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Commercial Risk Europe

Insurance & Risk Management News

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Summer 2023

AIRMIC 2023
We focus on the UK as Airmic celebrates 60th anniversary at annual conference **15-19**

Cyber cover in the spotlight

◆ Calls grow for summit to address buyer concerns

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Surge in captive growth set to continue

◆ Risk maturity and hard market see further expansion

Data can unleash power of risk management

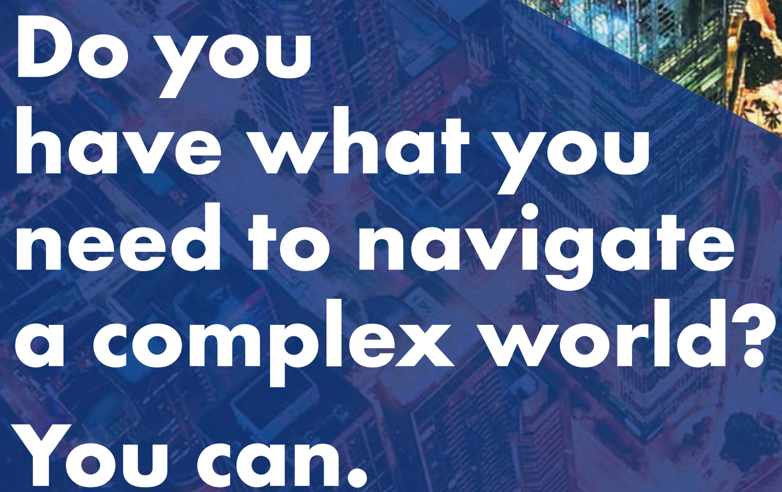
◆ Leading risk manager says data can lower TCOR

Time to take the lead

◆ We speak to Ferma president Dirk Wegener

Risk Frontiers Spain, Portugal and Sweden

◆ European risk managers on the big issues



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Commercial Risk **Europe**

Insurance & Risk Management News

It's good to talk

There are mounting calls for the insurance industry to join risk managers, insurance buyers and brokers in a COP-style cyber summit to tackle some of the concerns our readers have with the cyber market.

Ferma started the ball rolling on this amid fears from the European risk management community that cyber insurance is developing in isolation from buyers. The federation's stark warning to the insurance industry was listen up or risk losing business as the cyber product losses its appeal.

Risk and insurance managers are clearly concerned about the way in which insurers are stripping out cover for cyber war or state-sponsored attacks, alongside dwindling capacity and rapid price increases during the hard market. Buyers accept that insurers need to manage potentially systemic exposure but aren't entirely happy about the way in which their carrier "partners" have gone about this with cyber.

Other national and regional risk management associations, as well as global federation Ifrima, have told *Commercial Risk* that they back Ferma's call to get everyone around a table to discuss buyer concerns and listen to the views of insurers. Brokers have also been quick to jump on board and support the idea. But insurers have been less forthcoming. The European insurance association Insurance Europe told us that while it is always keen to speak, insurers must be left to decide which risks they want to cover and how.

We at *Commercial Risk Europe* think it's good to talk so will press insurers over the next few weeks to see if we can get more commitment from them to attend a cyber summit with risk and insurance management associations, their members and brokers. We understand insurance solutions must ultimately be left to market forces. But we would like to think there is scope for further collaboration to ensure more solutions are designed with clients in mind and discuss recent steps that have upset customers.

In this issue of edition of *CRE*, we bring you the latest on the cyber issues raised above and look at the ongoing surge in captive growth, which shows no sign of slowing down in the hard market.

We also focus on Airmic and big issues in the UK risk and insurance arena, as the associations gears up for its annual conference. In addition, there is Spanish, Portuguese and Swedish European Risk Frontier coverage, with opinions from leading risk managers across Europe. Plus 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 Jolly

John Knox

DESIGN & PRODUCTION

Andrew Ryan, head of production
aryan@commercialriskonline.com

COMMERCIAL

Hugo Foster, head of sales
hfoster@commercialriskonline.com

OPERATIONS

Annabel White, group operations and 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.

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COMMERCIAL RISK EUROPE SUPPORTS

Calls grow for cyber summit to work through buyer concerns

Risk managers increasingly frustrated by cover

◇ CYBER

Ben Norris
news@commercialriskonline.com

@COMRISKONLINE

Risk management associations across the world and brokers have thrown their weight behind Ferma's call for a COP-style cyber summit to boost market collaboration and thrash out buyer-side concerns over cover.

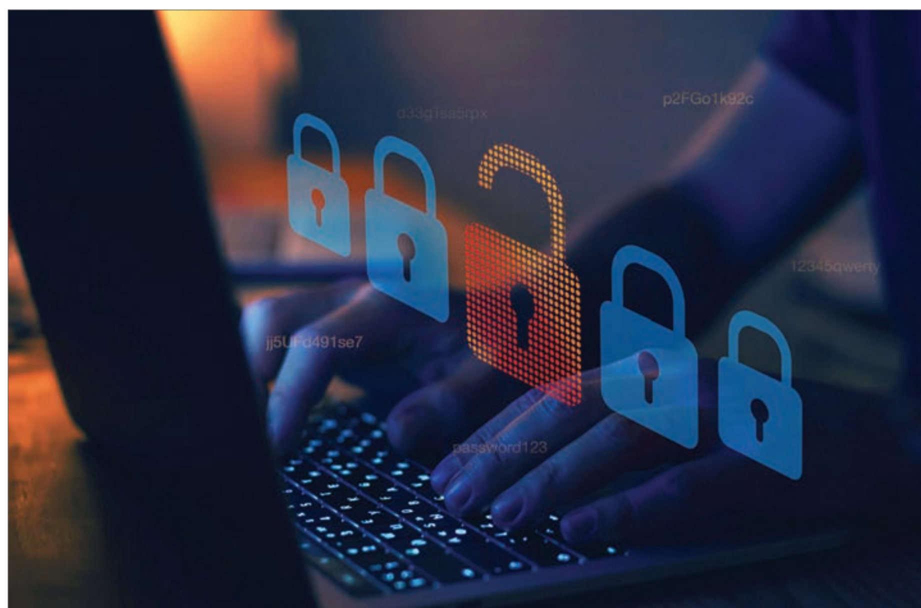
The moves comes amid growing frustration from buyers about the dwindling cover and capacity offered by the cyber insurance market, with more and more risk managers questioning whether it is worth taking out protection.

Ferma recently raised concerns that the cyber insurance market is "evolving in isolation from the industries that it insures", and believes there is a real risk that the cover will simply lose its appeal if restrictions and exclusions continue to grow.

There is no doubt that the cyber market has been incredibly tough for buyers over the past few years as rates spiralled and exclusions were added, with a particular focus on war clauses. At the same time, capacity has dwindled.

The 2017 NotPetya cyberattack was a big factor in insurers and reinsurers moving to tackle war exclusions. Lloyd's of London led the way, demanding that standard cyber policies exclude big state-backed cyberattacks over fears of huge systemic losses.

Ferma said it understands that the corporate insurance market needs to manage its potential exposure to systemic cyber risk. But it is unhappy with how insurers have gone about this task and thinks insurers are developing cover without factoring in the needs of their clients.



The European risk management federation wants the insurance industry to adopt a more collaborative approach to cyber insurance, which balances the risk appetite of the market with the coverage requirements of corporate buyers. It has therefore proposed a COP-style annual event to focus on this issue and cyber resilience.

"Without more concerted dialogue between all parties – (re)insurers, brokers, buyers (both largescale and SME), regulators, and service providers – there is a risk that the appeal of the cyber product for corporate buyers may decline due to increasing exclusions and more restrictive coverage, which are reducing coverage certainty," said Ferma.

Other leading regional risk management associations and global federation Ifrima have told *Commercial Risk Europe* that they share some of Ferma's concerns about the cyber market and back calls to hold a market-wide summit of all the stakeholders.

President of Ifrima and chair of Parima, Franck Baron, said the two organisations would "strongly support" such an initiative, pointing out that cyber solutions need to be fixed at a global level.

"Without more concerted dialogue between all parties there is a risk that the appeal of the cyber product for corporate buyers may decline due to increasing exclusions and more restrictive coverage"
Ferma

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"It is quite difficult to trace down where some viruses are developed from, and claim determination from such events appears to be very challenging"

Franck Baron, president of Ifrima and chair of Parima

Several national risk management associations across Europe have also backed the move.

President of Swedish risk management association Swerma, Johan Rodert, said Ferma has recently created a group to push insurers to provide more capacity for cyber and increase the communication between insurers and risk managers. "At Swerma we are supporting that," said Rodert, who is also risk manager at Autoliv, during a recent interview.

The Dutch and Belgian risk management associations Narim and Belrim told us during recent European Risk Frontiers roundtables that they support Ferma too.

And leading brokers are keen on the idea. Like buyers, they would like insurers to take up the offer.

Alistair Clarke, UK cyber broking leader at Aon, told *CRE* that the voice of clients should be the cyber insurance market's "North Star". "No decisions should be made in a vacuum and we think some of the most productive sessions we have are where we can put clients and markets together in a room. We would therefore relish the opportunity to help create a forum for sharing of ideas, for both sides to gain an appreciation of what the other is trying to achieve and in so doing drive the market forward in a productive and sustainable fashion," he said.

Johnty Mongan, head of cyber risk management at Gallagher, said an event where the market and clients could meet to discuss issues around cyber insurance would "without a doubt be a good thing".

From the carrier side, European insurance association Insurance Europe gave a more lukewarm response. It said it is always good to debate issues with risk managers, but stressed that it is up to each insurer to decide which risks to cover and how, rather than finding market solutions. "This is even more true in such a complex and evolving area as cyber risk," said Nicolas Jeanmart, head of personal and general insurance at the association.

Ferma said that the corporate insurance market clearly needs to manage its potential exposure to cyber risk, but stressed it is "also important to ensure that the product remains attractive and efficient for buyers".

"Recent decisions to restrict the scope of coverage have created uncertainty regarding the ability of insurance to meet the evolving cyber risk requirements of policyholders, and in particular for larger corporation," said Philippe Cotelle, vice president of Ferma and chair of its digital committee.

He told *Commercial Risk Europe* that the primary areas of concern for Ferma and its member associations relate to two key coverage issues – cyber war and systemic risk.

"To address the issue of silent cyber, we have also seen steps taken by some insurers to ensure that cyber is no longer included on broader policies such as property insurance. It is imperative, therefore, that we work closely with the insurance industry to ensure that any potential cyber coverage gaps, either due to coverage or lack of capacity, are addressed effectively for both the insurers and the buyers of insurance," added Cotelle, who is also head of cyber insurance management at Airbus.

He and Ferma are clear that collaboration between public and private entities will be critical to find cyber solutions of "sufficient magnitude to tackle systemic risk and support greater overall cyber resilience".

"It is widely recognised that the insurance industry alone cannot tackle cyber risks of this scale, while most companies acknowledge that they do not have the financial strength to bear these risks themselves. Collaboration between both public and private sector entities is therefore critical... At Ferma, we are committed to facilitating greater collaboration between all key stakeholders and have been facilitating multi-party dialogue on this front," said Cotelle.

Following this dialogue, Ferma is launching a new cyber report on 26 June that will include a series of key recommendations to address the cyber insurance protection gap.

Baron, who is group head of risk management and insurance at International SOS, said Ifrima and Parima are aware that the recent hard cyber market has seen huge increases in the price of cover, shrinking capacity and dwindling coverage. He flagged two major "pain points" that need to be addressed.

He said carriers need to "muscle up"

6

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their risk engineering capabilities so that risk managers can develop a "credible technical" dialogue wither their CIOs and CISOs. Secondly, Baron wants insurers to "radically transform" cyber by leveraging digital solutions to simplify and optimise the renewal process.

And Baron agrees with Ferma that mounting cyber war and state-sponsored exclusions are one of the most worrying recent coverage developments. "It is quite difficult to trace down where some viruses are developed from, and claim determination from such events appears to be very challenging," he said.

Ratings agency Moody's said that movements to limit systemic cyber risk through war exclusions has recently been met with "some resistance" in the marketplace. It said that brokers have seen clients shop for new carriers rather than sign onto much more restrictive policy language.

And a growing number of leading risk managers we talk to are either choosing to forgo cyber cover or at least questioning its merits.

Moller-Maersk suffered big losses in 2017 from NotPetya, which resulted in $250m to $300m of losses, and decided to buy standalone cyber insurance in response. But its risk manager said during a recent CRE webinar that the company has since chosen to take the risk on its own balance sheet amid concerns over costs of cover and capacity, investing some of the premium spend in better cyber defences.

"The cyber product has made less and less sense for us from a risk financing perspective because, based on our own data, our own risk assessment, we believe that the premium substantially exceeds the mean average cyber losses that we will experience. Don't get me wrong, we see cyberattacks almost every day and they cost us money every day but still on an average basis it doesn't exceed what we would have to pay on an annual cyber premium," said Lars Henneberg, vice president and head of risk management at the shipping giant.

"At the same time, you see that capacity available has reduced so much that it has become less relevant for us. So we have spoken to our CFO and said we will take the volatility that could be transferred to insurance – ie, a 1-in-50 or 1-in-100-year event – on our own balance sheet. That is basically how we have used risk analysis and data to arrive at a well-documented decision not to insure our cyber risk for the time being. From a risk reduction perspective, the money we used to spend on cyber insurance premium is simply better spent on investment in additional cyber security," he added.

Pedro Cupertino de Miranda, the risk, cyber security and data protection officer at retail group Sonae in Portugal, said transferring cyber risk in the current market is a big challenge for many companies that are increasingly questioning the relevance of protection.

"We have to increasingly ask ourselves whether cyber insurance is of any use with its current offer," he said.

Several other big insurance buyers have said off the record that they have chosen not take out cyber cover. It is also worth remembering that cyber mutual Miris, which was set up by European multinationals in response to inadequate protection from the traditional market, was set up to write business from the beginning of this year.

Aon's Clarke was keen to stress that the voice of the client is paramount and the view of well-respected organisations like Ferma must be listened to. "If there is ever a feeling that any clients and their concerns aren't being considered, then that's absolutely something that needs addressing," he said.

But he believes that while the cyber market has come through its first hard market, the line remains, overall, one of the broadest currently available. "The hard market did have a temporary effect on the availability and price of cyber insurance, but had no lasting negative effects on the breadth of coverage available," argued Clarke.

He said that ongoing conversations around war clauses are clearly a point of concern for many clients, and it's a "great shame that so much time has been spent over the last 24 months discussing what a cyber policy might not do, rather than what we know it does do".

However, Clarke said Aon firmly believes that the "angst and confusion" around war clauses has been caused by poor communication rather than a substantive shift in market intent.

"The fundamental point is that the intent around war, around what should and shouldn't be covered by Lloyd's and company markets hasn't fundamentally changed…the challenge has been for the market to enshrine that intent in clear language that can be understood and accepted by all parties, providing full clarity over what is, and is not covered," he said.

"It is the responsibility of both markets and intermediaries to bring this to a swift resolution and avoid further confusion for clients," he added.

Fellow broker Mongan from Gallagher said some companies looking to purchase cyber insurance are uncomfortable at how high the bar is set to obtain cover. "But that is not to say that is wrong to set the bar that high. We are a world away from the low entry point three years ago, and that is a good thing as it protects those companies with good risk management in the pool of insureds," he said.

The better news for buyers is that although exclusions and war clauses remain a big topic the cyber market seems to be improving for buyers.

"Putting the issue of war aside we think the market is actually in good health, as there is so much more capacity available today than even six months ago, rates have cooled markedly and we are seeing clients every day availing themselves of the opportunity to increase limits and broaden out the terms and conditions of their policies," said Clarke.

Baron agreed that there has been improvements recently with some new dedicated capacity, for example from Marsh out of Bermuda.

Moody's said that it expects cyber insurance rates to flatten or increase slightly in the near term as the market enters equilibrium after drastically improving profitability over the past few years.

