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Vol. 14 | #3

Autumn 2023

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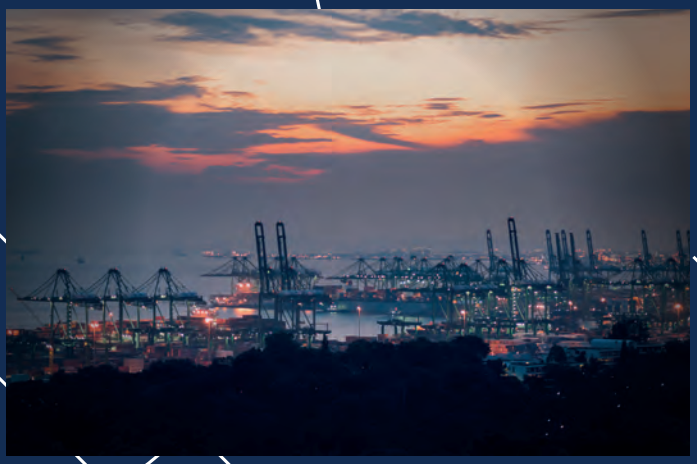

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GVNW 2023

We speak with the new president and vice-chair as the association gathers for its annual conference 14-18

ESG underwriting

◆ Big questions from German buyers over how ESG data is impacting pricing and capacity

UK Covid BI litigation heads for showdown

◆ Claims hang in the balance as crucial cases go to higher courts

Ferma reignites discussion over PPPs

◆ Public-private partnerships for systemic risks back in focus

AI set to transform risk management

◆ Ability to predict risks and automate aspects of mitigation

Risk Frontiers Italy, Belgian and Netherlands

◆ European risk managers on the big issues

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Alternatives under discussion at GVNW as insurers stand firm

The crisis that saw German insurance managers and their peer across Europe desperately scrambling to complete their programmes with adequate capacity at acceptable prices may have reached its nadir, and things certainly look healthier in many lines.

So as GVNW members gather for their annual Symposium in Munich and prepare for business-end discussions over their year-end renewals, they may be expecting a less tense ride. But insurance managers in Germany and across Europe should not be promising their bosses and colleagues that a market softening is on the horizon.

Fresh capacity may have arrived in some lines – notably cyber and D&O – but the property market remains hard as reinsurers adapt to escalating nat cat losses driven by climate change.

The leading insurers say they are determined to stand firm and will walk away from business that does not fit their post soft market underwriting criteria. This does feel like a longer-term market correction than many insurance managers would have hoped.

No surprise then that captives and alternative solutions are firmly on the agenda at the GVNW Symposium. There will be one session hosted by MIRIS, the new Brussels-based cyber mutual, and one with Dirk Wegener, president of Ferma, and, perhaps significantly, Ricarda Maier of the German insurance supervisory body BaFin.

This session asks the basic question: How can Germany be developed as a captive location? Nobody expects Maier to announce that BaFin has agreed a set of fiscal measures with the German Ministry of Finance to make the creation of onshore captives in Germany highly attractive and lead to an explosion of new captives.

But the German and international insurance sector needs to take note of the very fact that this discussion is being held, followed by a closing debate about the relevance of the industrial insurance market in this era of permanent crises. They must remember that supply and demand is a two-way street.

In this issue of CRE, we bring you interviews with leading GVNW members and their take on how ESG is impacting insurance renewals. We also look at how Covid-19 BI litigation is heading for a showdown in the UK and Ferma's hope that discussions over public-private partnerships for systemic risks will finally pay off.

In addition, we bring you European Risk Frontiers reports on the views of leading risk and insurance managers from Italy, Belgium and the Netherlands. Plus much more besides. We hope you enjoy the read…

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ESG underwriting debate hots up as GVNW gathers in Munich

◇ ESG

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The German and wider European insurance market needs to seriously up its game on the increasingly important matter of ESG, and particularly how it will impact commercial and industrial insurance programmes.

The big insurers are keen to stress that they are playing their role in the whole ESG effort and transition to net zero through their huge investment portfolios.

They are also being pressured to pull capacity from new and even existing fossil fuel projects as action groups ramp up reputational pressure and legal action.

But exactly how the ESG performance of corporations will impact the attitude, pricing and capacity provided by underwriters is a much murkier question.

Leading German risk and insurance managers who took part in this year's Risk Frontiers Europe survey shortly before the GVNW Symposium in Munich, were divided over how ESG is already impacting the underwriting strategy of insurers.

Some are frustrated by the questions increasingly being asked by carriers and have no idea how it is being used, if at all. More transparency and consistency is needed, and perhaps a market-wide effort to come up with common standards is the way forward, suggest some.

Others say that they have seen minimal, if any, impact on their programme or discussions with insurers, suggesting that ESG is really a bigger question for risk and compliance departments rather than insurance.

A similar discussion held with leading Dutch risk and insurance managers hosted at the Narim congress earlier this year, reinforces the idea that the approach of insurers to ESG is far from perfect. The Dutch agreed with most of the Germans that serious and collective work is needed to clarify this whole area and how it may impact future insurance renewals.

ESG is clearly rapidly shifting onto the agenda of many risk and insurance managers across Europe but exactly how it is going to pan out from an underwriting perspective remains unclear.

Patrick Fiedler, president of the GVNW, pointed out that this is clearly a work in progress, but stressed that given the potential administrative burden for insurance managers, it needs a clearer and more positive approach.

"From a GVNW perspective, we gave a press statement on ESG after our meeting in May and we established a new ESG working group. Our members gave us the renewal feedback that while ESG questions are on the rise, the relevance of the responses remains unclear. In some very limited, individual, strange cases, ESG arguments led to denial of insurance cover, whereas overall the topic has only been perceived as an administrative burden. Is this how we want to make an impact as an industry?" he said.

"Our association's key demand is to move the ESG topic away from a negatively loaded image, to positive, stimulating discussions. We should more focus on how we can contribute to ensure the required transformation. We'd love, for example, to see a competition of insurers to achieve the highest positive impact by insuring projects with the highest effect on reduction of greenhouse gas emissions," added Fiedler.

"Our association's key demand is to move the ESG topic away from a negatively loaded image, to positive, stimulating discussions"

Patrick Fiedler, president of the GVNW

Fellow GVNW committee member Swen Grewenig agreed that serious work is needed in this critical area. For now, it is very much a "one-way street", with underwriters asking the questions and not really explaining how the information will be used, he said.

Grewenig, along with many of his peers, would like to see this change and a more transparent process adopted with true dialogue.

"ESG has been present for quite a while already. Whereas it seems still to be a one-way street, ie insurers asking ESG-related questions and [without transparency] making the answers part of their underwriting decision. We would prefer to have a dialogue with the carriers in this context," he said.

"We actually do not know exactly what the insurance companies do with ESG related information they are asking for directly from the insured or grab indirectly from public sources. However, an [allegedly] negative ESG assessment by insurers will have consequences in various lines of business," added Grewenig.

The GVNW committee member generally views the rise of ESG as a positive thing but he is fearful about "excessive bureaucracy".

"The true focus of ESG is operational risk management. ESG is driven largely by financial risk, which is a fundamental difference with insurance"

Jeroen Gruter, corporate insurance manager at Rotterdam-based TBI Holdings

Windmill park in Flevoland, Netherlands

"Many companies have looked after topics that are now labelled as ESG for many years already. With ESG these topics now may be tackled in a more structured way, which may allow for better decision making, transparency and risk mitigation. However, there is a risk of excessive bureaucracy," he said.

Christian Böhm, managing director of insurance at global technology group Freudenberg and vice-chairman of the GVNW, also sees the rise of ESG as a positive development but has seen little impact on insurance negotiations so far.

"There is a special task force in the company that involves the insurance head regarding insurance-related topics. How does a good ESG strategy benefit a company and its risk profile? It will keep the company acceptable and attractive for customers, suppliers, authorities, and not to forget for its own employees. What impact does it have on your insurance programme, if any? So far, ESG did not play a big role in our discussions with insurers," he said.

Matthias Beck, head of the group insurance department/risk management at the Würth Group, agreed with Böhm that ESG is generally a positive development from a risk management perspective but has, so far, had little impact on his insurance renewals.

"Through the risk management process, we have built a good and close relationship with our ESG colleagues and exchange ideas on a regular basis. So far, we have not identified any significant negative impact on our insurance programmes," he told *Commercial Risk*.

The view from the Netherlands was similar, with leading Narim members also expressing frustration over the lack of clarity and consistency as ESG continues to rapidly evolve.

Jeroen Gruter, corporate insurance manager at Rotterdam-based financial services group TBI Holdings, said: "The true focus of ESG is operational risk management not insurance. ESG is driven largely by financial risk, which is a fundamental difference with insurance.

So far, the impact of ESG on insurance is limited, agreed other Dutch risk and insurance managers.

"I hear the word ESG used by the insurers but is it really applied in reality? They say they are asking for the information but I am not sure they are actually using it for now. I hear that some insurers want to know about your ESG strategy. They say they will be more active in future but not for now," added a participant in the Narim roundtable.

Marc Heiligers of Akzo Nobel said that the whole ESG-based approach to underwriting is a serious work in progress. "I question if the insurers really take the ESG information we provide into account. They ask for our ESG reporting information. But do they really take that into account? I am not sure for now," he said.

Annemarie Schouw, manager of risk and insurance at Tata Steel Nederland, fully agreed with her colleague. "It is not insurance-driven – it's actually your license to operate," she said.

Further serious debate in the market is clearly needed on this fast-changing area and, as Fiedler pointed out, it is imperative that the positive aspects of ESG are taken into account as much as the negative.

The good news is that Joachim Müller, CEO of Allianz Commercial, told *Commercial Risk* ahead of the GVNW Symposium that his firm is taking ESG seriously from an investment and underwriting perspective, and is keen to work in partnership with its customers as things evolves over time.

"ESG is part of our daily underwriting routine. We work as partners with our customers joining us in the transformation. We have to let business go if it is not aligned with our net zero ambitions. We would like to achieve net zero by 2030 and our portfolio by 2050. This is a clear path. There are clearly big questions on reporting and on data in this area and it will evolve over time, but we are committed as underwriters, investors and a company as a whole," he said.

UK Covid BI litigation heads for showdown as insurers drag their heels

◇ LAW

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The outcome of UK Covid-related business interruption (BI) claims hangs in the balance as crucial cases head to higher courts later this year, according to experts at Fenchurch Law.

The 2021 Supreme Court judgment in the Financial Conduct Authority (FCA) test case – which focused on small to medium-sized enterprises – was largely a victory for policyholders, although it left several significant loose ends.

It also left insurers, policyholders and the courts to interpret and apply the Supreme Court ruling, often with very large claims at stake.

Despite the Supreme Court ruling and subsequent cases over the past 12 months, many Covid-BI coverage disputes have yet to be settled. Several important cases are being appealed, including *Stonegate, Greggs and Various Eateries vs MS Amlin,* and *London International Exhibition Centre (ExCeL) vs RSA and others.*

Joanna Grant, a partner at Fenchurch Law, which works solely for insurance buyers, said Covid-related BI litigation in the UK continues to favour policyholders but insurers are still reluctant to proactively settle claims.

"The balance is tilting towards policyholders. I think we will get there in the end but it is just a waiting game. The courts are being proactive and making sure these cases are pushed through the system quickly, however insurers are still showing a reluctance to pay unless they are given no alternative," she told *Commercial Risk Europe.*

"It is disappointing that insurers continue to drag their heels in this way. But we would like to think that by this time next year, most of the issues will have been resolved and the landscape clearer," Grant said.

There are currently several outstanding issues being litigated in the UK, including aggregation, furlough payments, denial of access and 'at the premises' wordings under non-damage BI policies.

According to Daniel Robin, a partner at Fenchurch Law, the treatment of government pandemic support for businesses, such as furlough, is perhaps the most significant in terms of potential losses for insurers. But the aggregation issue can also have a significant impact on the size of individual claims, he said. Litigation around denial of access is also wide reaching and will affect a large number of companies and claims, added Robin.

The ExCeL High Court ruling in June looked at whether a business is covered for Covid-19 BI claims under 'at the premises' clauses, which was one of the two big unresolved FCA test case issues being litigated this year, along with denial of access cases, according to Grant.

"The Supreme Court analysis says that each and every case is a concurrent cause, and that is a gateway to cover for the policyholder. Insurers have resisted the application of that analysis, but in a comprehensive and resounding win for the policyholders the court [in ExCeL] found in their favour, holding that the Supreme Court analysis did apply," she said.

The ruling is expected to affect hundreds of thousands of policyholders around the country, and has important ramifications, according to Grant. However, insurers continue to resist paying claims.

"Frustratingly, the judgment does not help determine what the policyholder must show to prove it has a case at the premises. While the judgment indicates the threshold should be relatively low… equally it does not indicate what would suffice by way of proof and we already see insurers push back on payouts consequent on the judgment, looking for a high standard of proof that would be difficult for policyholders to meet," she said.

"Also, frustrating for policyholders, insurers are appealing. That will bring further delay as they will likely not pay out until the outcome of the appeal. The trial judge is sceptical of the outcome of an appeal but it has been allowed as insurers will say the first instance decision is not enough to bind them," she continued.

The ExCeL case, which is likely to go before the appeal court early next year, is reflective of the insurance industry's reluctance to settle Covid-19 BI claims quickly and as smoothly as buyers and regulators had hoped, according to Grant.

"From a policyholder perspective, [the ExCeL case] is indicative of more delay and uncertainty, which has become a feature of these cases. Even though they keep coming to court, and we see more and more rulings, we are still not getting to the end of it," she said.

Litigation involving claims brought under non-damage denial of access wordings, which are due to come to court in October and November, also follow the pattern of delay. The cases are a re-run of the 2022 *Corbin & King Ltd v Axa High Court* judgement, which found in favour of the policyholder.

Insurers are now looking to higher courts for greater clarity on the application of both denial of access and 'at the premises' clauses, according to Grant.

"While AXA did not appeal [in Corbin & King], other insurers say they are not bound by the judgment. Liberty Mutual, in particular, is not paying out following Corbin & King, and we have a number of much larger corporate entities [in the hospitality and retail sectors] pursuing claims against Liberty, looking for a ruling that applies the Corbin and King analysis," she said.

David Pryce, managing partner at Fenchurch Law, believes insurers have missed an opportunity to step-up and fulfil their "public service" role by supporting business. He noted how Lloyd's underwriter Cuthbert Heath famously honoured all quake and fire claims from the San Francisco earthquake in 1906, cementing Lloyd's reputation in the US.

"The London market risks losing its pre-eminence unless it takes opportunities

like Covid to show the business community it can set up," he said.

Robin calls for more engagement from insurers to avoid disputes and delays in settling claims. "What has frustrated policyholders is that where they have waited for judicial guidance on certain issues in good faith and expected insurers to engage, there has been a movement of the goalposts," he said.

"The only way there will be an end to this is if there is sensible engagement on both sides. The courts cannot determine every single issue. Even cases like Stonegate, they provide only the guidance needed to engage sensibly and extrapolate the findings, which is where we come up against frustration on our side," Robin said.

The big case to watch at the end of the year is Stonegate. The Court of Appeal will consider the key issue of furlough, and whether insurers can adjust BI claims for government support. According to Pryce, taxpayer money intended to support businesses during the pandemic could result in a "windfall" for insurers if they are able to reduce payments they would otherwise have been required to make under their policies.

"As a lawyer, it is not for me to comment on government policy, but as a taxpayer I would have an issue if the outcome were that insurers get a windfall. That is not what the government intended when it used taxpayer money to help businesses. For me it is an important public policy point and I hope it goes for determination at the Court of Appeal... The [High Court] decision, while understandable in the legal sense, should be overturned as a matter of public policy," he said.

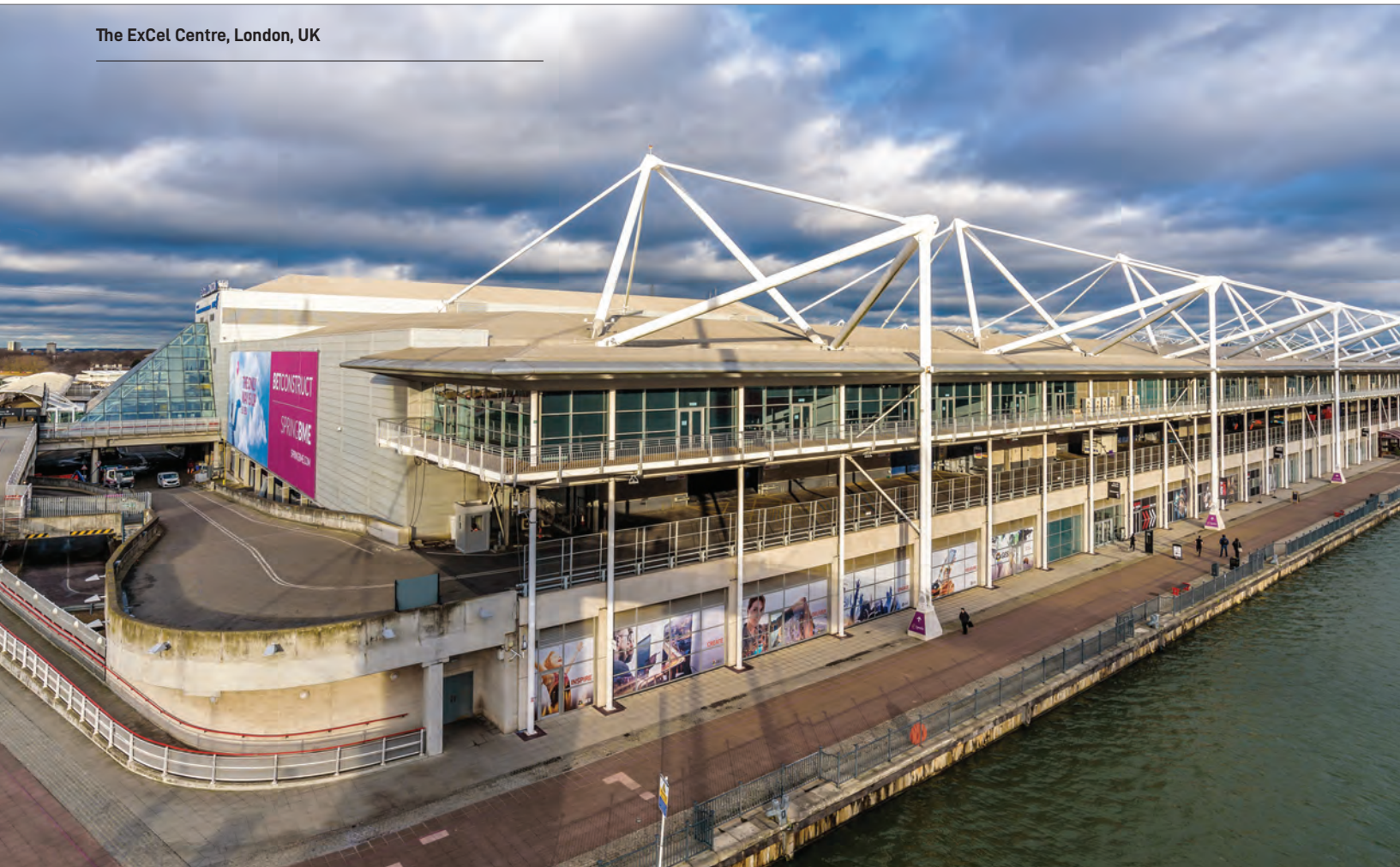
"From a policyholder perspective, the ExCeL case is indicative of more delay and uncertainty, which has become a feature of these cases"

Joanna Grant, partner at Fenchurch Law

All parties are appealing the Stonegate judgments, with an appeal hearing set for 27 November 2023. Greggs, however, recently settled its dispute with Zurich Insurance, although the terms of the settlement are confidential.

