because they will come," she added.

Ferma published a whitepaper, *Insuring the Transition*, on 12 September, which calls on the (re)insurance industry to do more to support its corporate clients in making the transition to carbon neutrality.

According to the whitepaper, businesses are suffering restrictions on insurance coverage for their transition activities in three ways – limited or unavailable cover, lack of coverage for specific technologies or materials, and exclusion of specific risks.

There is also fear that more stringent regulatory and reporting requirements will be beyond many smaller companies and affect their ability to get insurance. "The concern is if we see insurers engaging only with companies that have completed their ESG reports," said Hedemark Hancke.

This could reduce insurance uptake at a time when the relationship between insurers and companies is already deteriorating and could get worse, given the economic challenges ahead.

"When companies face economic challenges, it has a budgetary impact and that might reduce insurance buying. The risks to be covered are still the same if not more but there is a smaller budget to cover them," said Hedemark Hancke.

France

◆ RISK FRONTIERS
EUROPE: **FRANCE**

As part of our *Risk Frontiers Europe* survey, we spoke to **Oliver Wild**, president of French risk association Amrae, about some of the big issues facing French risk managers during a time of extreme turbulence

Concern grows that cyber won't remain insurable risk

◇ CYBER

Liz Booth
news@commercialriskonline.com

@COMRISKONLINE


Oliver Wild

Cyber remains the big risk that keeps French risk and insurance managers awake at night. They are concerned about its impact on their business and the role that insurance will, or will not, play in helping them mitigate its effect.

This is the key message from a recent survey of French risk managers, conducted by local risk management association Amrae.

Speaking as part of the *Risk Frontiers Europe 2022* survey, Oliver Wild, president of Amrae, told *Commercial Risk Europe* that it is becoming increasingly difficult to insure cyber risk, with very little appetite in the insurance market.

"If you look at the history of cyber insurance, six or seven years ago, everyone wanted to sell you a policy with very little analysis of the exposures and what the risk really was about. Since then, there have been a number of large claims and now a number of carriers don't want to insure cyber at all. Overall, there is significantly reduced capacity in the insurance market now," he said.

An Amrae survey earlier this year found that 70% of association members see cyber as a big risk that keeps them awake at night, far ahead of regulatory and compliance risks in second place on 53%.

At that time, only 4% of respondents said they were in charge of managing cyber risks, while 79% were involved with its mitigation. Just 6% said they were responsible for managing GDPR risks, while 41% provided support to those who are in charge.

> **"Six or seven years** ago, everyone wanted to sell you a policy... now a number of carriers don't want to insure cyber at all"

Wild said the picture has not changed much in the intervening months. When it comes to insurance, he said five years ago he could buy quite large cyber capacity cheaply. Now, the price has increased three-fold and capacity has been halved, with significant exclusions and sub-limits introduced.

> **70%** of Amrae members see cyber as a big risk

One of those is around ransomware. Back in August, Amrae welcomed a bill that will explicitly legalise ransomware payments by insurers in France as long as insureds have filed an official complaint about the incident.

The move looks set to make it more difficult for insurers in France to justify refusing to pay ransoms after some, including the biggest French insurer AXA, ruled out payments on grounds that they fuel criminal activity.

Payment of ransomware is not forbidden in France but insurers feared that they may end up in trouble for doing so. AXA was one of those. But the report from France's Ministry of Economy concluded that victims of ransomware attacks, as well as their insurers, should be allowed to pay ransom demands as long they file a complaint to authorities about the attack.

The goal of the bill is to boost transparency and better understand cyber risks, so that the insurance market can work on modelling and take steps to boost risk prevention among clients.

Another proposal in the report is broader exchange of information between the public and private sectors about cyber losses. Data around cyber and the true value of losses is needed, agreed Wild.

He said Amrae research during the past few years has shown insurers need to cover a wider range of risks, including SMEs, rather than concentrating on the largest corporates, for the cyber market to function better.

MARKET CONTRACTION

However, with prices going up and cover reduced things have actually gone into reverse.

"In 2022, we find that the market has actually contracted, which means there is insufficient premium income to cover even a small number of claims. The market is obviously not sustainable like that. Some carriers have actually paid out the premium of the past five years in just one year," said Wild.

The French ministry's report flags statistics by a government agency that show cyberattacks increased by 155% in France between 2019 and 2020. In the following year, the number jumped another 101%. Anssi, the French cybersecurity agency, estimates that 54% of all French companies suffered some kind of cyberattack last year.