"The cyber product has made less and less sense for us because we believe that the premium substantially exceeds the mean average cyber losses that we will experience"

Moller-Maersk

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Unprecedented surge in captive growth set to continue

Risk maturity and hard market see expansion into more lines

◇ CAPTIVE GROWTH

Stuart Collins
news@commercialriskonline.com

@COMRISKONLINE

Spectacular growth in the captive market looks set to continue as the hard insurance market and increasing risk management maturity drive expansion, experts have told *Commercial Risk Europe*.

According to Robert Geraghty, senior vice president at Marsh Captive Solutions, interest in the captive market shows no signs of slowing, following a period of rapid growth that started with the hardening insurance market in 2019. Premiums written by captives managed by Marsh globally have grown to around $70bn in 2022 from $49bn in 2018.

"The past three years has been unprecedented – this is a record-breaking time for us. Last year we set up 138 new captives globally, and the year before 132, with 100 in 2020," he said.

"We also saw a huge amount of cyber incorporated into captives last year. We are now up to over $133m of GWP in cyber

"This year has been crazy, with so many new captives formed. I have never seen so many enquiries as this past year, nor put on as much business"

Nick Frost, Davies Captive Management

"The past three years has been unprecedented – this is a record-breaking time for us. Last year we set up 138 new captives globally, and the year before 132, with 100 in 2020"

Robert Geraghty, Marsh Captive Solutions

[written by Marsh managed captives], with 75% growth in the number of captives writing cyber. I would expect that trend to continue," Geraghty said.

"Captives have really come to the forefront for many companies in managing their risk, and we continue to see strong growth this year as companies take on more risk… We see a lot more property come into captives this year, which correlates to increases in global property insurance market pricing, which increased 10% in the first quarter of 2023," he added.

Geraghty, said the captive growth was driven by new formations and increased retentions in existing captives.

Recent growth in captives is a big turnaround for the industry. Only a decade ago it was facing pressure from Solvency II and increased scrutiny on offshore domiciles from a global clampdown on tax avoidance, which led to the OECD's Base Erosion and Profit-Shifting agreement.

The soft insurance market and low interest rate environment were also "strong headwinds" for the captive market, explained Nick Frost, president of Davies Captive Management, and his colleague

Richard Tee, managing director of captive management in Guernsey.

"This year has been crazy, with so many new captives formed. I have been involved with the captive market for over 30 years, and I have never seen so many enquiries as this past year, nor put on as much business. It really is booming, and I only see it continuing. There isn't anything on the horizon that suggests it is going away," said Frost.

"Insurance rates have gone crazy across the board. US companies are putting more property into their captives because rates are seen as ridiculous, or they can't get enough coverage. Captive owners are also adding various liability classes that have been hit by increases, including cyber, D&O and E&O," he said.

Growth is not just coming from traditional captive markets in the US and Europe, according to Frost. "We are seeing interest from companies around the world, including those that have not traditionally had captives in Bermuda, such as Australia and New Zealand," he said. "Bermuda is also seeing more interest in captives from

"It does not look like the insurance market will change any time soon. Even if it were to soften, rates are not expected to plummet"

Richard Tee, Davies Captive Management

companies in Canada, Japan and Latin America," he said.

High insurance prices and rising interest rates, along with improvements in the quality of risk management over the years, have made it increasingly attractive for companies to retain more risk in a captive, explained Frost. "We had ten years of no investment income on captives. Now they are getting close to 5% on investments as well. So there is real value in retaining risk and the assets supporting the risk," he said.

Growth in captives is not only due to the hard market, said Geraghty. "There are lots of qualitative advantages to captives and when you look regionally, we have seen strong growth of captives from companies in Asia Pacific, as well as Latin America and Canada. These are growing captive markets – they have become a lot more aware of captive advantages in formalising their risk management, leading to growth that will only continue," he said.

WTW also saw growth in new captive formations last year. At the same time, premiums written by existing captives increased by double digits as companies funded higher retentions and plugged gaps in cover and capacity, explained Peter Carter, head of the broker's global captive practice.

WTW also experienced double-digit growth in the number of protected cell companies (PCCs). Carter said large corporates are using PCCs to write directly in the EU, as an alternative to using a fronting insurer. "We see a trend where corporates say we can do this more cost effectively with a PCC than using a fronting company," he said.

PCC's are also being used to address difficult-to-place risks, explained Carter. "PCCs are a great way to deal with point issues, such as cover for cyber. Cyber increasingly bubbles up for captives. Using a captive to write cyber forces greater management scrutiny and discipline in mitigating the risk. It also encourages better internal communication and training on best practice IT cyber security, as well as more control of claims," he said.

Captive growth is being helped by expansion into more lines of business, said Geraghty. And with $118.5bn in surplus funds, there is scope to take on more risk, he said. "Some of the larger companies see the captive as the first port of call and look to insure it from there first, and look at the market after," he said.

Larger captives now write an average five to six lines of business, according to Marsh. In addition to property and casualty, captives are looking to add cyber, employee benefits, trade credit, excess liability, product recall, cargo and, to a lesser degree, political risks and supply chain, said Geraghty.

A GROWING MARKET

Despite some moderation in primary commercial insurance rates, the captive market continues to grow, according to Frost and Tee. "We get more and more enquiries every week. And where companies have formed a captive, they are looking at additional classes of business, along with increased interest in captives internationally," said Tee.

"It does not look like the insurance market will change any time soon. Even if it were to soften, rates are not expected to plummet. While there may be an adjustment in pricing, I doubt it would be enough to deter people from exploring captive opportunities," he continued.

Geraghty believes captive growth will continue over the longer term. "This is not a flash in the pan. We have seen phenomenal growth and record-breaking numbers, and we would expect further growth this year in numbers and captives taking on more risk and increased retentions. But whether it will be the same growth this year as 2022, we will have to wait and see," he said.

"The market must adapt the solution it provides, with increasing exposure to climate change, geopolitical risk and instability etc"

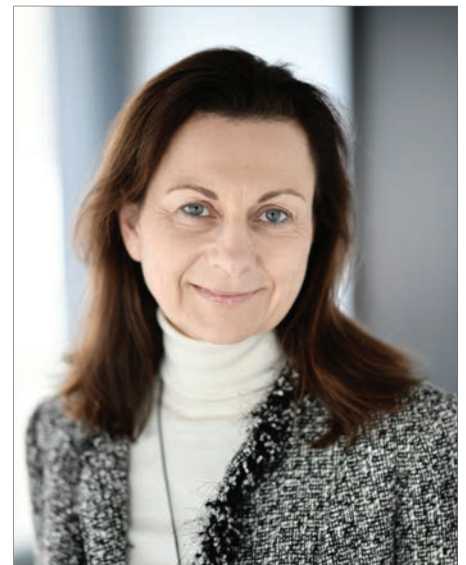
Marine Charbonnier, AXA XL

Marine Charbonnier, head of underwriting, captives and facultative at AXA XL in APAC and Europe, also believes captive interest will be a long-term trend.

"I am fully convinced that long-term captives will have a major role. The market must adapt the solution it provides, with increasing exposure to climate change, geopolitical risk and instability etc. These risks will not reduce in the long term, and I am sure captives will remain a very strategic tool to obtain the best from the insurance market, and when combined with the market, to offer the best solutions to manage and finance risk," she said.

"Once established, a captive becomes part of a company's programme optimisation strategy. Clients can reduce their involvement to reflect market opportunities, but once they involve a captive in their main programme, it usually remains. It becomes a flexible and strategic tool," said Charbonnier.

AXA XL has also seen growth in the captive sector over the past year. The insurer has worked with European clients to set up new captives, in particular mid-sized corporates looking to mitigate the hard insurance market. It has also been supporting large mature captive clients as they diversify into new lines of business, including cyber, political risk, construction and cargo, explained Charbonnier.



Data can unleash the power of risk management and lower TCOR, says leading risk manager

◇ DATA

Ben Norris
news@commercialriskonline.com

@COMRISKONLINE

The risk manager from Moller-Maersk has told colleagues that getting a proper grasp on data can transform your relationships with carriers and radically reduce your total cost of risk, while also freeing up time to focus on added value risk management rather than insurance contracts.

Speaking on a recent *Commercial Risk* webinar, Lars Henneberg, vice president and head of risk management at A.P. Moller-Maersk, said the shipping giant's data journey has seen his role with key partners, such as insurers and brokers, change from transactional to strategic, with much more focus on the services they can provide. Data has allowed Maersk to take control of decisions about whether and how to retain or transfer risk, he said.

Henneberg has been on a journey to improve the risk and insurance data held by Maersk for several years now with the help of Insurwave. Insurwave is a data management platform that helps global corporates manage their risk insurance data, allowing them to optimise their risk management, transfer and retention strategies.

"By doing our homework we get an efficiently priced reinsurance programme and overall risk financing structure. That requires good system support and good data, and it means we change our own role from being insurance contract administrators pushing around insurance documents and become proper risk managers, where we spend 75% of our time on risk management and 25% of our time on administration, which used to be the other way around," said Henneberg.

"And we have been able to take more control of our own risk transfer decisions, and use the data to make risk prevention decisions," he continued.

Maersk took the step to try to really get on top of its data in order to help deliver the lowest possible cost of risk, the nirvana for all risk managers.

"There is no doubt that developing the system with Insurwave has reduced a lot of the transactional friction in risk transfer because we share data on the same platform with the market, with our brokers, with our capital providers. As soon as we update the info they can see that. It doesn't have to go through the frictional value chain of slips and endorsements and between the various parts of the value chain," said Henneberg.

He said using Insurwave's system also reduced the distance between risk and capital. "As soon as we update the system it is automatically updated, without any delay and with capital providers and with our brokers to the extent that they have signed up to the platform," said the risk manager.

He said the data has allowed Maersk to better understand its own risks and update its internal processes and interaction with the insurance market.

"It has also allowed us to procure reinsurance efficiently because we can provide accurate data that is credible so underwriters don't have to err on the side of caution," said Henneberg. "We have moved from being extremely transactional to being strategic with our partners and relying less on their risk transfer and more on the services they provide," he added.

The upshot is better risk transfer and more time to spend on risk management.

Fellow speaker Stefan Schrijnen, chief commercial officer at Insurwave, said the more time he spends in the world of complex risk and insurance the clearer it becomes that data is one of the biggest obstacles to success.

"Unless you have a really clear understanding of your risk and exposure, it is very hard to move to that more flexible risk financing model where you can make more strategic decisions – like what insurance you really want to buy, and where does it make sense to retain risk. It is hard to do that without first solving the data challenge," he said.

Henneberg believes companies need to have a strong balance sheet and the ability to retain risk for data mining to really pay off and help reduce the total costs risk.

"The ability to retain risk is important.

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This is all about leveraging the strength of your own balance sheet as a competitive advantage to have a lower cost of risk than your competitors. Companies tend to do that in a captive," he said.

"So you probably need to be a multinational corporation and this is typically where you see these data systems in place. You can then turn the info into a competitive advantage by restructuring a risk financing programme," he added.

Henneberg said Maersk can now insource all of its data and documentation, which means it can form its own opinion about risk and the value of risk transfer. This has vastly changed the company's relationship with the insurance market.

"Most of the risks we insure will come through our captive, and armed with the data this means our needs from the insurance market have changed. It is not just there to provide transactional services for us and keep all our data and documents. What we need now is more intellectual capital," he said.

"We need their fronting services to able to distribute our captive capacity in the 130 territories we operate in across the world. So we need access to a global network. We also need their analytical services to model the data and understand the risks. So we have a lot of need for actuarial services from insurers and, in particular, brokers. We then need to integrate our systems of data and processes with them to ensure we have a seamless operations and tie in their services to our captive," he concluded.

Risk managers can dip toe in data capture water before learning to swim

Ben Norris
news@commercialriskonline.com

@ComRiskOnline

Risk managers may find the journey towards capturing and harnessing the power of data daunting but have been encouraged to simply take the first step rather than being overwhelmed by the size of the challenge.

Speaking on a recent *Commercial Risk* webinar, Stefan Schrijnen, chief commercial officer at risk and insurance data platform Insurwave, said a big challenge when it comes to collecting data is the sheer number of different sources within, for example, a large multinational company. This make it hard to collect the data even before thinking how best to share it with the insurance market, captives and reinsurers, he added.

"So there is no doubt all this is hard. It takes time and there is real complexity. But from my perspective one of the hardest thing about all this is starting. That sounds trivial but when people look at big complex challenge's one of the hardest things is accepting you don't have all of the answers because there isn't one system out there that solves the data problem of a big global corporate," said Schrijnen.

He said it is easy for the scale of this challenge to be "debilitating" because there is no simple, low-risk, accessible answer to everything. "So for me the most important thing is to have clear purpose and long-term objectives you are working towards, and then to just begin," said Schrijnen.

"The reality is there are lots of companies out there with experience of helping with these sorts of problems and it isn't the investment it once was to dip your toe in, then your foot, and then go for a swim. Don't be overwhelmed by the complexity of the challenge, begin and learn, and then do a bit more," he added.

Lars Henneberg, vice president and head of risk management at A.P. Moller-Maersk, was also on the webinar. He was an early adopter and key influencer of Insurwave's data management platform. At the time, the shipping giant was in need of a systematic way to and help reduce its overall cost of risk.

Henneberg told *Commercial Risk* readers that it takes time to properly develop inhouse data capabilities, and advised risk managers not to strive for perfection from day one.

"The first decision is to want to establish your own centre of excellence in your own company because you don't just view yourself as a manager of broker contracts and insurance contracts. You actually decide that you want to develop the capabilities inhouse. This process then takes time. We have worked with Insurwave for six or seven years. You should not go for perfection. You should get something that is viable and then learn from that. This is the fastest way to progress," said Henneberg.

Schrijnen explained that when Insurwave launched, the platform originally required people to log on in order to access risk and insurance data. But he said it soon became clear that the most convenient way for people to access information was through tools they are always logged into, such as email or Excel.

So Insurwave had to come up with a way of automating complex data sharing between risk managers, brokers and underwriters that was platform enabled but email accessible, and doesn't rely on people logging in to make manual updates.

"There is never going to be one data information system that everyone signs up to. But it is perfectly possible to have a tech solution that shares data nonetheless in established forms like Excel, which brokers and insurers are used to using. But that Excel file can come from the Insurwave system, it can be sent from the system and go back in the system once the broker or underwriter has done what they need to do with it… The technology needs to facilitate the connection of that data," explained Schrijnen.

Henneberg stressed that technology solutions are rarely a solution in themselves, not least when it comes to data management. "Tech systems are there to support processes and if your processes are poor the systems will not help you to gather, for example, data across multinational insurance programmes," he said.

Time to take the lead

Adrian Ladbury interviews **Dirk Wegener**, president of Ferma, as our annual Risk Frontiers Europe survey builds momentum. He believes that the risk and insurance management community is ready to rise to the challenges and opportunities presented by the new state of 'perma-crisis'. Wegener agrees with his peers that the insurance sector also needs to up its game at a faster pace and, ideally, with more innovation, not least to help with the green transition.

Adrian Ladbury (AL): A rising number of risk managers taking part in our Risk Frontiers Europe survey say that political risk is now near the top of the agenda. Would you agree, and what should risk managers be doing to help their organisations deal with this risk in practical terms?

Dirk Wegener (DW): The constantly shifting geopolitical environment is inevitably pushing the issue of political risk further up the corporate agenda, particularly given the potential long-term repercussions of such risks on multiple aspects of businesses, ranging from supply-chain disruption through to the increased threat of cyberattacks.

In Ferma's view, such adverse developments should act as a catalyst for greater interaction by the risk manager at the strategic level, feeding directly into business-critical decision making as organisations try to navigate this increasingly complex political environment.

This is very much the focus of our 2023

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theme of 'Be Risk Leaders', which promotes greater integration of the risk manager at that c-suite level. Managing such a volatile political landscape requires that direct input, particularly given their unique position within any organisation and the fact that they are constantly monitoring the risk horizon.