The Stonegate case also considered the key issue of aggregation – namely, whether the insurers' interpretation of 'occurrence' would enable them to apply a single sub limit of liability to which all losses could be aggregated. The appeal court judgment would have a significant effect on the quantum of BI losses recoverable from insurers.

Fenchurch Law recently helped student travel company World Challenge win its case against Zurich, which had argued a £150,000 aggregation sublimit applied to £10m losses from the cancelation of thousands of school trips. "Based on the policy wordings in this case, the judge found the decision to cancel the trips was not an occurrence, and therefore there was no aggregation for the purposes of that policy," Grant said.



The ExCel Centre, London, UK

Ferma hopes ongoing dialogue over PPPs will now pay off

Marsh fears cyber war clauses could set precedent for further restrictions

◇ CYBER

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Ferma has told *Commercial Risk Europe* that it has kept dialogue open with all relevant stakeholders on the need for EU-wide risk management and state-backed transfer solutions for systemic risks, after the federation put cyber front and centre by calling on the EC to reignite discussions over a public-private partnership (PPP) for this growing threat.

At the same time, Marsh said it wants the insurance market to stop its public wrangling over cyber war clauses and better explain to clients exactly what it is doing in this tricky area and why. But the broker fears that the revamped war clauses could set precedent for further detrimental changes to cyber cover.

Earlier this summer, Ferma and a group of leading (re)insurers and brokers called on the EU to restart discussions over a PPP to help manage and transfer systemic cyber risks.

Releasing a joint report, the key stakeholders have urged public bodies to move beyond theoretical PPP solutions and come up with practical moves amid growing uncertainty for insurance buyers when it comes to areas such as cyber war.

Launching the *Cyber insurance dialogue – How Europe can lead the way to cyber resilience report* in Brussels, Philippe Cotelle, vice president of Ferma and chair of its digital committee, said it is vitally important to "bridge the uncertainty that is growing around catastrophic cyber loss scenarios that are not covered by insurance".

"We can't be uncertain. We need to know exactly the boundaries where insurance will work so that we can adapt our risk management according to those boundaries, and supply a clear answer to top management about how we plan to address catastrophic cyber losses. This is a big element of the report. We call for Europe to seize the opportunity, as it did in the past on the GDPR, to put the continent at the leadership on those key issues," he added.

Releasing a joint report, the key stakeholders urged public bodies to move beyond theoretical PPP solutions and come up with practical moves amid growing uncertainty for insurance buyers in areas such as cyber war

Experts from across the insurance market used the report to say it is time to move beyond discussions on how to build cyber resilience and actually develop a PPP for systemic cyber risks.

"We need to get to the root of some of the problems. We need to make sure the right people are in the room having the conversations that need to be had. Across different parts of the world there have been many engagements talking quite theoretically about this topic as opposed to pure action. Right now, we want to sit round a table and have that proper discussion with all stakeholders… now is the time for us to restart that in a much more robust way," said Scot Sayce, global head of cyber at Allianz Commercial, at the report's launch.

Attentions was really drawn to the need for PPPs after companies found they had little business interruption cover in place for Covid-19 losses. This was because most insurers excluded non-damage business interruption (NDBI) risks over fears about systemic losses. As the state had to step in to bail out business, several interested parties, including Ferma, pushed for a PPP at European level to help manage and transfer this risk.

Cotelle told CRE after Ferma's cyber report was published that political appetite for a PPP to cover NDBI and other systemic risks faded as the recovery from Covid-19 took precedent. But he said the European risk management federation has kept the lines of communication open with the EU and other relevant stakeholders, such as the European Insurance and Occupational Pensions Authority (Eiopa). The hope is that this will now pay off with a solution for cyber risk.

"In 2020, Ferma drew the European Commission's attention to the severe shortage of insurance for business interruption losses where there has been no physical damage (NDBI coverage). At the time, and when there was more political momentum, Ferma had concrete discussions with a variety of stakeholders across the insurance value chain, and also with public authorities, as well as international organisations such as the OECD," began Cotelle.

"We have subsequently understood that the political priorities shifted with the large relief Covid-19 package of NextGenerationEU, as the recovery and resilience facility took precedent. Nevertheless, Ferma has kept the dialogue open on systemic risks more broadly with all the relevant stakeholders," he added.

"In this cyber report, we are really aiming to refocus attention on the need for greater public private cooperation, which may take the form of PPPs or other mechanisms. Our call to action, if you will, is that Europe has an opportunity to be a leader in developing a framework that would help to address the coverage gap for risks that cannot be borne by the private insurance market alone," he said.

Cotelle added that Eiopa and the National Bank of Belgium, as well as some of the major players in the private insurance market, believe the cyber report can advance this dialogue. "But of course, Ferma will push for the dialogue to lead to actions," Cotelle said.

"We have to set up a better way to respond to what is and is not covered. The main part of that for us is the "major detrimental impact" not being defined"

Brian Warszona, cyber, media and technology practice leader in the UK at Marsh

It is worth noting that the European Central Bank (ECB) and Eiopa has published a joint discussion paper – Policy options to reduce the climate insurance protection gap – and called for comment by June.

The ECB and Eiopa point out in the paper that while national governments may oppose further state-backed funding during this tough economic period, it makes sense from an economic perspective.

So the ECB and Eiopa clearly see great potential for new PPPs using the insurance sector as the first layer and capital markets and the ECB itself higher up. And they agree with Ferma that risk mitigation and management must lie at the heart of such future schemes.

War-related cyber cover

One of the big systemic risks currently being stripped from insurance cover is cyber war through mounting exclusions from Lloyd's and the wider market. Clearly the insurance industry cannot, and will not, take on this risk without some form of state-backed support.

The removal of war-related cyber cover has left insurance managers in the lurch, either unable to buy protection any more or unclear exactly what is covered and what is not.

Brian Warszona, cyber, media and technology practice leader in the UK at Marsh, is concerned that some brokers are downplaying this issue for competitive advantage and is worried that war clauses may be the thin edge of the wedge for cyber insurance buyers.

"It is unfortunate that we are seeing some brokers use this as a way of competition and taking a different perspective to make it seem like a non-issue in some regards. I think it is an issue that if it continues to expand in the way this is being pushed out, communicated and enforced, may give precedence to future changes, other than the War Exclusion, that could potentially cause more damaging results," he told *Commercial Risk*.

A big problem for clients is the way the insurance market has argued over the war clauses in public and failed to deliver clarity on key issues, continued Warszona.

"We have to do better as a market to communicate what is going on between ourselves before it gets out in the open. The biggest thing that happened with the LMA war exclusion being publicly drawn out for the past six to 12 months is everything has broken publicly. So we as brokers wanted one thing and carriers said they wanted another, via the LMA or otherwise, and we have gone back and forth on amendments. This started getting into the media and then it became more of a problem for our clients to understand the impact to their insurance purchasing needs. Even Lloyd's Patrick Tierney has said communication could have been better. And I totally agree," he said.

"We have to set up a better way to respond to what is and is not covered. The main part of that for us is the "major detrimental impact" not being defined. A major detrimental impact to a family-owned retail store is clearly different than a $10bn turnover company. So is it a percentage of the annual turnover? Is it a section of the IT infrastructure completely going down? Does it mean major parts of your operation are down? We just need to define where that kicks in and what it means," the broker added.

Warszona said the biggest losers in all this are clients. He believes they have been left confused by very complex cyber coverage that has now become even more complicated with war, nation state and sovereign nation aspects interacting.

"This gets down to needing to develop mock scenarios of what is covered and what is not to help out with communication. We need Lloyds and the LMA to provide that, considering this is their initiated war exclusion for all syndicates, which will potentially transcend into company paper down the road," he concluded.

AI to enable more proactive and predictive risk management

◇ TECHNOLOGY

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Advanced analytics, powered by artificial intelligence (AI), is set to transform risk management, helping companies predict future risk and automate aspects of risk identification and mitigation, experts have told *Commercial Risk Europe*.

Demand for risk data is growing but so too is the availability of data and the tools to collate and analyse information, according to Jim Wetekamp, chief executive officer of Riskonnect.

The need for more and broader risk information is increasing as companies seek to understand risk beyond insurance, looking at a wider range of risks, a longer horizon and across more scenarios throughout the value chain, he explained. However, the volume of data and complexity of the task increasingly requires more powerful tools, he added.

AI, in particular, will enable risk managers and insurers to collect and analyse data quicker and more effectively, according to Wetekamp. "You are seeing AI change work and communication today. Where you have an opportunity for AI in risk management, and where it is potentially disruptive, is helping companies understand the risks to strategy over a longer time horizon. AI has huge potential to make companies more agile and faster to adapt," he said.

"What is new, and changing, is where risk has to be in the conversation around the need for companies to be more adaptive and faster to change to market opportunities," he added.

AI can help automate and enhance tasks involving large volumes of data, such as sorting and summarising, freeing up resources. It also has the potential to forecast outcomes, provide guidance and help make more informed decisions, explained Jörg Bertogg, chief operating officer for commercial insurance at Zurich Insurance.

> **"AI can help capture information on the controls, policies, behaviours etc that are put in place in for risk mitigation"**
> **Jim Wetekamp, chief executive officer, Riskonnect**

"In the context of risk management, AI may be able to support with identifying emerging trends that might be missed by humans or more traditional methods of analysis, as well as suggesting preventive measures, effectively transforming risk management processes into being more proactive," he said.

Marsh has seen increasing interest and investment in data analytics from risk managers, according to Brad Saunders, analytics development leader at the broker. It is working with more and more companies to help them use data analytics to inform their risk and insurance decision making, he said.

"In the challenging market there has been an increased focus on the value and efficiency of risk transfer and financing, and many are taking a more scientific view on how they buy insurance as they look to manage their insurance costs and rethink their self-insured retentions," Saunders said.

"And with Covid and geopolitical risk, supply chain disruption etc, many companies are also looking to make more predictive and strategic decisions, and evidence and quantify value, supported by data analytics. These are certainly interesting times," he said.

According to Saunders, risk managers are currently using data analytics to drive efficiency and gain insights. Companies are using machine learning and analytics to collect data, identify trends in claims, and inform risk transfer and financing. Clients with more sophisticated risk management are increasingly using advanced predictive analytics to understand and quantify risk and inform strategic decision making, he said.

Risk and insurance is, however, only now scratching the surface of what can be done with advanced analytics and AI, according to Wetekamp. "It is currently limited by the access of data needed to feed it, and the accuracy of that data. But this is also where AI can help, getting the right data to drive the analytics," he said.

McKinsey estimates the total potential value of analytics to the insurance sector at €1.2trn but that only a fraction of that potential value has been unlocked.

"We are indeed still in early days of uncovering the full potential of AI and data analytics for risk management and insurance. Their potential to change both risk assessment and transfer is vast, with implications for how companies approach these processes," said Bertogg.

"These technologies have a potential to lead to more proactive risk management, more accurate pricing, and more informed insurance buying, marking a transformation in how businesses perceive and navigate risk," he said.

AI will help take data analytics to the next level, according to Wetekamp. "AI will really change scenario analysis and planning. The ability to analyse

low probability high impact scenarios is currently limited by people. But AI can cover more scenarios and think of ones you have not thought of. Right now, it is very human dependent," he said.

AI and analytics can continually monitor and assess compliance, including for risk management, explained Wetekamp. "AI can help capture information on the controls, policies, behaviours etc that are put in place in the business for risk mitigation. It can tell you whether the protection put in place to mitigate risk are working, or when you need to take decisions before the risk has manifested," he said.

The technology can also help risk managers direct risk management resources and investment more effectively and efficiently, from enterprise risk through to insurance, said Wetekamp. "AI can help understand how much to spend at each layer and whether it is working," he said.

The combination of more internal and external AI sophistication and improved computing power is enabling deeper insights into risk, more accurate policy pricing, proactive risk mitigation, streamlined claims processing and enhanced customer experiences, all driven by data, explained Bertogg.

"This is a further evolution towards a more data-centric model in the commercial insurance industry. At Zurich, AI-powered automation already helps us create a more simplified and insightful process and experience for our customers and brokers, which enables us to proactively provide information for them to validate and generate actionable insights rather than sending countless requests for information," he said.

The advance of data analytics in insurance and risk management is fuelled by growing data availability through IoT and Industry 4.0, as well as the ongoing evolution of AI and machine learning technologies, said Bertogg.

"These elements provide a wealth of actionable information for risk assessment and management. Simultaneously, the accessibility and capability of data analytics tools are improving, enabled by user-friendly, cloud-based platforms, allowing even small to medium-sized businesses to harness these sophisticated analytics resources," he said.

Tech trends such as wider IoT usage, sophisticated cloud services and AI evolution are accelerating the transformation in insurance, explained Bertogg. Specifically, AI's advanced pattern detection and predictive capabilities may enable greater depth in risk assessment.

"This may allow insurers, for the benefit of the customers, to customise coverages even more, foresee potential risks, streamline risk mitigation and quicken claims handling, as some of the examples of a shift towards a more pre-emptive and tailored approach in insurance," he said.

However, with all these advancements, there will also be new challenges, added Bertogg. "Issues related to data privacy, ethical use of AI and the need for new skill sets will have to be given greater consideration. Moreover, it will be important for insurers to maintain the human touch in their interactions with customers, ensuring that technology enhances rather than replaces personal service," he said.

GVNW ready as Fiedler takes the helm

German risk and insurance management association GVNW has risen to the many professional and market challenges presented to members since it was created through the merger of DVS and bfv back in 2016. New president **Patrick Fiedler** vows to continue the good work as he prepares to host his first Symposium in Munich. Adrian Ladbury reports

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The German risk and insurance management association GVNW has grown steadily in recent times by adding members, reaching out to the wider business community and smaller enterprises, further establishing its annual Symposium and building its educational and training offering through a dedicated team based in Bonn.

The merger of the two partner associations that represented German insurance buyers – the DVS and the bfv – to create the GVNW under the leadership of Alexander Mahnke, former director of insurance at Siemens, and vice chairman Hans Jörg Schill, was a big move.

Then co-CEO Jörg Henne, now head of the in-house broker at leading independent German broker Funk Gruppe, explained the reasoning to *Commercial Risk* at the time.

"As a result of the merger, the new association GVNW speaks with one voice in the market. It is now clear there is one representative body for insurance buyers in Germany, and with that combined strength, we will be better able to achieve our goals – advising members, providing training and networking opportunities and lobbying," said Mr Henne.

The merged GVNW also offered a potentially stronger voice at both industry and political levels, a key area for any industry association.

As Mahnke said: "Lobbying is something we have to get a lot better at and getting some of our members to understand it is not something fishy! It is something you need because otherwise you will not be heard. That needs to be done nationally and also internationally. You also need some capabilities to be able to play on the international field. It is also about bringing the association into the next generation."

> **"My wish is to build on and maintain what has been achieved by the outstanding work in the recent years, as well as to establish GVNW as a relevant player for evolving topics such as ESG"**
> **Patrick Fiedler, GVNW president**

This renewed vigour was important as a number of big changes were about to play out that needed the GVNW and fellow European associations to play a strong and more public role than in the past.

These included:

- The brutal nature of the 'sudden' market hardening in 2017 to 2018, the need to recalibrate the relationship between insurance buyer and carrier and tackle key market efficiency matters that had long been overlooked.
- The 'failure' of the insurance market to respond to the Covid-19 business interruption crisis that raised serious questions about the willingness and ability of the market to act as real partners in the future.
- The sudden loss of core cover in the rapidly emerging cyber space, supply chain crisis brought about by the war in Ukraine, and, of course, inflation.
- The ongoing rising impact of natural catastrophe losses linked to climate change, underlying the need for a more joined-up approach to risk prevention, management and transfer and, potentially, public private partnerships (PPPs) for such systemic risks.

New president Patrick Fiedler therefore takes on the mantle at the GVNW at a time when the association has transformed into a more vibrant and front foot organisation. But the job needs to be continued. He told *Commercial Risk Europe* that he feels the organisation is ready for the challenge.

Value for members

"The main objective of the association is to provide value for its members. This is done nicely by our bread-and-butter insurance services such as scrutinising policies, the organisation of seminars and wonderful training and networking events, and last but not least, to give our members a unified strong voice towards insurers and legislation," he said.

"These tasks are delivered by our great team of experts in Bonn and the pro bono work of the delegates and board members. My wish would be to build on and maintain what has been achieved by the outstanding work in the recent years, as well as to establish GVNW as a relevant player for evolving topics such as ESG," added Fiedler.

The risk and insurance profession has certainly benefited from the continuous crises that have plagued the German and European economy, which has put the focus on risk management.

It is difficult to generalise in this profession too much because job profiles differ so widely, but it is clear that to maintain that positive momentum, risk and insurance managers need to be smart and grasp the opportunity that lies ahead of them, said Fiedler.

"The role of a risk manager remains opaque and depends a lot from company to company, with some attributes depending also on size and culture. The polycrisis of our time should be good for the profile and profession of risk managers, and reporting and legal demands will contribute to a certain sharpening of the role. The more smartly we as risk managers will manage

the polycrisis, the more our value will be appreciated," he said.

ESG is rapidly shifting onto the agenda of many risk and insurance managers across Europe but exactly how it is going to pan out from an underwriting perspective remains unclear.

German insurance managers express doubts about how insurers are actually using the data they request from customers on their ESG strategies. Fiedler quite rightly pointed out that this is clearly a work in progress but, given the administrative burden that it carries, needs a clearer and more positive approach.

"From a GVNW perspective, we gave a press statement on ESG after our meeting in May and we established a new ESG working group. Our members gave us the renewal feedback that while ESG questions are on the rise, the relevance of the responses remains unclear. In some very limited, individual, strange cases, ESG arguments lead to denial of insurance cover, whereas overall the topic has only been perceived as an administrative burden. Is this how we want to make an impact as an industry?" he said.

"Our association's key demand is to move the ESG topics away from negatively loaded image to positive, stimulating discussions. We should more focus on how we can contribute to ensure the required transformation. We'd love, for example, to see a competition of insurers to achieve the highest positive impact by insuring projects with the highest effect on reduction of greenhouse gas emissions," added Fiedler, offering an interesting idea for insurers to consider.

Systemic risks

Another critical area for GVNW members and their peers across Europe is how to deal with the seemingly relentless rise of systemic risks such as cyber, health crises and natural catastrophes, a hot topic in Germany since the catastrophic floods of 2021.

The German Insurance Association (GDV) and GVNW have been calling for a more joined up, longer-term approach from the risk and insurance sector that could be supported by state backed mechanisms in areas such as flood.

