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Risk managers under strain in polycrisis

◆ Overload avoidable but barriers to strategic risk management remain

RENCONTRES DE L'AMRAE

We bring you highlights from the French risk management association's recent meeting

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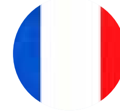

RENCONTRES DE L'AMRAE

We bring you highlights from the French risk management association's recent meeting...16

Risk managers under strain in polycrisis

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Commercial Risk **Europe**

Insurance & Risk Management News

Strategies for coping with polycrisis

When will it all end? Will it all end? Or is the never-ending polycrisis that began with the pandemic just a new age of risk that our readers have no option but to deal with? Without a crystal ball, we guess only time will tell on that one. However, while we wait for things to play out, there is more pressure than ever on risk managers in the current permacrisis. Some have warned that risk management overload itself is one of the biggest risks facing organisations this year.

This is an idea we explore in this issue of *Commercial Risk Europe*, and leading players from the world of risk management agree with Control Risks, which made the overload claim, that risk managers are under huge strain. But they also agree that overload is not inevitable as long as risk managers adapt and take advantage of their rising status.

Part of the solution involves greater focus on strategic risk management and more involvement at senior level, which the risk association leaders say is increasingly in the grasp of their members. There were words of caution, though. First, it seems that the march towards board-level acceptance is progressing but not complete. Second, too much focus on insurance buying rather than wider risk management can be limiting. Third, members were advised not to overstay their welcome at board level and bombard people with information. Fourth, it is perhaps best not to stick your head above the parapet unless you are able to deliver.

So risk managers across Europe must tread carefully when they are dealing with the current risk landscape and trying to ensure that their function's full power is unleashed. But it seems that while they might be rightly worried about how to deal with the polycrisis, they should be confident in their ability to deliver as long as they focus on key areas. Key strategies include collaborating and helping each other, particularly through associations, prioritising key risks, keeping an eye on the long term, making the most of technology and, of course, leaning on insurers, brokers and other risk experts for help and advice. We will lend our hand to bring you as much information as we can.

We do that in this issue by looking at some of the big risk and insurance issues discussed at the recent meeting held by French risk management association Amrae, as well as bringing you the first *Risk Frontiers Europe* interviews of the year with leading risk managers in France. We take a look at some of the major 2024 risk rankings and reports, hear from Ferma about what lies ahead over the next 12 months and take a look at what risk managers can expect from the European insurance markets this year, with some predicting that signs of softening may spread.

We hope you enjoy the read.

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COMMERCIAL RISK EUROPE SUPPORTS

Risk managers must play strategic game to avoid overload in polycrisis

Profession under stress as risks mount

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Risk managers are coming under huge strain from the never-ending polycrisis but can meet this challenge, and shouldn't fear overload, as long as they adapt and focus on best practice, say leading figures from risk management associations.

The experts told *Commercial Risk Europe* that risk managers must collaborate, not least through their associations, to help each other through this difficult time. It is also vital that they prioritise risk, think long and short term and make use of new technology, while leaning on insurers and other risk experts for advice.

Crucially, risk professionals were urged to take advantage of their growing prominence to drive strategic risk management, despite some barriers still in their way.

The comments followed news that advisory firm Control Risks believes risk management overload is one of the top five risks facing companies this year, as they deal with the ongoing polycrisis and mounting global tensions. It warned that the sheer number and diversity of crisis events anticipated this year will test the resilience of risk management functions like never before.

Risk management therefore faces overload, under pressure of rising expectations from boards, partners, customers and even employees, argues Control Risk. And all this while organisations are focused on reducing costs. But the company was clear that overload is not inevitable if risk managers reboot their operations and take advantage of their rising status.

Franck Baron, president of the International Federation of Insurance and Risk Management Associations (Ifrima) and

"We need to spread the culture of risk in an increasingly pervasive way in the company system at all levels, to strengthen the ability of each risk owner to deal with risks and strengthen the structures of the first line of defense"

board member of the pan-Asian association Parima, agrees that the big risk facing his profession is adapting to what he called the "permacrisis".

Ferma CEO Typhaine Beaupérin said companies and risk managers are coming under "huge strain on a multitude of risk fronts", ranging from the deteriorating global outlook and potentially irreversible environmental changes, to growing polarisation, evolving technological threats and expanding geopolitical tensions.

Julia Graham, former Ferma president and now CEO of UK risk management association Airmic, said today's risk landscape can feel overwhelming as organisations bounce from "one major risk-fuelled event to another". She said risk managers could be forgiven for feeling like they are working in a "risk pin-ball machine".

And Carlo Cosimi, president of Italian risk management association Anra, agreed that a host of international, systemic polycrises and widespread geopolitical tensions are putting a real strain on corporate resilience and internal control systems, not least risk management.