We need to see the profession playing much more of a lead role in how companies look to sustain their operations and maintain their competitiveness in such a charged environment.

AL: What is top of the agenda for Ferma currently? What are the big regulatory and legislative matters that you need to focus on – risk reporting, supply chain due diligence, collective redress etc?

DW: Ferma members are currently addressing a range of sweeping regulatory changes that impact many of their organisational activities. As the representative body for the European risk profession, our advocacy remit spans a significant number of legislative developments.

These include:

The EU Climate Resilience Dialogue. Our goal is to help our members understand the financial and environmental impacts of climate change and work towards achieving a joint strategy to prevent and mitigate these risks. Further, we are focusing on asymmetries within the insurance market to help reduce the protection gap and help enhance disaster resilience.

The EU Cyber Resilience Act & Cyber Solidarity Act. Ferma is assessing the EC's cyber package proposals and promoting market-wide dialogue on issues relating to the lack of awareness and insurance coverage regarding cyber risk. We are also developing and promoting strategies for cyber risk management resulting from the rising threats from geopolitical tensions and the increasing digitisation of key infrastructures.

The Critical Raw Materials Act/ Net Zero Industry Act. Ferma is examining the possible risk management and insurance implications of the 'new' industrial competitiveness strategy of the EU and the supply chain implications for companies within the EU.

"It is Ferma's view that the insurance market should work to establish a stronger partnership with their corporate clients to facilitate the transition to net zero"

Dick Wegener, Ferma

AL: The whole field of ESG is rapidly rising up the agenda and risk managers are increasingly becoming involved. How do you think risk managers can add value to this fast-evolving area and in what way should they become involved?

DW: Risk managers have a key role to play in enabling companies to meet ESG objectives and ensuring compliance with an expanding range of ESG-focused requirements.

While we have seen a significant increase in regulatory pressure to demonstrate ESG credentials, a key challenge is that there is still a degree of subjectivity in how these requirements are being met. There is clearly a need for a more standardised approach to reporting on ESG-related measures, as well as more defined KPIs for how companies can measure their performance.

We have seen a growing number of (re)insurers announce they will not be providing cover for projects that do not meet their ESG criteria, such as those related to the extraction or use of fossil fuels. However, we have also seen leading market practitioners exit the Net Zero Insurance Alliance (NZIA), citing concerns over the ability to help clients manage the transition effectively.

From the risk manager perspective, choosing not to do business with a particular insurer due to their particular ESG stance at a time when capacity is still limited is a difficult decision to make.

It is Ferma's view that the insurance market should work to establish a stronger partnership with their corporate clients to facilitate the transition to net zero. Companies are facing challenges relating to limited coverage, a growing number of policy exclusions, and a lack of solutions for new technologies and materials designed to support this transition.

We need to see greater collaboration to support companies that are clearly embracing the green transition that enables a more holistic approach to addressing associated risks. It is essential that all parties work to develop a more balanced approach if we are to successfully navigate the route to net zero.

Opportunities abound for those that accept managed risk, says Airmic chair

Ahead of its annual conference in Manchester, *Commercial Risk Europe* spoke with Airmic's chair **Tim Graham** about his time in the hotseat over the past year, personal highlights and what the association has been focusing on during this period.

◇ INTERVIEW

Ben Norris
news@commercialriskonline.com

@COMRISKONLINE

Tim Graham, Airmic's current chair and director of HR risk management at GlaxoSmithKline, has some sage advice for risk managers and his successor at the UK risk and insurance management association.

"Early on in my career I received some wonderful advice that life is full of endless opportunity if you are prepared to accept change and a bit of risk along the way," he said.

"One of my passions outside of work is competitive sailing, which is most topical for the theme of this year's Airmic conference – Riding the Waves. So my advice to a new chair would be to grasp the opportunity and jump on board! You will be joined by a truly amazing crew comprising a world class team," he added.

Graham said it has been a "truly exciting privilege and great honour" to be Airmic chair over the past year.

"I struggle to find the words to say how much I have enjoyed my time as chair, and would recommend the role to anyone and the experience it presents," he said.

The experienced risk manager said there have been many highlights during his time in the role. One is that risk management has continued its rise up the corporate agenda.

"Risk Management continues to be even more relevant and important for business today than ever before, and one of the highlights this year for me is that risk management is increasingly recognised as such," he said.

Adding: "I have also been fortunate to meet many inspiring people during my time as chair who are proud and passionate about what they do and the contribution they make to our profession."

Graham explained that Airmic has focused on three key areas under his stewardship.

"Firstly, as we continue to see continued instability in the Ukraine, financial market uncertainly, climate change, a new age of AI and other global issues, Airmic has continued to provide a unique collaborative network for its members and partners alike to enable swift and effective responses to these global risks across our various industries," he said.

"Secondly, Airmic has not taken its eye off the ball, recognising the crucial role it plays in enabling organisations to take on and accept managed risk, which is fundamental to success," continued its chair.

The third big area of focus over the last 12 months has been planning ahead to ensure Airmic, which is celebrating its 60th anniversary this year, continues to build on its success.

> **"Life is full of endless opportunity if you are prepared to accept change and a bit of risk along the way"**
>
> **Tim Graham, Airmic**

"The team has been writing the next chapter in the Airmic story to ensure we have a clear purpose and vision for the future, specifically to provide an association that continues to be 'best in class', and will ensure a profession that is increasingly relevant, enjoys respect and is representative of those it serves," said Graham.

UK D&Os face 'perfect storm' of risks

◇ D&O RISKS

Stuart Collins
news@commercialriskonline.com

@COMRISKONLINE

With a struggling economy and a rising tide of regulation, UK directors and officers (D&Os) face a period of heightened risks, warn brokers and insurers.

A multitude of macroeconomic and geopolitical factors are putting UK companies and their D&Os under additional pressure, according to Laura Parris, executive director of management liability at Gallagher.

"The current landscape provides a perfect storm of challenges for companies and their D&Os. There are several factors contributing to this, including the withdrawal of Covid solvency protections, which are already leading to a higher risk of insolvencies and therefore potential scrutiny of D&Os during this period," said Parris.

"The complexity and uncertainty surrounding Brexit has also created challenges for businesses, with changes in trading agreements, regulatory frameworks and supply chains that impact businesses operations and financial performances. Meanwhile, the rising cost of living, energy prices and inflation, as well as increased borrowing costs, are putting additional pressure on financial health and profitability," she said.

The current uncertain economic environment brings heightened challenges to both companies and insurers, explained Patrick Caine, underwriting leader of financial risks at RSA Insurance. "Increasing interest rates, disruption to supply chains, the inflation and cost of living crisis, the war in Ukraine, environment, social and governance regulatory pressures, diversity and inclusion issues are all affecting the market, all of which will bring increased claims activity," he said.

In May, law firm RPC said D&O insurance claims are likely to rise in line with an increase in insolvencies and alleged misconduct against directors in the UK. RPC said the UK's Insolvency Service has recorded a 36% increase in the number of investigations launched into directors of insolvent companies for suspected misconduct.

The average number of fraud investigations increased from 142 per month in 2021/22 to 193 per month between April and December 2022. The number of cases referred to the Insolvency Service's companies and targeting department, which investigates corporate abuse, more than doubled from an average of 528 to 1,077 during last year.

GROWING ACCOUNTABILITY

In addition to the threat of insolvency, UK D&Os face increased responsibilities under proposed regulatory changes, including through listing rules and audit and corporate governance reforms.

Since the 2008 global financial crisis, directors are increasingly being held to account by regulators and courts, according to Stephanie Manson, head of management liability in the UK for Marsh. For example, there have been several prosecutions of directors by the Health & Safety Executive following fatalities in the workplace, while the proposed Economic Crime and Corporate Transparency Bill introduces the new corporate criminal offence of failure to prevent fraud, she said.

There are several proposed changes to regulations and legislation that directors need to be aware of, said Caine. Following a number of high-profile corporate failures, including outsourcer Carillion and café chain Patisserie Valerie, there are proposed changes to the UK Corporate governance code, which is overseen by the Financial Reporting Council, he explained.

"Directors will now be required to make a declaration, similar to

High-profile corporate failures such as Carillion have led to proposed changes to the UK Corporate governance code

ClientEarth attempted to launch a derivative action against diretors of Shell earlier this year

the Sarbanes-Oxley Act in the US, confirming that their company's internal controls have been effective. In other legislation, the Economic Crime and Corporate Transparency Bill will give Companies House increased powers to review and challenge information filed with them," Caine said.

The UK audit reforms would hold D&Os more accountable for financial reporting and audit practices, explained Parris. "If implemented, they will have increased responsibility in ensuring accuracy, overseeing audit committees and meeting new reporting requirements," she said.

EMERGING ESG RISKS

Perhaps the biggest area of emerging liability for UK D&Os comes from ESG, which is subject to new reporting requirements and increased scrutiny by investors and consumers.

Since 2022, the largest UK companies are required to disclose their climate-related risks and opportunities, in line with Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. Earlier this year, ClientEarth attempted to launch a climate-related derivative action against 11 directors of energy company Shell. The court rejected the application, although the environmental group is reportedly seeking an oral hearing to get the decision overturned.

ESG poses significant challenges for D&Os, from greenwashing, breach of duty claims for climate actions, and new corporate disclosure requirements. "There are also new disclosure regimes for ESG reporting, which will increase transparency and accountability for ESG-related issues. D&Os must ensure accurate and comprehensive reporting to avoid misstatements or omissions that may lead to claims," Parris said.

The recent ESG case against Shell serves as a reminder to D&Os that society wants greater accountability, which will no doubt lead governments to make legislative changes, according to Caine. "ESG and cyber exposures are never far from everyone's minds with constant and increasing cyberattacks and allegations of 'greenwashing' being reported in the press both here, in the US, Europe and wider Asian markets," she said.

MISCONDUCT AND HARASSMENT

The 'S' in ESG is also of increasing concern, with growing focus on misconduct, sexual harassment and diversity and inclusion. The UK has seen a number of allegations of corporate misconduct and sexual harassment in recent months, most notably at the Confederation of British Industry (CBI).

"We are seeing a strong increase in employment claims given various factors, including the uncertain economic environment, actions taken by employers during the pandemic, increased focus on diversity and inclusion issues for employers, and the large volume of employment-related legislation many countries have introduced over several years," said Caine.

"The recent allegations reported in the press in respect of the CBI has again focused the mind of management liability underwriters. We also saw the recent settlement of the Goldman Sachs class action in the US to the tune of approximately $200m for sexual discrimination. Companies definitely appear to be under pressure to not only disclose but to resolve and close the pay gap and eliminate work place disparity," he said.

There have been claims made in the UK under D&O policies for sexual harassment or discrimination allegations, although they mostly fall under employment practices liability insurance (EPLI) policies, which typically cover both the company and directors, explained Manson. "Such cases typically settle out of court and are confidential, so it is difficult to determine trends in this area. But we are seeing notifications to D&O policies for such claims in the UK, although they are frequently settled under the EPLI cover," she said.

While there is some cover for employment-related claims under D&O insurance, more UK companies are purchasing specialist standalone EPLI, which provides more meaningful protection, explained Parris.

However, the EPLI market is limited for large companies, Caine said. "For private companies, EPLI can be bundled into a management liability package but capacity, appetite and affordability for standalone EPLI policies for larger risks or PLC's is certainly scarce in the marketplace," he said.

Managing risk through partnership and collaboration

Ben Norris spoke to prominent Airmic member **George Ong**, head of corporate governance and chief risk officer at Northern Ireland (NI) Water, about some of the big topics currently in the word of risk and insurance management. He believes that the risk profession has transformed in recent years and is a big advocate of collaborating with fellow risk managers and the insurance market to build the best possible risk mitigation solutions.

Ben Norris (BN): How has the job of risk and insurance manager evolved in recent times and what value does the risk manager bring to a corporation in your view? Why should a young person consider a career in risk and insurance management?

George Ong (GO): The role of a risk and insurance manager has completely transformed over time as the complexity of risks and new compliance requirements push the costs and impact of these 'principal risks' to the forefront of any organisation, with significant reputational risks.

While not normally in attendance at board meetings, the risk and insurance manager has evolved from merely putting in place a cost-effective insurance programme to being the bridge to bring risk engineering expertise from insurers and brokers to support their organisation in improving their resilience. For this reason, NI Water's brokerage and insurance tenders always place emphasis on 'quality assessment' rather than on 'price'. The benefits of so doing are clear to see as our brokers and insurers are our business partners in addressing NI Water's risk engineering solutions across the business to better manage risks.

Young people growing up in the digital age bring with them natural IT skillsets and a fresh approach to insurance solutions, which are so necessary. Universities have developed risk management programmes that include onsite working experience that will better equip young people for this profession. I am a guest lecturer at both local universities and NI Water has provided, and continually provides, opportunities for student research into emerging risks.

BN: What are the big three risks facing corporations in 2023 in your view? How could and should the private and public sector work more effectively together to tackle emerging risks such as natural catastrophes, pandemics and cyber?

GO: For me the big three risks in 2023 in no order of priority are geopolitical, cyber and the ESG agenda.

The question of how the private and public sectors can work more efficiently together to

Silent Valley Reservoir in Mourne Mountains, County Down, Northern Ireland

tackle emerging risks is difficult, if not impossible, to answer. The continual changes in the political landscape and frequent replacement of ministers cannot provide a platform for constructive dialogue to develop a long-term infrastructural schemes that will provide better resilience to emerging risks such as natural catastrophe, pandemics and cyber.

In order for corporations to function effectively with the government, third sector and community stakeholders to better manage emerging risks, there needs to be an established body consisting of members from government, corporations and the community. While it needs to funded by the government, its influence needs to be free from any direction from the political party of the day. Such a body could then address emerging risks and combination of risk factors on a country-wide basis.

BN: How do you think the commercial insurance market has performed during recent renewals? Which lines do you think will be the most challenging this year and what is your strategy to obtain the best possible coverage at an adequate price?

GO: There are many reasons for the 'hard' market and why it is getting softer for certain lines of cover. But what I find difficult is explaining to my executive committee and board how the insurance and reinsurance market functions and why this can result in reduced scope of cover while costs escalate when there is little change in the company's risk profile.

The insurance policies that require more attention going forward are cyber, D&O, property damage business interruption and EIL, mainly to do with scope of cover and their associated costs.

In terms of insurance strategy to improve on quality, scope and price, I have had the privilege of working with various insurers to better understand the format and structure of risks associated with specific lines of cover and how to capture better data for underwriting analysis, conducting pilots for new forms of insurance trigger events and redesigning scope of cover and new insurance solutions. Such engagements are invaluable and provide the framework for insurers and brokers to work effectively with risk managers to create a 'win, win' solution for all.

> **"The insurance policies that require more attention going forward are cyber, D&O, EIL, and property damage business interruption"**
>
> **George Ong, Northern Island Water**

BN: What could and should national risk management associations do to help improve the way the commercial insurance market operates? What can insurers do to improve their service, improve value and deliver more innovative coverage when and where it is needed?

GO: I can only speak as a corporate member for Airmic. But Airmic has been, and continues to be, at the forefront of engaging with government, regulators, institutes, community bodies and other associations to work in partnership, where appropriate, and lobby on behalf of risk and insurance managers. Airmic provides a multimedia platform for brokers, insurers, legal and risk consultants to listen to risk and insurance managers' needs and issues constructive guidance, case studies and practical solutions.

I had the privilege of working with Julia Graham, CEO of Airmic, and her team to facilitate the

inaugural Airmic 'Island of Ireland' Forum on the 25 October 2022 in Dublin. It was a sold out event with hundreds of risk managers working with insurers, brokers and many other risk professionals to consider risks unique to the 'Island of Ireland' but also with global implications.

I have found a real interest in insurers wanting to engage with risk managers to better understand our risks, which has resulted in more effective risk engineering solutions and new insurance offerings and improvement in lines of cover. Insurers have brought together risk managers from across the world to share learning through working together to identify risk and insurance solutions.