Fiedler said that GVNW would continue to play its part to raise awareness of these big questions at both national and EU level, but clearly is not overly optimistic given that even the German terror pool Extremus has a tough time justifying its existence.

"This should be discussed much more both on national and EU level. The 'how' is dependent pretty much on the specific topics. We note that while, for example, Pool Re includes certain cyber cover, the German equivalent Extremus has to argue again for the extension of the state guarantee," he noted.

The GVNW was highly critical of the performance of the insurance market during the rapid hardening in recent times and poor communication in particular.

Fiedler confirmed that, based on the association's annual survey of members, market conditions in general have improved more recently, but it remains tense for GVNW members in core lines.

"The GVNW survey indicates a certain relaxation in D&O, and to a lesser extent in cyber. PD/BI has been dominated by discussions around various impacts of inflation, while other markets were leaning more towards flat developments. Liability exposures in the US, especially social inflation, are a high concern," he said.

Captives have been a useful tool for risk and insurance managers as they struggled to cope with the hardening market.

The rise in popularity of captives worldwide has also been seen in Germany. But, as Fiedler pointed out, while hosting a captive at home would be an attractive option for GVNW members there is little sign of appetite from the German authorities to adapt the rules, despite recent changes in France.

"GVNW has a captive group, and we note a strong growth of captives, albeit only outside of Germany. We have seen the progress made in France to make the country a more attractive domicile for captives. We are, however, not aware that German politicians or regulators would see the benefit of improving Germany as a venue for captives," he said.

Market efficiency

Perhaps more progress can be made, however, in discussion with the insurance market itself. GVNW has taken a strong stance in recent times, publicly pushing insurers to focus on reducing the cost of doing business and improving service levels, contract certainty and, perhaps above all, transparency and communication. Being able to offer senior managers within the corporation more certainty on core matters such as claims is actually often more important than the price of cover, former GVNW chairman Mahnke used to stress.

Fiedler said that a more transparent, consistent and proactive approach from the market in key areas such as cyber would be a big step forward and would be welcomed by the GVNW.

In cyber, for example, there have been calls for a market-wide wording, or at least set of questions, for risk and insurance managers to make this critical area a simpler and more efficient process. Fiedler agrees. "Yes, that is certainly something worthwhile to be investigated, and we discuss if and how GVNW could play a role in this, also bearing in mind our limited resources," he said.

Patrick Fiedler: The man in the hot seat

Patrick Fiedler, senior vice president of insurance at chemicals giant BASF and CEO of its captives Lucura Versicherungs in Germany and Lumerica Insurance in the US, was announced as the new president of the German risk and insurance management association GVNW back in May of this year at the association's annual general meeting.

He took over from Christian Böhm, managing director of insurance at global technology group Freudenberg, who stepped in on a temporary basis at the end of last year when Alexander Mahnke resigned as head of financial services at Siemens to take on a new role at Mitsui Sumitomo.

Böhm stepped back to being deputy president of the association. He was joined in this role by Dirk Förster, vice president of insurance at BMW Group.

Fiedler has been a member of the GVNW since 2017 and on the committee since 2022. He was previously deputy secretary of the association.

Fiedler, a Doctor of Law and educated at Ruprecht-Karls-Universität Heidelberg and Clare College Cambridge, has been at BASF since 2002. He started as senior manager of legal and insurance at BASF's East Asia headquarters in Hong Kong and took the role as head of insurance for the group in October 2018.

Before taking on the top job at GVNW, Fiedler was already in the news as one of the founding members of MIRIS, the Brussels-based mutual cyber insurer. MIRIS was created by a group of leading European risk managers keen to gain some independence from the commercial insurance market that has struggled to deliver what customers want and need in recent times on cyber.

When MIRIS was launched at the start of this year, Fiedler was keen to stress that the goal is not to compete with traditional commercial cyber insurance markets, but to provide specific benefits to its members.

He pointed out that the insurance buying community has historically looked at ways to help itself rather than solely relying on the commercial insurance market, hence the rise in the use of captives during harder market phases. In Germany, for example, Hannover-based insurance group HDI, now a listed insurer within the Talanx Group, was originally founded in 1903 as a mutual by leading German industrial companies because they could not secure adequate liability cover at the time. The foundation of MIRIS was a further extension of this, said Fiedler.

Along with the other leading founder members, Fiedler said that mutuals or use of captives should not be viewed as a quick fix to a tricky market phase. Claims do occur and reinsurance needs to be used properly to help manage the potential for fresh capital requirements.

This is why MIRIS has established a strict entry requirement for members that need to show they are properly managing their cyber risk at source, are committed for the long term and understand the legal and regulatory complexities involved. Mutuals and captives are important tools for risk and insurance managers particularly during hard market phases but must be viewed as long-term projects and not quick fix, 'silver bullet' solutions, said Fiedler.

Insurers need to up their game and rebuild trust

The German and international insurance market did not cover itself in glory during the recent, and at times brutal, market hardening. It now needs to focus on improved service, consistency and innovation to win back the confidence of the insurance buying community, **Christian Böhm**, vice-chairman of GVNW, tells Adrian Ladbury

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A key challenge for members of the German risk and insurance management association GVNW has been the often "erratic" behaviour of the insurance market that has been hard to explain internally, Christian Böhm, managing director of insurance at global technology group Freudenberg, told *Commercial Risk.*

Straight-talking Böhm stepped in on a temporary basis as president of the GVNW at the end of last year when Alexander Mahnke resigned as CEO of insurance at Siemens to take on a new role at Mitsui Sumitomo.

He is a highly experienced insurance manager whose chief focus is to secure the coverage needed at the best possible terms and conditions to provide greater certainty and business resilience and continuity for his company.

The dramatic, sudden and poorly communicated loss of capacity in key lines such as cyber and D&O at the height of the market hardening, and now evaporating appetite for property lines from insurers under pressure from spiralling reinsurance rates, did not make this core role easier for any GVNW members.

"Due to the insurance capacity shrinking and significant premium increases, the last years have not been very easy. The sometimes seemingly erratic moves of the insurance markets were hard to explain internally. The insurance risk manager´s task is to safeguard the insurability of the company and to bring the company safe through such rough times, while keeping good insurance terms and conditions at reasonable pricing as far as possible," said Böhm.

The GVNW vice-chairman said that not all insurers could be accused of the same brutal action. But he said that the longer-term ramifications of putting industrial insureds into "boxes" could backfire on the insurance market over time.

"Insurers have performed differently – some performed ok but others seemed to not have the customers in their focus. Years of writing red numbers were followed by a harsh 'emergency stop'. The following premium increases led to – sometimes – excellent results of insurers without a lowering effect on the premium. This is obviously not in the interest of the industrial insureds. The shrinking of capacity and the increase in premium might lead to the formation of new captives," said Böhm.

"Not looking at the individual customer and their exposures, but putting customers into boxes of industrial sectors – like in liability – which will not be insured, or companies with significant business in the

> **"Due to the insurance capacity shrinking and significant premium increases, the last years have not been very easy"**
>
> **Christian Böhm, vice-chairman of GVNW**

US, which also will not be insured, might decrease the value of insurance for industrial insureds. All these developments might lead to a decrease of relevance of insurance for industrial insureds," he continued.

The most challenging lines for GVNW members this year are likely to be cyber, property damage/business interruption and liability for certain industrial sectors, said Böhm, who does not expect an overall softening any time soon.

The Covid effect

The Covid-19 pandemic raised the profile of risk management and profession as a whole across Europe. But this was not necessarily the case for most GVNW members, who are generally insurance managers first and risk managers second.

"In many of the German companies, the insurance risk manager traditionally is part of the company risk management and responsible for the insurance related risk management. So the pandemic in my view did not change the profile of the insurance risk manager in those companies," commented Böhm.

Insurance managers in Germany are, however, inevitably being pulled into the fast-emerging and evolving field of ESG, as they are throughout Europe. Böhm generally sees this as a positive development but has seen little impact on insurance negotiations and placement so far.

"There is a special task force in the company that involves the insurance head regarding insurance-related topics. How does a good ESG strategy benefit a company and its risk profile? It will keep the company acceptable and attractive for customers, suppliers, authorities and, not to forget, for its own employees. What impact does it have on your insurance programme, if any? So far, ESG did not play a big role in our discussions with insurers," he said.

Not surprisingly for Böhm, the big three risks facing German companies are in line with his peers at the GVNW and across Europe. They are big, macro and potentially systemic risks: the worsening economic situation, the political environment worldwide and cyber risks.

There is a rising groundswell of opinion in Germany and across Europe that such systemic risks need a more joined-up and risk management-based approach with state or even EU-level backing at catastrophe level because the commercial insurance market cannot cope alone.

Christian Böhm is head of Freudenberg's captive reinsurance company – Freudenberg Rückversicherung AG

Böhm agrees and believes that the existing German terror pool Extremus could be used as a catalyst for such public private parternships in wider areas.

"As there is Extremus, the German terror protection public-private partnership, as a kind of role model, it should be extended or similar vehicles should be set up," he said.

For now, in this tough market and faced with rising systemic risks, using a captive remains a useful option for insurance managers.

Böhm is head of Freudenberg's captive reinsurance company – Freudenberg Rückversicherung AG – that is wholly owned by the parent company, regulated by BaFin and writes only parent company risks.

Böhm said that the tool offers excellent risk financing and risk management options, providing insurance capacity and "smoothing" premium increases by charging appropriate premiums for the captive. He is still thinking about further options to take more risk to help manage the continued tough market.

Transparency and efficiency

As with many of his peers at GVNW, the big questions for Böhm on the insurance market are not just based around price and consistency but also transparency and efficiency.

The rise of the cyber insurance market has raised many questions about the consistency of approach from insurers as insurance managers grapple with the quantity and variety of questions asked by carriers when negotiating coverage.

Some have suggested that this needs to be simplified and that possibly market-wide industry forms or even wordings could be created to the benefit of all. "Both would definitely be good," said Böhm.

Related to this is the big question of what industrial insurers need to do to improve their service, lower costs and deliver more innovative coverage.

"They should invest not only in – hopefully – good IT but also in qualified personnel. The shortage of qualified people cannot be compensated by better IT and better IT tools," concluded Böhm.

Risk management rising up the corporate agenda in Italy

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Commercial Risk hosted a roundtable with leading members of Italian risk and insurance management association Anra in Milan for this year's Risk Frontiers Europe project sponsored by HDI Global and Charles Taylor. They said Italian risk managers are benefiting from a higher profile as senior management wakes up to the real value that structured risk management can bring at a time of heightened systemic risk. But more work is needed to truly embed the risk culture, they added.

Risk management has certainly risen up the corporate agenda in Italy in recent times driven by both internal and external factors. A heightened awareness of the need for greater corporate resilience, driven by the Covid-19 pandemic and subsequent economic and financial turmoil caused by war in Ukraine, has given Italian risk and insurance managers a higher profile within their organisations.

At the same time, the regulatory and legal landscape following the push towards net zero and wider ESG agenda is forcing Italian companies to upgrade their risk management approach and reporting.

Carlo Cosimi, head of group risk and insurance at Italian multinational engineering group MAIRE and president of Anra, pointed to a joint survey the association carried out with consulting firm Protiviti earlier this year that found the risk profession is making strides forward on the back of recent events.

> **"The environment is changing deeply and very quickly, and it is not just affecting risk management but the whole organisation"**
>
> **Paola Radaelli, Anra vice president and senior risk management consultant at Strategica Risk Consulting**

"The survey shows a clear picture of professional evolution; there is rising visibility and importance attached to risk and opportunity management within all organisations. This has been driven by the times we lived in with the pandemic and wider systemic risks. It is impossible to tackle such risks without a formal risk management system. There is also a new context and business model. Risk managers need to be in the ESG process, which is an important development," he said.

The evolution of MAIRE in recent times is a good example of this changing business model, with risk and opportunity management now at its heart. The formerly traditional engineering group is now focused on developing and offering new solutions for the energy transition, green chemistry, waste to energy, hydrogen and many other technological processes based on decarbonisation.

Paola Radaelli, Anra vice president and senior risk management consultant at Strategica Risk Consulting, stressed the positive elements of this economic transition for risk managers.

"The environment is changing deeply and very quickly, and it is not just affecting risk management but the whole organisation. Risks are becoming more and more important and it is vital that risk managers anticipate them to gain competitive advantage. This is a role that the risk manager can play looking at the opportunity and not just the problem," she said.

> **"The role of the risk manager hasn't changed. But the perception of what risk management does has and the scope of what we do is changing too"**
>
> **Valentina Paduano, Anra board member and chief risk and compliance officer at Dedalus**

Annamaria Oliva, chief risk officer at aerospace, defence and security multinational Leonardo International S.p.A, and an Anra board member, also sees a rapid evolution in the profession.

"Risk management has changed a lot in the last seven to ten years. All departments and functions within the company are affected because they have to face all the risks. It is very important to formulate

and implement a risk management process at two levels – operational and strategic," she said.

Oliva added that it is also critical to remember that risk managers report to all stakeholders and not just risk owners. "Our main goal is to mitigate the risk. Most risks can't be stopped but they can at least be reduced. This has become more important than ever because over the last five to six years external and international risks have become so much more intensive," she said.

Gabriella Fraire, insurance manager at the energy and telecoms cable systems firm Prysmian group, and another vice president of Anra, said that risk management is being driven up the agenda by a combination of internal needs and external pressures. She noted that, while progress is certainly being made, some risk managers are still ticking boxes.

"I would say its half internal and half external. The process of producing documents for the regulators is forcing a change as they are shared with wider stakeholders. But companies need integrated risk management and not all are doing this. Some good companies do it properly but others are just ticking boxes. There is further progress to be made," she said.

Valentina Paduano, Anra board member, chief risk and compliance officer at digital healthcare group Dedalus, and chair of Ferma's Sustainability Committee, agreed that regulations play a role. But she stressed that senior management is waking up to the real value of risk management and said that the recent focus on ESG is a positive factor.

"The board is more concerned with risk management than ever before. I don't think the role of the risk manager has changed at all. But the perception of what risk management does has changed and the scope of what we do is changing too. It is expanding and the discussion about ESG is part of that," she said.

Marco Terzago, Anra board member and head of risk control for SKF Group, the world's largest bearing manufacturer, agreed that the rise of ESG and need for the green transition is pushing risk management forwards as companies adapt their business models to the new conditions.

"There is a global transition underway to be both green and digital. Our focus is to be intelligent and clean. This is not necessarily new, nevertheless it is a big move for all companies to take the green transition and commit to net zero objectives. It's all part of the E in ESG," he said.

"The intelligent part means that we have to be very smart in the way we use technology to reduce costs, being more agile. That is a digital challenge. In this context what are the top three corporate risks? First top risk is not being able to deliver on the corporate ESG strategy. All organisations need to be more intelligent and clean but this is not simple. Look at the shift to electric vehicles (EV) in the automotive sector. This is not an easy transition to manage since it has much wider implications than you may think of. For instance, EVs use one third of the bearings that are used in an internal combustion engine driven vehicle. So, this is a big transitional challenge for us all," added Terzago.

"Cyber is certainly another top risk that is driving the need for more robust risk management on an enterprise-wide basis, and it is closely linked to the digital transition," he said.

"Even companies that are not highly targeted by cyber criminals face big and multidimensional cyber risk exposures – which may arise from IT, OT, production, demand – and of course this risk is heightened by GDPR in Europe. Finally, supply chain risks and the pandemic have surely increased the awareness of senior management to top level," continued Terzago.

The rise in risk levels and intensity – whether pandemic, natural catastrophe or cyber – is clearly raising serious risk-based questions in Italian boardrooms as elsewhere in Europe.

It is obviously not a good thing that Italian firms face a risker operating environment than in the past. But, as evidenced by this roundtable and others held across Europe for this year's survey, it is clear that the positive side-effect of this riskier environment is an appreciation of the need for a more focused and structured approach to risk management than ever before. Anra needs to use this headwind to continue its excellent progress over recent times and further sell the value of the risk profession at both corporate and governmental levels.

"There is a global transition underway to be both green and digital. Our focus is to be intelligent and clean. This is not necessarily new, nevertheless it is a big move for all companies to take the green transition and commit to net zero objectives"

Marco Terzago, Anra board member and head of risk control for bearing manufacturer SKF

Interest in captives on the rise in Italy as hard market bites

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A rising number of Italian companies are looking to set up captives to help them cope with the continued hard market, according to leading members of Anra, the Italian risk and insurance management association.

During a roundtable hosted by *Commercial Risk* with the association in Milan for the annual Risk Frontiers Europe survey sponsored by HDI Global and Charles Taylor, risk managers said falling capacity and ever more restrictive wordings for key lines such as cyber have been a problem.

So risk and insurance managers must focus more than ever on digging deeper into their risk profile and presenting their risk management efforts. Having a captive helps because it really focuses the mind.

But the information demanded by insurers, notably on ESG strategy and performance, have become onerous and, when combined with reduced decision-making capability at local level, has made life difficult for risk managers in Italy and across Europe.

Using a captive, though, helps with the management of ESG risks, according to experts, and perhaps Italian risk managers are waking up to this further advantage.

Anra did open discussions with IVASS, the Italian insurance supervisor, about captives back in 2021 to see if the environment could be made more attractive for Italian companies to set or relocate their captives "onshore", as happened in France.

No changes have been made so far but, as Anra pointed out at the time, it is possible to create captives in Italy under Solvency II. While the corporate tax rate may be higher than in domiciles such as Dublin or Luxembourg, many captive owners have been topping up the tax payments to satisfy transfer pricing rules anyway.

And it was reported earlier this year that IVASS is taking a more positive view of captives and so a number of leading Italian firms are looking to relocate their captives to Italy, possibly this year.

Marco Terzago, Anra board member and head of risk control for SKF, the world's largest bearing manufacturer, sees lively interest in captives in Italy given the current market conditions.

"How to deal with the hard market? Captives is a good answer for a lot of colleagues at Anra, since many of them who have never thought about this solution are currently looking at setting up a captive. The pandemic showed once again that we really need a proper understanding of our risk profile, and a captive is a risk financing solution that truly forces its parent company to move towards this direction. In this way, the parent company increases its risk knowledge and can handle risks that the insurance market is not prepared to handle," he said.

"My company was one of the first to set up a captive in Sweden back in 1976. Captive management was reporting to finance and treasury until 2020, then it switched to legal and compliance, so the benefits of the captive had to be proven again. This process had been helped by the market momentum, with lines such as D&O, cyber and PD/BI seeing rate increases between 40% and 200% or more. In the end, it was quite easy to show the benefits of using a captive solution," said Terzago.

Carlo Cosimi, head of group risk and insurance at Italian multinational engineering group MAIRE and president of Anra, agreed with his fellow committee member. "Captives are a good option. This has been a challenging period for many, with rising deductibles, restricted wordings and a more selective approach to risks. The information on risks you are asked to provide has escalated. Cyber is becoming a nightmare in this sense because each carrier has different questions and we need to set up different meetings with the head of security and IT manager. It has become very complicated and not all the market is willing to provide coverage. There has also been a loss of local flexibility as the underwriters need to get the green light from HQ," he said.

Paola Radaelli, Anra vice president and senior risk management consultant at Strategica Risk Consulting, said a big problem is the rapidly evolving nature of risk and lack of data.