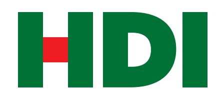
Carlo Cosimi, president of Anra

But he and others clearly believe that while things are tougher than ever before, risk management overload can be avoided if companies and risk professionals take the right course of action.

"Action must be taken on two levels," said Cosimi, who is head of group risk and insurance at Italian multinational engineering group Maire Tecnimont. "We need to spread the culture of risk in an increasingly pervasive way in the company system at all levels, to strengthen the ability of each risk owner to deal with risks and strengthen the structures of the first line of defense."

"We must also acknowledge that the situations within the polycrisis are not short term but are destined to become permanent… where the ability of companies to compete in the long term will lie precisely in their ability to manage risks and opportunities," he added.

Continued on page 4



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Continued from page 2

Jurrit Herber, board member at Swiss risk management association Sirm and head of risk at Eviosys, said the polycrisis is making life more complicated for risk managers and risks harder to manage, but he doesn't fear overload as long as his profession can adapt.

He urged his peers to come together, not least through national and regional associations, to help each other and share best practice, and stressed that risk engineering services from insurers are more important than ever.

"Yes, there are so many events creating the polycrisis where the sum of all the risks exceeds the individual risk. But is it too much to manage? Of course not. Is it harder to manage? Clearly yes," he said.

"We need to lean on our fellow risk managers for help and advice, and to share solutions. That is why risk management associations are now vital, so we can come together to organise workshops and training sessions to share our knowledge. Instead of each of us inventing our own wheel, we should share the knowledge. Everyone has a piece of the puzzle and together we can complete the jigsaw," he continued.

"So while we can't manage the macro risks, we can partially mitigate the risk on our company. We can come together so we are confident that as far as possible we have been able to manage a specific risk within the polycrisis and the impact on our company to a more tolerable level," added Herber.

Franck Baron, president of Ifrima

"Yes, there are so many events creating the polycrisis where the sum of all the risks exceeds the individual risk. But is it too much to manage? Of course not. Is it harder to manage? Clearly yes"

He said this will require more flexibility from risk managers and the range of experts that help them do their job – particularly insurers. "Insurance companies need to step up more, especially when it comes to risk engineering. These risk engineering services have always been vital but they are now more vital than ever," he said.

Baron said risk managers must break down silos, boost collaboration, receive a clear risk strategy from the top and use emerging technology to overcome the permacrisis.

"Permacrisis is certainly an apt descriptor of the state of the world. High energy prices, supply chain issues, inflation, geopolitical conflicts, pandemic impacts, climate change, natural catastrophes and cyberattacks all seem to be combining to create one big, interconnected mess, where risks collide and their interdependence is strongly felt," said Baron, who is risk manager for International SOS.

"High prices, supply chain issues, inflation, geopolitical conflicts, pandemics, climate change, natural catastrophes and cyberattacks all combine to create a big, interconnected mess, where risks collide and their interdependence is strongly felt"

Jurrit Herber, board member at Sirm

"This calls for silo-breaking, collaboration with other departments, clear strategic risk guidance from top management and use of new technologies to adapt and cope with this new level of volume and magnitude. This is where GenAi can help," he added.

Graham said there are ways to play and win the "risk pinball" game. "Today, the risk professional's answer to winning the 'risk game' is to not play alone, to look at the short and the longer-term horizon and think about the tactics and patterns of how the game works," she said.

"And you must not overly obsess about the downside of moves in the game to the exclusion of using opportunities. We can deploy tools, techniques and standards that exist and can still be very useful, but enhance these by appreciating the technology used in the machine on which the game is played," she added.

Graham agreed with others that it is vital risk managers collaborate to manage risk, working with peer professionals and organisations that have shared but different experiences and outlooks. "We need to harness knowledge and experience that collectively can help to create and protect value – which remain at the heart of managing risk," she said.

Ferma CEO Beaupérin believes risk managers can put organisations ahead of the risk curve by helping to plan and collaborate at strategic level. Risk professionals need to put in place comprehensive plans for priority

risks that can reduce their impact, while also facilitating potential restructuring to become more resilient, she added.

"The key disciplines of risk management – the ability to monitor the risk landscape continuously, to identify risks in advance across the entire value chain, to quantify the potential exposures, and to prioritise risk mitigation and management activities – are paramount to the ability of organisations to build the level of resilience required to withstand this extremely pressurised environment," said Beaupérin.

But she said there is still "much work that needs to be done" to ensure organisations can adapt their business models to "effectively address the unique and evolving dynamics of a world on the brink of polycrisis and to position the risk manager as a central component of the strategic decision-making process that supports that adaptation".

She added that despite the growing prominence of risk managers, not least as the polycrises mount, it is important to recognise that the transition to strategic risk management is still evolving and the profession has not yet scaled the peak.