We have developed resilience tools to improve learning experiences, conducted pilots to develop new triggers for effective claims management, and even been involved in insurers' innovation labs to develop risk-prevention technologies and support to meet our ESG objectives. This approach is so beneficial to me as a risk manager and I strongly believe working together is the best way forward to managing emerging risks.

Risk profession gaining recognition but war for talent intensifying in Spain

◇ **Rodrigo Amaral**
news@commercialriskonline.com

@ComRiskOnline

Leading Spanish risk managers believe that their function was boosted by the Covid-19 pandemic and that risk and insurance management was further strengthened during the ongoing hard insurance market.

Participants in the Spanish leg of our Risk Frontiers Europe survey also believe that the new prominence of risk managers may help to attract much-needed talent to the field.

"The global environment, with the pandemic, wars, energy crisis, what is happening to the banks – it has all impacted the perception of risk with the top management teams. That is where we, as risk managers, become protagonists," said Daniel San Millán, president of Spanish risk management association Igrea and risk manager at construction firm Ferrovial.

"When we started to implement the function in our group, fifteen years ago, few companies had a professional risk management department. Today, all companies know the function, and many have implemented it," agreed Lourdes Freiria, general director of risk and insurance at construction group Grupo San José.

The turbulence of the past three years has certainly helped increase risk awareness among boards. The perception that risks have a cost and managing risks can generate opportunities has also been nurtured by the hard insurance market, which has made the issue more visible on balance sheets.

"When there is no longer an abundance of capacity in the market, risk managers gain more relevance not only in ensuring that insurance purchases are more efficient, but also in reporting what is happening within our companies," said David González, director of risk and insurance at Sacyr, the construction and concessions group.

"The way insurance is managed has become critical, not least due to the cash flow. Firms have to spend more money, so when we have claims it is very important to be paid as quickly as possible"
David González, Sacyr

"The way insurance is managed has become critical, not least because of the cash flow. Companies have to spend more money and, as result, when we have claims, it is very important to be paid as quickly as possible. So, there is a sharper focus now, and more attention is paid to what we do," he added.

And then there is the matter of explaining why firms are paying more for insurance programmes, despite investments made in risk prevention over the years.

"Risk managers must be very didactic in our companies. In our case, although we own a large and well-capitalised captive, and work with significant retention levels, premium rates continue to go up, even if our loss history is positive," said Ramón de la Vega, corporate risk financing director at Telefónica.

"The past few years have demanded from risk managers an extra effort to find risk financing alternatives because the coverages have been reduced or limited, capacity has also been reduced and sometimes disappeared, and premiums have been raised," he added.

Another challenge that risk managers have to deal with is the difficulty of finding talent to work in their departments. Not many young people are drawn to the profession, and those who do well are soon courted by the broader insurance market.

"The world of large corporate risks is fascinating. But there is a lack of professionals. A brutal war for talent has been raging that involves large brokers and underwriters," San Millán said.

"There is also a tremendous wage bubble and it causes much harm. Risk management departments are cost centres, we do not generate income. So when we want to hire a talented young professional from a broker, we have to pay a lot of money, and our budgets often do not get there," he added.

"It affects us in another manner too," De la Vega said. "We sometimes go to insurance companies where we used to work with a senior underwriter, with plenty of experience, but whom another company has nabbed. And then we deal with someone new who sometimes was not even the deputy, or who hasn't the experience and knowledge of the previous underwriter and does not know the specific risks of our companies."

In González's view, the risk industry must do a better job of convincing young and ambitious graduates to embrace the profession.

"Maybe insurance does not look sexy at first, but some products and functions are as complex as in the purely financial world," he said. "Corporate insurance is a sector that has been doing well for a long time, and there has always been a dearth of resources to work with large clients. If one is young, therefore, this is a sector that should look as attractive as other financial careers, as it can be as sophisticated as investment banking, people are paid well and careers are stable. But maybe the sector does not know how to sell itself very well."

"It is unusual for young people to be attracted to risk management unless they have a relative in the market, or they have had some experience in the area," De la Vega remarked. "What is undeniable is that once you hire someone and he or she is on board, they discover a world that is fascinating and completely unknown. That is what happened to me."

Partnership needed as risks escalate

Cyber, natural catastrophes and pandemics are high up the Spanish risk management agenda but there are serious concerns about the ability of the commercial insurance sector to meet demand. A more coordinated approach is needed with government support. **Rodrigo Amaral** reports.

◇ **Rodrigo Amaral**
news@commercialriskonline.com

@ComRiskOnline

There are no shortage of threats keeping risk managers awake at night these days. And there is little disagreement about which are the most concerning for Spanish risk managers.

"The main risks today are cyber, nat cat and risks linked to inflation. They are clearly identifiable and, to different degrees, they integrate the risk maps of all companies today," said Lourdes Freiria, general director of risks and insurance at construction group San José.

Another widely expressed opinion is that the insurance market is not necessarily doing its job to properly help companies deal with such risks.

"The answers provided by traditional insurance are not adequate. Many companies do not even have the option to buy insurance protection and, when it is available, prices are too high," Freiria said.

Cyber threat

David González, director of risk and insurance at construction group Sacyr, agreed that cyber risks present some of the toughest challenges for risk managers today.

"I am very concerned with cyber and the insurance or financial solutions for it. It is a risk that must be managed not only with a financial solution to help the company to bear the cost of a loss and to repair damages. The most important thing is to manage technological risks," he said.

"The management of cyber risks must be able to avoid all vulnerabilities that companies have because, make no mistake, there are many risks that concern us but a cyberattack can wreck the whole business," added González.

He believes the sense of imminent risk

Forest fire in the mountains of Mijas and Alhaurin el Grande, Spain, July 2022

"From where we were three years ago, it seems we live now in a dystopic sci-fi world. Since then we have had a pandemic, wars, bank bankruptcies, rampant inflation"

Daniel San Millán, Igrea and Ferrovial

is driving companies to pay more attention to cyber threats.

"Sensibility about cyber risks is on the rise," González said. "Many companies, both large and small, are investing in systems that can enable them to work with much security. This is spreading to smaller companies, which will always be exposed to the bad guys, who are always some steps ahead."

Ramón de La Vega, the risk financing director at Telefónica, pointed out that managing cyber risk requires collaboration with other parts of the company.

"The work of the chief information security officers and their teams is very important. They provide an important support for us to understand the exposures and the risks we face, and support us at the time of underwriting and placing the risk. Today, cyber underwriters at insurance and reinsurance companies are more specialised, and sometimes they use external consultants or hire cyber experts. It is a positive development as they can talk to our CISOs in the same language," he said.

Another top concern for companies is natural catastrophes, not least because the risk has apparently been aggravated by climate change, González said.

"It seems that nat cat events are happening with higher frequency and maybe even higher intensity," he noted.

Although cyber and nat cat are huge issues for corporations, risk managers need to spread their attention across a much wider range of issues.

"The world is enmeshed in a spiral of uncertainty. There are political conflicts around the world. China versus the US, Russia versus Ukraine, Russia versus the EU. Those conflicts generate issues

Demonstration march against Covid-19 measures by the Austrian federal government and against planned vaccination and lockdown, January 2021

across the board, and even in the cyber area where Russian hackers, for example, have become so active, and are allegedly sponsored by the government. Which takes us to the issue of war clauses in insurance policies," said Daniel San Millán, president of Igrea and risk manager at construction group Ferrovial.

"I am also worried about the next Black Swans. We simply do not know what is going to happen. From where we were three years ago, it seems that we live now in a dystopic sci-fi world. Since then we have had a pandemic, wars, bank bankruptcies, rampant inflation. Central banks are pushing interest rates up very quickly and that is having an impact on business," he added.

Hyper regulation

De la Vega added the sheer amount of new regulation as another big risk.

"Hyper regulation is an issue everywhere and in all aspects of business, which forces us to dedicate a large share of our time to complying with policies and processes," he said.

"Hyper regulation is tremendous in Europe. It has already become harder to do business here. We as large companies have the capacity to absorb it, but companies of other sizes can be taken down by it," San Millán agreed.

But while the pace of regulatory activity continues to accelerate, some much-needed legislative work, such as the creation of public private partnerships to help deal with systemic risks like pandemics and cyber, finds little support.

"I have been part of a committee here in Spain, after the pandemic, where we talked about all the systemic risks," San Millán said. "It has resulted in nothing so far. It requires political will, and the politicians have other priorities right now."

He believes that the insurance market by itself will not be able to provide efficient solutions for threats such as pandemics and cyber risks.

"Systemic risks require support from the public sector. Just like what happens with terrorism and TRIA in the US," San Millán said. "Cyber can be a systemic risk. An attack can stop a country or a region. The market will not provide a solution for that, and the public sector will have to intervene."

A lack of debate about the transfer of systemic risks is harder to understand as countries such as Spain have already implemented nat cat pools that could work as a model for other risk financing tools involving governments and the insurance industry.

"The Consorcio de Compensación de Seguros, here in Spain, is a fantastic tool created by a partnership between the public and private sectors," Freiria said. "We should strive to repeat the formula to deal with risks that do not have enough protection today and where it is very hard to obtain cover with the private sector alone."

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10 Years TOGETHER

Mixed picture on Spanish insurance as D&O softens while property hardens

◇ Rodrigo Amaral
news@commercialriskonline.com

@ComRiskOnline

Insurance buyers say that the Spanish insurance market has stabilised in recent renewals but at a level that means they will continue to pay much more for their cover than a few years ago.

However, signs of a looser market in segments such as cyber and D&O have been accompanied by a somewhat surprising re-hardening of the property market, due to the impact of nat cat losses in the past year.

Participants of the Spanish leg of our Risk Frontiers Europe survey note that this time around, the hardening property insurance market began on the reinsurance side of the business.

"We all believed that property insurance would start the road down [towards a soft market] in 2022 but it has turned around completely. Price increases have been very significant," said Ramón de la Vega, risk financing director at Telefónica.

Daniel San Millán, president of risk management association Igrea, said part of the problem is that insurers can't accurately model the rise in nat cat losses. "It seems that insurance companies are in a bind because they still do not know how to model climate change. It is an industry-wide problem and it makes the market tense," he said.

There are also concerns regarding a number of specific insurance programmes that the market refuses to take, despite price corrections over the past few years.

"It is hard to find capacity for waste recycling plants, and I would say that the same happens with PI. Both those products remain expensive," said David González, director of risk and insurance at Sacyr, the construction group.

"The market has applied rate increases that are too steep in certain lines, especially D&O, PI and cyber. And, what is worse, radically restricted available capacities," added Lourdes Freiria, general director of risk and insurance at construction group Grupo San José.

"We all believed that property insurance would start the road down [towards a soft market] in 2022 but it has turned around completely. Price increases have been very significant"

Ramón de la Vega, Telefónica

"A market that is getting harder in a very strong way is terrorism and political violence due to the 2022 claims," De la Vega said. "Treaties have become several times more expensive. Some companies have stopped writing the risk."

On the other hand, he said, lines that not long ago were extremely problematic have been less challenging of late.

"The market is offering more D&O capacity and there is more flexibility and competition among insurers," De la Vega said.

"On D&O, it is reasonable to think that companies have already reached an equilibrium, and within that equilibrium things should go back to normal," González agreed.

Another segment where the situation looks less dire than some months ago is cyber, although it still presents challenges for buyers.

"I would say there is plenty of capacity in the market for cyber. It seems to have loosened up a bit. But which companies are offering more than €7.5m? Insurers offering €20m are a thing of the past," San Millán said.

"We retain a large cyber primary layer in our captive. When insurers see that you take a share of the risk, they want to go along with you. Prices will not go down. I believe they will continue to rise. But we had a very good and unexpected renewal of our cyber programme. I have found cheaper capacity, especially for the top layers," added the Igrea president.

"The [cyber] market has professionalised underwriting and is trying to allocate capacity to risks that look good to insurers," De la Vega added. "We have recently been to London and met 20 underwriters that offered capacity for cyber. Some companies are offering larger primary layers and, in general, they are raising capacities."

Malaga apartments, Spain

Spanish risk managers add ESG to remit

ESG becomes part of renewal process but insurers challenged to rise to new 'green' risks

Risk managers are becoming increasingly involved with the adoption of ESG principles by their companies, and insurers are taking it seriously, most of the time, according to leading Spanish risk managers.

The growing involvement of Spanish risk managers in the emerging world of ESG is only going to accelerate as they increasingly have to make the case about the sustainability of their companies to the insurance market.

"We have seen of late how the insurance and reinsurance markets are creating ESG-related rewards," said Ramón de la Vega, risk financing director at telecommunications group Telefónica.

"They are 'rewarding' companies that have an important commitment to ESG with more capacity for a programme, with a discount on the rates or a longer LTA that would not have been offered otherwise. We are already seeing this process and we are already benefitting from it," he explained.

"For example, our captive is rated, and the last time we were supporting our rating, the analysts asked us about our ESG policy," he added. "We have recently done roadshows to renew two large programmes, and one of the points that was relevant to underwriters was the presentation of the group's ESG policy and the ESG ratings provided by external agencies."

As a result, the risk management department needs to work closely with other parts of the company that are in charge of implementing ESG policy.

"The risk and insurance management department works closely and provides support to the sustainability department, as there are parts of ESG that are linked to what we do," De la Vega said.

The case of Telefónica is, in fact, not unique.

"In our company, ESG principles are integrated into our strategic plan. They are values applied across the group. We believe in them and so do our investors, and stakeholders and underwriters are starting to ask about it too," said David González, director of risk and insurance at construction and concessions group Sacyr.

"Although the ESG policy is not an area that is under my responsibility, I play an active role in it. Improving and optimising sustainability is a corporate goal," remarked Lourdes Freiria, general director of risk and insurance at Group San José. "From an insurance point of view, we have had to certify our strategies and policies to renew some corporate programmes such as D&O."

> **"There are several insurance companies that have their mouths full of green talk, but when we go to them with a renewable energy risk or try to buy cover for a waste recycling plant, they treat us very poorly"**
>
> **Daniel San Millán, Igrea and Ferrovial**

Daniel San Millan, the president of risk management association Igrea, said: "I believe companies are finally keen on investing on modelling the impact of climate change on our assets."

But San Millán, who is also the risk manager at Ferrovial, said that the insurance market needs to do more than asking about the ESG credentials of its clients.

"There are several insurance companies that have their mouths full of green talk but when we go to them with a renewable energy risk, or try to buy cover for a waste recycling plant, they treat us very poorly," he said. "I see a certain lack of commitment from the market with some risks that are actually focused on creating a greener world."

Solar power in Seville, Spain

Time is ripe to build captives and ART in Spain

Spanish risk managers agree that the hard market has forced a healthy review of risk financing and retentions. They would like to see the Spanish government follow France's lead and implement a more captive-friendly environment but are not holding their breath.

Not many Spanish companies have captives but those that do are using them intensively in the hard insurance market. Even risks such as cyber and professional indemnity (PI) are now retained in such instruments.

Risk managers that participated in the Spanish leg of our Risk Frontiers Europe survey believe the use of risk retention tools need to be disseminated and promoted in Spain, and argue that new, friendlier rules would help them to flourish.

In the meantime, however, the insurance market can help clients by innovating.

The use of captives in the current market and beyond is supported by Ramón de la Vega, risk financing director at telecommunications group Telefónica.

"We used our captive for all kinds of insurance programmes, be that property, cyber, general liability, E&O, crime, terrorism and political violence or FIPI. Also motor fleet and employee benefits. It makes business sense. The more lines I have in the captive, the more diversified its risk is," he explained.

"We can also have access to information that gets lost on the way, as the risk goes through the broker, the insurer, the reinsurance broker and the reinsurer. It can be vital information or not, but once you have a 30-year loss history, it helps to better understand our risk," he added.

"We are retaining more risks, and not only via our corporate captive. We are also using separate cells for specific big and complex infrastructure projects when we want to retain risk in the project's specific balance more than in the holding balance," said Daniel San Millán, the president of Igrea and risk manager at construction firm Ferrovial.