In spite of that alarming jump in risk, Wild said risk managers at some of the larger French corporates are saying their company might walk away from the insurance market if it cannot step up to the plate on cyber.

He added that part of the reason is cyber risk management has improved among large French firms.

"What has changed for the large corporates is that there has been significant investment in cybersecurity in terms of resources and strategy. A lot more is being spent on detection. Corporates know these attacks will happen and that you will never build a wall high enough, as the cybercriminals will always be able to climb higher. But what you can do is detect the problem much more quickly and then deal with it. Having the capacity to react is key," said Wild.

Post-Covid bounceback under threat

French risk managers are facing more risks than ever before as the world copes with Russia's invasion of Ukraine, an energy crisis and threats to the economy

◇ MACRO PICTURE

Liz Booth
news@commercialriskonline.com

@COMRISKONLINE

Cyberattacks are by no means the only risks facing French risk managers this year, stressed Oliver Wild, president of Amrae, as part of the *Risk Frontiers Europe 2022* survey.

Businesses are also facing a barrage of challenges, from the Ukraine-Russia war to the energy crisis and fast-rising inflation, he said.

"Risk managers and their organisations are facing so much uncertainty," said Wild. "There has had to be quite a change in investment strategies. We have to consider how the Ukraine-Russia war plays out; how will China behave? These questions force people to change strategies.

"If you look at the financial results, things seem very good because most firms have bounced back from Covid-19 but now the geopolitical situation is unstable," he added.

CONCERNS

One area of concern beyond Russia and Ukraine is China and Taiwan, said Amrae's president.

"Many companies have significant investments in China and that could cause major issues. At the same time, there is still concern around fragility in Europe and the US is not doing that well. Economics and politics have to be much higher on the radar," he said.

There remain concerns about the Yellow Jackets in France and more strikes. Meanwhile, France has not been immune to the energy price hikes seen across much of Europe, and there is a feeling that there could be massive hikes to come.


Gilets Jaunes protests remain a concern

POLITICS

In addition, France has a hung parliament and it is yet to be seen what impact this will have on the economy and future legislation.

That is something close to Wild's heart as Amrae members wait to see the final version of the country's new finance bill. Included in its provisions will be long-awaited captive legislation that should open up the country as a viable captive market.

Another recent Amrae member survey revealed a number of captive projects are underway among French companies. The vast majority of those are waiting on the new legislation before deciding whether to domicile in France.

Wild said the association is also waiting to see how the legislation will handle captive transfers. There is some concern that, while setting up a new captive will be straightforward, transferring a captive from another jurisdiction could have some serious tax implications.

The legislation is not only about large corporates and their captives but also about enabling smaller companies to find an alternative risk transfer solution. "It is important politically that this is not just about helping large corporates, but also about supporting smaller businesses," stressed Wild.

Risk management continues to attract more board attention

◇ RISK MANAGERS

Liz Booth
news@commercialriskonline.com

@COMRISKONLINE

Risk managers across France are being seen in a new light post-Covid-19, explained Oliver Wild, president of Amrae.

He said Amrae members report that risk managers are much better appreciated by boards since the pandemic, after their involvement in crisis management.

"Today, the impact of that is that boards recognise the value of risk managers' role in terms of business continuity and what risk managers can bring to the business. Now it is about managing the supply chain risk. All these elements do really help in creating more respect for the role of risk management," said Wild.

He added that risk managers now have more of a voice in assessing future corporate strategy.

Wild admits he has been lucky to have a CEO who has always been a strong believer in the value of risk management but he also believes that most company execs are now discussing risk much more frequently.

"There is greater appreciation and I think it has unlocked more investment in protection of the business and in risk management. There is more budget for the outcomes on the risk map – top management have seen the returns of good risk management practices," he said.

CARRIERS

But Wild added that the same appreciation cannot necessarily be said for insurers. "As far as the insurance market is concerned, the issue is still that carriers are not understanding or valuing good risk management practices," he complained.

"We understand that, since 2019, the behaviour of carriers was to balance their books and everyone saw increase in their premiums… and there was no distinction between good and bad risks – everyone saw an increase. I am hoping that will change as we go into 2023 renewals. Insurers' results have improved but now the excuse is inflation. But there is always a good excuse to put rates up," added Amrae's president.

The Covid-19 pandemic raised the profile of risk managers

He warned that if the pattern does not change, "you will see companies gaining confidence and opting out of the traditional insurance market".