"It is difficult for the insurers with this fast-changing risk, rising threats and volatility. It has become increasingly difficult for the insurers to analyse the risks. Risk managers need to look at the long-term mitigation options and seek out the data. Both risk managers and insurers have a challenge with data," she said.

Gabriella Fraire, insurance manager at energy and telecoms cable systems firm Prysmian group, and vice president of Anra, appreciates the challenge for insurers but feels they need to do more. "This is an effort the insurance market needs to make to remain relevant. Insurers need to find the data and we need to negotiate with a partner that understands our risk," she said.

Cosimi added that while captives appear to be a good option currently, it is not easy to set one up. "There is the cost of collateral, for example, if you choose the reinsurance model. There is a lot of cost to be paid to the fronting insurer and this has risen in recent times. You need a minimum value of premium too," he pointed out.

Valentina Paduano, Anra board member, chief risk and compliance officer at digital healthcare group Dedalus, and chair of Ferma's Sustainability Committee, said she fears there is a different pace of evolution between risk and insurance, which is a worrying trend. "In my experience, the evolution of risk management is very different to the evolution of the insurance market. They need to respond to the needs of customers, but this is not happening enough," she said.

Cosimi pointed out that this is particularly a problem in the green transition. "If you are a smaller company transforming waste to energy, there is no insurance cover available – it is considered a problem not an opportunity too often. How can we make this transition and push the circular economy without cover?" he asked.

Annamaria Oliva, chief risk officer at aerospace, defence and security multinational Leonardo International S.p.A., and an Anra board member, said that the whole process needs to be re-thought if the insurance market is to retain relevance. "The core problem is that the insurers try to cover everything with standardised contracts, not bespoke. This is a big problem. We need to change the process. This is the key challenge," she said.

Terzago added that brokers need to play their part in this effort too.

"The demand for innovation and non-standardisation from the insurance sector in this rapidly evolving economy needs the brokers to step up to the plate and add real value and innovation, and not just join the insurers in profiting from the hard market," he said, echoing the thoughts of many of his peers in Italy and around Europe.

"The core problem is that the insurers try to cover everything with standardised contracts, not bespoke. This is a big problem. We need to change the process"

Annamaria Oliva, chief risk officer at aerospace, defence and security multinational Leonardo International S.p.A

Supply chain risk in focus as Italian companies transition

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During this year's Italian leg of our Risk Frontiers Europe survey, Anra members identified supply chain risk as a major concern against the backdrop of the ongoing unstable geopolitical situation and in the face of the EU's new due diligence rules. Italian companies need to up their game on supply chain risk identification and management, ideally with the help of new digital tools, they said.

Supply chain risk itself is nothing new, but has, of course, shot up the agenda in recent times following the Covid-19 pandemic and war in Ukraine.

The coming EU Corporate Sustainability Due Diligence Directive (CSDDD) is designed to foster sustainable and responsible corporate behaviour and anchor human rights and environmental considerations in companies' operations and corporate governance.

The new rules are designed to ensure that businesses address the adverse impacts of their actions, including across value chains inside and outside Europe.

Under these rules, EU member states will have to ensure that victims receive compensation for damages resulting from the failure to comply with the new proposals.

The directive also explicitly places a duty on directors and officers to ensure that sustainability risk is tackled properly.

"Supply chain risk is nothing new and recent events have shown how fragile our supply chains can be. Monitoring and mapping this risk is a challenge for all companies, and the transition to net zero must involve all partners in the supply chain," explained Marco Terzago, Anra board member and head of risk control for SKF Group, the world's largest bearing manufacturer, as part of our Risk Frontier Europe survey sponsored by HDI Global and Charles Taylor.

Valentina Paduano, Anra board member, chief risk and compliance officer at digital healthcare group Dedalus, and chair of Ferma's Sustainability Committee, agreed.

"CSDDD will be a nightmare from different perspectives for many, many businesses. The aims of the directive are good, but from a practical business perspective this is a nightmare for many," she said.

Annamaria Oliva, chief risk officer at aerospace, defence and security multinational Leonardo International S.p.A, and an Anra board member, agreed that supply chain and the CSDDD, coupled with the rising ESG requirements, present all businesses with a serious challenge that they must rise to.

"The whole question about supply chain risk is part of the ESG debate. It is critical to have a strategy on ESG. This has to be defined and followed. At the same time, and interlinked, it is very important to have a robust international supply chain that arguably represents about 50% to 70% of total costs for larger European companies. This is vitally important and needs to be improved and risk managed," she said.

Carlo Cosimi, head of group risk and insurance at Italian multinational engineering group MAIRE and president of Anra, agreed that supply chain risk is difficult for most companies to tackle because of the relative lack of clarity along the chain.

He said this is one area where Artificial Intelligence (AI) could well be a big help as companies try to identify and measure their risks more effectively.

"This is very complex. It is hard to see deep down through vendors and sub-contractors but this clearly needs to be tackled. The role of the risk manager in this is a complex question and is perhaps one area where we need help from AI platforms," he said.

"We need to make it clear to suppliers that we adhere to the new standards and so must they. Many may not be aware of them. But if they want to remain our provider then they must up their game in this area. This is also important for cyber risk too," said Cosimi.

Oliva agreed that supply chain risk is a major concern. "This is a worldwide challenge. For us there are two key raw materials – steel and chips. We have to improve the way these materials are traced. This is not just about production but also logistics," she said.

Gabriella Fraire, insurance manager at the energy and telecoms cable systems firm Prysmian group and vice president of Anra, said the cost of supplies is a problem and that ongoing geopolitical tensions and politics are playing a role. "Good agreements need to be signed to secure supplies," she said.

Paola Radaelli, Anra vice president and senior risk management consultant at Strategica Risk Consulting, also stressed the importance of politics in Asia and the US. This is attracting a lot of interest from Italian companies because of the incentives for foreign investment within the US's Inflation Reduction Act (IRA) of 2022.

Taiwan represents a classic supply chain bottleneck when it comes to microchips as it produces over 60% of the world's semiconductors and more than 90% of the most advanced. Moreover, most are manufactured by a single company: Taiwan Semiconductor Manufacturing Corporation.

The tension between China and Taiwan is a big concern for companies all over the world and is the reason why the EU and US are so keen to develop new chip production capacity at home.

"The tensions between China and Taiwan is a serious concern. The introduction of the IRA in the US and its incentives is driving us towards an inflection point. Some companies are leaving Europe to take advantage of these massive incentives in the US," said Radaelli.

PPPs needed in Italy and at European level to tackle climate change risk

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Public private partnerships (PPPs) are seen as an increasingly important tool to help build resilience at national level for a range of major risks, notably terrorism and natural catastrophes.

Italy certainly has its fair share of nat cat and weather-related risks. The Covid-19 pandemic and rising fears over systemic cyber risk have thrown open the debate about PPPs for such risks in Italy, as elsewhere in Europe.

But Italy does not even have a state-backed nat cat pool as in France and Spain, and Italian risk management association Anra has struggled to raise interest in the concept at political level despite progress made elsewhere in Europe.

"We tried to raise the debate during the pandemic because we at Anra, as the association of risk managers, are the preferred stakeholder to create such a discussion. But nothing has changed in Italy. We change government and nothing changes in this regard. Italy is very exposed to natural catastrophes. We recently had catastrophic floods and storms in the northern regions of Italy but the approach remains the same. The state spends the budget afterwards with no planning or incentivisation to alternative solutions for financing future events," said Carlo Cosimi, head of group risk and insurance at Italian multinational engineering group MAIRE and president of Anra, during the roundtable in Milan held for this year's Risk Frontiers Europe project.

"There is a lack of a long-term view in our political system but we need incentives and an integrated approach. We need prevention integrated with solutions such as catastrophe bonds. The insurance market can play a role but not carry all the risk alone. Maybe the only solution is to arrange this on a European level with the backing of the European Central Bank for bonds," added Cosimi.

Annamaria Oliva, chief risk officer at aerospace, defence and security multinational Leonardo International S.p.A., and an Anra board member, said a longer-term view is essential at European level to face up to risks that will only intensify with climate change.

"This is not just an Italian problem, it's a European problem. It needs a political strategy and a long-term view backed with a wider risk management strategy and bottom-up solutions too. We need a step change at the EU level driven by a risk management strategy. This is the way to approach this challenge," she said.

The good news is that, while national governments, such as in Italy, may not appear to be listening, there is debate ongoing at the highest level in Europe as Anra members hope.

In April, the European Central Bank (ECB) and European Insurance and Occupational Pensions Authority (Eiopa) published a joint discussion paper – *Policy options to reduce the climate insurance protection gap* – and called for comment by June.

The ECB and Eiopa point out that while national governments may oppose further state-backed funding during this tough economic period, it makes sense from an economic perspective.

They stress that only about a quarter of climate-related catastrophe losses are currently insured in the EU.

This insurance protection gap could widen in the medium to long term as a result of climate change, partly because repricing of insurance contracts in response to increasingly frequent and intense events may lead to insurance becoming unaffordable, says the paper.

This would further increase the burden on governments, both in terms of macroeconomic risks and fiscal spending to cover uninsured losses.

This may raise government debt burdens and increase economic divergence. A widening insurance protection gap may also pose financial stability risks and reduce credit provision in countries with large banking sector exposures to catastrophe risk events.

The ECB and Eiopa clearly see great potential for new national PPPs using the insurance sector as the first layer and capital markets and the ECB itself higher up. But risk mitigation and management must lie at the heart of such future schemes, as most European risk managers agree.

"The public sector can prepare for contingent liabilities related to climate-related catastrophes by enhancing its ex-ante disaster risk management strategy. This could include supporting ex-ante contingent financing by creating fiscal buffers, such as national reserve funds. It could also include risk transfer and measures that support private insurance solutions, such as public-private insurance schemes that pool and diversify risks, or capital market products that transfer part of the risk to investors," states the ECB and Eiopa paper.

"Governments can support and encourage the development of an active market for the issuance and trading of cat bonds, for example by lowering issuance costs. Better measurement of fiscal expenditures related to climate-related extreme weather events would also help to manage fiscal risks and ensure better preparation before disasters occur," it adds.

The ECB and Eiopa add that, for less frequent, large-scale disasters, an EU-wide public scheme for natural disaster insurance covering a broad range of weakly correlated hazards could complement national schemes.

"Pooling risks at the EU level could help to reduce the economic costs of catastrophes and accelerate recovery and reconstruction efforts, while incentivising and promoting ex ante risk reduction via both mitigation and adaptation measures. Any EU-wide fund should be additional to existing funding for tackling climate change, and should have safeguards to address moral hazard, such as making access conditional on member states implementing agreed adaptation strategies and meeting their emissions reduction targets," they concluded.

The message here is clear: Action needs to be taken at state and EU level to tackle this ever-rising risk. Anra and its fellow European risk management associations would clearly publicly support this effort.

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More protection equals better risks

Commercial Risk Europe talks to HDI Global Italy's **Alberto Bellomi** about the risk management role in an increasingly complex world

◇ HDI GLOBAL ITALY

With all of the recent challenges and uncertainties ahead, Alberto Bellomi, managing director at HDI Global Italy, believes risk managers are indispensable. "As an industrial insurer, having a professional partner who is increasingly involved and sensitive to the current complexities is a great asset," he says.

The world is becoming more complex. It's been said a million times but that doesn't make it any less true. With regard to the exponential rise in complex risk, Alberto Bellomi believes that natural catastrophes are one of the biggest of our time because they are so difficult to predict. "Models are shifting fast. What was seen as a 100-year event a few years ago is now being forecast to be more common," explains Bellomi.

"Against this background, property rates will continue to increase this year, especially around nat cat exposures, as global insurance capacity is shrinking and exposures are rising. At the time of renewing our reinsurance treaties in January, we as a company were already faced with heavy rate increases due to nat cat exposure. We also observed that alternative capital providers had apparently found better investment options," he says.

Cyber also ranks high on the risk list, particularly since Covid-19 and the war in Ukraine began. In recent years, the insurance market in Italy has witnessed an uptick in companies wanting to upgrade their cyber policies, not just in the large corporate sector but also medium-sized firms, which are common in the Italian economy. "They want to have a proper cyber policy in place and are actively requesting consultations," says Bellomi.

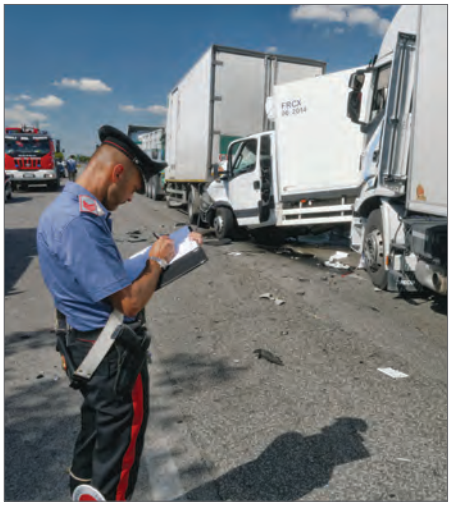
"HDI Global's approach blends traditional risk transfer with risk prevention, mitigation and advisory services to reduce the frequency and severity of losses, and doesn't just provide pure insurance risk transfer for the worst case. Risks have changed dramatically over the past ten years – in cyber they change every month. To support our clients, we are investing in hiring a lot of experts in this sector. But we also offer seminars and webinars that attract many participants including clients and brokers," he adds.

> **"During the pandemic we saw a decrease in motor claims due to the reduced traffic. Now the situation is back to the status prior to Covid-19"**
> **Alberto Bellomi, HDI Global Italy**

Political violence

For international companies, geopolitical risks pose an additional threat. "We are quite active in offering insurance coverage for a broad range of political violence risks," Bellomi says. "Many of our Italian clients work abroad and must be aware of the respective local political situations. The reason is simple: the financial impact of a crisis can be severe on any company or manager."

In terms of the general outlook, Bellomi expects the Italian market will remain hard with no fall in prices. "While the Italian market is not as hard as it is in northern Europe, we are still seeing some hardening, especially in property due to the nat cat situation," he says, referring to the recent flood in the region of Emilia-Romagna.



Corporations with complicated risks abroad or active in regions with high nat cat risks are particularly affected.

Some hardening can also be observed in group personal accident insurance solutions due to an increase in attritional losses. Bellomi attributes these to the end of Covid-19 lockdowns as people are pursuing normal activities again. Similar rate increases apply for motor insurance since 2020/21. "During the pandemic we saw a decrease in motor claims due to the reduced traffic. Now the situation is back to the status prior to Covid-19," says Bellomi.

No client is pleased about price increases but Bellomi believes that most risk managers and brokers are aware that rates had been very low for several years. "Clients understand the reasoning behind the price increases because HDI Global has always kept a consistent approach and is in the position to explain those developments," he says.

In addition to price adjustments, he expects some restriction in capacity after primary insurers went through difficult and costly reinsurance renewals. This led to higher retentions on property catastrophe programmes that are now more expensive.

Bellomi believes the development of captives in the Italian market is positive. The managing director of HDI Global in Milan thinks that captives are a win-win situation for insurers and clients alike. "Clients who retain more risk and use the full potential of their captive within their risk management process often see an improvement in risk quality," he explains.

"I've seen enormous improvements in risk mitigation measures as well as increased cooperation and better alignment between the insurer and the insured. That results not only in better protection for our client but also in a better risk for us," says Bellomi. "Not only do we have centres of competence for captive services and solutions at our head office in Hannover and at our entity in Paris, we also have captive experts in additional countries such as Belgium or the US, just to mention two, who work together for clients with captives across borders throughout the world," he adds.

International insurance programmes

HDI Global is currently the lead insurer for approximately 5,000 global insurance programmes worldwide. These include nearly 28,000 local international programme policies, which are serviced by more than 175 HDI Global network partners and more than 170 in-house risk engineers. "We are one of the few and one of the most capable industrial insurers in the world for the service needs of international clients due to the comprehensive and efficient HDI Global network we have created," says Bellomi. "Our Italian location is among the top five producing offices of international insurance programmes in our group. Many Italian businesses go abroad, which is typical for our kind of economy."

When it comes to navigating the complexity of international business activity, Bellomi is aware that even the most experienced risk manager can't know everything. "As an insurer, we are able to offer insight and provide suggestions, which is an added value that the risk manager really appreciates. Plus, we guarantee that our insurance solutions are fully compliant, which means constantly remaining up to speed about new local legislations or restrictions," he says.

"We are one of the most capable industrial insurers in the world for the service needs of international clients due to the comprehensive and efficient HDI Global network we created"

Alberto Bellomi, HDI Global Italy

Insurance Academy

To better provide top-tier services, HDI Global invests in talent and training. "Our academy offers participants the opportunity to exchange knowledge as well as develop and practice skills," says Bellomi. "This allows us to facilitate the exchange between people and countries, to also benefit from best practise examples in other countries as well as strengthen our network."

Bellomi is amazed at what HDI Global makes possible for its people. "We offer so many opportunities for our talents to grow that I would like to be young again just for this reason. I look into the eyes of younger colleagues and see how happy they are when they realise how much they can grow within a very short time, especially if they are passionate."

SPONSORS

The battle for technical talent

Commercial Risk Europe talks to **Carlo Tozzi Spadoni**, head of continental Europe for Charles Taylor Adjusting, about the battle for recruiting the next generation of talent

◇ CHARLES TAYLOR

Food is one of the primary industries in Italy, along with fashion, furniture and automobiles, so rising tampering claims in the food and beverage market is a concerning trend, says Carlo Tozzi Spadoni, head of continental Europe for Charles Taylor Loss Adjusting.

"We have seen a larger number of policies being written for this risk and a greater number of claims," he says. Some of the claims are down to processing mistakes, such as egg and egg-free pasta being mixed up, or labelling errors. But the increase has been largely down to the higher presence of pests.

Furthermore, these pests are becoming more resistant to pesticides, harder to detect and more toxic. Regulation has exacerbated rather than reduced the risk, says Spadoni. For example, privacy laws mean that workers at food processing plants cannot be screened for possible bacterial infections or diseases.

Cyber claims remain high across all businesses in Italy while climate change has also impacted the risk landscape in the last 12 months, says Spadoni. On the one hand, climate change has affected harvests and caused a financial risk. It has also contributed to a rise in natural catastrophes in Italy, highlighted by the recent floods in Emilia-Romagna region that caused widespread losses.

New generations

Sustainability has become a more significant factor in the insurance market and not just in terms of the relationship between insurers and their clients. Service providers such as loss adjusters are being asked for their ESG credentials by potential clients. It is also a greater consideration among younger generations considering their career choices.

"The new generations are more sensitive to company ethics and any accusations of greenwashing," says Spadoni.

Flooding in the Emilia-Romagna region

Unfortunately, the insurance industry has also failed to effectively sell its ESG credentials – namely, the role of insurers in helping businesses and communities get back on their feet after a natural catastrophe or similar calamity, he adds.

This has not helped the insurance industry to address a critical risk – a skills shortage amid a fervent fight for talent. "There is a shortage of senior roles and expertise, and not enough is being done to improve recruitment," says Spadoni. "Insurers do not seem to perceive the risk posed to them by the lack of skilled young loss adjusters."