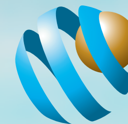
Graham agreed that there remain barriers to strategic risk management within many companies. She believes some of these barriers are self-imposed by risk professionals. Firstly, risk management is still not universally regarded as a profession, which is not helped by operational terms like risk manager. In addition, there is often too strong a focus on insurance buying, which is an important part of the job but increasingly limiting as the risk protection gap widens, she added.

Herber agrees with Control Risk and his peers that risk professionals can take advantage of their rising prominence since the start of the polycrisis and Covid-19 to help ensure their function is heard and delivers at the strategic level. But he cautioned against overplaying your hand.

"There is momentum to drive risk management, but if you bombard management with too much information it will be overkill, in my opinion. Yes, you have a spot at the top table now and people are much more happy to listen and discuss topics, but that doesn't mean you should overdo it. You need to gradually progress and point out the importance of your risk management. And then going forward, board members will accept that this is a crucial function within the organisation that you should weave within the everyday working structure of the company," he said.

Graham also urged risks managers to tread carefully when dealing with the board and top management.

"Risk professionals are now well positioned to lead the strategic risk charge – as typically curious and courageous. However, being courageous can be a top five risk for risk professionals and the organisations they work for if the risk professional doesn't have the competence and justification to be professionally confident. If you don't understand what you're doing, why you're doing it, and misuse the trust of others and take them with you unwisely, any invitation to the boardroom might be a one-off, not-to-be-repeated risk management experience," she said.



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European market to stabilise further with rate decreases on the cards in H2

Property will remain tough after nat cat losses

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Brokers predict that European insurance buyers will see the market stabilise further in 2024 and may begin to see more widespread softening for key risks in the second half, as insurers chase growth and capacity begins to chase risk.

However, there remain questions about the ripple effects from the reinsurance market, where things have eased but remain tough *(see story on page 9)*.

The global and European commercial insurance market has calmed down during the past year after rapid hardening, with 1 January 2024 renewals much less erratic as insurers looked to get back on the front foot after radically rewriting their books.

Marsh's *Global Insurance Market Index* shows that European commercial insurance rates recorded an average rise of 4% in the last quarter of 2023, outpacing the global average of 2%. But the increase was lower than the 6% rise at the end of 2022.

Enrico Nanni, chief commercial officer for Europe at Howden, told *Commercial Risk* that 1 Jan renewals were more stable and believes that the European market will properly flatten out this year, and could even start to soften in the second half as insurers chase growth.

"I think this year insurers are going to try to keep some discipline, but I believe they will go more for growth. So I expect the market will really flatten out. If halfway through the year capacity is not filled, then there may well be a bit of a rush in the second part that will start bringing rates down because insurers have targets to hit," he said.

The broker added that the softening may not be market wide and feels things could

"This year insurers are going to try to keep some discipline, but I believe they will go more for growth. So I expect the market will really flatten out"

turn in buyers' favour line by line, following the example set by financial lines over the past 12 months.

"So it might not necessarily be widespread but I think we will start to see insurers chasing the business down the curve," he said.

"You can see it coming because insurers are making money, in the same way you could see the market hardening when loss ratios were not sustainable. Remember the carriers are all making an underwriting profit now," he added.

Christos Adamantiadis, CEO at Marsh McLennan Europe, expects the market to continue to stabilise this year for European buyers as capacity grows.

"We continue to see new capital flow into the market and this is likely to help the market remain stable for the remainder of 2024," he said.

He made this prediction despite obvious market headwinds and warned that there will be exceptions to the rule.

"If you take into consideration the current geopolitical unrest, increased frequency in CAT and weather-related events and the continued economic environment, you would be forgiven for saying the market is likely to be volatile. However, markets, both direct and reinsurers, have generally been able to weather the storm," said the broker.

"There are, of course, exceptions, and

Enrico Nanni, chief commercial officer for Europe at Howden

markets with high CAT-exposed portfolios, particularly European CAT, will be under more scrutiny than others, and capacity will still come at a price," he added.

Brokerage Miller believes that as capacity chases income, the London market may be at the top of the "slippery slope into softer market territory". However, it also stresses that this is not universal and many CAT-driven risks are set to remain challenging.

In its latest *London and International Market Update,* Miller says: "Aggressive pursuit of new business, coverage broadening, limit increases, defending of market share, deductible changes, premium relief and more may well start to creep back in numerous lines of business. Algorithmic follow carriers are supplementing available risk capacity. We are entering a phase of the market cycle that will test underwriter resolve and discipline."

Mirco Ceron, head of the facultative P&C team at Miller Brussels, said on the facultative reinsurance side, the London market for European risks is expected to

remain stable as insurers keep a "disciplined approach".