"The insurance market is not dead but it is being pushed away by some and it is hard to come back into the market once alternatives have been set up and as good risk management pays off. Insurance will have to be really cheap to lure them back," Wild said.

THE PROFESSION

Meanwhile, an Amrae survey earlier this year shed light on the state of the profession in France.

It revealed that the average French risk manager is 47 years old, male, has worked in the job for 12 years and earns £74,000 per annum.

The French risk management association's poll, which is carried out every two years, also found that leading risk managers can earn more than £250,000, but these tend to be older and more likely male.

The proportion of women in the French risk management profession is on the rise and has reached 45%, but less females have broken through to the top positions and they continue to earn less than their male peers.

The study's findings also suggest that French risk managers are getting older, with 63% of all respondents more than 46 years old this time around, compared with 43% four years ago.

Similarly, while 18% of those surveyed were younger than 35 back in 2017, the ratio is now only 10%.

The gender gap is narrowing, with women accounting for 45% of all respondents, which is 2% higher than in 2019. But females only represent 41% of "top" risk managers in France, the survey found.

And female risk managers still earn less than their male colleagues, with the gap widening as they move up the career ladder. Among junior risk managers, the salary gap is an average of 15%, while among the most senior professionals it is higher than 20%.

The survey results show that French risk managers can be broadly divided into 35% that work as head of enterprise risk management, and 55% as head of insurance or risk prevention.

Three out of every four risk managers that took part in the survey work in Paris or the surrounding region, and more than two thirds are employed by large organisations. This percentage is slightly lower than in the previous Amrae survey but illustrates the challenge in spreading the risk gospel across France and among smaller companies.

A change that has yet to be quantified is the role of risk managers in ESG and sustainability.

Wild said more risk managers are discussing the issues internally but do not necessarily have a direct role.

"There is definitely an increase in involvement for risk managers and we are hearing about a lot of work around stakeholder dialogue and consultation," he said.

SPONSORS

Climate change, inflation and cyber top the risk list

Climate change has been forced to the top of the agenda in France after a torrid summer of extreme heat, fires and then severe rain and hailstorms, while inflation and cyber are also high on the risk list, according to **Jean-Marie Haquette**, country manager for France at HDI Global. He believes frank and open discussions between risk managers and insurers are vital to help find solutions that stand up to today's volatile risk environment

◇ HDI GLOBAL

Liz Booth
news@commercialriskonline.com

@COMRISKONLINE


Jean-Marie Haquette

Unusual and extreme weather has become a leading issue for risk managers and insurers across France after a hot and stormy summer, which resulted in both devastating fires and floods.

Jean-Marie Haquette, the newly appointed country manager for France at HDI Global, believes that no one in the country can be left in any doubt about the impact of climate change after the torrid summer.

"We had huge fires across mainly the Bordeaux area in August, following a period of extreme heat. The fires raged over a land mass equivalent to six times the Paris surface and at European level to the surface of the island of Corsica. This was a huge shock to all of us but has made us realise what climate change means," he said.

"It is now a risk that has moved to the top of the list because the summer did not just bring fire but also hailstorms that we have never seen before. The hailstorms that followed the summer heat are not something that has been properly modelled in the insurance industry and consequently really rated. We just did not expect to suffer this," he added.

Haquette said there have been plenty of claims in the wake of the storms and, once more, these have highlighted the cost of business interruption (BI) in any insurance claim. "Again, we are seeing that the BI portion of the claim can be larger than the physical property damage. This year property claims are also being impacted by supply chain disruption which, of course, is increasing the BI claim," he explained.

> **"Again, we are** seeing that the BI portion of the claim can be larger than the physical property damage"

OTHER RISKS

All this comes on top of a host of other risks that are worrying insurers and insureds alike.

Near the top of that list is inflation. "We are doing relatively well compared to the rest of Europe but it is still set to have a big impact on our costs and our losses," said Haquette.

The economic instability is rekindling fears that France's Yellow Jackets might take to the streets once more, he continued.

"The risk management community is extremely worried about this. In the past, some iconic clients were affected. Think of the big brand names that line the Champs Elysees and the damage that was done before," he added.

The third big risk highlighted by Haquette is cyber. "The threat of major cyberattacks escalated with the Ukraine-Russia war but coverage has been changing because the frequency

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of attacks was already so high. We do have a better idea of the cost of these abnormal claims – which are not so abnormal anymore – but it is the accumulation risk that is a big factor. We need to consider limits, wordings and deductibles if we are to manage these risks," he said.