Risk retention became a topic of interest for Spanish companies as capacity was withdrawn by insurers from segments such as cyber and PI. In March, Spanish risk management associations Igrea and Agers launched a handbook to help Spanish companies better understand risk retention. In San Millán's view, a Spanish legislative initiative similar to the one implemented in France recently could give the process a boost.

"We would love to see specific legislation about captive companies implemented in Spain too. Today, we are told that it is possible to set up a captive in Spain under the existing legislation but the rules do not follow proportionality principles. The same rules that are applied to captives are applied to reinsurers," he said.

"So it would be great if the legislation was reviewed in Spain, that some kind of specific rules were created for captives. It would be very interesting for the country if all the universe around captive companies were integrated into the Spanish market," added San Millán.

"It is not a tax issue, it is a proportionality and accounting issue, and one that is also about how a company is allowed to build the stabilisation reserve. The stabilisation reserve in Luxembourg, for example, is of the essence. Once the captive is capitalised, one can be bold. The company can then decide whether it will retain more risks or transfer to the captive more lines of risks," continued Igrea's president.

The captive option

In the meantime, many companies that do not have a captive are looking at the option very closely.

"We still do not have a captive but we are studying it. Not having a captive denies a company the opportunity of a more efficient risk financing strategy," said David González, director of risk and insurance at construction group Sacyr.

"Some years ago, we made studies to find out whether a captive would have been an interesting tool for us, and we discarded the idea. There is no doubt that it would have made it easier to solve some issues during the hard market, but the cost and complexity involved would have been very high too," said Lourdes Freiria, general director of risks and insurance at construction firm Group San José.

"Our sector can still find enough solutions in the insurance market. But we are paying much attention to possible alternatives to retain a higher ratio of our risks… Maybe the renting of a protected cell could be more interesting for us in some particular cases," she said.

The search for efficient risk financing strategies could also be aided by the insurance market.

"I believe there is an important business opportunity right now in Spain, if a company wants to bring experts, new products and solutions," De la Vega said. "Not every buyer can have a captive, or maybe it does not make business or strategic sense for a company to set up one. But there are other options in the market. Medium and small companies may be interested in some kind of supplementary risk transfer tools."

The question is whether the insurance industry has the willingness to invest in innovative products and services in a sellers' market.

"Insurers will never be at the vanguard of innovation. It is a conservative industry, which is reasonable, as one cannot guess what will happen if one provides cover to an unknown risk," González said.

"Many insurers have achieved balanced technical results and they could meet a demand for more innovative and longer-term solutions. But they are often uninterested, they remain entrenched in their positions," he added.

"Long-term agreements, for example, could provide us more certainty and stability in the next few years but they [insurers] are not offering them right now, it is almost impossible to sign LTAs," pointed out González.

"I sincerely believe that, right now, the market is feeling comfortable. Not all [insurance] companies though. Some are trying to be creative and sophisticated," San Millán concluded.

Rodrigo Amaral travelled to Lisbon for the first time since the pandemic to meet leading members of Portuguese risk and insurance management association Apogeris for this year's Risk Frontiers Europe survey sponsored by HDI Global and Charles Taylor Adjusting. He found the Portuguese risk managers in positive mood despite the dramatic and challenging events of the last three years. Covid-19 means that risk management has definitely risen up the corporate agenda as elsewhere in Europe.

Emerging from the risk management cave

Rodrigo Amaral
news@commercialriskonline.com

@ComRiskOnline

The succession of crises and uncertainties that have spooked companies in recent years have given risk managers a new relevance in Portugal, according to participants in this year's Risk Frontiers Europe roundtable in Lisbon with Portuguese risk and insurance management association Apogeris.

Risk managers have been asked to deal with a broader range of topics and have been more involved with activities in other parts of their organisation, in what one of the participants described as getting out of the risk management "cave".

"Portuguese companies are taking more seriously the adoption of a strategic vision of risk management, among other reasons due to pressure from the European Union to do so," said Jorge Luzzi, president of Apogeris and former president of Ferma.

"The future is positive for the risk management function of organisations… This vision on risk management is also beginning to be applied to medium-sized companies," added Luzzi.

It has not been an easy process though. Risk managers have had to prove their worth in daily activities as they went through a series of unforeseen events. Inflation, high interest rates, the Russian invasion of Ukraine and other factors have contributed to keep everybody in risk management departments busy.

"The trigger of change was the pandemic. It put the work of risk managers in the spotlight. In order to become reality, a material event was required. We hadn't had an event like the pandemic for a long time; the latest strong earthquake to hit Portugal happened in 1755, large floods in the 1980s, so risk management sounded like a theoretical exercise," said Jorge Neto, the insurance manager at retail group Jerónimo Martins.

"Then, when we started to leave the pandemic behind, we have had to face a war that is still ongoing and the highest levels of inflation in the last decades. And something else will happen in the near future that we are not yet aware of," he added.

"In the last couple of years, we have lived through several disruptive major events. That was what happened with the pandemic and now with the war. And then there is climate change, which gives us no pause. Events that looked less probable now are more likely to happen," said Pedro Cupertino de Miranda, the risk, cyber security and data protection officer at retail group Sonae.

"The impact of those risks has been so big that it no longer makes sense to think in one-year cycles. Things happen very quickly, there is so much volatility that when we finish drafting our risk matrix, it is already out of date," he added.

Cupertino de Miranda continued: "We went from eight to 80 in terms of the perception of risk. Like never before, not even during the pandemic, people are talking about contingency plans, risk matrices and risk management."

Rising value

One of the outcomes of the turmoil is that the value of investing in risk management has become clearer for everybody to see.

"Companies noticed that those that had more mature risk management plans kept on working," Neto said. "In the retail

Flooding in Porto, Portugal, in January 2023

market, we were able to maintain our operations, we faced no interruptions. The group recognises that value has been added."

In fact, Cupertino de Miranda noted that the pendulum may be moving a tad too far the other way as a result of the recent turmoil.

"What happens today is that risk management tops the business leaders' agenda and we have to keep our added value, but that is sometimes very hard as there are many requests about a wide variety of issues. This brings us some difficulties. But we may reach a point of equilibrium eventually," he said.

"To express how the function evolved after the pandemic, it was like before and during it we worked in a cave," said André Rodrigues, who works at BNP Paribas in Portugal.

"People knew we existed, that we did something, but nobody knew exactly who we were, how to get in touch with us and when we would show up. Now we moved to the entrance hall. We are often part of the entry point for the implementation of new projects," added Rodrigues.

This has all combined to stress the value added by the risk function and boost the position of risk managers in their companies, agreed the risk professionals.

"This is an extraordinary opportunity for risk management teams. One of the challenges that we face right now is to understand how to make the best of this opportunity, so that risk management is implemented in a more sustainable way in our businesses," Rodrigues said.

"Risk management is now more involved in the strategy of the organisation. Risk managers are called upon to contribute actively to the company's performance. We are not lacking work," added Tiago Antunes, head of risk management at Metropolitano de Lisboa, the transportation company.

Risk accumulation and interdependence raise the bar for Portuguese risk managers

Rodrigo Amaral
news@commercialriskonline.com

@ComRiskOnline

Jorge Neto, insurance manager at retail group Jerónimo Martins, said that inflation, cyber and geopolitical factors are the main risks faced by Portuguese companies today. Then there are all the other interrelated risks thrown up by those threats, he added.

One example is reputation risk, which has been compounded by the abundance of risks faced by corporations today, agreed participants in the Portuguese leg of our Risk Frontiers Europe survey 2023.

"We must always think about the interdependence of risks," said Tiago Antunes, head of risk management at Metropolitano de Lisboa. "When we mitigate a risk, we may inadvertently boost another one. We must not isolate a risk."

This has been illustrated by booming inflation, which has forced firms to raise prices in decisions that have been often poorly received by consumers and clients.

"Companies are very much exposed to reputation risks today. Any piece of news, even if it is not substantiated, is quickly diffused via social and traditional media. Even if it later turns out that the news was not true, the initial impact is the one that public opinion retains," Neto said.

"Food inflation is a case in point. In Portugal, there is a view that retailers are raising prices to increase their margins, but in reality net margins have been lower than before. Our business is based on large volumes of sales with low EBITDA margins, not the other way around," he added.

Pedro Cupertino de Miranda, the risk, cyber security and data protection officer at Sonae, another retail group, said: "Reputation risks can be fatal to a company. If a consumer says to the media that an expired product harmed their health, it can be very damaging to the business."

Then there is the direct impact of higher prices on the ability of consumers to buy their daily groceries or other goods.

"Inflation, the cost of living and its impact on discretionary spending are affecting purchase decisions. Consumers are downgrading their choices, moving down from premium brands to white brands," Cupertino de Miranda said.

"The fact that interest rates have gone up is making people stop paying their debts and banks may find themselves out of liquidity," he continued.

He added that inflation brings important consequences for operating costs too.

"Energy prices are very important for us. Our operation relies much on cooling systems and energy prices have a significant impact on our costs," said Cupertino de Miranda.

Retailers are not alone in feeling the multi-pronged impact of inflation.

"Inflation and energy prices are very relevant for us. Metro systems work with electricity, and there has been a huge impact on costs as a result of inflation," Antunes said.

"Also, higher costs of living have motivated a number of strikes that affect everybody and the economy too. There is pressure to raise wages in order to keep up with higher costs of living," he added.

Energy prices have risen because of the war between Russia and Ukraine, which caused oil and gas prices to surge. The conflict also helped fuel inflation by reducing the availability of food staples

> **"Companies are very much exposed to reputation risks today. Even if it later turns out that news was not true, the initial impact is the one that public opinion retains"**
>
> **Jorge Neto, Jerónimo Martins**

such as wheat and other grains, in another example of interconnection between apparently separate risks.

And then there is the possibility of companies suffering a cyberattack, which has also increased as a result of the war. This escalating risk clearly has the potential to impact large swathes of the global economy.

"Cybersecurity is not even an emerging risk anymore, it is a certainty that can happen any time with ever more devastating effects," Antunes said.

Teachers demonstrating in Évora, Portugal, on 25 January 25 2023

Regulatory burden

André Rodrigues, who works for BNP Paribas in Portugal, highlighted another risk with a wide range of consequences: the excessive burden of regulation faced by European companies.

"Compliance and legal risks are on the rise. After the GDPR, there was a perception we had reached a level of regulatory schizophrenia, but it turned out it was only the beginning. Several pieces of regulation that are even tighter are coming," he said.

"Beforehand, regulatory risks were a worry mostly for companies like banks and pharmaceutical groups. Nowadays, even smaller companies face compliance risks, at least within the European Union," added Rodrigues.

"On the geopolitical side, uncertainty is too high today, and it is on the rise, especially in Europe. And we must not forget environmental risks, which are among the top three risks for many organisations," said the risk manager.

Climate change is creating a whole extra set of concerns for risk managers.

"Natural catastrophes are an issue as we live in a world of extremes. We have recently had a flood in Lisbon that hampered the workings of the metro system," Antunes pointed out.

"Those risks are increasingly a concern for companies and society as a whole. It is a matter of the public and private sectors working together. Companies cannot manage catastrophic risks alone," he said.

Once the far-reaching phenomena are considered, however, risk managers must also worry about the threats specific to their sectors, or their communities.

"In our particular case, the issue of attracting and retaining human resources into the company is very important and quite a challenge. It's transversal, in all geographies, from less to highly specialised functions," Neto said.

The wave of discontentment fuelled by harder living conditions also creates incentives for governments to take populist decisions that can put companies at a competitive disadvantage, participants in the Lisbon roundtable pointed out. As if risk managers needed more things to worry about.

Tough insurance market raises serious questions about value of cover

Portuguese risk managers focus on cyber prevention rather than transfer

◇ Rodrigo Amaral
news@commercialriskonline.com

@ComRiskOnline

The hard cyber insurance market has become such a big issue that companies must ask themselves whether it is really worth buying the cover, leading Portuguese risk managers said during the Lisbon leg of this year's Risk Frontiers Europe survey.

Participants also expressed concerns about a lack of catastrophe protection in the local market, especially for earthquake risks.

The transfer of systemic risks in the hard market is a challenge faced by companies across Europe, and it is particularly worrying when it comes to cyber risks, according to Pedro Cupertino de Miranda, the risk, cyber security and data protection officer at retail group Sonae.

"We have to increasingly ask ourselves whether cyber insurance is of any use with its current offer. If someone tells me cyber insurance will one day cover liability exposures, for instance linked to the leaking of data from clients, maybe so. But cyber policies today do not pay ransoms or losses linked to data breaches. If insurers offer consultancy and forensic analysis, I prefer to choose my own resources for that," he said.

"The usefulness of cyber insurance is a theme that must be discussed with the insurance market," agreed Tiago Antunes, head of risk management at Metropolitano de Lisboa. "We need an answer for it, and one that is affordable."

"But first of all, we need to do our homework and try to mitigate the risk as much as we can, and only transfer what

is necessary to the insurance market. We cannot expect that insurers will solve all our problems with cyber," Antunes said.

"And we cannot say that we will close all our doors because that is not possible. The question is not whether an attack will take place, but when. And then when the second attack will happen and so on," he added.

Those that have done so can attest to how important it is to be prepared for cyber risks. Portuguese risk managers say that cyberattacks have been taking place all the time and it is only a matter of when a company gets hit.

"We often suffer tentative cyberattacks but none have been successful so far," said Jorge Neto, the insurance manager at retail group Jerónimo Martins.

"Retailers are moving in the right direction, information is replicated several times and stored in units that have as high a degree of autonomy as possible. This is making us more resilient against cyberattacks," he added.

Cupertino de Miranda also believes that preparation is key in order not to rely on underwriters that have shown little interest in taking cyber risks.

"We have invested more in cyber resilience than in cyber insurance. We believe that if we are resilient, we will be able to resume operations more quickly after an attack. Nobody wants to be three days out of business. In practice, we need to work in a way that we may not need cyber insurance," he said.

But André Rodrigues, who works for BNP Paribas in Portugal, warns that it may not be enough to do things well in-house if vulnerabilities can be found among a company's customers and suppliers.

"It is necessary to build up cyber resilience as it has become very hard to transfer the risk. And that means not only building up our capabilities but also making sure that our business partners are resilient too. Interdependencies are very high, and sometimes they are almost impossible to identify with absolute precision," he said.

Hard market challenges

Portuguese companies have been able to find protection in other insurance segments but not always at prices, capacity levels and conditions they are comfortable with.

"Price pressure has been an issue, and I am not optimistic about market capacities either. Some lines are challenging in terms of capacity, wordings and deductibles. We have had to change the way we approach the market," Neto explained.

"Underwriters don't seek risks in a heterogeneous way. For example, some are focused on big risks, and others on small risks, so we need to find the right mix to place our programmes," he added.

"I have noticed that the hardening of the market is not limited to prices. It hits conditions too. Wordings have become more restrictive, sub-limits have been tightened and exclusions added," noted Neto.

Cupertino de Miranda added that capacity has never really been an issue for his firm. "The issue has really been price. We have a global programme that covers different parts of the world and we have had to adjust its insurance and reinsurance elements."

"In the case of earthquake risks, we have a concentration of exposures in Portugal and insurers are more worried about them. In recent times, property covers have been more stable but liability lines have moved up," he added.

Neto also expressed concern that Portugal does not have a risk transfer mechanism, such as a cat pool, to deal with the consequences of an earthquake. Portugal was devastated by a quake in the 18th century and it is widely feared another strong quake could hit the country at any time.

"In Portugal, we are exposed to earthquake risks, we know it, that is nothing new. But what has been done to mitigate this risk? Very little," said Neto.

"We don't have a financial mechanism in Portugal, a pool, constituted by the public and private sectors. It is something that we have been discussing for a while but if we suffer an earthquake today, how will we deal with its outcome?" he added.

"Companies that have a strong financial position will be able to react somewhat. But companies are not alone, we are all part of the economy and the country, so how will we be able to rebuild essential infrastructure such as railroads, roads, the energy system, water and sewage and so on? We will not be able to fund it all with the current financial state of the country. That is a risk that has already been identified but little or nothing has been done about it," he continued.