And there is already softening in some markets, he said. "Although rare, it is also notable that, in some markets, the competition is starting to gently push rates down. This was observed in France more than elsewhere. Nevertheless, rates are generally stable, with renewals flat or up, to a maximum of plus 5% to plus 7.5% depending on the cases. Loss hit accounts are still seeing some increases in deductibles and captive retentions where applicable."

Europe outpaces global average

According to Marsh, commercial insurance rate rises in Europe have now outpaced global price increases for the past five quarters.

Marsh said global property rate increases continued to moderate for buyers in Q4 2023, but rates in Europe were still up 7%, and above the global average of 6%. European rates were largely influenced by catastrophe events in the region, including earthquakes in Turkey, flooding in Greece and Germany, and hailstorms in Italy, the broker said.

Europe's casualty insurance rates rose 6% on average in Q4 2023, according to Marsh's index, again outpacing the global average of 3%. Europe recorded a 7% pricing drop in financial and professional lines as capacity fuelled competition. Cyber insurance rates trended 5% lower for European buyers in the last quarter of 2023, while global pricing saw a 3% drop.

Howden's Nanni said the European commercial insurance market appears one year behind London, where rates have already begun to soften in places. "So there are still increases in continental Europe and we think this is the tail of last year's increases in London," he said.

Nanni explained that although the European primary market is stabilising overall, it remains extremely varied by country, size of business and risk.

The broker said that countries that were affected by a lack of capacity and rate increases last year – like the Netherlands and Germany – were more stable at year-end. But more difficult conditions are now occurring in other countries that haven't previously adjusted.

"So the Netherlands is fine, it is now easing off. It was a good renewal season there whereas at end of 2022 there was a serious lack of capacity. Whereas there were some more increases in Italy, and more prominent on the large accounts," said Nanni.

On the other hand, he said the market is flat to down a touch in Spain, which is one of the European countries where things are improving for buyers.

Nanni said large European clients face a more volatile environment than SMEs.

"There is bifurcation between the SME and mid-market and then large clients. SMEs always face less volatility so increases here are purely adjustments for asset values and inflation in some specific lines, but certainly

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Christos Adamantiadis, CEO, Marsh McLennan Europe

less volatile than the large corporates. Large corporates have paid more," he said.

And then, of course, the European market is moving at different paces depending on your risk. Property is tough following heavy cat losses last year, as well as any lines impacted by inflation or heavy claims, said Nanni.

"In Europe it is the cat losses that have caused many problems," he said. "Clients have to accept higher prices following the floods, windstorms and so on. Loss ratio in agriculture was very high last year in several countries and property was the same. So these lines went up at year-end."

"Then there was a 30% impact from inflation on motor. Construction is another line where costs have gone through the roof and consequently CAR business interruption has gone up, not in terms of rates but in terms of value of the projects. If you were spending €100m to build a stadium, now you are seeing €160m, and that means more insurance costs even though the rates are the same or similar," he continued.

However, European financial and cyber lines softened "significantly" at year-end after big rises, said Nanni. "So there has been some big volatility on some of the specialty lines," he said.

Marsh's Adamantiadis said the European market continues to be competitive, with large insurers adopting a more aggressive approach to new business and client retention.

This, combined with new entrants, is creating a competitive market for clients in most sectors, he said.

Adamantiadis said the market is "generally" consistent and stable across Europe. "Composite insurance pricing in Europe remained generally stable across most lines of business and geographies," he explained.

Overall property saw modest pricing increases, he said. But the broker added that countries with higher nat cat and weather related losses – such as Germany, Italy, Greece and Turkey – are seeing higher-than-average pricing on property risks.

Casualty is mostly stable but some

"Insurers are keeping a close watch on the impact from social inflation. For US exposed clients we are likely to see pricing continue to firm, in some cases combined with capacity restriction"

clients experienced double-digit pricing increases in excess casualty at 1 January, he said.

"Insurers are keeping a close watch on the impact from social inflation. For US exposed clients we are likely to see pricing continue to firm, in some cases combined with capacity restriction," said Adamantiadis.

He too reports that increased competition among carriers and new capacity has helped prices fall for cyber and D&O risks at year-end compared to prior quarters. "However, insurers continued to scrutinise systemic cyber exposures and accumulation of risk," he said.

Miller's Ceron said the 1 January London facultative reinsurance market for European property risks was "notably more orderly" this time around, with a "narrow gap between expectations and the actual market dynamic than in 2023".

Fac rate corrections were mainly seen on nat cat lines in territories affected by secondary peril events, such as the Italian floods, Slovenian floods, Greek wildfires and the Turkish earthquake, he explained.