SYSTEMIC RISKS

Asked how Europe's risk and insurance managers can more effectively identify, measure and mitigate so-called 'black swan' systemic risks, such as the next pandemic or global cyber meltdown, Haquette stressed that HDI Global is always keen to share information and best practice with clients.

He will be working closely with French risk management association Amrae and the country's insurance federation to assess new risks and come up with solutions.

However, some risks might prove too large for insurers alone, he suggested.

"Take cyber. A huge cyberattack affecting not just France but the whole world is not something insurers can take on alone. We are discussing this within the federation of insurers and with Amrae, and we do not have a solution

> **"We had huge fires** across mainly the Bordeaux area in August... This was a huge shock to all of us but has made us realise what climate change means"

as yet, but I am optimistic that we will have a way to better control cyber risk in France. In France, we have been able to come up with a solution for terrorism and there has been work done on a pandemic solution. Cyber is another such risk that we have to find a wider solution for," said Haquette.

He is also confident that insureds and insurers have a better understanding of all their risks after three years of market hardening in France.

RENEWALS

Looking ahead to January renewals in January, Haquette said price rises are still likely. But he said risk managers also have a wide range of solutions open to them – including captives, parametrics and alternative risk transfer – that can help deliver financial security and improve understanding of risk.

However, he has one word of warning for insureds. "Some risk managers are thinking about tomorrow, but no further than tomorrow. We are trying to encourage them to think in much longer-term views, which will help identify future risks. The good news is that we are receiving calls almost on a daily basis from those who are planning much further ahead and want to engage with insurers who are here for the longer term too," said Haquette.

Transparency and honest discussions with clients remain key for HDI Global in France, said Haquette.

"We must have open and honest discussions with clients. We need to understand their risks and they need to understand how we can support them. I am confident that we have increasing numbers of well-informed and educated risk managers who are delivering a professional service to their employers and who can make the most of managing their risks through the insurance markets," he concluded.

Wildfire in Aubais, France, July 2022

IN ASSOCIATION WITH

Balancing the needs of multinationals with rising protectionism

While local markets understandably want to keep premiums local, multinationals need centralised controls. In this interview, **Antonio Vianello**, head of multinational programmes and network management at Generali Global Corporate & Commercial, discusses this delicate balancing act

INTERVIEW

news@commercialriskonline.com

@COMRISKONLINE

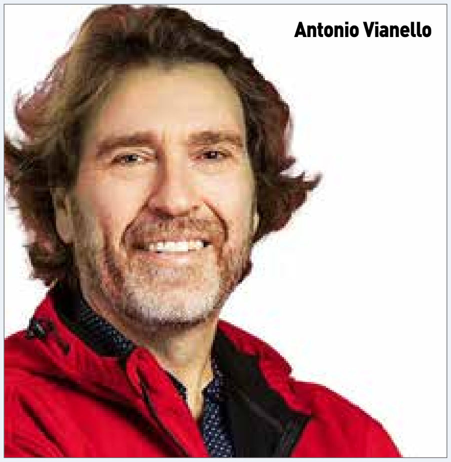
Q: In the current era of rising protectionism, which is concerned with keeping premiums local, it is becoming increasingly difficult to operate multinational programmes. Against this backdrop, what solutions do you advocate to help clients?

A: First things first, in talking about solutions, I would like to distinguish between the tools and the expertise.

While having the right tools in place is essential, this is arguably not the aspect that makes the biggest difference to a multinational client. Now, more than ever, the competence and expertise of the global carrier represent the true differentiating factor.

Every week there seems to be a new piece of regulatory provision, many of which aim to close or protect the local market and, for sure, most of them have an impact on the programme's structure and execution, reinsurance flows and taxation. In short, they pose a challenge to building an efficient and compliant multinational programme structure.

Amidst this ever-increasing complexity, the solution centres squarely on gaining a deep understanding of the client's business – its footprint, operations and exposures – together with an intricate understanding of how to use the multinational programme – the 'what, why and how' of local regulations, market practice, tax implications etc.



Antonio Vianello

It is not only a matter of offering cover solutions, such as the financial interest clause, but assessing how these covers can fit with new scenarios and meet the customer's need. To do that you need to have the right people, in the right place – namely, just beside your customer.

The challenge is to keep everything compliant, simple and efficient. And to provide solutions that give contract certainty, ultimately helping the customer face its own challenges.

It is thanks to our skills, tools and network at Generali that we are able to assist and support the customer to understand the most efficient solution for a specific need, in a specific territory, and to ensure compliance.