Sustainability underwriting needs more uniform approach, argue Portuguese risk managers

Rodrigo Amaral
news@commercialriskonline.com

@ComRiskOnline

Insurers are increasingly taking sustainability measures into account during the underwriting process but there remains a lack of uniformity when it comes to information demands, according to a group of leading Portuguese risk managers. The result has been more red tape for buyers, say the risk managers gathered for this year's Risk Frontiers Europe survey.

"Insurers are asking about ESG in their forms but it remains an erratic effort," pointed out Jorge Neto, insurance manager at retail group Jerónimo Martins.

"Why aren't there standard indicators for it? Different insurers ask different questions. The analysis of data, even if we are negotiating the same insurance line, may vary significantly from one underwriter to another. It creates a lot of pressure and extra work for the client to renew or seek solutions. It is quite important to put in place an ESG standard for the insurance industry," he argued.

Participants in the Lisbon roundtable also believe that the ESG agenda will become a big issue for risk managers, not least because sustainable factors are becoming a key element in attracting talent.

"The ESG trend creates both risks and opportunities. Risk managers must analyse,

identify and mitigate the risks but also keep in mind that there is empirical evidence that ESG investments generate not only profits, but also reputational benefits," said André Rodrigues, who works at BNP Paribas in Portugal.

"One example is employer branding. A new generation of professionals that are entering the labour market want to be sure they will be working in a company that is engaged with the fight against climate change, corruption and the like. The consolidation of an ESG structure is essential to generate trust in the organisation, and trust is vital for all companies," he said.

Attracting new blood is a subject dear to many risk management departments' hearts. But not many professionals are available in the Portuguese market to do the job and it is hard to bring new graduates into the fold as the function is not well known or understood.

"When I explain to my students what risk management actually is, I feel it dazzles them. On the other hand, it is hard

> **"The consolidation of an ESG structure is essential to generate trust in the organisation, and trust is vital for all companies"**
>
> **André Rodrigues, BNP Paribas**

to explain to my six-year-old son what I do in my work," said Rodrigues, who teaches the subject at graduate level.

But he added that risk management is highly attractive in a fast-evolving labour market.

"In the future, the skill that will be the most valued are those with a generalist trait. Technologies such as artificial intelligence and machine learning will make it less necessary to have specific skills focused on a particular field, and we will have to grasp a little bit of everything," he said.

"If there is one function that enables one to have a general view of the company, of all its areas, it is risk management. Any new graduate who wants to have a broad view of their company should have risk management as their main choice. But, for that to happen, the function of risk manager needs to be better explained," he added.

This message needs to be transmitted to young people entering the labour market.

"A young professional who does not like boredom has a perfect field in risk management. The same goes for a person who wants to have a global view of the company, and not of only one part of it," said Tiago Antunes, head of risk management at Metropolitano de Lisboa, the public transportation company.

"More than identifying risks, what we have to do is to show that risk management presents solutions and create opportunities," added Pedro Cupertino de Miranda, the risk, cyber security and data protection officer at retail group Sonae.

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The long-term player

Adrian Ladbury talks to **Juan Aznar Gáldiz**, director general of HDI Global Spain, and **Nuno Antunes**, country manager for Portugal/Iberia and head of client strategy, about the big risks faced by customers and the evolving role of the insurance sector, as part of this year's Risk Frontiers Europe survey, sponsored by HDI and Charles Taylor Adjusting.

Adrian Ladbury (AL): What do you see as the big risks faced by your corporate customers in Spain and Portugal currently?

Juan Aznar Gáldiz (JG): Climate change is obviously a really big focus for everyone. Most companies are involved in ESG issues, which are all related to climate change, really. We are asked by risk managers and brokers how we are dealing with it from an insurers perspective and how to control the risks. The challenge is that historic data is not so relevant nowadays, and return periods are difficult to calculate compared with ten to 15 years ago. This is a significant change.

In terms of specific risks, cyber is still a big problem. It is difficult to meet someone who has not suffered an attack. Then there is much concern about inflation and the cost of claims. Business interruption (BI) is another worrying area for customers as the cost of BI cover has doubled over the last ten years. Political risk is another big concern, especially for Spanish companies that are active in Latin America.

This is also a concern for companies active in the Middle East. And the loss of talent remains a problem, finding the right professionals. This was an issue before the pandemic but now it has become a real problem for everyone, and the cost of staff retention is rising too.

AL: What are your clients' views on ESG? Are you all pulling in the same direction?

Nuno Antunes (NA): ESG is undoubtedly a hot topic nowadays but its significance really depends on the customer and the sector they operate in. Specifically on the E, some of our clients are very involved in the green transition, and they are struggling to find adequate capacity for the new technologies involved. As an industry we need to find solutions for these innovative technologies and quickly as part of a global effort.

> **"The other day we were asked whether we are prepared to support green hydrogen. The answer must be yes, or there will be no green transition"**
>
> **Nuno Antunes, HDI Global Spain**

This is an area where, for instance, the partnership between clients – via their captives or other risk retention mechanisms – the brokers, and the insurers is not only desirable but necessary so that we can find the right balance that enables the execution of these new projects.

JG: Yes, this is an important area. Agers, the Spanish association of risk managers, was asking us the other day whether we, as insurers, are prepared to support green hydrogen, for example. Do we have capacity for the new technologies? The answer must be yes, or there will be no green transition. We at HDI are investing in this area and working hard to find solutions. But it has to be recognised that it is a challenge for the insurance market to cover completely new technology such as this.

AL: Are captives part of the answer to these new challenges? Are you working more and more with captives and do you see this as a growing market in Spain and Portugal?

NA: Captives are playing more of a role than in the past as the market has dealt with relatively new and emerging risks such as pandemics, cyber, reputation, ESG or supply chain disruption. CEOs and CFOs are really starting to understand that the captive is an important part of the risk management tool kit.

We are asked increasingly whether a captive would make sense. Additionally, compared to three or four years ago, we now have a much different situation in terms of insurance market cycle and far higher interest rates. That has certainly brought back the captive topic to the boardrooms as a way to reduce volatility in costs and increase financial income. However, as we all know, this is not a quick fix. But this is certainly a trend across Europe as customers look to incubate their risks and increase retentions, as is alternative risk transfer (ART).

JG: Spain is not a big market for captives historically. The long soft market meant that it made sense to just buy insurance rather than use a captive. The arrival of the hard market, however, has changed that attitude. A lot of companies are looking at captives and medium-sized companies too. Others are now actively looking at ART solutions.

One reason is, of course, the lack of capacity and rising prices, but we are also seeing a higher level of professionalism in the risk management sector now, and the profile of the profession has improved within companies, with risk managers

"We have seen many Spanish and Portuguese companies becoming multinationals over the last few years and this means that a much more sophisticated risk analysis is needed"

Juan Aznar Gáldiz, HDI Global Spain

Plaza de Castilla, Madrid financial district, Spain

closer to the board at the heart of the company. This is partly because boards now appreciate that a more professional approach to risk management and transfer can save a lot of money.

Risk engineering is important in this regard too. We have a very experienced team of risk engineers, and it is an important value added for customers in such a market. And this expertise can be exported too if a customer has operations in Mexico, as a recent example. This is valued.

AL: Why do you think you have seen an evolution in the role of the risk manager in Spain and Portugal?

JG: The associations – Igrea and Agers – are doing a very good job in terms of risk literacy and now we have the university programme at Barcelona. Nowadays individuals are carrying out proper studies and not just moving from a broker or insurer to become a risk manager.

Also, we have seen many Spanish and Portuguese companies becoming multinationals over the last few years and this means that a much more sophisticated risk analysis is needed. There is also a growing realisation that risk management is not just about buying insurance and saving money; much more can be achieved through adopting enterprise-wide risk management.

NA: Certainly, the most recent challenges for the war economy have raised the profile and value of the profession. More international companies are increasing investment in their risk management teams, both in terms of size and their training. We have seen an acceleration of this trend with the 2008 financial crisis, and further momentum was added with the pandemic, the supply chain woes and now the war in Ukraine.

In parallel, the volume, transparency and quality of data has also helped improve the analysis of risk for us all, and I would like to think has helped measure the value of good risk management. This puts greater pressure on us insurers to be on top of our game as the insurance buyer and risk manager becomes more central to a company's strategy and much more of a business enabler.

AL: This is where true partnership becomes more important than ever. Do you think the market has delivered on this for customers in recent times and what do you need to do to improve service?

JG: We are a very long-term player. It is true that partnership in general has been tested during the recent hardening. But I would stress that we have been in Spain for 30 years and even during this hard market we have provided capacity. I have two clients who could find no quotes other than with us over the last two years. Yes, we may require more information but we have been here and will continue.

Customers are starting to understand why we had to increase the prices. We are not making super profits on the back of this but acceptable combined ratios now. Some may say that insurers are taking advantage of the rate of inflation to further raise prices. But I would say this is not the case in general.

I have been telling clients for some time that this had to change because we are not in the business of losing money, as we were. This can be a challenging situation when you experience crises such as the pandemic, which raises big questions about the role of insurance in society and insurance gaps. We must think about this seriously as an industry.

NA: It is important to stress that during the long soft market, insurers were burning capital for many years in a row and people tend to forget that. We tried to be very transparent and clear with customers when the market turned and I think that, on the whole, this was appreciated.

Also, let me point out that even though we have turned a corner and have managed to stop the losses, the levels of performance of insurers, whether you look at combined ratios or return on equity, are still relatively modest.

SPONSORS

Financial lines capacity remains buoyant despite economic uncertainty

Commercial Risk Europe talks to **Andrew Jackson**, director for technical and special risks at Charles Taylor Adjusting, about the risk and insurance developments in financial lines for Spanish corporates

◇ CHARLES TAYLOR

The risk landscape in Spain is not dissimilar to other developed countries, according to Andrew Jackson, director of technical and special risks at Charles Taylor Adjusting.

The first of these risks is IT disruption – not just cyberattacks but also technology failures that result from internal projects or updates. A Spanish financial institution suffered a loss worth several million euros when an IT update went wrong. And, as Jackson says, such failures also have a reputational cost.

The second significant risk for Spanish corporates is the current economic uncertainty that makes it difficult to make financial forecasts. Inflation and rising interest rates have added further challenges, especially for any highly leveraged businesses.

The third significant risk is supply chain disruption. "As with other European countries, supply chains for Spanish businesses tend to be international and just-in-time, so any disruption can have a big impact on business continuity," says Jackson.

Claims management

When it comes to claims, Jackson has observed a rising expectation among insureds for speedier settlement, thanks largely to the development of technology that has quickened so many other commercial processes. But while the insurance industry faces a challenge to meet these expectations, there is also an opportunity for insurers and service providers to use automation and artificial intelligence, particularly in the area of volume claims, to make their own processes more efficient, says Jackson.

> **"It is easy to show how exciting the insurance industry is once you are already in it but the challenge is to make it exciting for those outside"**
>
> **Andrew Jackson, Charles Taylor Adjusting**

Another claims-related challenge facing the insurance market is a potential skills shortage, especially in financial lines. Charles Taylor is looking at the possibility of creating an internal academy to help train the next generation of loss adjusters. "It is easy to show how exciting the insurance industry is once you are already in it but the challenge is to make it exciting for those outside the industry," says Jackson. "If we don't do that, we will be faced with a skills shortage and a knowledge gap."

Financial lines

Jackson's main focus as a loss adjuster is on financial lines, covering everything from financial fraud to professional indemnity and D&O. "One trend we have seen recently is a rise in invoice finance and lease finance fraud. This tends to happen at times of economic uncertainty," he says.

Jackson says that there hasn't been a significant drop-off in social engineering claims, at least not in terms of frequency. "We may not currently so often see the really large sums involved with individual cases but there continue to be losses at the lower to mid-value range, as well as the continued targeting of bank customers in Spain and elsewhere, very often obliging the banks to compensate customers who have been victims of such crimes," he says.

But while some forms of financial fraud have become more commonplace, the expectation that the pandemic would lead to a massive rise in cases has not materialised. Instead the market has been relatively benign, says Jackson. This may be down to the financial support that many businesses received during prolonged lockdowns and other restrictions put in place to deal with the pandemic.

But now that these supports have disappeared and the economic environment has become more challenging, the rise in fraud could yet come to pass, as could a jump in professional indemnity claims, says Jackson. "We are starting to see some evidence of that… when you get volatility in stock market valuations, investment managers are often targeted by investors who have lost money."

There may also be a rise in D&O and other claims over ESG disclosures and the spectre of greenwashing. But while Jackson says there has been a huge amount of talk on this subject, there appear to have been few claims to date.

Despite these trends and the potential for more claims, capacity in Spain's financial lines has remained buoyant, thanks to the arrival of new entrants, says Jackson. "We have seen a combination of MGAs and traditional insurers interested in developing a financial lines book, with Barcelona becoming an additional financial lines hub – partly because it is such a nice place to live but also because there are a growing number of experts and service providers in the city, which helps to provide momentum," he says.

Commercial Risk's **Nicholas Pratt** recently travelled to Stockholm to attend the Swedish Risk Management Association (Swerma) conference. At that event, he hosted the Swedish leg of our Risk Frontiers Europe survey, sponsored by HDI Global and Charles Taylor, and found risk managers are rising to the numerous challenges presented by the currently volatile global environment.

Capacity issues loom large for Swedish risk managers

Nicholas Pratt
news@commercialriskonline.com

@ComRiskOnline

Swedish risk managers say they are still struggling to get the capacity they need despite a softening of the market. Risks such as cyber and financial lines continue to be challenging, and insurers are not providing the same level of coverage for mainstream classes, such as product liability, as they have in the past.

Meanwhile, the rise in natural catastrophe claims is having a knock-on impact for risk managers in terms of the information required by their insurers to place even the most standard risks.

"While there has been a softening of the hard market in some areas, cyber remains a difficult market," said Karl-Johan Rodert, chairman of Swerma and risk manager at Autoliv, the Swedish supplier of automotive safety products. "And nat cat remains a difficult market because of the number of events."

Even for companies that operate solely in Scandinavia, there is no immunity from the impact of natural catastrophes, said Charlotte Herner, risk and insurance manager at Swedish construction firm Svevia.

"What is happening in nat cat globally is increasingly influencing insurance coverage and risk management here in Sweden, especially in terms of supply chain risk. Nat cat will become the biggest problem for everyone in the future," said Herner.

"A lot of insurers are asking for details on supply chains and where your suppliers are based," added Rodert. "They want to be sure they don't have a concentration risk or an accumulation risk in terms of locations and the ports used."

There is also a greater selectiveness among insurers when it comes to providing coverage for more challenging risks, said Rodert.

"I agree that cyber and financial lines have been challenging but capacity is the big issue across all lines – it has reduced so much," said Henrik Paajarvi, group risk manager at the Norway-based packaging and insulation group BEWI, and a Swerma board member.

"Previously you could, for example, get $50m in capacity from one insurer but now the same has reduced to $25m or even $5m. It's a huge difference and you now need more layers to cover the same risks. There is also a cost issue because the price of premiums is about the same even if the capacity has decreased significantly," he said.

That said, things could be worse. At the Swerma conference last year, the talk was of an impending energy crisis, exacerbated by the Russia-Ukraine war, the increased cost of commodities and the rise in inflation.

Along with climate change, these remain the most prominent risks facing companies, according to Laurence Eeckman, vice-president, group risk management and insurances at Swedish industrial manufacturer Atlas Copco. But they did not adversely impact this year's renewals process, according to Herner.

"We had a good renewals process this

Natural disasters globally, such as Hurricane Ian, can still affect coverage in Scandinavia

year. In 2021-2022, it was harder. The financial lines renewals were especially difficult due to the turbulence in financial markets and a risk for pandemic claims. But, having taken a deep breath after the pandemic, the insurers found claims not to be too high and now the costs seems to be easing up in that market. The biggest fear was probably the pandemic. But next year, I believe the reinsurance market will be a big factor in the renewals process," said Herner.