"And the appetite in some industries is still being restricted by some insurers when risk quality is not at the required level," said Ceron. "For instance, insurers are now more disciplined than in the past on more complex industrial operations such as recycling, chemicals, food, plastic, warehousing and sawmills."

"Capacity remains sufficient provided the right terms and conditions are obtained, except in certain very specific cases such as those outlined above," he said.

Reinsurers apply brake to insurance market softening

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The return of more stable reinsurance market conditions will ease pressure on the commercial insurance space. But with no softening in sight, the calming market may offer limited relief for corporate insurance buyers, experts told *Commercial Risk*.

Following a turbulent reinsurance renewal at 1 January 2023, this year's renewal provided a welcome return to more stability and predictability, according to reports from major reinsurance brokers.

Renewals developed in a much more orderly fashion than last year, and without any surprises in terms of capacity, according to Carlos Wong-Fupuy, senior director at AM Best.

"Supply for property cat increased compared to the previous year, although it remained focused on the higher layers, with terms and conditions unlikely to soften any time soon. Rate adjustments have been much more moderate, reflecting cost inflation and portfolio-specific loss experience. Capacity on high frequency layers remains restricted and heavily dependent on the ability of primary carriers to improve the risk quality of their portfolios," he said.

With ample capacity for most classes, reinsurance rates increased by single digits at the turn of the year. Reinsurance broker Guy Carpenter's global property catastrophe reinsurance rate-on-line index rose by an estimated 5.4% year on year in January. The US index increased by 5.25% in 2024, compared with 31.3% at the January 2023 renewals.

Modest cat movement

With the exception of loss-affected countries like France, Italy, Turkey and the US Midwest, property cat pricing movement was "modest" on a risk-adjusted basis at 1/1, as reinsurers confidence around pricing improved, according to James Vickers, chairman of reinsurance broker Gallagher Re International in London.

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Carlos Wong-Fupuy, senior director at AM Best

"Generally speaking, the property cat market has calmed down, there is significant capacity and primary companies were able to buy more vertical cover. The problem for primary companies, however, is managing their retentions, as the aggregate and low-level occurrence covers that they were able to buy to manage volatility – and for some to help manage capital – are not available," he said.

Fundamental changes in property cat reinsurance structures enacted at 1 January 2023 – namely, significant increases in deductible levels and attachment points – insulated reinsurers from the worst of the nat cat losses last year. According to Swiss Re, record-breaking thunderstorms produced insured losses above $100bn in 2023, the fourth year in which losses exceeded this threshold. But despite nat cat losses, the property and casualty reinsurance net combined ratio for the first nine months of 2023 improved to 89% from 100.4% in the prior year period, according to analysis by Aon.

Reinsurers are looking to insulate themselves from attritional losses like floods and hailstorms, which puts pressure on primary companies to do something about these risks, according to Vickers. "The easing of the rate increases in the property cat market is helpful for commercial insurers, but it doesn't take away the issue of how to manage their own net. The only way to solve that problem is for insurers to look at their original underwriting. Whether that means price increases or changes in retentions etc, they will need to address that," he said.

"There is still a feeling that while last year's positive underwriting results are more than welcome, the segment is still catching up after several periods of technical losses"

The tightening of reinsurance terms and conditions and increased attachment points adopted in the last couple of years is unlikely to be relaxed, said Wong-Fupuy. "There is still a feeling that while last year's positive underwriting results are more than welcome, the segment is still catching up after several periods of technical losses," he said.

"The move away from high-frequency layers has been critical to re-align the interests between cedents and reinsurers. It has allowed the latter to restore profitability and stabilise results, something that would not have been possible via rate increases only," said Wong-Fupuy.

"Given the continued technical underperformance that reinsurers experienced since 2017 and the need to show consistent results going forward, we don't see any signs of companies abandoning underwriting discipline," he added.

Following the January renewal, the outlook for commercial insurance is more moderate, according to Joseph Peiser, global chief executive officer for Aon Commercial Risk. In a recent post, he predicted property catastrophe capacity may be easier for large corporates to secure in 2024 than in 2023. Property insurance pricing could see just single-digit increases, while cover for strikes, riots and civil commotions (SRCC) may be reinstated in property covers, he said.

"The easing of the rate increases in the property cat market is helpful for commercial insurers, but it doesn't take away the issue of how to manage their own net"

Changes in the reinsurance market will have implications for commercial property insurance, particularly for property cat and political risks, explained Wong-Fupuy. "There has clearly been increased supply for property-cat risks, although this remains concentrated at the higher risk layers. Recent improved profitability has attracted more capacity, with moderate rate adjustments in line with inflation or cedents' specific experience," he said.

Caution remains

"However, reinsurers remain extremely cautious in respect to political violence and specialty lines exposed to war risk, given the increasingly complex geopolitical situation. Wordings continue to be tightened and supply remains very selective," Wong Fupuy said.