The competition is especially strong from large manufacturing and service companies that can offer higher remuneration packages from the outset due to the fact they can exploit workers' skills almost from day one, as opposed to loss adjusters. "We have to train them, which takes time and a lot of money," says Spadoni.

Skills shortage

One concern is that a skills shortage will lead to a reduction in capacity among loss adjusters, says Spadoni. This is most evident in high-end P&C claims where there is a need for technicians with at least a postgraduate degree, an engineering background and ten years of experience in a different industry. "The ability to recruit the next generation of specialists will be the deciding factor in whether a loss-adjusting practice is successful or not," says Spadoni.

Technology is typically touted as the answer to such issues and Spadoni does see a role for certain technological solutions where the claims are straight-forward. "But the more we look at high-quality work, it comes down to skills and experience and the fight for talent," he says.

The loss-adjusting industry has seen some consolidation in recent years and this has helped to generate the economies of scale that are needed in today's insurance market. In 2021, Charles Taylor acquired Spadoni's original employer Insurance Engineering Services. Spadoni says the deal has not only provided more scale but an international presence that is increasingly demanded by insurers.

Spadoni would also like to see loss-adjusting firms given greater consideration by risk managers when it comes to improving the claims process. For example, while most large companies will have a panel of insurers on hand, they are typically left unsure of the quality they may get from an appointed loss adjuster. "That is the gap we are trying to fill," says Spadoni. "There is room for a company like ours to provide that level of service."

Narim members up for the challenges ahead

The Netherlands leg of this year's Risk Frontiers Europe project – sponsored by HDI Global and Charles Taylor – took place in the form of a roundtable discussion in Utrecht before the association's excellent annual congress. A lively discussion focused on the rise of the risk profession, the role of risk managers and the insurance market in ESG, how to face up to the huge systemic challenges facing us all and, not least, climate change

Crises may help in battle for talent

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Dutch risk and insurance management association Narim is working hard to make the profession more appealing to a wider and more diverse pool of talent in an era during which corporations of all shapes and sizes are struggling to find talented young blood. The crowd at the Narim congress does appear to be younger and more diverse than others in Europe. Well done to Narim.

For example, Narim received an 'anniversary present' from Aon in 2021, consisting of a young Risk Manager Scholarship for three candidates for three years.

This year, this scholarship was won by Bonny Lepidis, insurance manager at housing associations Havensteder & Trivire. The prize was handed over at the Narim Congress in Utrecht.

While the risk and insurance profession may still not be first choice for most young people, participants in this year's Risk Frontiers Europe survey from the Netherlands believe that the recent crises have raised the profile of the function and made it more appealing.

The participants agreed that the risk and insurance management community has evolved rapidly in recent times. They said the risk profession has risen up the corporate agenda in terms of profile, influence and significance, as Dutch corporations have had to deal with the same crises that all others have faced over the last few years.

At the same time, the Dutch risk and insurance management community is also facing the same challenges as other professions in attracting and retaining the best talent.

But the higher profile on the back of Covid-19, the war in Ukraine and, more recently, the rise of ESG as a core business driver, has also made the job more attractive, agreed the leading Ditch risk managers.

Marc Heiligers, director of insurance at AkzoNobel, the Amsterdam-based

"As an insurance manager you are doing your job well if you are a spider in the web. You have to understand what makes the company tick"

Annemarie Schouw, manager of risk and insurance at Tata Steel Nederland

multinational that creates paints and performance coatings, said that virtually no-one chooses to be an insurance manager, but rather the job chooses them. He also believes the profession is becoming more appealing.

"You don't aim to start up in insurance, you end up in the role. But I believe insurance manager is the best insurance job you can get because it is also about risk and technology and the like, all the key elements of the company. In my view this is a more attractive career than working for an insurer or broker, it is more diverse," said Heiligers.

Annemarie Schouw, manager of risk and insurance at Tata Steel Nederland, and a former president of Narim, agreed with her colleague that the ever-evolving nature of risks faced by business is one of the reasons why the job is becoming more attractive.

"As an insurance manager you are doing your job well if you are a spider in the web. You have to understand what makes the company tick. You don't have to be an expert in everything but you need to be in contact with all parts of the business and that makes it interesting," she said.

The survey participants agreed that the rise of dedicated risk management and related standards is also driving change within the profession.

There are now two university standard risk management courses in the Netherlands and Narim is investigating a further course with the Dutch association of insurers and brokers.

Jeroen Gruter, corporate insurance manager at Rotterdam-based financial services group TBI Holdings, added that this development enables younger people entering the risk management profession to learn important techniques.

But he and Schouw agreed that because each company is different in what they do and how they do it, there is no real replacement for learning on the job.

"You do need life experience to oversee everything. And it is useful to have a technical background such as the law, engineering and the like. You need the base," pointed out Schouw.

The risk managers added that a good technical base is useful, particularly if it is technology and data related.

Bonny Lepidis, insurance manager at housing associations Havensteder & Trivire, said that she had partially learned her role and the "language of insurance" via in-house education. She is now helping and educating colleagues about the use and value of insurance.

"To start with it was about knowledge and now it is more about skills, using and adapting data and making sure that the insurance programme is adequate," she said.

Dutch risk managers find ESG increasingly on their radar

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ESG is now firmly established as a driving force in the corporate world and it has inevitably worked its way into the life of Europe's risk and insurance managers. Dutch risk managers agree that ESG cannot be ignored by their profession but stress there is some way to go before its real impact on insurance programmes is clarified.

ESG is definitely having an effect on the risk and insurance management profession but more from a risk, rather than insurance management, perspective, according to Jeroen Gruter, corporate insurance manager at Rotterdam-based financial services group TBI Holdings.

"The true focus of ESG is operational risk management not insurance. ESG is driven largely by financial risk, which is a fundamental difference with insurance," he said.

So far, the impact of ESG on insurance is limited.

"I hear the word ESG used by insurers but is it really applied in reality? They say they are asking for the information but I am not sure they are actually using it for now. I hear some insurers want to know about your ESG strategy. They say they will be more active in future but not for now," added another Risk Frontiers Europe participant.

Marc Heiligers of Akzo Nobel agreed that the whole ESG-based approach to underwriting is a serious work in progress. "I question if insurers really take the ESG information we provide into account. They ask for our ESG reporting information. But do they really take that into account? I am not sure for now," he said.

Annemarie Schouw, manager of risk and insurance at Tata Steel Nederland, fully

"Insurers ask for our ESG reporting information. But do they really take that into account? I am not sure for now"

Marc Heiligers of Akzo Nobel

New environmentally friendly construction methods such as mass timber are proving difficult to cover as the insurance sector plays catch up

agreed with her colleague. "It is not insurance-driven – it's actually your license to operate," she said. "Decarbonisation is a hot topic and some insurers are saying they are not keen on covering old school industries but this change cannot happen overnight. It's a transition."

This was a good point made by Schouw. Of course, insurers need to be saying the right thing about underwriting "old school" industries to uphold their image and reputation. Perhaps they shouldn't be underwriting new fossil fuel projects and should instead focus their efforts on supporting renewables and other new technologies needed for the transition.

But the reality is that the transition to net zero is exactly that – a transition. It will not and cannot happen overnight, and corporations currently active in the old industries need continued support as they transition to the new.

Having said that, the clock is ticking and risk and insurance managers need to be very aware of this. "If you don't do anything now then in five years you may find it difficult to find cover," pointed out one participant in the Risk Frontiers Europe roundtable.

The construction and real estate sector is particularly challenged from an insurance perspective currently as it attempts to deliver the goods on ESG.

New environmentally friendly construction methods such as mass timber are proving difficult to cover as the insurance sector plays catch up.

This challenge was a fundamental part of the agenda at this year's Narim congress, during which the Risk Frontiers Europe roundtable was held.

The event's 'transform to perform' theme is central to Narim's activities and communications throughout the year, not just for the congress.

Going forward, the association will be paying attention to the role of ESG and the insurability of sustainable initiatives.

Dutch risk managers, along with their peers across Europe, want insurers to insure them in an acceptable manner. They want to know what insurers expect from them.

Narim is working with the Dutch association of corporate insurers (VNAB) to discuss this very topic. The VNAB recently held a series of podcast discussions on how to support the transition and maintain insurability.

Bonny Lepidis, insurance manager at housing associations Havensteder & Trivire, certainly sees challenges in this area. "Carrying out a true ESG programme in real estate is obviously a good thing but we are also challenged when the insurers say this is an accumulation risk when they are covering such risks in other countries. I show what we have done to manage the risk but there are only a few insurers left. This is an important transition that needs to happen and probably needs an industry-wide strategy," she said.

Another related ESG challenge is a fundamental principles of insurance – replacement value.

If an "old school" asset burns down and needs to be replaced, under new rules, regulations and reputational pressure, it has to be rebuilt as a more environmentally friendly asset. However, the new ESG 'compliant' asset will inevitably be more expensive.

"I ask myself the question: If we need money from the insurers to pay for an asset to be replaced will they do so in an ESG manner in law?" asked Gruter.

"The policy says that we replace the asset as it was before the loss but if it is constructed the same as in the past then it is not what anyone wants. This is a problem," he said.

Schouw agreed with her Narim colleague and thinks a wider solution is needed. "We need to address this as a market because of the whole net zero transition in Europe," she said.

These are big questions for the risk and insurance sector to tackle.

The world is rightly committed to the transition and the EU is busy coming up with new rules and regulations designed to support and drive the change. But if the insurance sector is not willing or able to support this transition with adequate coverage for new greener technologies, techniques and products then we have a big problem. As Schouw said, it seems a market-wide approach is needed.

Climate change tops list of concerns

Climate change is the main concern for Dutch risk and insurance managers, according to leading members of Narim taking part in this year's Risk Frontiers Europe roundtable. This is perhaps not surprising given that about a third of the Netherlands lies below sea-level. Adrian Ladbury reports

A recent study commissioned by the Netherlands National Flood Protection Program (HWBP) found that the 1,000 residents surveyed are now more afraid of natural disasters such as dike breaches, flood and drought, than in the last survey carried out in 2020.

More than half (54%) think their children's grandchildren won't be able to live in the Netherlands because of this risk.

A third (29%) think the country will become uninhabitable within 100 years.

These fears have been exacerbated by the extreme rainfall in July 2021 across western Europe. This caused severe flooding, including over 200 fatalities and extensive infrastructure damage within Germany, Belgium, Luxembourg and the Netherlands, and resulted in economic losses of more than €50bn.

So when Dutch risk managers were asked to identify the big three risks it came as no surprise that the answer was: Climate change, climate change and climate change!

Annemarie Schouw, manager of risk and insurance at Tata Steel Nederland, stressed that climate change and the required transition presents a huge challenge to risk managers at European companies.

"It is not just a question of climate change but also the way the whole economy operates," she pointed out.

The wider political and economic implications of the climate-driven need for change is clearly a concern for Dutch risk managers and their peers across Europe.

Most agree that the transition to net zero is needed and desirable, but working on the front line trying to help Europe's leading corporations make this transition is clearly no easy task.

Action groups are placing high-profile pressure on corporations to make the transition at breakneck speed.

From a more practical perspective, there has been a growing groundswell of support for public private partnerships (PPPs) to tackle some of the systemic risks brought by climate change.

The participants of this roundtable agreed with their peers across Europe that PPPs are a positive way forward if constructed and managed well, with a clear focus on loss prevention and risk management as well as transfer.

They are also clearly frustrated by the recent knee-jerk retraction of the insurance industry from key lines, not least property and natural catastrophe. Improved partnership is needed.

"Maybe the main question is: Are the insurers willing to go along with the evolution of these risks so that they become trendsetters or not?" asked Jeroen Gruter, corporate insurance manager at TBI Holdings.

Another survey participant wryly pointed out: "The insurers said we can't insure these risks because we don't have the data, much to the surprise of many!".

One of the big problems for insurers trying to identify and measure emerging risks is the interdependencies caused by globalisation of the supply chain and

"If you look at the flooding in the Ardennes in 2021 then you have to say there are big lessons to be learned in terms of public planning and the like"

Karin Volgers of Royal Boskalis Westminster

Flooding in Kinderdijk, Netherlands

reliance on digital solutions.

These factors combined clearly intensify and accelerate the risk and raise systemic fears.

Schouw suggested that AI could provide a solution. "AI can help identify these interdependencies and enable the insurers to broaden their view," she said.

Karin Volgers of Royal Boskalis Westminster said clearly a more joined-up approach is needed, with a sharper focus on loss prevention and risk mitigation.

"If you look at the flooding in the Ardennes in 2021 then you have to say there are big lessons to be learned in terms of public planning and the like. This will happen again and governments and local authorities need to be involved," she said.

It is interesting to find that with each major risk and insurance challenge nowadays, often a call for PPPs arises as the market 'fails'.

This became very clear when Covid-19 hit and businesses across Europe catastrophically realised that they were not covered for business interruption losses unless their carrier had adopted a cavalier approach to wordings.

For the vast majority of risk and insurance managers in the Netherlands and across Europe, the debate remains open about PPPs for cyber and pandemics.

But it seems that national or pan-European pools at an EU-level for natural catastrophe risks not already dealt with are a 'no-brainer'.

As the OECD stated in a 2021 report: "Ultimately, increasing the level of insurance coverage through the establishment of catastrophe risk insurance programmes can contribute to reducing the fiscal costs of catastrophe events – and potentially at a relatively low cost given the few occasions where programmes have needed an injection of public funds. For governments, the establishment of a programme should carefully consider the potential cost and impact relative to investing directly in risk reduction as well as the relative effectiveness of responding to low levels of financial protection ex ante through an insurance arrangement rather than ex post (including any cost of setting aside capital to backstop a programme)."

Once again it seems the risk and insurance management profession potentially has a key role to play in this critical area for companies, individuals and governments across Europe, and can add serious value for all. Rise to the challenge.

Cyber market showing signs of maturity

Loss prevention and mitigation key, agree Dutch risk managers

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Cyber was one of the most difficult areas for risk and insurance managers in the Netherlands and across Europe during the height of the recent hard market, as capacity dried up and prices spiralled along with D&O.

For many it seemed as though the insurance market was in terminal retreat in the face of ever-rising losses and fears over systemic risk.

A group of leading European firms responded to the capacity crunch by forming Belgium-based capitalised mutual MIRIS, which commenced underwriting in January of this year.

But the insurance market now appears to be reaching a more rational equilibrium from a capacity and pricing perspective.

Capacity and limits may remain tight but evidence from the Dutch leg of our Risk Frontiers Europe survey suggests that the focus has positively shifted to cyber risk mitigation and management, which perhaps shows signs of a maturing market.

Jeroen Gruter, corporate insurance manager at TBI Holdings, pointed to new EU guidelines on cyber such as NIS2. It imposes new cybersecurity obligations on a wider range of "essential" and "important" entities when it comes to risk management, reporting cyber incidents and information sharing.

Under these rules, critical entities will need to implement new processes and policies to comply with the new obligations. This will help focus the mind on cyber security at the highest level, said Gruter.

"The EU guidelines will raise awareness among company board members and ensure they know they have to do something and help give impetus in this critical area," he said.

Bonny Lepidis, insurance manager at housing association Havensteder & Trivire, pointed out that a big challenge with cyber is that the risk constantly evolves.

But, as Narim colleagues pointed out, the key issue is being aware of the potential scale and scope of the risk, and need for action. "It is really about awareness, that is the key," said Gruter.

Cyber risk and insurance has evolved remarkably quickly over the last two decades or so, not surprisingly given the speed of the digital transformation.

Any risk manager would have to honestly admit that their corporations have adapted and embraced new technologies that offer potentially huge efficiency, customer experience and cost benefits without really taking the risks into account.

The insurance market also embraced this new line of business as a potential windfall without really considering the real underlying exposure and potential systemic risk.

The eventual, but inevitable, arrival of the hard market, continued rise in day-to-day cyber losses and realisation of the potential scale of systemic losses, not to mention the impact of the war in Ukraine and related cyber threat, has really focused the minds of risk managers and the insurance market.

The Narim members who took part in this roundtable clearly think it will be interesting to see what happens from here.

As one Dutch risk and insurance manager who works for a Swiss-based international real estate group recently pointed out: The only way to approach cyber risk is really to assume that you have no cover and take it from there.

SPONSORS

A risk manager can do so much to prevent damage

◇ HDI GLOBAL

It is not easy being a risk manager, a job that typically requires a major disaster or significant insurance claim to demonstrate your worth to the company. However, the recent crises of war, pandemic and global inflation have at least provided risk managers with the opportunity to prove their value, says Sharon van Herel, managing director for HDI Global in the Netherlands.

"The role has not always been positioned well within a company and is sometimes perceived as a staff function that creates cost rather than generates revenue," says Van Herel. "But if you're well connected, well informed and have the ear of everyone across the company, a risk manager can do so much to prevent damage, reduce downtime through outages and loss of market share or reputation. I also think the role has been taken more seriously in the c-suite of companies in the last year."

Biggest risks

When it comes to the most significant risks facing corporations in the Netherlands, cyber remains, somewhat frustratingly, at the top of the list, says Van Herel. "The threats have become ever more sophisticated but while a number of companies are well-prepared, I still see many companies that are unaware of the impact of a cyber-attack, particularly in terms of reputation as well as operations."

"There should be more simulations and stress-tests. Is there a crisis management plan? Has it been tested and practiced? Does everyone know their roles? Is there someone on retainer that can support the process and ultimately unlock the systems? Does someone have a bitcoin account just in case? Costs can escalate very quickly and cyber insurance can make a big difference prior to the cyberattack due to consulting and risk management services of the cyber insurer, and after the cyber incident when it comes to picking up the bill and providing the right services at a critical time," says Van Herel.

Supply chain disruption was a huge feature of the pandemic and has remained so, even after Covid-19 receded. Meanwhile, staff shortages are evident across the board and not just within the risk and insurance industry, says Van Herel.

"Many people working in industrial jobs are choosing different careers and certain jobs are no longer attractive, and on top of that there is a retirement wave coming in western Europe. There are all these industrial companies with growth ambitions but where are they going to find the people with the right skills to fill the vacant roles? We are all struggling in this area and I do not see this changing."

Escalating ESG

But if there is one topic that has increased almost exponentially in importance, it

"It is incumbent on insurers to ensure that the market is healthy, and underwriting is based primarily on the risks on the table"

Sharon van Herel, managing director for HDI Global in the Netherlands

is ESG and sustainability. "The last 12 months has been all about ESG," says Van Herel. Consequently, there has been a lot of dialogue between insurers and their customers, with an open exchange across various sectors from construction to recycling. "Everybody is finding challenges of their own and is eager to collaborate and learn from each other in this area," says Van Herel.

One of these challenges is the impact of ESG on the risk landscape and the ability to find insurance to mitigate these new and emerging risks. "There is a realisation that any new developments can only be insured if there is the right sustainability approach or strategy or metrics," says Van Herel.

This means that insurers, brokers and other critical service providers should be much more involved in initial plans for large or important business projects that could be impacted by various sustainability issues. "Now more than ever it is important that insurers are connected from the beginning and have a seat at the table to ensure that projects are viable and can be financed and ultimately insured because the risk management is optimal," says Van Herel.