"Reinsurers have taken a hit in recent years so there may be a hardening in some places and more selectiveness over certain risks."

The selectiveness from insurers and requests for more information are likely to lead to greater division between standard and non-standard risks, argued Rodert. "The more standard risks are softening for customers with good claims records. But the difficult risks are getting harder to place," he said.

According to Eeckman, the market hasn't softened yet but, apart from casualty, premiums haven't increased this year. And the hope is that good risk management will be reflected in more capacity.

"We hope that conditions, wordings and pricing are based on individual risk management and not any more on insurers' portfolio sanity," said Eeckman. "It looks like that proper risk management has an impact, at least on available capacity."

Swerma celebrates 20th anniversary at time of heightened risk

Nicholas Pratt
news@commercialriskonline.com

@ComRiskOnline

This year marks the 20th anniversary of the Swedish Risk Management Association (Swerma), during which time the organisation has provided critical support to its members, said current chair Johan Rodert, who is also risk manager at Autoliv.

This support has been especially welcome during the last three years, when risk managers and others were often forced to work from home and adapt to different workplace environments.

"Sweden has a well-organised association in terms of getting people together and creating an openness," said Rodert. "I have felt a lot of support from my peers. If I have a problem, there are lots of people I can go to. From a board perspective, we are trying to encourage more networking," he added.

Many risk management departments in the Nordics only contain one individual, said Henrik Paajarvi, group risk manager at the Norway-based packaging and insulation group BEWI, and a Swerma board member.

"So if I don't want to talk to insurers or brokers about a problem, the association allows me to talk to someone at another company and that is always good," he said.

Swerma is very good at spreading knowledge about market trends or new legislation, said Charlotte Herner, risk and insurance manager at Swedish construction firm Svevia.

"It is a very important role to fill because there is no-one else. There are no high-level education bodies, or insurers that provide this information, so it is sometimes difficult to find it," she said.

Swerma has held a number of seminars recently for its members on a range of topics. One of these seminars looked at cyber risks and how risk managers should talk to their IT departments. The aim of these seminars is to enable risk managers to develop a common language to talk about risk with different departments.

Claims management is an area that could benefit from greater collaboration. This is particularly pertinent given that a number of experienced claims managers are due to retire, creating a potential challenge in resolving more complex losses.

"There are due to be lots of experienced claims managers retiring over the next few years, which will leave us with less experienced claims adjusters and this could create challenges in getting certain claims dealt with," said Herner.

"It is up to the insurers to deal with their recruitment issues but what we can do as an association is get claims managers to talk more to risk managers about how you present a claim and what risk managers want from their claims professionals," said Rodert.

Recruitment is affecting the whole of the insurance industry, which faces difficulty in attracting young professionals. "For some reason, everyone thinks insurance is boring," said Rodert.

Recruitment is affecting the whole of the insurance industry, which faces difficulty in attracting young professionals

Swerma has launched a number of initiatives designed to support young risk managers and encourage more to join the profession. This includes the Hamilton scholarship, a prize awarded to the best student essay that is presented at the annual Swerma conference.

Swerma is also involved with the development programme established by Lloyd's and European risk management federation Ferma. And there are plans to set up an industry-wide trainee programme where participants spend time as an insurance broker, underwriter or risk manager during an 18-month period.

Swerma is also looking to increase its lobbying and advocacy activity, said Rodert. "Ferma does this on a regular basis and has recently created a group to push insurers to provide more capacity for cyber and to increase the communication between insurers and risk managers. At Swerma we are supporting that, which I think is a really good use of an association," he said.

ESG holds key to recruitment challenge

Nicholas Pratt
news@commercialriskonline.com

@ComRiskOnline

Paper plant, Morrum, Sweden

Swedish risk and insurance managers are becoming increasingly involved in ESG as the topic rises rapidly up the corporate agenda.

For example, Henrik Paajarvi, risk manager at the Norway-based packaging and insulation group BEWI and a Swerma board member, is currently in the process of reinforcing the group ERM framework with sustainability a central theme.

"It also goes hand in hand with insurance," he said, referring to the relationship between environmental factors and property cover.

There has been a sharp rise in sustainability disclosure requirements through regulations or voluntary reporting frameworks such as the Taskforce on Climate-related Financial Disclosures (TCFD). This information could prove valuable to risk managers.

"Risk assessments and ESG reporting go hand in hand. It is crucial for us to evaluate our risks to map potential negative impacts, as well as opportunities, related to ESG topics, so that we can measure and manage our progress," said Paajarvi.

One of the main reasons for the introduction of more ESG disclosure and reporting requirements is the threat of greenwashing, whereby companies make unsubstantiated claims about their sustainability performance.

From an insurance perspective, this has raised the risk of D&O claims if a company sets sustainability targets and then falls short.

"A lot of companies have made statements about their sustainability goals – for example to be carbon neutral by 2030," said Johan Rodert, risk manager at Autoliv and chairman.

"And now insurers are getting more concerned about the prospect of companies not meeting these goals and then facing shareholder lawsuits. You need to show progress in terms of your sustainability pledges and whether you are on track to meet your goals," he explained.

Reporting requirements have been made more complex by challenges around the availability and consistency of data. For example, it can be difficult to get hold of ESG data from companies in your supply chain, said Charlotte Herner, risk and insurance manager at Swedish construction firm Svevia.

Additionally, there is a huge number of metrics purporting to measure the same thing, such as CO2 levels, but with little consistency between them. There is the same inconsistency with ESG ratings and scores. "You have to find one metric and stick to it," said Rodert. "That is easy enough to do internally but much harder when it comes to your suppliers and sub-contractors."

The link between sustainability and risk management suggests potential synergy between the roles. Will the sustainability manager become a dedicated role in most companies and how will this affect risk managers? Will risk managers be able to fulfil this role? Or, will they be sidelined as insurance buyers as sustainability races up the boardroom agenda?

There is a huge number of metrics purporting to measure the same thing, such as CO2 levels, but with little consistency between them. There is the same inconsistency with ESG ratings and scores

"We all see sustainability as an increasingly important part of our role and I work very closely with our sustainability team," said Paajarvi. "We have different tasks and maybe different perspectives – I work more on the physical side whereas they are more focused on the social, governance and organisational aspects. That said, I expect social risks to become an increasing part of the risk managers' role."

Swedish risk managers urged to sharpen focus on geopolitical risks

Nicholas Pratt
news@commercialriskonline.com

@ComRiskOnline

Companies must integrate geopolitics into their risk models in order to make sense of an increasingly volatile and multipolar world, according to Swedish risk managers and speakers at the annual Swerma risk forum.

The presentation by Andreas von der Heide, co-founder and CEO of Sweden-based political risk consultant Consilio, highlighted the profound changes in the global political landscape, which include the regionalisation of trade and politics.

According to Von der Heide, the competition for global influence in the next two decades is likely to be at its highest level since the Cold War was at its height.

For multinational companies this is resulting in global disruption and international dependencies amid regional spheres of power competing for influence.

"Access to supply chains and infrastructure becomes increasingly dependent on the actor controlling it," said Von der Heide.

For example, Russia remains a dominant player in global supply chains of nuclear reactor technology. And despite sanctions imposed by the West, Russia's oil supply has held up by diverting supply to Asia.

Meanwhile, China dominates renewable and battery manufacturing as well as rare earth markets like cobalt – a key component in battery manufacturing.

The ongoing war between Russia and Ukraine has been the most conspicuous catalyst for geopolitical instability. As Von der Heide said, it is a game changer in terms of the previous hegemony between global superpowers. And for Sweden the conflict presents significant risks.

Von Der Heide noted that Finland's accession to NATO is potentially good news for Sweden in terms of added security. However, should Sweden's own application to join NATO not be ratified, it would increase risk for the country's long-term security, he added.

Von der Heide cited the example of a cyberattack and the fact that Sweden would be especially vulnerable because it would not come under NATO protection.

In order to mitigate or manage this geopolitical volatility, risk managers should undergo regular stress and scenario testing, said Von der Heide.

"Instead of trying to guess where the next conflict will be, risk managers should focus on the broader issue of Russian aggression and the implications such as economic sanctions and disruption to supply chains," he said.

The topic of geopolitical volatility is aligned with Swedish risk managers' greatest current concerns. Those taking part in our Risk Frontiers Europe survey said disruption to global supply chains was the biggest risk facing Swedish companies.

The conference also heard from Robert Bergqvist, chief economist at Swedish bank SEB, about the big macroeconomic risks.

The systemic crises facing the global economy arising from the pandemic, climate change and geopolitical volatility will affect all countries and shape the global economy for at least the next five years, said Bergqvist.

Other factors in the rise of systemic financial risks are the fragmentation of globalisation and the rise in inflation, he said.

While risk managers may be powerless to halt inflation, influence monetary policy or reduce geopolitical volatility, they should continue to factor these economic developments into their risk management plans, said Bergqvist.

Russia remains a dominant player in global supply chains of nuclear reactor technology. And despite sanctions imposed by the West, Russia's oil supply has held up by diverting supply to Asia

Gazprom power plant, Adler, Russia

SPONSORS

Preparation is the best form of defence

Commercial Risk Europe talks to **Claes Hendil-Forssell**, country manager Nordics and senior loss adjuster for Charles Taylor, about the claims market in Sweden and the push for more collaboration

◇ CHARLES TAYLOR

The two most critical risks facing Swedish companies are cyber-crime and climate change – two areas where both the frequency and severity of insurance claims have increased, says Claes Hendil-Forssell, country manager Nordics and senior loss adjuster for Charles Taylor.

The majority of cyber claims involve cases of phishing, where users will unwittingly click on a rogue link that exposes their data and can also compromise a company's network or systems. There is increasing awareness of the need for more robust cyber security, and more firms are also adhering to the 'four eyes' principle.

A firefighting aircraft douses a forest fire in 2021: Wildfires are an increasing problem in southern Sweden

Similarly, there is greater awareness of cyber insurance and the role it can play – although this obviously means there will be a greater number of claims, says Hendil-Forssell.

The impact of climate change can clearly be seen by the rise in extreme weather events across Europe and in Sweden. What used to be a once-in-20-years event has now become much more regular. Flash floods occurred in 2021 and 2019, and since 2000 have increased by over 130%. And in 2014 there was a series of major wildfires in several areas north-west of Stockholm, which was probably the biggest fire event in Sweden ever. Swedish firefighters had to be supported by emergency services from neighbouring countries.

It is predicted that southern Sweden will become more prone to forest fires, so preventive measures will become more important, says Hendil–Forssell. Not only will more fire monitoring be required and restrictions widely communicated and enforced, there also needs to be greater adoption of insurance for forestry owners, she adds.

The increase in extreme weather has also served to highlight the growing importance of ESG. For Charles Taylor, this has led to a greater emphasis on the environmental impact from a property and casualty claim, says Hendil-Forssell.

Whereas the role of a loss adjuster in a traditional property claim would have primarily focused on the insured's business premises, it now involves restoring and rebalancing the surrounding ecosystem. For example, in the event of an oil spill, what is the impact on the surrounding ecology and wildlife and how quickly can this be addressed?

The transition to net zero and use of green energy also creates new and complex risks that pose a challenge for loss adjusters, says Hendil-Forsell. "For example, what happens when solar panels break or a wind turbine malfunctions? What is the cost of restoration or replacement? There is a lack of historical data and this makes it very challenging for underwriters and loss adjusters," she says.

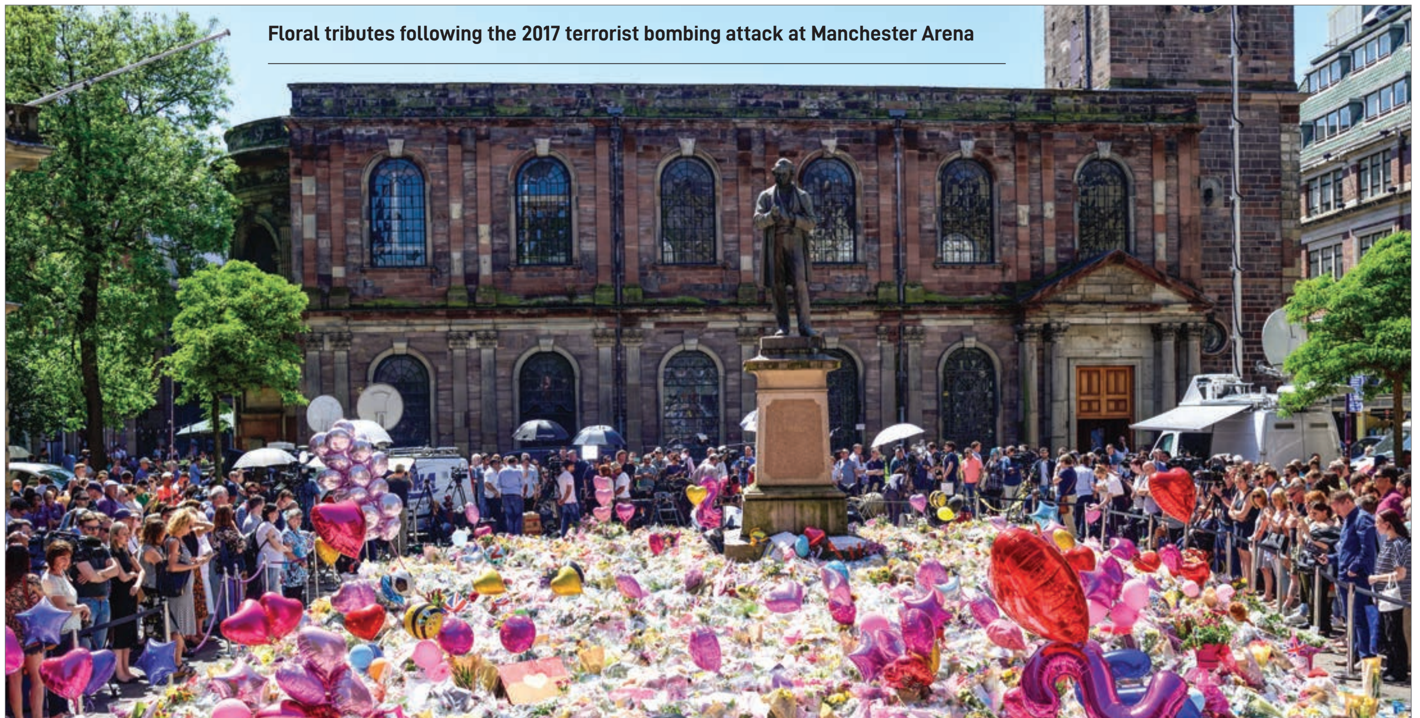
Greater use of technology can help loss adjusters with these challenges, continues Hendil-Forsell. "For some time we have been using drones to help conduct surveys, especially in the case of floods or wildfires where it is hazardous for humans."

Charles Taylor also uses software and drones that can help make speedier and more accurate calculations for claims, while greater use of collaborative, cloud-based software, or shareware, also helps loss adjusters communicate with each other. This is much needed for the more complex claims that may involve multiple loss adjusters all with their own specialisms. And ultimately it helps the clients because the claim can be resolved much quicker, says Hendil-Forsell.

However, insureds would benefit from involving their insurers, brokers and loss adjusters on a more constant basis and not just in the event of a claim, says Hendil-Forsell. "Property owners do not always have a great awareness of the role of insurance. If they make a change to their premises, they do not always inform the insurers," she says.

"This makes it much harder for us to then make an accurate estimate in the event of a loss because we are not working with up-to-date information. We are trying to push for greater involvement from the beginning. We also need to approve any material changes to the business or its premises so we can ensure it is still insurable."

Martyn's law: UK Home Office publishes the draft Terrorism (Protection of Premises) Bill



Floral tributes following the 2017 terrorist bombing attack at Manchester Arena

◇ TERRORISM

Alistair Kinley
Head of policy development
Clyde & Co

@ClydeCoNews

New draft UK legislation will impose a legal duty on those responsible for public spaces to assess the risks of terrorist attack and take steps to mitigate the threat and potential harm to the public.