While corporate insurance buyers may now find it easier to purchase high levels of nat cat cover, it will come at a price, said Vickers. "Larger limits may be more easily obtained. The question is at what deductible level and price. Last year, it was difficult to get any additional cat limit, no matter what you were prepared to pay. It's probably more available now, but there will be strict underwriting conditions around that," he said.

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James Vickers, chairman of reinsurance broker Gallagher Re International in London

Construction Risk Management Europe

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Reinsurers are also taking a more cautious approach to property per-risk reinsurance, which helps protect insurers against single large losses, such as an industrial fire and explosion, explained Vickers.

"For property single-risk covers, it does not matter where you are in the world, it has not performed well, and [treaty] reinsurers are reluctant to write that business. No new capacity came in [at 1, January renewals] and there has been huge emphasis on the remedial action taking place at an underwriting level, such as line size, rating levels, deductible and insurers approach to risk management," he said.

The casualty reinsurance market has also tightened, especially for US exposures. In the run-up to the renewal, some reinsurers voiced concerns over claims inflation, while several increased reserves for casualty business written between 2013 and 2019.

"If there is any US exposure – even a small amount of incidental US exposure – reinsurers want to know if it is written at the same terms and conditions as if it were written in the US. Very often the answer is that it is not, because US casualty underwriting has tightened so much," said Vickers.

US casualty lines are being affected by concerns around social inflation and adverse development, explained Wong-Fupuy. "This is, however, offset by adequate supply and rate adjustments and pressures on ceding commissions, which vary broadly across the spectrum, depending on performance," he said.

Capital rebounds

Significantly, none of the large reinsurance brokers are predicting a softening of the reinsurance market any time soon, despite an increase in reinsurance capacity last year and record issuance in the cat bond market. AM Best estimated that reinsurance capital returned to $561bn in 2023, 2% below the prior high watermark of $570bn set in 2021. But this is not expected to have a material impact on market conditions, as participants are holding their positions on rate and terms, the ratings agency said.

Reinsurers are looking to insulate themselves from attritional losses like floods and hailstorms, which puts pressure on primary companies to do something about these risks

Last year's reinsurance market hardening was notable for the absence of startup reinsurers, which would typically have entered the space attracted by higher rates. While high-profile management teams have announced intentions to launch new reinsurers, no material business plans have been funded at this point, according to AM Best. Private equity investors appear to lack interest in deploying capital to startups or newly formed reinsurers, it said.

The fact that the reinsurance market continues to face uncertainty around the impact of climate change, inflation, litigation funding and geopolitical risk on ultimate loss costs is one likely reason for this lack of interest, said Aon's Peiser.

"These unknowns are creating headwinds to new investment, despite the expectation that most reinsurers will have easily covered their cost of capital in 2023. And while the reinsurance sector is viewed as well capitalised relative to the risk currently being assumed, much more capital will be required if current unmet needs are to be addressed over time," he said.

AI regulation to shake up liability insurance

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Developments in artificial intelligence (AI) and related regulation will require an overhaul of liability insurance policies and the creation of new AI-specific coverages, experts say.

The use of AI by business has accelerated in recent years, going well beyond automating back-office processes. Increasingly, AI is being used to support research, product design and manufacturing, to power autonomous vehicles, hire talent and create media content. The use of AI, especially in products and services, raises important questions for liability, such as who is responsible when AI causes physical harm or property damage.

AI is likely to see shifts in where liability lands. This will have implications for most liability lines, in particular product liability and professional indemnity insurance, explained Lisa Williams, global head of casualty at Zurich Insurance.

"The risk landscape is certainly changing, but in terms of coverage it is more about shifting of responsibility, such as professional indemnity to product liability or motor to product liability. The landscape for product liability will change significantly, with upcoming changes to EU regulation, collective redress and third-party litigation funding, and I do foresee an increase in frequency and potential severity as class actions have the opportunity to be enacted," she said.

"Increasingly, AI is being used to support research, product design and manufacturing, to power autonomous vehicles, hire talent and create media content"

Autonomous vehicles raise liability questions linked to artificial intelligence

EU regulation

Regulations such as the EU's proposed AI Act and Products Liability Directive will play a big role in shaping AI liability and insurance going forward, according to Lisa Williams. The AI Act would classify AI systems by risk and mandate various development and use requirements, while a proposed AI Liability Directive aims to establish a framework for AI-related liability claims and damages. The update to the EU's product liability framework will also include digital and AI products.

Going forward, liability insurance policies will need to adapt to reflect AI and changes in regulation, said Lisa Williams. "We map out as many scenarios as possible to work out where there is existing coverage today and where [liability] is shifting, as well as to identify any gaps in cover and to create the natural wordings and language. That is a process we are in now for both the Product Liability Directive and AI," she said.