Insurers also face sustainability requirements and targets of their own, as well as the challenge of providing coverage in such a new area where little data exists. "It is a big challenge to provide the right capacity and we have to upskill ourselves because it requires a completely different mindset," says Van Herel. "Primarily we have to extend our technical knowledge, especially in terms of transition technology and renewable projects like hydrogen, geo-thermal and circularity. We can't step into a project when we know too little about the latest innovations and insights."

The other big issue for clients is knowing whether their insurer will be there to support them in their transition to net zero, says Van Herel. "As an insurer that was founded by the industry for the industry 120 years ago, we are there to support clients in various sectors. We are currently developing our policies and intend to be a partner in the transition and not step away from clients. But our commitment will not be indefinite, and there will be a time and point when exclusion or divestment has to be considered."

Market prices

When it comes to the price of insurance, Van Herel is hoping for a period of stability after the recent volatility in rates. "I don't see a direct softening. The quite substantial price increase by reinsurers for nat cat exposed risks at the latest renewals might serve as an example. It should not be forgotten that we had had 17 uninterrupted years of soft markets until recently. So we still need to build up sufficient reserves to a healthy level and have continued dialogue where judgements are made on individual risk quality. We will continue to balance price and risk where necessary as part of the new normal."

The relationship between clients, brokers and insurers has improved in the last six months, following the end of the pandemic, with fewer firms chasing the lowest premium. "It is incumbent on insurers to ensure that the market is healthy, and underwriting is based primarily on the risks on the table," says Van Herel.

The other critically important area in the Netherlands market relates to service levels, she adds. "At HDI Global, we use NPS-scoring with our brokers and customers that assess our reachability, responsiveness, delivery and response times and how we compare to our peers. There are still issues over data quality as well as response time improvements to be made in the entire market. However, we at HDI are working very hard on these issues and are improving constantly."

There is a significant project underway in the Netherlands to provide contract certainty and speed up the underwriting process in the co-insurance market, which is a business priority for HDI Global, says Van Herel. "We still have a lot to do to improve the co-insurance market as a whole. Ultimately it is about having your data and your systems in order and providing effective collaboration between all those in the co-insurance market so that clients get their contracts within the first quarter after their renewals, and no longer have to wait until after the summer holidays," she says.

"The Dutch market has a unique association and online collaboration platform for brokers and insurers in the co-insurance market to do business. HDI Global is in the frontrunner group of further improving operational excellence in this area as part of the ambition to be the trusted advisor of choice," she adds.

SPONSORS

Human touch key to large claims

Commercial Risk Europe talks to **Oliver Hutchings**, global head of marine and chief operating officer for aviation at Charles Taylor Adjusting, about about loss adjusting and risk management trends

◇ CHARLES TAYLOR

According to Oliver Hutchings, one of the biggest risks faced by the general insurance industry in the Netherlands, and elsewhere, is a lack of succession planning. "At Charles Taylor, we are investing a lot in our teams' recruitment, training and development. Yet attracting and retaining talent is an ongoing challenge and the insurance industry could do a lot more to address this," he says.

The marine industry in particular has been subject to increasing regulation and more stringent compliance obligations that have exacerbated the situation further, says Hutchings. "More regulation requires more expertise. As ships become more technical, the claims become more complex. In addition, container ships are becoming much larger. So while the number of claims may have reduced, the size and complexity of those claims has increased."

This trend was exemplified by the infamous Evergreen incident that saw one of the largest container ships ever built run aground in the Suez Canal back in March 2021, blocking the waterway for six days and making a severe dent in global trade.

The incident highlighted the risks involved with large container ships operating in tight areas as well as concentration risks in the global supply chain – issues that require experience and expertise when a major claim or a loss event occurs, further exacerbating the skills shortage.

"The expertise is there now but many of those people have been in the business for a long time already," says Hutchings. "While we have a number of experienced people at a less senior level, there is a 20-years gap that needs to be addressed."

The challenge has been made even greater by the economic difficulties facing companies, says Hutchings. "There is always a pressure on costs. We see that in the goods and transportation sector, and that has a knock-on effect on service providers. Everyone will agree that investing in good people is key. Yet finding enough money in the system to train the next generation is an ongoing battle."

Typically, technology is often seen as the answer to labour shortages and skills shortages. Remote working was a vital resource during Covid but it has its limitations in the loss-adjusting world. "Speaking to a ship's crew on Facetime or Zoom to find the cause of a loss can cause errors. So much is lost when you are not face to face. While some parts of the market have changed and become more digital, the loss-adjusting world still benefits from having a physical presence. Technology certainly does have a part to play, especially for small liability claims. Yet, when you are dealing with more complex claims, like we are at Charles Taylor, nothing beats human involvement," says Hutchings.

The impact of cyber

Another risk impacting the Netherlands' marine sector is cyber, says Hutchings. When it comes to major ports, such as Rotterdam, there is a much greater use of technology and internet connectivity, which brings greater efficiency but also new types of risk. "There used to be people-operated cranes, which are now fully automated and even fully autonomous ships on some small test routes," says Hutchings.

Cyber risks are, however, more limited when at sea. "Ships are one of those things that are not as connected because of proximity drawbacks. There are satellite links but this can be costly out at sea," sayd Hutchings. Consequently, the marine sector has not been subject to the same cyber risks as other sectors.

Disciplined underwriting

Thankfully, capacity does seem to be good at the moment in the Netherlands' marine market. The improved landscape is partly a result of improved underwriting discipline, as well as a relatively benign claims environment, says Hutchings.

Container vessel unloading at the Port of Rotterdam

Perma-crises and digitalisation alter risk manager role

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Virtual meetings have greatly changed the way risk and insurance mangers operate over the last few years, bringing both benefits and negatives for the profession, say leading Belgian risk professionals taking part in our Risk Frontiers Europe survey, sponsored by HDI Global and Charles Taylor. They add that the seemingly never ending spate of crises have boosted their corporate profile and increased contact with the c-suite.

Marie-France Theys, corporate risk and insurance manager at Schneider Electric, said Covid-19 accelerated the move towards digitalisation and remote working. She said similarly to many other companies, Schneider Electric has not returned to how it operated before the pandemic.

Theys believes this has both pros and cons.

"Most international meetings, global communications and even trainings are virtual. They are easier to organise and enable Schneider to save time and travelling costs. I find, however, that it has made the risk and insurance manager role much more complicated," she said.

"Most international meetings, global communications and even trainings are virtual. They are easier to organise and enable Schneider to save time and travelling costs"

Marie-France Theys, corporate risk and insurance manager at Schneider Electric

"This being said, the positive effects of deploying these digital tools has been an opportunity to exchange more regularly with other departments. I have much more contact with the supply chain, with finance and so on than I ever did before," she continued.

Theys said the new-found attention on risk management has remained, post-pandemic, as more crises struck.

"Things haven't gone back to normal after Covid. We have encountered the Russian crisis, supply chain issues. The way we work has had to change, it has affected our business model but also the organisation of the workplace. Additionally, the way we collaborate outside Schneider, with insurers for example, has changed, and combined with the hard market the administrative burden has increased," she said.

Bart Smets, head of risk and insurance at Umicore, said virtual meetings have changed the way companies operate forever. He thinks this improved efficiency overall but stressed the importance of finding a balance between virtual and in-person meetings.

"The way we work has changed, that is for sure. Although I sense we have returned somewhat to these in-person meetings. I think the way we meet is more efficient. Previously you would have physical meetings whereas now you only meet in person when it is really necessary. And this saves time and money with travelling etc. Within Umicore we were used to working with video conference tools so perhaps we were a bit ahead," said Smets.

"The impact of the different crises is impacting our role. I was responsible for the crisis committee during Covid. So that changed the way we work"

Gaëtan Lefèvre, president of Belrim

"But you need to find the right balance, which isn't always easy," he advised.

Gaëtan Lefèvre, president of Belrim, agreed that risk and insurance managers need to find a new balance between in-person and digital meetings.

And he believes perma-crises have changed the role of risk managers for the better and given them more clout with business leaders.

"The impact of the different crises is impacting our role. I was responsible for the crisis committee during Covid. So that changed the way we work. Secondly, I think we are more connected to the c-suite. And finally, there is the latest crisis with inflation and so on maintaining interest in risk management," added Lefèvre, who is head of professional ethics risk and insurance management at John Cockerill.

"Then there is the impact on insurance rates, which is a big challenge for risk managers. So all these crises have impacted and influenced the role of the risk manager," he added.

Buyers question whether carriers are making the most of ESG data

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Risk and insurance managers from Belgium question whether the growing interest in ESG data from insurers is much more than a tick-box exercise and really getting them better coverage, or helping to develop the solutions needed to navigate the carbon transition.

Bart Smets, head of risk and insurance at Umicore, said he is getting asked more and more questions by insurers about ESG but is unclear what they are doing with the information and whether it is getting him better cover.

"The question is what are the insurers actually doing with the information other than ticking the box? I don't see any real advantage yet and I have asked the question several times to the major players and they couldn't really answer it. I have asked 'will I get better terms and conditions?' I don't get a clear answer," said Smets.

He said financial institutions offer preferential rates for firms that can show their ESG credentials and would like insurers to do the same.

"Things are completely different in the finance industry, where banks provide advantages to companies investing in, and performing well on, ESG. We have sustainability-linked loans in place, tying our group's funding costs to the sustainability performance . So why can't the insurance market do something similar?" asked Smets.

Marie-France Theys, corporate risk and insurance manager at Schneider Electric, agreed that it is unclear exactly what insurers do with information on ESG. She too wonders if it is really just a tick-box exercise. But even so, she thinks supplying the data likely works in insureds' favour.

"I don't know what they really do with that information. I think more and more decisions are taken at the head office level and locally they have to 'tick certain boxes'. That would be my feeling. But by ticking those boxes I guess insurers are reassured that ESG risks are being analysed and being managed. So I think ultimately it probably does help us," said Theys.

> **"Investing in green energy can cause issues for insurers and you can't get cover because it is perceived as high risk. So insurers need to know what they want"**
>
> **Bart Smets, head of risk and insurance at Umicore**

The Belgian risk managers would like insurers to step up with better risk transfer solutions to help companies through the carbon transition.

Smets said insurers want to see progress on ESG and want clients to reduce their emissions but are struggling to support customers through the transition. Participants in our Risk Frontiers survey from across Europe have voiced similar concerns.

"Investing in green energy can cause issues for insurers and you can't get cover because it is perceived as high risk. So insurers need to know what they want. Either you invest and they follow and support you, or not," said Smets.

"This is absolutely true," agreed Gaëtan Lefèvre, président of Belrim. "And without insurers' support there is no innovation. We are developing new technology and we need the cover but it is not coming as quickly as it could be hoped," he said.

The Belgian risk and insurance managers added that they are involved in managing ESG risks but aren't in charge of this process.

"I am involved but I am not responsible for ESG matters. We have a dedicated ESG department. We both report to the same member of the exec committee. We work very closely together. I come more into play on ESG-related risks," said Smets.

"I am not directly in control but I work with colleagues on ESG. I work mainly on the E. We are beginning to certify ourselves to environmental standard ISO 14001," added Yves Brants, risk manager at NRB.

Lefèvre, who is head of professional ethics risk and insurance management at John Cockerill, said he is involved with an ESG project his firm started late last year. "The board appointed a person in charge of ESG. So there is a strong link between project ESG and the board. Risk management is part of this ongoing process," he said.

Belgium market improving for buyers but far from easy

Debate over merits of LTAs

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The Belgian commercial insurance market is not softening just yet but things aren't as bad for buyers as they have been for the last few years, say leading risk managers.

They singled out cyber as a problem area that has forced some to retain the risk in their captive. Insurers were warned that if they keep cutting capacity and cover for cyber risk they will likely lose some of their customers.

There was debate among risk managers taking part in our Risk Frontiers Europe survey over the merits of long-term agreements (LTA's) in the current market. Some question why you would take an LTA with rates still high while others argue that the benefits of avoiding the annual renewal are worth it.

All of the risk and insurance managers agreed that the Belgian market isn't softening but is "less hard".

"It is not as difficult as it has been for the last three years," said Nathalie Vandenbroucke, risk insurance and compliance manager at Eiffage Benelux.

Gaëtan Lefèvre, president of Belrim and head of professional ethics risk and insurance management at John Cockerill, said things have definitely got easier during his latest renewal.

"The renewal from 2022 to 2023 has been different from the renewal in 2021 to 2022. The renewal in 21/22 was very difficult. And 22/23 is different and the market was not so hard. But insurers are asking for higher premiums due to inflation," he said.

"It is not hardening as much as it was," agreed Marie-France Theys, corporate risk and insurance manager at Schneider Electric. But she said financial lines, such as crime and D&O, remain difficult. "Cyber was very complicated," she added. This prompted her company to use its captive for cyber and increase risk retention.

"The objective for us now is to invest in prevention rather than paying a very high premium that comes with a limit that wouldn't be sufficient if a big cyber loss hit," said Theys.

Bart Smets, head of risk and insurance at Umicore, said he has seen cyber insurers change their approach and heavily reduce their line size. He warned carriers that if this continues, more and more companies may choose not to take out cover at all.

"It could get to the point where CEOs and CFOs might start wondering why they are paying so much for a coverage that is getting worse. There is the danger that companies don't take out cover and take the risk themselves," said Smets.

Theys said her broker has helped carry out the cyber risk analysis needed to make the switch from open market cover to risk retention via the captive. The role that the broker can play is particularly important in a complicated risk area such as cyber, she stressed.

"We need a real expertise on the brokers' side to help us risk managers to understand the discussions that take place between insurers and our own CISOs. It can be very hard to follow but we need this understanding to select the adequate coverage and/or choose the retention level. This might be done via the captive. So we are using a broker much more on a consultancy basis. They have helped us to do part of the risk analysis," said Theys.

> **"The objective for us now is to invest in prevention rather than paying a very high premium that comes with a limit that wouldn't be sufficient if a big cyber loss hit"**
>
> **Marie-France Theys, corporate risk and insurance manager at Schneider Electric**

Yves Brants, risk manager at NRB, said his company had problems securing cyber cover this year after being hit by a big network incident. He had real difficulties getting insurers to understand the risk management efforts his firm has implemented.

"Insurers really didn't understand what we do to prevent cyberattacks. It was hard to explain that we are working every day to protect our customers and our defences are very good"

Yves Brants, risk manager at NRB

"The cyber programme was very difficult to renew. We got little or no response from the insurers. They extended the existing contract for three months as we continued discussions. We finally succeeded and now have an insurance contract of two years. But it was difficult to explain what we do on the risk side. The insurers really didn't understand what we do to prevent cyberattacks. It was difficult to explain to them that we are working every day to protect our business and our customers and that our defences are very good," said Brants.

Theys said she was happy to secure her first LTA in a while at summer renewals after insurers showed no interest in the past four or five years.

But Smets questioned why insureds should take out an LTA with current premium levels as high as they are, and amid hopes that the market may soften.

"Why should we enter LTAs while premiums levels are so high? For me an LTA is only good if you get an extra bonus or reductions over a one-year deal. Which I don't think people are getting currently," he said.

"It's the same as energy suppliers that cancelled all the fixed rate long-term deals when it was in their interest and now they are all coming back because the prices are still relatively high and they know they can lock people in at the higher price. I am not convinced in an LTA at the moment," added Smets.

Theys said she isn't convinced that insurance prices will fall at the next renewals, and said that for the first time in years Schneider has obtained an LTA for certain programmes. "Those LTAs will enable stability of our global budget and avoid difficult renewals," she said.

"Our property programme did require a panel of 12 co-insurers to be renewed. As you can imagine, it is extremely cumbersome to modify any clause when you have to obtain the agreement with the different parties. So for me, the LTA makes sense, not only from a budget perspective but also from an efficient management perspective," she said.

Geopolitics, cyber, nat cats and battle for talent big risks for Belgian firms

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Geopolitics, cyber and natural catastrophes are among the biggest risks facing Belgian companies, agreed some of the country's leading risk and insurance managers. They also singled out the battle for talent as an area to watch, not least as employees increasingly demand a better work life balance.

Gaëtan Lefèvre, president of Belrim and head of professional ethics risk and insurance management at John Cockerill, said geopolitics, cyber risk and supply chain are the key risks facing his company.

Marie-France Theys, corporate risk and insurance manager at Schneider Electric, gave a similar list citing geopolitical, cyber and natural catastrophes.

Nat cats are, of course, being exacerbated by climate change and there are fears among the buying community that insurers may start to reduce capacity for such risks.

"It is only going to get worse. Maybe insurers will start pulling out or offering us less capacity. I see more parametric solutions to try and help. It is a new tool and a new approach but we will have to see if it helps out here," said Bart Smets, head of risk and insurance at Umicore.

He thinks companies will have to pay much more attention to how and where they build their offices or warehouses in the future, using models to look further ahead at potential risk hotspots.

"I think the way you construct your buildings will become much more important, where you construct them and whether they are built in zones that will be prone to weather events in 30, 40 or 50 years. Only then do I think we will be able to get some kind of coverage," said Smets.

"Typically we only looked at whether buildings are located in a flood or earthquake zone but now we are looking at 2050 and beyond, and asking whether a certain location might be at risk then as a result of climate change, even if it is not today," he added.

Another leading risk that only looks set to get bigger is the battle for talent, several of the Belgian risk managers said.

Lefèvre said there is real lack of talent available across much of the Belgian economy, with many leaving work since Covid-19.

Smets said things are made more challenging by changing demands placed on companies by younger professionals.

"If you have an interview with a young candidate, one of the first things they ask is around their work life balance. How many days can they work from home, for example. This is a complete shift from let's say ten years ago and is extremely, extremely important for employers to adapt to," he said.

Nathalie Vandenbroucke, risk insurance and compliance manager at Eiffage Benelux, said it is becoming difficult to attract new talent and keep ageing builders working on site as they get older.

"The construction industry needs to focus on the average age of our workers. It has become a real difficulty to retain people," she said.

And Vandenbroucke said working from home is also creating an imbalance between white and blue collar workers, with the latter often unable to take up this option.

"Since Covid, a lot more people are working remotely but this is only possible for white collar workers and those doing a certain type of job. So there is a gap between white collar workers who are more and more comfortable working from home and the blue collars who have to work on site. This could create frustrations with long-term additional risks and consequences," she said.

Belrim planning for 2024 Golden Jubilee

Belrim will continue to focus on delivering its shorter one hour, virtual events for members alongside traditional day-long physical conferences over the next year, while also preparing to celebrate its 50th anniversary in 2024.

Gaëtan Lefèvre, president of Belrim, said the Belgium risk management association will work on maintaining its different events this year.

"The first of these are short one-hour events on a particular topic. These are just for risk managers. The goal is more to exchange experiences. It is an open discussion rather than a lecture," he explained.

"We continue to follow the market news. Since Covid we are more reactive than we were in the past. So we can now organise an event very quickly on a particular subject that is in the news or a big issue for our members. So we try to be very reactive," added Lefèvre, who is head of professional ethics risk and insurance management at John Cockerill.

Belrim will also continue to deliver its traditional physical events on a particular topic.

And the association is focusing on its big 50th birthday next year.