The 2017 bombing of the Manchester Arena was the catalyst for these proposals, which have been named after Martyn Hett, one of 22 people killed in the incident. This article examines the key aspects of the Bill, its potential impact on risk management issues and a possible time frame for the proposals to come into force.

THE DRAFT BILL IN SUMMARY

This is a substantial piece of legislation. A key measure is the imposition of a new duty on people responsible for publicly accessible locations to assess the risk of terrorist incidents and take appropriate mitigating steps. Commonly known as the 'protect duty' – the duty is not universal and will apply only to those places with a capacity of greater than 100 people. Above this threshold, a 'standard duty' will apply to places with capacity between 100 and 799, with an 'enhanced duty' applying where the capacity runs to 800 or more. This 'enhanced duty' will also apply to temporary events that exceed the 800 people threshold.

The Bill provides powers for various regulations to set out the detail of these requirements for the thousands of organisations in scope – the material released by the Home Office suggests that around 300,000 locations will be subject to the new duty.

Upper limits of the penalty regime

	Standard duty	Enhanced duty
Fixed penalty	• Up to £10,000	• Up to the greater of either £18m or 5% of worldwide revenue
Daily penalty	• Up to £500	• Up to 1% of the fixed penalty

APPROACHES TO RISK MANAGEMENT

An important consequence of the Bill will be that terrorism risk assessments, mitigation plans and monitoring activity are likely to come together under the operational focus of the 'designated senior officer'. Although organisations controlling publicly accessible places may already be carrying out tasks and activities required by the new duty, those may well be taking place in discrete parts of the business. The new duty does seem to point strongly to these activities being brought together so that appropriate material and information can be centrally collated and supplied to the regulator for compliance and monitoring purposes.

On liabilities, the Bill is very clear in not providing for a new type of claim in the event of non-compliance with the principal duty or contravention of regulatory notices: "Nothing in this Act confers a right of action in any civil proceedings in respect of any contravention or a requirement imposed on any person by or under this Act."

Nevertheless, the same clause then adds that this is "without prejudice to any right of action which exists apart from the provisions of this Act". When the Act is in force, there will be the potential for liability claims – as indeed there is already – in the event of an attack at a qualifying place. What will be new and uncertain is the extent to which a failure to comply with the new duty might go towards evidence of breach of other duties – whether at common law or statue such as the Occupiers Liability Acts – and/or causation in civil claims made against the dutyholder(s) after such an attack.

At standard duty level, it seems highly likely that parts of the insurance market will develop solutions to help businesses, individually or in trade groupings, access information and online resources that will assist with compliance. Such services may well spin out of existing property and liability risk management services. Meeting the enhanced duty seems much more likely to require bespoke approaches tailored to the particular risks and mitigation plans identified for specific qualifying places, and the ways in which they are used by the business and accessed by the public. Broker and/or insurer-led risk management monitoring services look likely to have a greater role at this higher level of the duty.

Compliance will, inevitably, come at a cost. The Home Office published an initial impact assessment (IA) alongside the Bill that provides detailed estimates of adaptation, set up and ongoing costs. Using a present value (PV) calculation, the IA estimates that "the total set-up cost of Martyn's Law is between £268m and £1.3bn, with a central estimate of £625m (PV) [and that] the total ongoing cost … is between £850m and £5bn, with a central estimate of £2.1 billion (PV)".

The overall timetable is not clear, but this stage – which could include stakeholders submitting written evidence as well as oral hearings in committee – might take place in the next few months before the summer recess. However, Martyn's law may be in place during the second half of 2024.

◇ **LEGAL EYE:** THE BRIEFS

Meta gets record €1.2bn GDPR fine as Irish regulator overruled

◇ Meta has been hit with a record €1.2bn fine under the GDPR for breaking rules when transferring Facebook data from the EU to the US.

The tech giant has also been ordered to stop transferring the data. Meta said it would appeal the decision and stressed there would be no immediate disruption to Facebook's service in the EU.

The fine was handed out after the European Data Protection Board (EDPB) had to step in to resolve differences between Meta's main regulator in Ireland, where the company has its Europe headquarters, and other data protection authorities across the continent over the size and scope of penalties.

"The EDPB found that Meta IE's infringement is very serious since it concerns transfers that are systematic, repetitive and continuous. Facebook has millions of users in Europe, so the volume of personal data transferred is massive. The unprecedented fine is a strong signal to organisations that serious infringements have far-reaching consequences," said Andrea Jelinek, EDPB chair.

European countries top Verisk's climate litigation risk index

◇ Momentum is building for climate litigation against corporates using human rights as a driver, according to Verisk Maplecroft, which predicts claimants face a better chance of success after the UN's declaration of right to a healthy environment.

Verisk Maplecroft said climate litigation has increasingly turned to human rights laws to hold governments and corporates to account for high emissions and pollution, with mining, energy, agriculture and manufacturing companies particularly exposed.

"Climate litigation remains the most pronounced avenue for environmental cases pivoting towards human rights to appear. It has rapidly become a key mechanism for affected groups to force states to abide by their international pledges and keep companies faithful to their emissions commitments," it explained.

Verisk Maplecroft's analysis found that India, Nigeria and Indonesia are most likely to see a significant increase in cases, performing badly on the healthy environment index and with a record of litigation.

Verisk Maplecroft said Latin American countries such as Colombia, Brazil, Ecuador and Argentina provide fertile ground for human rights-driven climate litigation. However, it warned that victims of environmental damage are increasingly taking corporates to court in their home country, often in developed nations and, in particular, in Europe and the US.

"Extraterritorial litigation hubs, including the UK, France, Germany, Canada, the Netherlands and Australia, rank at the top of our Climate Litigation Index," Verisk Maplecroft said.

Liberty Specialty Markets

Cyber Attacks: Play the game, not the occasion

Is there such a thing as too many defensive measures when it comes to cyber security? Could an attack, no matter how sophisticated the defence, still break through? In some ways it is a bit like managing a team in sport; the opposition may be difficult, there is a balance between defence and attack, and at the end of the day the board will have a view of the return on their investment.

◇ LIBERTY SPECIALTY MARKETS

Leading cyber security professionals are clear: nation state attacks can be of such scale and sophistication that it is inevitable that sometimes one will beat the defences of even the most sophisticated outfits.

Avoiding cybersecurity relegation

In some ways it is a bit like managing a team in sport. The opposition may be difficult, there is a balance between defence and attack, and the board will want to know what the money has been spent on.

When it comes to cyberattacks, we often hear language focused on shifting blame or claiming there was nothing to be done to prevent them. A distant echo of the common sports excuse: the opponent was 'unstoppable' or 'unplayable'.

For any event, re-treading every sequence of events, regardless of the field, can reveal an action or inaction that can be identified as a mistake.

To continue the football metaphor, a pundit recently criticised Liverpool during a Premier League game for giving an opposition forward too much space. Later, he accused the team of marking the other side too closely. In the same way, a business risks cyber security breaches for inaction and then being pilloried by other parties for doing too much. It's a delicate balance.

Parking the bus

We must consider the competing demands of the business. Repeatedly, more forthright insureds explain that they can never

make their businesses 100% secure. There is a trade-off between enabling the business to trade and cyber security.

Making their cyber posture impregnable at the expense of everything else would be simpler. But that is not feasible – businesses need to operate. So, the trade-off will always exist between making systems functional for employees and customers, and making them secure.

If football teams focused completely on defending, there would never be any goals. If businesses took the same approach to their activities, it could affect their ability to conduct business. The fact that they need to do both at the same time is what makes it such a challenge, perhaps one that is unlikely to disappear soon.

The scale and intensity of nation state attacks would seem analogous to playing against the current English Premier League champions, Manchester City. They are a highly professionalised and well-drilled opposition packed with such skill, intensity and hostility that you have to be constantly on your guard in order not to be overcome.

With this persistent pressure, it's inevitable that the strain will tell, and a mistake may occur. The key here is for the team to remain calm and not let a mistake become a crisis. This seems to be a significant focus for leading companies; conceding the first goal must not lead to a rout. This is key to reducing the severity of cyberattacks that are not stopped.

Talent management

Finally, just as most coaches have limits on their budget for talent, companies can only commit so much of their spend to cyber security versus other areas of the business.

Every department will always want additional resources to aid their task. To quote Jose Mourinho, two-time champions league-winning head coach: "No eggs – no omelettes! It depends on the quality of the eggs. Some give you better omelettes. So, when the class one eggs are in Waitrose and you cannot go there, you have a problem."

The question is, will companies invest in top class security or cut back and risk relegation, as well as the accompanying threat to their survival?

Don't blame the ref

Every company will draw the line differently. It will no doubt ebb and flow with the cyber security environment and the state of the economy. Preventing and minimising the impact of nation state attacks and behaving responsibly is vital.

Nothing will improve while the stock response to these events continues to be the equivalent of blaming the referee or the state of the pitch.

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BELFOR

Be prepared

As extreme weather hits Europe again, companies must do more to prepare for an emergency, says **Elvir Kolak**, CEO at BELFOR Europe.

◇ BELFOR EUROPE

Europe has again been hit by extreme weather resulting in floods in northern Italy. In 2021, it was the German region of Ahrtal valley and in 2022, large parts of the UK were submerged. In May, the wealthy region of Emilia Romagna was hit with six months of rainfall in just 36 hours.

More than 43 towns and villages were flooded, 15 people lost their lives and the Italian government provided €2bn in aid for farmers and business owners affected by the event. The provisional cost of the damage amounted to €7bn.

The region is also home to many businesses and industries. The devastating impact was exacerbated by a lack of preparation.

At times like these, restoration companies such as BELFOR play a critical role in helping these companies recover and return to business operations as quickly as possible. But companies can also help to limit the disruption they face by devising, implementing and practicing an emergency plan.

Unlike traditional property insurance, the priority is not raising funds to finance the recovery. It is restoration services such as BELFOR that are typically the first to receive a call in these situations.

Since the beginning of May and the first flood, BELFOR has worked around the clock with more than 200 technicians to enable damaged companies to resume activity as soon as possible. The company has been able to call on its International Major and Complex Project Team, which has supplied extra manpower and equipment to support the Italian team.

For example, machinery restoration specialists were sent from BELFOR DeHaDe (Germany) along with industrial dehumidifiers and new mobile electronics restoration trucks. BELFOR has also set up a logistics centre in the Italian town of Forli to handle the distribution of manpower and materials to construction sites within the affected area, and act as an additional base for electronic remediation efforts in the region.

Flooding around the Secchia river near Campogalliano, Modena in Italy's Emilia Romagna region

But even with these steps, the demand far outstrips supply at times like this. As Filippo Emanuelli, managing director for BELFOR in Italy, said: "Our phones are ringing non-stop. The customers' supply chain is affected and they need to get back on track as soon as possible."

BELFOR has addressed the demand for services by establishing RED ALERT and PIA *Pronto Intervento Azienda*®, an emergency response service that prioritises clients in the immediate aftermath of crises such as a flood. More than 9,000 clients with PIA and RED ALERT were affected. Services were based in the southern part of Romagna region.

The head of insurance and risk management at a German industrial parts distributor and a RED ALERT client, said: "When I received the call I could immediately reassure my Italian colleagues: BELFOR is coming, they have the resources, we know each other well. We are a RED ALERT client and therefore we have priority status."

BELFOR also runs a number of training programmes where clients can engage in scenario planning to test and establish what their preparations should comprise.

There are a number of simple but often forgotten protocols that companies can use to prepare and help cut the business interruption time period. Having a qualified list of suppliers able to rent emergency power generators and vacuum trucks to evacuate water mud are a few examples of important actions that can be done in advance. Of course, a business contingency plan is a more complex activity to implement.

Daniele Maggioni – RED ALERT product manager at BELFOR in Italy said: "It is a lesson that many other Italian companies are learning. At BELFOR we are receiving many more enquiries about our priority assistance programmes while a large number of companies want to take part in our training programmes to be better prepared for the next damage due to extreme weather or fire or pollution damage."

Charles Taylor

One size does not fit all

Daphné Naudy, senior loss adjuster and director of development for continental Europe for Charles Taylor Adjusting, discusses achieving a tailored approach to claims for Europe's many markets.

◇ CHARLES TAYLOR

Europe might be one continent, but it is made up of many markets so far as insurance and loss adjusting are concerned.

Indeed, the term 'loss adjuster' has no equivalent on the continent and is covered by the more technical term 'expert'. The role of these experts differs from country to country and can be limited to a technical forensic service in some, extended to the loss estimate in others, adding the analyse of policy coverage in some more. Whereas it will be mainly focused on the policy wording application in the UK.

The same but different...

Across the continent, the EU law and regulation gives a unity and a common ground to all countries. There are many common causes of loss ranging from natural catastrophe and professional negligence to supply chain disruption and cybercrime. Nevertheless, the common contributory factors to the value of a claim and the adequacy of underlying insurance, such as inflation, vary significantly from one country to another. For example, the annual rate of inflation across Europe in March was 6.9%, according to Eurostat. In the UK it was 8.9% and sat between 10% and 15% in the Baltic countries. At the lower end of the scale, inflation was only 3% in Spain and Luxembourg.

We have experienced that the impact of inflation on claims costs, insured values and policy deductibles can lead to some difficult conversations at the time of a loss and is something that needs to be considered carefully when risks are placed. We have also noticed that where insurance is bought in one currency and the cover extends to locations with a different currency, fluctuations in foreign exchange rates can create issues to overcome.

Claims frequency and severity

The changing nature of claims frequency and severity also affects market dynamics. Natural catastrophes have always been a risk, but climate change is increasing the number and size of fires, floods and earthquakes throughout Europe. In recent years, countries such as Poland and Germany (and very recently Italy) have suffered serious flood losses, and the insurance market found itself dealing with a huge volume of claims. If and when such events strike again or affect other countries, how well will they be prepared?

This will affect more people and businesses, without them being in a good position to mitigate their impact or associated losses. As the natural catastrophe risk escalates, it has never been more important for individuals and organisations to have a detailed, accurate and up-to-date risk assessment of their exposures, including replacement costs, analysis of specific local/regional factors, identification of property structures, etc.

This level of pre-loss engagement will ensure the correct level of insurance is in place when a loss occurs. It will also enable the repairs/rebuild to be completed swiftly and minimise the associated business interruption loss.

Technology solutions and regulatory compliance

Technology can help in pre- and post-loss claims management. For example, it has a huge role to play in natural disaster modelling. The use of AI is accelerating the ability of these models and enabling them to be very accurate and powerful. But the use of such tools carries its own risks in relation to the processing and storage of data.

There are overarching rules in place for the European Union and each member state has enacted its own regulations to ensure compliance. Non-member states have their own individual rules and so there is a complicated patchwork of regulations and legislation to navigate for pan-European operators.

Cyber is also an area with significant variance across Europe. It is a growing line of business but there are different approaches and appetites to cyber cover in various countries. For example, in France, a number of corporations have preferred not to renew their cover and instead put in place captive solutions to address their exposures. The development of captive solutions is clearly one of the future trends in our insurance market.

Final word

Assessing, managing and settling claims on a pan-European basis is a complicated task, and there are three issues that add to that complexity. First is the need to understand each local market's culture, industry practices and regulatory landscape. Second is the need to communicate in different languages. Third is the coordination of multiple stakeholders operating across different jurisdictions.

This is where Charles Taylor has an established strength, reinforced by its acquisition of the continental network IES (Insurance Engineering Services), which has been fully integrated into existing capabilities.

Charles Taylor has widespread expertise, with offices in France, Italy, the Nordics, Belgium, Germany, Poland, Romania and Turkey.

This network has worked together for more than 15 years and during that time the country managers have remained the same, building up strong working relationships in their local markets and gaining extensive experience of handling pan-European claims.

Whether clients need a UK loss-adjusting service or a more continental expertise service where the focus is on root cause analysis and damage estimation, Charles Taylor is perfectly placed to respond.

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