Partnering with a global carrier and setting up a global programme supports risk managers in many ways. It gives them worldwide control of their own operations; access to the global services around and beyond the policy cover; access to the global carrier services and to the services of its own partners through which it can provide added-value services specialised for multinational companies at worldwide level.

"Partnering with a global carrier and setting up a global programme supports risk managers in many ways"

Q: Do global programmes still represent the right solution to emerging risk management challenges, such as climate change, the energy transition and increasing need to follow ESG principles?

A: In my opinion, global programmes can help risk managers even more than in the past.

Global programmes have always been a tool to provide risk managers with local regulatory insights and market trends, and help clients control their own global exposures and operations while providing cover clarity and contract certainty.

Right now, this is more important than ever.

Risk managers may have limited knowledge or understanding of what happens around the world. The pace of change is faster than ever now, in terms of regulatory changes, sanctions, mandatory cover, claims trends, etc. In a very uncertain regulatory scenario, having updated information is fundamental.

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The great deal of information collected and the tools available to process that data help to run scenario planning and anticipate trends. It helps to consider a 'black swan' event approach. In short, to think the unthinkable. This is essential considering the Covid-19 pandemic experience during the last couple of years.

Q: What challenges and lessons learnt do you see for a global carrier in the post-pandemic era?

A: As a corporate and global carrier, we manage and offer complex products, tailored around the customers' needs, spanning multiple regions and subject to ever-changing and complex regulations. In the new scenarios, we must focus more on the 'relationship dimension', explaining our products to the customer, to ensure contract certainty.

Being able to build trust and a long-term relationship is key to managing the new risks. Agility and flexibility are also paramount to managing new risk, as well as the new trends of traditional risks.

Global carriers need to be flexible, with the ability to quickly adapt their operating model to support risk managers. We need to be more service-driven than process-driven; be prepared to think beyond established industry practices.

Premium payment terms review and payment deferral, to help clients cope with

"Since the adoption of the Paris Agreement, climate litigation has gained pace"

liquidity problems due to the decrease of turnover during Covid-19, represent only small examples of concrete actions that we put in place to support our customers during the pandemic.

Being flexible and able to quickly adapt to customers' needs also meant mobilising our own risk engineering network to provide free consultancy to customers, to safely restore operations after shutdown.

Q: And, finally, how are you helping customers face new risk challenges, such as the energy transition?

A: The energy transition implies a dramatic business model transformation for customers. We must offload complexity, or operational burden, from our customers. And we as a business must be prepared for it as well, making sure we have the right competencies.

The new technology needed to achieve the zero-emission target as soon as possible implies a challenge for everyone. For example, we need to review all of our people's skills to be prepared to face the new demands; claims people and loss adjusters in particular.

Aligned with this are the climate change goals, designed to pivot away from fossil fuel dependence. This also requires a dramatic business model transformation in different economic sectors.

Climate change is also a source of new laws, standards and duties of care. It poses new challenges ahead and we need to be prepared for it, and anticipate the new trends.

Nuisance claims may be just an example of the new trend related to climate change that we must be prepared to manage.

Since the adoption of the Paris Agreement, climate litigation has gained pace, increased in volume, and expanded in scope and geographical coverage. So far, the majority of cases have been brought against governments. However, there is clear evidence that lawsuits against corporate entities are on the rise. We must support risk managers with regards to this new challenge. Climate change-related litigation is a truly global phenomenon.

In these new scenarios, we see an increased duty of care for both customers and ourselves towards all parties – employees, stakeholders and society.

What next for talc litigation?

◇ LIABILITY

David Wynn
Partner in the disease team
Clyde & Co

@ClydeCoNews

On 11 August, Johnson & Johnson (J&J) announced that the company will stop global sales of its talcum-based powders in 2023, switching to cornstarch-based baby powder.

At the same time, the company reiterated its stance that its talc-based powder does not contain asbestos and does not cause cancer. The American multinational corporation has been defending tens of thousands of mesothelioma and ovarian cancer claims in the US since 2009, attracting widespread media attention.

> "The company reiterated its stance that its talc-based powder does not contain asbestos and does not cause cancer"

J&J stopped selling its talc-based powder in North America back in 2020. The official reason given at the time was economic, namely declining sales due to "misinformation" fuelled by the huge number of injury lawsuits brought against the company.

Talcum powder is a naturally occurring mineral that has been used by the cosmetics and personal care industry for more than 100 years. It exists in seams that need to be mined, and these seams are often found near seams of asbestos. It is plausible that trace amounts of this carcinogenic ingredient could contaminate the talcum powder at the extraction stage.