"A very important project we have today is to prepare for our Golden Jubilee next year. We will hold an event with celebrations on 20 June 2024, so put it in your diary," said Belrim's president.

Avenue de Tervuren, Brussels, home of Belrim's Belgian headquarters

SPONSORS

The collaboration game

Commercial Risk Europe talks to HDI Global Belgium's **Chris Staes** about supporting clients in their ESG transition and collaborating on captives

◇ HDI GLOBAL BELGIUM

Thrust into the spotlight in the wake of the pandemic and the ongoing war in Ukraine, the risk manager's role has changed significantly. It has never been more appreciated, says Chris Staes, managing director at HDI Global's branch in Belgium. "Risk managers have also been better able to prove their value to senior management and the board, not only as an insurance buyer but as a genuine risk manager."

Staes cites the greater use of alternative risk transfer (ART), captives and mutual loss models for transferring emerging risks like cyber in Belgium. In essence, companies are choosing to retain more risk themselves and opt for self-insurance through captives and mutuals. But rather than seeing this as lost premium, Staes welcomes the development.

"When you involve ART, the client and the insurer have the same interests. Managing and mitigating risk. Risk retention is a big part of that," he says.

"It's a great evolution because we can prove ourselves as technical insurers and we can support our risk management clients with the tools they need – weather risk monitoring for natural catastrophes and our expertise on cyber claims modelling. It is more about sharing knowledge and expertise with the market."

Collaborative relationship

There have been changes on both sides to develop a more collaborative relationship, even when a captive is involved, says Staes. "We can front for international programmes, manage the compliance topic related to it and look after the claims-handling process. So it is not a case of missing premiums, it is about providing a better service and that is ultimately what insurance is designed for," says Staes.

The greater prominence and sophistication of risk management should also help make the profession more appealing to a younger generation of prospective employees, he adds. Plus, the development and availability of global programmes has made it a more international role. "It is a challenging and interesting job that should be attractive to young job hunters," says Staes.

When it comes to the risk landscape, Staes highlights three prominent exposures – climate change, cyber risk and economic volatility. "In terms of climate change, there have been some loss events in Belgium the last years. In 2021, it experienced the worst floods for many years, which resulted in roughly €2.55bn in insured losses.

> **"As an insurer, it is our job to provide protection, but we need more transparency and a better understanding of the risk and how cyber security is monitored"**
>
> **Chris Staes, managing director at HDI Global's branch in Belgium**

"But it is not just the cost to insurers and reinsurers, it is the cost to governments and public sector bodies when there are insurance pools involved. And you see that when there is a nat cat event, the limits are not enough. So there is a need for a better public-private partnership, be it on a local or European level. Also, prevention is key," says Staes.

In terms of economic risk, the world is experiencing a period of high inflation – claims inflation and salary inflation. "That is a challenge for the insurance sector because in times of inflation, there is a higher number of claims, and the claims are much more expensive. We must consider that when we are pricing risks," says Staes.

The final risk on Staes' list is cyber. "We have seen public sector services attacked, as in the ransomware attack on the city of Antwerp in December 2022. The cyber threats are everywhere, and the frequency and severity are increasing. Every week you can find news of a new attack or breach. As an insurer, it is our job to provide protection, but we need more transparency and a better understanding of the risk and how cyber security is monitored at companies. We are happy to dialogue with our clients and to support them by offering additional services."

A lot of these risks, and others, have increased in both frequency and severity since the war in Ukraine, even if it is difficult to make a direct link. "Prices for food and energy have dramatically increased since the war. It has also been cited as the main cause of inflation and it has disrupted global supply chains," says Staes.

The relevance of ESG

Another development that has gained pace in the last 12 months is sustainability and ESG, an area Staes says is very relevant for HDI Global as an insurance group. "There are some ESG-linked risks that we will not provide insurance for on our Belgian market, such as new coal-fired power plants," he says.

"But we also want to support innovation and new renewable or green energy projects and will continue to do that. We were one of the first insurers to provide coverage for wind farms and we will continue to support the green revolution. It is important that insurers play their role in supporting the green revolution," adds Staes.

Sustainability also plays a greater role in the information required by insurers from their clients. "At HDI Global, we want to support our clients in their transition to green energy so the investment in new, green technology is part of our risk assessment," says Staes.

However, new technology creates new risks. For example, the increased adoption of electric vehicles and the discussion

around battery storage. To this end, HDI Global has formed a partnership with ACCURE battery Intelligence, a specialist in battery storage monitoring, to increase the financial viability and insurability of battery storage.

The insurer has also developed a new innovative and flexible online tool GREEN 4.0, to help companies manage their location-related risks. "This helps them to visualise and identify the different risks faced by certain plants or branches in a company's network and to exchange information on the quality of the risk," says Staes.

HDI Global has also developed a customer web portal IP-Web, a reporting tool for international insurance programmes, which is a big focus for the insurer. "We have over 5,000 international programmes as lead insurer, so it is important that we have a good IT infrastructure for the underwriting and the claims process. But what really makes us strong as a company are the people. We have experts working across the globe to ensure we are compliant in every country and sharing their experiences to improve our coverage," says Staes.

He says that while the frequency of losses has decreased, the severity has increased. Consequently, when it comes to the price of insurance, Staes still sees a hard market for large loss lines like natural catastrophe.

One reason for the increased severity of losses is the ongoing rise in M&A, creating a value concentration. There are other factors, such as the increased complexity of supply chains and the dependency between suppliers and producers/manufacturers. "These factors all have an impact when clients want to extend their natural catastrophe coverage and to buy higher limits," says Staes.

It is also important to maintain a dialogue between insurer, broker and insureds when there are so many factors affecting the price of premiums, he says. "In the last three to four years there have been some price increases, but before that we had 15 years of rate reductions. When you have a combined ratio of 96%, the profit margin is much reduced and you need lean structures, low overheads, fast processes and a good relationship with clients. This is not only to improve margins but also to ensure we can pay our clients' claims."

"In the last three to four years there have been some price increases, but before that we had 15 years of rate reductions"

Chris Staes, HDI Global Belgium

SPONSORS

Power of the people

Commercial Risk Europe talks to **Yves Thaens**, branch manager for Belgium at Charles Taylor Adjusting, about the importance of hiring and training the right people

◇ CHARLES TAYLOR

The biggest risks facing Belgian companies are economical, ecological and technical, says Yves Thaens, branch manager for Belgium at Charles Taylor Adjusting. In light of the economic downturn and a rise in inflation, companies face an increase in their costs at a time when revenues are under pressure.

Rising ecological risks are also plain to see. "The changing climate and subsequent risk has led to a rise in the frequency and severity of storms, floods and extreme weather," says Thanes. And there are technical risks as a consequence of the transition to net zero. "The move to renewables and potentially less reliance on the grid and people will lead to a reduced workforce and a decline in the influx of new recruits and, overall, fewer suitable candidates," says Thanes.

When it comes to how these risks have been reflected in insurance coverage, the lines with biggest volumes are product liability claims, especially in the food industry as a result of increasingly stringent rules, and machinery damage due to a decline in maintenance, as a result of several crises.

These risks have been prominent for more than a year, however they have become more intense in the last 12 months as a result of volatility over energy prices and the cost of raw materials. In addition, the cost of claims has increased as a result of inflation – all things that have emerged in the last year.

The rise in sustainability disclosure requirements and ESG themes has also been a feature of the corporate landscape across Europe in the last 12 months. While Thaens says ESG is yet to become a significant factor in the relationship between insurers, insureds and third parties such as loss adjusters, he does see difficulties ahead.

He cites the example of the move to electric vehicles. Company cars are prominent in Belgium and the government has mandated that they must all be electric by 2026 to qualify for various tax breaks. But concerns over the cost, range and the availability of charging stations, as well as a lack of demand among consumers, will cause difficulties during the transition.

Thaens sees greater potential for hydrogen as an energy source for cars but the H2 network is underdeveloped at the moment. "This compromises our mobility as loss adjusters," he says.

Skills shortage

Another difficulty facing loss adjusters and the insurance industry as a whole is a skills shortage, says Thaens. A combination of demographics and fewer people coming into the insurance industry means there is a shortage of highly skilled and experienced loss adjusters. "The industry is walking on a sharp edge," says Thaens.

Some companies have turned to the use of sub-contractors as a short-term measure, but in order to solve problems on a long-term basis, firms will have to start training up apprentices to avoid capacity issues, suggests Thaens.

Ensuring adequate capacity to handle claims is the key to good customer service, he says. "We also have to ensure that we deliver in time and in accordance with agreements and we keep our clients informed at all times so that they know their assignments are high on our agenda."

Technology has been cited as a way to handle capacity issues and labour shortages in other markets. But Thaens sees less potential for automation or artificial intelligence in the loss adjusting area, where jobs can be complex and hugely variable, especially where property damage is involved. However, IT systems need to be up to date so they can handle administrative tasks speedily and reliably.

"My golden rule is that a loss adjuster cannot earn his money by spending his time on trivial administrative tasks. These are better left in the hands of people that are hired for this type of job or a proficient IT system so that we can handle our assignments with speed and quality and concentrate on the things that matter and for which we are paid," says Thaens.

This means hiring highly motivated people that take their role seriously, says Thaens. "We need to convince insurers that the quality we provide is in accordance with the price. Every mission needs to be treated as if our life depends on it."

An electric car charging in Brussels. The Belgian government has mandated that company cars must all be electric by 2026 to qualify for various tax breaks

Allianz Commercial offers best of both worlds for customers: Müller

Adrian Ladbury asks **Joachim Müller**, CEO of Allianz Commercial, why the new structure was created and what benefit it offers to former Allianz Global Corporate and Specialty (AGCS) customers and the wider market

The creation of Allianz Commercial, the new €20bn commercial insurance business of Germany's Allianz group, will significantly strengthen the insurer's offer to its growing middle market customer base, but not lead to a reduced service for large corporate customer that formerly used AGCS, vows group CEO Joachim Müller.

In an interview with *Commercial Risk* just before the annual symposium of German risk and insurance management association GVNW, Müller explained that the combined resources of AGCS and Allianz's worldwide commercial insurance business would deliver greater underwriting expertise and support services such as risk engineering and claims. It will also deliver a more consistent global footprint for the company's growing global programmes customer base in both large and middle market segments.

More sceptical risk managers and brokers may suggest that the merger of AGCS with Allianz commercial's middle market business is driven by a desire to deliver further cost-savings and more margin for shareholders.

Müller insists, however, that the combination of the two operations into a stronger and more focused group will add value for customers – both large corporate and middle market – and enable it to expand business among middle market customers operating cross-border, in particular.

Impressive turnaround

So it seems a positive development for former AGCS customers. The AGCS business was firmly back on track and delivering healthy profits again after its

serious re-underwriting process, which accelerated when Müller took over from Chris Fischer Hirs in December 2019 and launched the 'New AGCS' strategy in 2020 to drive this turnaround.

Serious progress has been made over his term in charge as the market hardened and faced up to the huge challenges presented by the Covid-19 pandemic, subsequent war in Ukraine, supply chain challenges and inflation.

In parallel, a similar remediation exercise took place across Allianz's mid corporate portfolio from 2021 with a central 'Global Commercial' team established to steer underwriting globally, working with the national Allianz companies to turn around results in that segment.

AGCS operating profit increased to €479m in the first half of 2023 from €351m, and premium written rose to €6.58bn from €5.92bn. Its combined ratio improved to 90.8% in the first six months from 93.3%.

This compares with 2019 when the combined ratio deteriorated to 112.3.% from 101.5% in 2018. The group had to post a reserve strengthening, shown in a total runoff development of minus €591m, driven by financial lines in Australia and the UK, product recall in Europe and general liability in North America. The operating profit fell by €566m to a loss of €284m.

But the vastly improved figures appear to justify Müller's claim that the merger of AGCS into Allianz Commercial is a front foot move and not just another cost-saving and margin improving effort.

"We were ahead of the targets in terms of profitability, loss ratio and expense ratio and the top line. We changed the shape of the business with a focus on profitability rather than volume, significantly reduced some line sizes thus improving profitability. There were fundamental changes in the core portfolio and set up… I can only say that both AGCS and the Allianz Mid Corp businesses were in a better shape than ever before and this is something that can really open a new chapter," explained Müller.

"AGCS was a very federalised structure with many country CEOs that, with Allianz Commercial, has now been transformed into a truly global structure. The mid corporate business has improved significantly with very profitable growth in recent times, but it faced the same challenges as the large corporate business," he continued.

"For us, it's about profitability and good underwriting. If we can grow in profitable lines and sectors then we will, but it is not about growth for growth's sake"

Joachim Müller, CEO of Allianz Commercial

"A €600m company faces the same challenge in property as a €400m company. The business is underwritten in the same way using the same tools; there was a lot in common so this was a natural evolution. We are building a common platform rather than having a range of local systems that are not aligned. This will enable us to make far better use of our resources across the business and upscale. There is a great opportunity for us, for example, in the 'no man's land' area of companies with revenue between €100m and €500m, especially those at the upper end," said Müller.

Clear risk appetite

He believes brokers will benefit from a clearer message and appetite from Allianz Commercial. "Risk appetite will be more aligned because having two different operations confused the brokers in the past, particularly in Europe and Asia where we had a lot of strong local country operations at both levels. Having single unified distribution teams will be a very positive development," he said.

The underlying focus on profitability though will not change within Allianz Commercial as Müller stressed that lessons had been learned and would not be forgotten. "For us, it's about profitability and good underwriting. If we can grow in profitable lines and sectors then we will, but it is not about growth for growth's sake," he said.

The improved capture, analysis and use of data through latest technology and platforms will clearly be key to the success of any underwriting operation as risks continue to evolve at such a pace. Allianz Commercial has a great opportunity to use its combined resources in this sense, said Müller.

"Underwriting is about pricing and therefore data, and about the capture and usage of that data. The combination of the mid-sized and large corporate businesses will improve the data source for all the business and analysis of portfolios, and inevitably give an upside to the combined ratios. This will be even better when we transition to a single overarching platform rather than local operating entities. The insurer that manages this will be best placed from both a cost and growth perspective, and it will support investment in new solutions and opportunities," he explained.

Müller added that the much larger volume of policies handled by the mid-sized business will have a positive knock-on effect for the larger corporate business from a data analysis perspective.

Another added benefit for customers will be the combination of risk engineering teams that number over 500 in Allianz Commercial and so can be even more targeted to industry verticals. The same can be said for the enhanced claims capability offered by the newly combined Allianz Commercial group worldwide, said Müller.

Global programmes

And, clearly, the global programme expertise of the former AGCS operation will come as a major benefit for the mid-sized sector that continues to expand across borders in search of new revenue and profit.

"Global programmes were the core of the AGCS business but mid-sized companies operate across borders more and more so the capabilities and expertise can be shared, offering cutting-edge solutions to a much wider customer base. We still have a leading position in the large corporate market but can now also bring this expertise and solutions, notably also in our specialty lines, more to the mid-sized market," said Müller.

For Müller, therefore, the creation of Allianz Commercial represents a real win-win for customers of all sizes and brokers.

"Overall, the large corporate customers will enjoy the same level of service they enjoyed with AGCS, with wider risk consulting, claims support and the like provided by the wider network of 11 regions. This will clearly enhance our global programme offering for the mid-sized customers who will benefit from the deeper and wider expertise made available in a clearer and more efficient manner," he said.

Partnership is key as Allianz Commercial plays its role in ESG and PPPs

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One way in which the new Allianz Commercial operation will bring significant benefits for customers is through support for the transition to net zero and new technologies needed to make this leap, according to CEO Joachim Müller.

"This is a hot topic for the market and for us. We are not only interested in insuring and supporting the new technologies, but also we want to be close to our clients to help them manage the transition. We need to be active in both traditional and new segments. We total close to €20bn in premiums as Allianz Commercial and we are of a size where we have to take a leading role in the transformation. We take this very seriously," he said.

A big question around ESG currently among the risk and insurance management community is what – if any – impact it will have upon the underwriting strategies of their core partners.

Opinion has been sharply divided among Europe's risk managers taking part in this year's Risk Frontiers Europe survey. Some say that the carriers are asking the questions but not doing anything with the information, while others say that the ESG track record is genuinely having an influence.

Müller said Allianz Commercial does take ESG seriously from an underwriting and investment perspective.

"ESG is part of our daily underwriting routine. We work as partners, with our customers joining us in the transformation. We are prepared to let business go if it is not aligned with our ESG criteria and ambitions. We would like to achieve net zero in our own business operations by 2030 and our portfolio by 2050. This is a clear path. There are clearly big questions on reporting and on data in this area and it will evolve over time, but we are committed as underwriters, investors and a company as a whole," he said.

Allianz Commercial is also committed to support its customers in the equally fast developing area of due diligence and reporting down the supply chain, driven by the EC's Corporate Sustainability Due Diligence Directive (CSDDD).

"On the risk management side we are ready to support our customers also in this area as with cyber. You have to ask the questions as underwriters need to be convinced that the company is doing the right thing or making the right efforts to avoid breaches. We are happy if the company is making the right efforts and investments. If they are not then it is not really a partnership and will not work," said Müller.

Partnership is also essential to tackle systemic risks.

Ferma recently gathered some of the key actors from across insurance, risk management and public sector to launch a new joint report with its industry partners, including Allianz, entitled *Cyber insurance dialogue – How Europe can lead the way to cyber resilience*.

This report addresses the challenges faced by all participants in the cyber insurance chain and highlights the potential for Europe to become a global leader in developing solutions for risks that cannot be covered by the private insurance market alone, chiefly though public private partnerships (PPPs).

PPPs have been under discussion since the onset of the Covid-19 pandemic, which starkly revealed the limitations of the commercial insurance sector when it comes to such systemic risks.

Müller stressed that Allianz is fully behind this effort. "The insurance industry cannot bail out the world for systemic risks such as Covid-19 or cyberattacks on infrastructure. We need partnerships with all the relevant parties. We are open for this and pleased to be involved in the consensus at Ferma level for systemic risks," he said.

"The insurance industry cannot bail out the world for systemic risks such as Covid-19 or cyberattacks on infrastructure. We need partnerships with all the relevant parties"

Joachim Müller, CEO of Allianz Commercial

Risk management experience key for Swiss Re's Arquint

Swiss Re Corporate Solutions' new EMEA CEO **Nina Arquint** tells CRE why she benefitted from a stint in risk management, and the growing importance of risk quality for insurers

Nina Arquint took on the role of chief executive for Swiss Re's Corporate Solutions EMEA business in February, having previously served as the unit's global chief risk officer (CRO). Prior to joining Swiss Re, Arquint was head of the Strategic Services Division and member of the executive committee at the Swiss Financial Markets Supervisory Authority (FINMA).

Arquint takes on the role at an interesting time for the corporate insurance market, which has undergone several years of price rises. Against a backdrop of increased reinsurance costs, inflation and geopolitical and economic volatility, many commercial insurers are now looking to grow.

Arquint believes her previous role as CRO stands her in good stead to steer Swiss Re Corporate Solutions through the next phase of the market cycle.

"My role in risk management has prepared me well in terms of the tools and the way I look at risk, and the way I make decisions. I would recommend to others that they take a CRO or risk management role throughout their career. The way you think, the way you assess and consider risk, is incredibly valuable," said Arquint.