The Product Liability Directive, for example, will change previous definitions and introduce a new liability for "loss or corruption of data". Such cover is not standard in product liability policies but can be taken out under a professional indemnity tech or cyber policy, Lisa Williams explained.

"I can see the need to look at AI from a product liability and professional indemnity perspective and start to innovate so that AI regulations and challenges can be dealt with, and so that there are no areas of greyness between these two products," she said.

Lisa Williams, global head of casualty at Zurich Insurance

"In our analysis, there are no new insurable risk categories that have emerged because of generative AI as a technology so far, but we are in the early days"

Insurance policies were mostly drafted before AI developed to where it is today, and many do not explicitly deal with the new technology, according to Chris Williams, partner at law firm Clyde & Co. For insurers, this raises important questions around pricing, coverage and future claims, he explained.

"Insurers are having to deal with insureds that are using AI technology that is not within the scope of the policy when it was written. There are also questions around which policy the risk would fall under, or how many policies would potentially cover an AI risk. Even when insurers write new policies to account for AI, which policy is most suited to its inclusion?" said Chris Williams.

"Insurers will need to establish whether AI risks are covered under current insurance arrangements, and where they are not, how they can integrate and write that cover for a future [should they wish to do so] when the AI landscape, from both a technological and regulatory perspective, is changing rapidly," he added.

"Traditionally, clients have purchased separate product liability and professional indemnity policies, which have different triggers, deductibles and coverage"

Jaymin Kim, director of commercial strategy at Marsh McLennan

Policy review

Over the next year, insurers will need to review professional indemnity and product liability policies, and potentially create either specific policies for AI liability or try to combine existing policies to ensure they are up to standard with regulatory changes, according to Lisa Williams.

"Traditionally, clients have purchased separate product liability and professional indemnity policies, which have different triggers, deductibles and coverage. It is important as professional underwriters that we are clear around clarification of where AI liability needs to sit, and this is something we are doing at Zurich. We have working groups looking at this from the professional indemnity and product liability perspective, and I am sure other insurers will be doing the same," she said.

Despite developments in generative AI, there are currently no completely new categories of insurable risk, said Jaymin Kim, director of commercial strategy at Marsh McLennan. New technology does not always correspond to new insurable risk categories, she told *Commercial Risk*.

Aspects of generative AI may give rise to new insurable risks with time, namely as further technological developments are made. For example, the potential for generative AI systems to develop emergent

capabilities that they were not intentionally designed to develop, makes it much harder to identify not only beneficial use cases but also potential vulnerabilities and attack vectors, Kim explained.

"In our analysis, there are no new insurable risk categories that have emerged because of generative AI as a technology so far, but we are in the early days. Rather, what we are seeing is the manifestation of existing and familiar risk categories in new ways, which may generally be addressed by existing cyber, media, casualty and first-party insurance products" she said.

In many cases, risks associated with AI – like bodily injury, financial loss or physical damage – are already covered by insurers. "These risks already exist but the question here is which, if any, insurance policy will cover them and where will the liability with AI ultimately fall? Insurers need to get up to speed and start asking customers how they are using AI and what they are doing to mitigate the risks," Chris Williams said.

How insurers respond to emerging generative AI exposures and regulatory changes is an important consideration, believes Kim. "So far, we do not see wholesale exclusions or limitations when it comes to generative AI exposures. From a technological standpoint, it is not creating new insurable risk categories. But if carriers start excluding or limiting AI-specific exposures – for example as the result of legal/regulatory uncertainty or the emergence of large claims – that might create a {coverage} gap when it comes to how companies assess and mitigate liability," she said.

"Existing insurance policies are broad enough, we believe, to address many of the exposures that might emerge from generative AI. That said, as the legal and regulatory landscape changes, there may be new liability considerations for companies that develop and/or use AI systems," said Kim.

If buyers meet disclosure requirements, liability insurance should cover AI-related risks, according to Lisa Williams. But companies that develop or co-develop AI, or those that incorporate AI into manufacturing, may want to consider buying tech liability, cyber or specific AI covers, she added.

Clyde's Chris Williams also noted that AI can prevent and mitigate losses, which will need to be reflected in underwriting. "AI enables insurers to price risk more accurately and competitively; it will help to spot fraudulent claims and reduce some of the administrative burden. For the insured, the effective adoption of AI can help to reduce claims arising in the first place and when claims do arise, the value might be lower," he said.

Risk reduction

For example, virtual reality training could help reduce the risk of hazardous tasks carried out by employees, and AI could even be used to replace humans altogether in certain dangerous situations. "Embracing the opportunities presented by AI in this way could result in a highly favourable impact on both the number and the value of claims, while enabling the insurer to more accurately assess and price the risk," said Chris Williams.