The likelihood of contamination was officially recognised by the International Agency for Research on Cancer, part of the World Health Organization, in 2016, when it declared that perineal use of talcum powder could be "possibly carcinogenic". The majority of scientific studies in this field have, however, not found overwhelming evidence supporting a link, presumably because they have relied on a person's memory of their talc use throughout a long period of time. Findings have been mixed, with some studies showing

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an increased risk of cancer and others reporting no increase.

Other risk factors, such as a genetic disposition, hormone replacement therapy and obesity, are widely accepted as increasing the risk of contracting ovarian cancer. Coupled with the fact that ovarian cancer is not common, the scientific evidence supporting a link between the use of talcum powder and cancer is not unequivocal. But in 2018, a Reuters investigation found that J&J had known for decades that its raw and finished talc products contained asbestos and therefore posed a carcinogenic threat to its consumers.

Jury verdicts against J&J in the US have been mixed. Some claimants have been awarded millions in damages, such as in St Louis, where various appellate courts have declined to overturn an award of $2.5bn in favour of 20 women who alleged their ovarian cancer was caused by talc. But in some other cases, juries have declined to find against J&J, or verdicts have been overturned on appeal. Nevertheless, the exposure is a huge issue for J&J and it has been battling to contain its liability in the more than 38,000 remaining claims.

J&J is thought to have incurred more than $1bn in legal fees and paid out $3.5bn in settlements to date. The pharmaceutical is attempting to use a bankruptcy process in North Carolina Bankruptcy Court for LTL Management (LTL), the subsidiary created solely to hold its talc liability. This move includes a $2bn provision to resolve current and future talc claims.

"The rigorous medical causation test in the UK would more than likely prevent the same types of claims being brought there, and to date we have not seen any claims activity"

Earlier this year, LTL survived motions to dismiss its Chapter 11 case when a New Jersey judge said the bankruptcy offers the best opportunity for claimants to receive damages. In July, the judge ordered an estimation process to establish the combined value of all the talc injury claims in the Chapter 11 case.

The rigorous medical causation test in the UK would more than likely prevent the same types of claims being brought there, and to date we have not seen any claims activity. But could that prediction change in light of the global sales ban?

In January 2020, the NHS reiterated the findings of a new review that there is "no evidence" that talcum powder causes ovarian cancer. Although UK insurers continue to monitor the progress of lawsuits in the US, it does seem unlikely that talc litigation will take off.

The decision in *Gee v DePuy & Ors* [2018], a case that was concerned with allegations of defective prostheses, appears to represent the most definitive gauge of the UK's position. In short, it was considered that the evidence cited by the claimants could not be relied on because there were too many potentially confounding factors skewing the findings, much of the primary data was unreliable and the underlying studies referred to in reports were inadequate.

Any potential defendants in future talc litigation will refer to *Gee* as a good example of how scientific studies into healthcare products fail to stand up to judicial scrutiny, and the global sales ban is unlikely to have any bearing on the stringent medical causation test applied in the UK courts.

◇ **LEGAL EYE:** THE BRIEFS

Amrae welcomes bill that approves ransomware payments by French insurers

◇ Amrae has welcomed a forthcoming bill to explicitly legalise ransomware payments by insurers in France, as long as insureds have filed an official complaint about the incident.

The move looks set to make it more difficult for insurers in France to justify refusing to pay ransoms after some, including the biggest French insurer AXA, ruled out payments on grounds that they fuel criminal activity.

Currently, the payment of ransomware is not forbidden in France but insurers fear that they may end in trouble for doing so.

But the new report from France's Ministry of Economy concludes that victims of ransomware attacks, as well as their insurers, should be allowed to pay ransom demands as long they file a complaint to authorities about the attack.

US banks fined $2bn for failure to keep records

◇ Wall Street banks are to pay penalties totalling more than $2bn for failing to maintain and preserve electronic communications.

The US Securities and Exchange Commission and the Commodity Futures Trading Commission separately levied the fines against leading financial firms over their failure to monitor and preserve unapproved communication methods, including messages sent via personal text and WhatsApp.

Slovak supervisor slammed by EC over Solvency II application

◇ The Slovakian insurance supervisor Národná Banka Slovenska (NBS) has been severely rapped on the knuckles by the EC for failing to properly apply Solvency II rules.

The EC has adopted a formal opinion requiring the NBS to fully comply with the prudential regime for insurance and reinsurance undertakings in the EU.