Her CRO background should also help Arquint better understand the changing needs of insurance buyers, who increasingly need a broader understanding of their organisation's risks.

> **"If you have a more holistic understanding and view of the risks of a company, you can do your job much better"**
> **Nina Arquint, Swiss Re Corporate Solutions**

"If you have a more holistic understanding and view of the risks of a company, you can do your job much better. You are a more informed buyer of insurance, and bring a different understanding and additional power to the table, and you can feed that back into the organisation," she said.

"We are in the world of taking risk, and being a risk manager has helped me think about risk and how to see it in a holistic way, and to think about emerging risks and what to do about those. Ultimately, it also helps when making judgement calls – which risks do you take and at what price and conditions? The role of a CRO or a risk manager is not to avoid risk altogether. If you do that, you will be out of business," said Arquint.

"You need a healthy culture to deal with mistakes and not a culture of fear. You always need strong governance in place"

In fact, the role of insurance buyer and risk manager is expanding, according to Arquint. Take sustainability – four or five years ago it was not a topic for most risk managers. Now it is on most risk managers' radar, said Arquint.

"Firms benefit from more holistic risk management teams as they must deal with topics of the future like climate change. Not just buying insurance as a commodity but thinking beyond and into the future, what the company needs to do now to be more resilient in the future. It's that mindset and thinking I believe strongly comes from the risk management discipline," she said.

Arquint also believes that understanding risk culture is important for risk managers. "It is important to understand the incentives in the organisation, and the importance of having a strong tone from the top, and creating an environment where people feel safe to talk about mistakes and raise their hands. You need to have a healthy culture to deal with mistakes and not a culture of fear. You always need strong governance in place but what you also need is a strong risk culture," said Arquint.

The importance of risk management is also now shaping the commercial insurance proposition, she continued.

"It's not a pure capacity and price play for many clients anymore. It goes much broader than that. Many of the conversations we have with commercial clients are now about their needs beyond the traditional insurance products on the market. It is about getting a better understanding of the totality of risks they face and helping them in a broader way to manage the risks they have. These kinds of conversations are increasing," she said.

"For example, corporates want to understand the value of parametric solutions and how they complement the indemnity-based insurance cover. More and more we have conversations on what is the right captive retention, the value of self-insurance, and how can you structure insurance in a way that you can get protection from multi-line multi-year insurance for risks that you can no longer buy on a standalone basis," added Arquint.

She believes insurers will need to work with corporates to improve the quality of risk. "I would expect an increased focus on addressing clients' needs and working together around risk insights and engineering to improve risk management and risk quality. It's absolutely critical we continue to do that as a commercial insurance industry, and in particular for Corporate Solutions. It is what we are good at and is a key strategic priority for us," she said.

$486m

Swiss Re Corporate Solutions net income in 2022

Arquint also takes on the EMEA CEO role at an interesting time for Corporate Solutions. The business recently completed its turnaround plan and returned to profitability.

91%

Swiss Re Corporate Solutions combined ratio at half year 2023

"Corporate Solutions has a very clear strategy, and we have a very strong position and value proposition. For me it's about continuing to build out the proposition we have in the EMEA market. Europe has a mature insurance buying community and we are well positioned to be a specialised partner for corporates in this dynamic environment, in which risks are changing in a way that goes well beyond traditional risk transfer and more into a preventative way of thinking about risk," said Arquint.

Swiss Re Corporate Solutions reported net income of $486m in 2022 and a 47% increase to $323m for the first half of 2023. It saw its combined ratio improve again at half year to 91% and is on track towards the target of achieving a combined ratio below 94% for the full year.

"You can see we are now on very solid ground," said Arquint. "Corporate Solutions is now in a much better position to help our customers and brokers through the market cycles. We have been very successful in transforming our business over the past three years," she said.

Swiss Re Corporate Solutions will remain disciplined and focused on achieving its financial targets, explained Arquint.

"We intend to drive our differentiated value propositions. These include our innovative risk solutions – which include parametric, captive and structured solutions as well as structured fronting. Furthermore, we are now well established in the international programme lead business, and there is clearly more for us to do in that space. Also engineering and construction – we are a strong player there. You can also expect more from us on casualty outside the US. In particular, EMEA casualty is a growth strategy and has been for more than a year," she said.

Corporate Solution will also focus on delivering risk data and services (RDS) to corporate clients in EMEA, according to Arquint. The RDS platform helps companies build a digital twin of their assets to get an accurate overview of their exposure. With a virtual representation of their business, corporate clients can create simulations based on real-world scenarios and access Swiss Re's risk insights based on its analytical data model, she explained.

"RDS helps companies become more resilient by making better, data-driven business decisions and taking back control of their risks," said Arquint. "Customers can securely upload their data on the RDS platform, a platform that is neutral and open. This data belongs to the customer – they have control of it and only they define who sees the data," she added.

"RDS helps companies become more resilient by making better, data-driven business decisions and taking back control of their risk"

What parametric insurance can do for the construction industry

SWISS RE CORPORATE SOLUTIONS


Damaged Florida homes after 2022's Hurricane Ian

The construction industry has been at the mercy of the weather since the dawn of time. But the continued increase in extreme weather events as a result of climate change has widened this exposure, threatening to disrupt or delay large-scale projects.

Consequently, construction firms, contractors, developers and business owners are all demanding a new approach to managing, mitigating or transferring this growing risk.

One such approach is parametric insurance – policies that pay out when predefined triggers based on specific weather metrics, such as wind speed, rainfall or temperature, are exceeded. The payout is automatically triggered upon occurrence of pre-agreed factors in line with the indemnity principle but, unlike in a traditional claims handling setup, with no lengthy claims adjustment process to determine the value of the loss.

While traditional policies are still used as the primary means of risk transfer, a growing number of clients are adding parametric-based products to provide extra protection.

There are numerous benefits to such an approach. The combination of traditional indemnity and parametrics-based insurance can bridge gaps in coverage while also providing certainty and swift payouts whenever a claim is made, with no lengthy claims adjustment process to determine the value of a loss.

Parametric insurance is also ideally designed to cater for weather-based risks. An Intergovernmental Panel on Climate Change (IPCC) report from March 2022 states that extreme weather events, such as hurricanes, heatwaves, heavy rainfall and droughts, are likely to become more frequent and intense in many regions.

This is likely to lead to higher insurance costs. A sigma report published by Swiss Re estimates that annual insured losses are likely to double as a result of extreme weather – to an average of more than $100bn, as opposed to $52bn seen during 2012 to 2017. Indeed, the single costliest insurance event of 2022 was Hurricane Ian which incurred estimated insured losses between $50bn and $65bn alone.

Disruptive weather

In Germany and neighbouring countries in western Europe, the threat is not so much earthquakes and tornadoes but spells of extreme weather. For example, temperatures may exceed or fall below the acceptable levels for workers on a construction site, according to regulations, bringing work to a standstill.

Certain weather conditions may be less than ideal for certain building materials. High winds may mean a crane cannot be operated. While the property or site may not be damaged, there could be high costs from the business interruption suffered.

Similarly, there may be supply chain disruption as a result of weather events. For example, prolonged droughts in 2018 and 2022 led to low water levels in the Rhine river, disrupting the supply of materials on what is a crucial European trade route.

In the past, weather was seen as an entrepreneurial risk that many companies were willing to take on themselves. But the increase in extreme weather has led to a change. Construction firms and developers are increasingly wanting to transfer this risk and looking to parametric insurance as an alternative, or complementary, solution to traditional insurance

The advances in data have been crucial in the development of parametric insurance and the ability to create very precise covers and reduce basis risk – the risk of the client suffering a loss but the parametric insurance not being triggered. Tapping new data sources and capturing high quality data at granular levels nowadays allows for far more precise risk views at asset locations.

For other parts of the world, our STORM and QUAKE parametric insurance products are available to meet the needs of customers in the construction industry as well. We customise each parametric policy to closely mirror the insured's experience during a hurricane or a storm. Following a named event, our data partners produce a granular wind footprint or shake map.

This helps us determine the highest sustained wind speed or ground shake intensity closest to the policyholder's pre-defined points of interest. The policy pays out based on the intensity of the event as the insured experiences it.

It also pays out for business interruption even if there is no direct physical damage to the site. Furthermore, losses from sublimited or excluded coverage can be recovered using the parametric pay-out.

While there is little we can do to change the weather or prevent earthquakes, we can help ensure it does not become a financial disaster.

By Marco Adamo, senior structurer IRS EMEA, Lorenzo Gervasoni, lead underwriter engineering and construction, Teresa Schorstein, senior structurer IRS EMEA Direktion für Deutschland

Liberty Specialty Markets

A sketch of the future: technology and the fine art and specie market

◇ LIBERTY SPECIALTY MARKETS

The art world is no stranger to change. Whether the discovery of new media or a radical shift in style, each step in the history of fine art has inspired new admirers and detractors. Now, the fine art market stands at the threshold of another revolution.

In other words: a technological shift is coming, by which we mean the sum of a myriad changes, small and large, to how the art world will function in the coming decades. Whether elements of the Internet of Things incorporated into art maintenance, exhibitions held in metaverse, or authenticity certificates on the blockchain, we need to plan for, and adapt for, the future.

The coming change is as, or more, significant than the artistic discoveries of the Quattrocento. It will have implications for a range of institutions, whether private collectors, public institutions or service providers to the market, such as insurers.

A real-time network of fine art

Underwriters are used to relying on data to price and select risks and renew contracts. Fine art teams are no different. But future technology is going to allow us to gather far more data, of better quality, than ever before.

Elements of the Internet of Things are set to become vital tools. By locating an environmental monitor in the frame of a painting, for example, we'll be able to measure the suitability of the surroundings in real time. With the frame itself broadcasting information about temperature, humidity, lighting or exposure, we can prevent or mitigate damage before any serious effects occur. Similar monitors can be in the plinth of a statue or even in crates for transport.

By connecting artworks, their surroundings and exhibition spaces into our live models, we can better adjust, measure and mitigate risk to priceless artefacts. In the future, this may reduce the need for underwriters to travel too: a camera or virtual reality tour of a space may suffice to judge its security and appropriateness when combined with ongoing real-time environmental monitoring.

This will provide security to insureds, reassure underwriters and aid risk selection. And it will enable more efficient processing of any claims, to the advantage of all parties in the value chain.

Caveat fraudator [or fraudster beware]

Art forgers should also beware the impact of technology. While many things have already been written about the rise and fall of cryptocurrencies and NFTs, the underlying technology – a distributed ledger – has the potential to revolutionise certificates of authenticity.

Currently, physical certificates, issued once or at intervals a while apart, are somewhat vulnerable. A blockchain-based digital certificate, revalidated at every significant stage of an artwork's journey and immune from outside interference by virtue of its distribution across the chain, won't be. With real-time monitoring, that data can be paired with photography or environmental reporting, almost eliminating the potential for fraud.

The digital art marketplace

Finally, the very process of trading fine art has already shifted dramatically. Artworks, antiques and collectibles are increasingly traded online, a trend the pandemic accelerated. While online transactions represented around a tenth of the global art market value prior to the pandemic, by 2021 sales of the online art and antiques market peaked at $13.3bn, accounting for roughly a fifth of the total art market value.

> **"By 2021, sales of the online art and antiques market peaked at $13.3bn, accounting for roughly a fifth of the total art market value"**

This presents its own risks. Forgeries are more likely without digital authenticity certificates, and online sales increase uncertainty across a range of factors including transport. Cyber exposures are set to grow, with exchanges and online marketplaces targeted. Payment of large sums will need to be secured.

Some have suggested future exhibitions and art fairs will take place at least in part in the metaverse, which carries its own additional cyber and intellectual property risks. But there is no stopping the digitalising of the fine art and specie market; and technology provides us with the tools to protect it.

Insuring the future of art

The consequences of such a huge range of changes are vast and disparate, and will affect the entire art world. But it is a resilient marketplace. With forethought and consideration, we can implement the promise of technology to the benefit of all stakeholders in the market. This is just a sketch of the future; time will fill in the details.

By David Saillen, head of fine art and specie in continental Europe

Regulators turn attention to Worldcoin crypto project launched by ChatGPT creator

◇ TECHNOLOGY

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What is Worldcoin?

Worldcoin was launched on 24 July by OpenAI (ChatGPT creator) boss Sam Altman. It is a crypto-based project that offers participants a share of a crypto token in exchange for their biometric data. The underlying mission of the project is to create "a globally inclusive identity and financial network, owned by the majority of humanity".

More specifically, it aims to "increase economic opportunity, scale a reliable solution for distinguishing humans from AI online while …[creating] a potential path to AI-funded UBI [universal basic income]."

How does it work?

It uses an iris-scanning technology that is capable of distinguishing between human and artificial intelligence. It then issues a digital form of identification through which human participants will, in theory, receive a share of the economic dividends that are said to be produced by an AI-driven economy.

Implications from a privacy perspective

With more than two million participants signing up to the project prior to its launch, this represents a gargantuan exercise for processing biometric data – this being a 'special category' under the UK and EU data protection regulatory regimes. Special category data warrants more protection due to its sensitive nature.

Worldcoin has stated that all biometric data will be saved on a decentralised blockchain. However, the project has given rise to a number of data privacy-related criticisms, including the suggestion that they may be gathering more data than is made clear, and thereby are failing to obtain valid consent.

Regulatory implications in the UK

While Worldcoin claims that it intends to comply with all regulatory regimes within the jurisdictions that it operates in, regulators are beginning to express caution.

On 31 July, the UK's Information Commissioners Office (ICO) released a statement making these three points:

"Organisations must conduct a Data Protection Impact Assessment (DPIA) before starting any processing that is likely to result in high risk, such as processing special category biometric data…"

"Organisations also need to have a clear lawful basis to process personal data. Where they are relying on consent, this needs to be freely given and capable of being withdrawn without detriment."

"We note the launch of WorldCoin in the UK and will be making enquiries".

Comment

The brief but broad nature of the ICO's statement has been taken by some to indicate that significant investigation is required before the implications of this crypto project are properly understood by the regulator. A similar position has also been adopted by other regulators, including in Europe. The French regulator CNIL has commented on the legality of such data collection by Worldcoin, describing such activities as "questionable". The German data protection regulator in Bavaria is also understood to have commenced investigations arising from privacy concerns.

While this new technology will invariably be met with some level of regulatory resistance, both the UK and EU have made it clear they are 'open for business' in the crypto sector. Notwithstanding obvious concerns – including meeting the standard of informed consent for Worldcoin participants) – when taken at face value, this could become a project of genuine social utility. Accordingly, it may find some traction in more crypto-friendly jurisdictions.

◇ **LEGAL EYE:** THE BRIEFS

Highest level of quarterly European product recall activity in ten years

◇ Q1 2023 saw the highest level of European product recall activity recorded in a single quarter for more than ten years, according to Sedgwick's latest European Product Recall Index.

Sedgwick said this marks the fourth consecutive quarterly increase, with European product recalls across five key industries rising 7.8% from the previous quarter.

The company's quarterly report analyses recall data from the European automotive, consumer product, food and beverage, pharmaceutical and medical device sectors. The record-breaking growth in the second quarter was driven by the consumer product sector, which saw recalls increase by 31.8%, and the automotive sector, which saw a 12.6% rise.

By contrast, the food and beverage sector saw recalls increase by just 2.3%, while the pharmaceutical and medical device sectors saw recalls decline by 14% and 4.2% respectively.

European Commission adopts European Sustainability Reporting Standards

◇ The European Commission has adopted the European Sustainability Reporting Standards (ESRS) for use by all companies subject to the Corporate Sustainability Reporting Directive (CSRD). The Commission said this marks another step forward in the transition to a sustainable EU economy.

Mairead McGuinness, commissioner for financial services, financial stability and capital markets union, said: "The standards we have adopted are ambitious and are an important tool underpinning the EU's sustainable finance agenda. They strike the right


European Commission Headquarters, Brussels

balance between limiting the burden on reporting companies while at the same time enabling companies to show the efforts they are making to meet the green deal agenda, and accordingly have access to sustainable finance."

According to the Commission, the standards cover the full range of environmental, social and governance issues – including climate change, biodiversity and human rights – providing information for investors to understand the sustainability impact of the companies in which they invest.

The Commission stressed that it takes account of discussions with the International Sustainability Standards Board and the Global Reporting Initiative "in order to ensure a very high degree of interoperability between EU and global standards and to prevent unnecessary double reporting by companies".

The Commission made a number of modifications to the draft standards submitted by EFRAG. It said the modifications ensure that the standards are proportionate, without undermining the achievement of the policy objectives. The modifications fall into three main categories: phasing in certain reporting requirements; giving companies more flexibility to decide exactly what information is relevant in their circumstances; and making some of the proposed requirements voluntary.

Looking forward, the ESRS delegated act adopted by the Commission will be formally transmitted in the second half of August to the European Parliament and to the Council for scrutiny.

Companies will have to start reporting under ESRS according to the following timetable:

- Companies previously subject to the Non-Financial Reporting Directive (large listed companies, large banks and large insurance undertakings with more than 500 employees), as well as large non-EU listed companies with more than 500 employees: financial year 2024, with first sustainability statement published in 2025.
- Other large companies, including other large non-EU listed companies: financial year 2025, with first sustainability statement published in 2026.
- Listed SMEs, including non-EU listed SMEs: financial year 2026, with first sustainability statements published in 2027. However, listed SMEs may decide to opt out of the reporting requirements for a further two years. The last possible date for a listed SME to start reporting is financial year 2028, with first sustainability statement published in 2029.
- In addition, non-EU companies that generate over €150m per year in the EU and that have in the EU either a branch with a turnover exceeding €40m or a subsidiary that is a large company or a listed SME will have to report on the sustainability impacts at the group level of that non-EU company as from financial year 2028, with first sustainability statement published in 2029. Separate standards will be adopted specifically for this case.

UBS settles financial crisis mortgage fraud probe for $1.44bn

◇ Swiss bank UBS has agreed to pay $1.44bn in civil penalties to settle fraud claims over the sale of mortgage-backed securities in 2006 and 2007.

The US Department of Justice (DoJ) said the settlement resolves the last case in its wider investigation into banks and other financial institutions issuing mortgage-backed securities ahead of the 2008 financial crisis.

The DoJ has netted more than $36bn in civil penalties from banks and rating agencies during the probe.

The companies hit include Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, General Electric, Goldman Sachs, HSBC, JPMorgan, Moody's, Morgan Stanley, Nomura, Royal Bank of Scotland, S&P, Société Générale and Wells Fargo.

The DoJ alleged UBS defrauded investors over the sale of 40 residential mortgage-backed securities that sustained substantial losses, and knowingly made false and misleading statements to buyers.

It further alleged that UBS knew that significant numbers of the loans did not comply with loan underwriting guidelines assessing the borrowers' ability to repay, and that it knew property values against the loans were unsupported.

"With this resolution, UBS will pay for its conduct related to its underwriting and issuance of residential mortgage-backed securities. The substantial civil penalty in this case serves as a warning to other players in the financial markets who seek to unlawfully profit through fraud that we will hold them accountable no matter how long it takes," stated US Attorney Breon Peace for the eastern district of New York.


UBS Zurich, Switzerland

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From strategy to success

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