This opinion follows a recommendation issued by the European Insurance and Occupational Pensions Authority (Eiopa) under Article 17 of the Eiopa Regulation concerning breach of EU law.

Eiopa has gathered evidence that an unnamed Slovak insurance company, under the supervision of the NBS as home supervisor, has failed to comply with Solvency II rules in relation to technical provisions, capital requirements, investments and system of governance.

Commercial Risk's website delivers daily news, reporting the leading stories of relevance to risk and insurance managers every day in its electronic newsletters. Here, we round up of some of the most popular articles published last month. To visit the website and sign up for the free weekly and daily newsletters, please go to:

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Inflation set to cause delayed price rises as insurers battle reserve adequacy: Marsh

Ben Norris
news@commercialriskonline.com
@COMRISKONLINE

Marsh McLennan has warned there is significant risk that the inflation crisis will leave parts of the insurance industry inadequately reserved and cause a delayed rise in prices as the market reacts more slowly than many other parts of the economy to the financial turmoil.

The company's experts also told media that companies are operating in a much riskier world today than we thought just three years ago, putting risk management top of the agenda and at an absolute premium.

Jay Dhru, global head of business intelligence at Marsh McLennan's reinsurance broker Guy Carpenter, said the (re) insurance industry is in a relatively strong position to cope with higher inflation. He pointed out that it is one of the highest-rated sectors by ratings agencies and has been delivering profitable underwriting.

Rate increases in the primary and reinsurance markets have contributed to improved profitability for both sectors. Meanwhile, higher investment yields in a rising interest rate environment are also providing a tailwind.


The (re)insurance industry is in a relatively strong position to cope with higher inflation

Dhru explained that the risk transfer industry's profitability has been buoyed by a long period of reserve releases. But he warned things are likely to change as inflation increases claims, and previous pricing and reserves begin to look deficient.

In fact, Dhru believes there is "significant risk" that inflation will have a delayed and amplified impact on loss reserves, which could significantly impact (re) insurers' profitability for several years. "That is the thing to look out for," he said.

"Increased claims frequency and/or severity driven by inflationary pressures could have an adverse impact on reserve adequacy, providing a tailwind to pricing that has to come otherwise that becomes a headwind," said Dhru.

He explained that much of the current reserve redundancy is driven by short-tail lines such as workers comp but said some others areas, such as liability, are already showing signs of reserve deficiency.

"The view is that companies will go from redundancy to adequacy. But what we see typically is they skip adequacy and go straight to deficiency," he said.

Jack Sallada, managing director of global placement at Marsh, said carriers are trying to work out how to price adequately to ensure they have enough reserves to handle claims.

Whether this ends up in higher rates for some risks remains to be seen, but it will certainly mean more insurance is needed to cover higher claims values, he said.

As a result, insurance buyers are going to have to buy more insurance at coming renewals to cover a range of risks impacted by inflation, with lines from property through to casualty, motor and workers compensation all affected, Sallada warned.

Swiss captives set for lighter regulation under revised insurance law

Adrian Ladbury
news@commercialriskonline.com
@COMRISKONLINE

Solvency II's proportionality principal will be enshrined in the upcoming new Swiss insurance law and ensure that captives in Switzerland are not as heavily regulated as mainstream commercial insurers that write third-party risks.

Experts say revisions to the law, which will come into effect either next July or January 2024, will also be less onerous for reinsurers, insurers that only deal with professional risks and smaller insurers.

Insurance brokers will, however, be subject to stricter regulation. The revision will also introduce a restructuring law for insurance companies in financial distress and a new framework for special purpose

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insurance companies that could help further foster the growth of insurance-linked securities and cat bonds in Switzerland.

Professor Joachim Frick, partner in the Switzerland offices of global law firm Baker McKenzie, explained in a recent note that the federal law on the supervision of insurance carriers (VAG) will introduce a new, risk-based regime that allows for more tailor-made regulation.

According to Frick, the revised law will contain measures that bring in the proportionality principle under Solvency II, which risk managers have long argued has not been fully applied by many of Europe's insurance supervisors, making captives less attractive.

"For insurers with only professional policyholders, for small and new first insurance carriers and for reinsurers and captives, substantial exemptions from supervision will apply or can be requested from the supervisor," said Frick.

"While the current supervisory regime distinguishes only insurers and reinsurers, the new law will allow a distinction based on the specific risks borne by an insurance carrier, taking into account its business lines, customer base and size," continued the lawyer.

"Less strict supervisory rules will apply to small insurers, reinsurers and insurers with only professional policyholders. Therefore, it is recommended that firms review their business with the purpose of applying for the appropriate supervisory regime," added Frick.

Insurance intermediaries, including banks and asset managers that intermediate policies, will also have to adjust to new requirements under the Swiss law on issues ranging from corporate compliance to legal education and specialisation.

Broker commissions and retrocession payments will be further regulated with the aim of avoiding conflicts of interest.

The revised law is the last part of a full revision of Switzerland's financial market laws that started in 2007.

Marsh explores bringing renewable energy certificate service payments to global clients

Ben Norris
news@commercialriskonline.com
@COMRISKONLINE

Marsh has told *Commercial Risk Europe* it is exploring the possibility of expanding its scheme to allow US clients to pay service fees with renewable energy certificates to global customers.

The broker announced late last month that US clients can now pay for the broker's service fees with voluntary carbon offset credits and renewable energy certificates (RECs).

It is thought to be the first such offer in the financial services industry.

Marsh's US customers can pay for both insurance broking and risk advisory services by transferring agreed-upon voluntary carbon offset credits and RECs to Bank of America.

And the broker said it is now exploring expanding the programme globally.

The move in the US and potential expansion come as the insurance industry comes under pressure to help companies transition to a low-carbon economy.

Marsh said the offer is part of its effort to accelerate the energy transition from fossil fuels to renewables, and recognise clients pursuing and exceeding net-zero carbon-emission goals.

Voluntary carbon offset credits are records of investments that organisations make in environmental projects and infrastructure that either remove carbon dioxide or avoid its emission. Each offset represents the successful, verified removal or avoidance of one ton of CO_2.

RECs are records of renewable electricity generation and are issued to organisations when one megawatt-hour of electricity is generated and delivered to the electricity grid from a renewable energy resource.

Marsh's US clients can now pay for the broker's service fees with voluntary carbon offset credits and renewable energy certificates

Book your space

FERMA and Commercial Risk are delighted to announce the shortlist for the Industry Excellence category for the sixth European Risk Management Awards. We would like to congratulate all the finalists in an outstanding list of entries this year.

The shortlist for the Excellence in Risk Management and Training & Education Excellence categories will be announced later in October.

Broker Innovation of the Year

Marsh Cyber Incident Management

Strategica Group

Visicover Marine Leisure Product Development

Claims Innovation of the Year

Blink Parametric Lost Luggage

Davies Automated Claims Software

Van Ameyde Vehicle Fleet Claims Solution including the Buckle Up app

Global Programmes Innovation of the Year

Marsh Global Program Workbook

Swiss Re Corporate Solutions International Programmes Virtual Captive

Zurich Connector API Solution (bi-directional data exchange)

Insurance Company Innovation of the Year

Parsyl Insurance Team

Swiss Re Corporate Solutions Crossrail Elizabeth Line Construction Project

Zurich Swift/Maersk Cargo Insurance Initiative

Systemic Risk Solution of the Year

Marsh ESG Risk Rating

Russell Group – The Russell ALPS Solution

Zurich Workplace Diversity, Equity and Inclusion Service

Technology Innovation of the Year

AXA XL Environmental Sensitivities Tool

Conducttr Worlds

EuroTempest Flood Dashboard

Zurich Connector API Solution (bi-directional data exchange)

EUROPEAN RISK MANAGEMENT AWARDS 2022

This year's Gala Dinner will take place on Tuesday, 22 November at the Sheraton Grand London Park Lane, Piccadilly, London W1J 7BX

If you would like to join in and celebrate your colleagues' success, table bookings are OPEN!

To book a table of 10, visit **https://europeanriskmanagementawards.com/European22/en/page/book-a-table**

For individual or group bookings for risk managers and risk management associations, email **enquiries@europeanriskmanagementawards.com**

We are pleased to announce that this year we are supporting Ecologi, an organisation helping to protect our planet through climate projects.

Ecologi use donations to support a broad range of projects around the world that are able to evidence that they are reducing greenhouse gas emissions. It's now common knowledge that one of the best tools to tackle the climate crisis and keep our temperatures from rising above 1.5C is to plant trees.

FERMA and CRE are proud to partner with such a worthy initiative and therefore for each attendee at this year's Gala Dinner Ceremony we will make a commitment to purchase 10 trees in their name.

Look online for more information.
www.europeanriskmanagementawards.com

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Headline Partner: Allianz

Partners: AXA, BELFOR, ZURICH

Proud to support: Ecologi