Generally, insurers are not excluding AI risks, but companies will need to disclose AI-related activities and governance to insurers, according to Zurich's Lisa Williams.

"Most insurers will research a client's products and the technology behind them, but they will need to declare and explain in their submission and presentation what they are doing from an AI perspective. It's important that we get a good understanding of their part in that, and how much is contracted out. There are many things we will need to understand to underwrite that and to give advice," she said.

Kim believes risk managers, brokers and insurers need to work together to understand the risks of AI and implications for insurance cover.

"As with any evolving business practice, when using generative AI it is important to partner with your broker and other insurance stakeholders to make sure you understand whether existing policies are likely to be sufficient to address corresponding risk and insurance considerations. It needs to be an ongoing discussion, not a one-off conversation about generative AI," she said.

"Virtual reality training could help reduce the risk of hazardous tasks carried out by employees, and AI could even be used to replace humans altogether in certain dangerous situations"

The *31st Rencontres de l'Amrae* was held by the French risk management association in Deauville earlier this month and, as usual, provided a fascinating start to 2024. Insurance buyers, risk managers, brokers, insurers and other service providers met at a critical time for the commercial insurance market that seemingly hangs in a delicate balance between soft and hard, and as new captive rules look set to radically alter the ART landscape in France. Meanwhile, the world enters the year amid what seems like a never-ending polycrisis that is throwing up new risks. We bring you highlights from the event and discussions we held with French risk managers and market participants in and around the flagship event. **Rodrigo Amaral** reports.

Competition set to further ease French market in 2024

Wild urges insurers to boost dialogue as problem areas persist

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The rapid blanket hardening in the French insurance market appears over for now, with brokers, buyers and even insurers expecting competition to mount this year and usher in a more benign, or even softer period, for good risks. But things are still far from easy for French companies, which face a split market and shouldn't expect things to turn completely in their favour, particularly when it comes to lowering deductibles, experts say.

And there are signs that the hard market has trickled down from the corporate space and is now hitting French SMEs.

French brokers and insurers told *Commercial Risk Europe* that market-wide prices and conditions stopped hardening at year-end renewals but warned buyers they will continue to pay significant amounts for their covers in many segments, and find capacity for a number of risks still hard to come by.

But at least there is room to haggle on the main programmes such as property and liability. And some market players have even used those tantalising but unimaginable words – "soft market" – to describe some lines, such as cyber.

"Rates in the cyber market were down in the latest renewals. The market has even become soft," said Philippe Maraux, head of placements at Marsh France.

"On cyber, there have been some significant rate reductions in the French market, and new players have entered the segment," added Jean-Marie Haquette, the CEO of HDI Global in France. "We adopt an extremely careful strategy, but for a certain number of clients we know very well, and only for them, we are ready to move down from excess capacity to the primary layers."

This is a refreshing development but not characteristic of the French market as a whole. But there is reason for optimism in many other lines because insurers are slowly coming back to the negotiating table. Some are starting to reward good risk management histories with more beneficial rates, terms and conditions. And competition is predicted to heat up this year, making things easier for risk managers.

"The market is a bit frozen. Few accounts have switched insurers, as companies are doing everything they can to retain good risks," Haquette said. "But we expect a higher number of tenders and competition in 2024."

The return of tenders is a sign that competition is starting to mount, and buyers feel more comfortable putting in time and effort to request better deals from underwriters that are increasingly willing to fight hard to add or maintain good risks.

"We have seen a message from insurers that was much different from previous years," said Sandra Magny, head of market relations at Marsh France. "They want to gain new business and are ready to do it in lines from which they had disengaged until recently. They also showed a strong willingness to retain their accounts."

"We expect in 2024 to continue the landing from the market correction. I believe we are going to enter a softer period, more open to negotiation. But the case-by-case analysis of clients will remain, that is for sure," said Daniel Bohbot, from broker Verspieren.

"Generally speaking, good risks have been easier to renew, but it has been a different story for those risks that have insufficient prevention or poor claims experience,"

said Delphine Leroy, the general manager of QBE France.

Oliver Wild, president of French risk management association Amrae, believes the time has come for insurers to further boost discussions with buyers.

"I am hoping for a bit of stability, but what I am really hoping for is more dialogue between insured and insurers so that there is a better understanding of the risk, rather than unjustified price increases and exclusions," said Wild, who is also group chief risk and insurance officer at Veolia.

He stressed that some segments continue to present significant challenges for French companies, even when their risk management is high quality.

"The market for liability risks remains pretty hard, while cyber has sort of tapered off a bit, after very strong increases," he said. "That was to be expected. Seven years ago, cyber was probably underpriced."

French risk managers that spoke to us as part of our *Risk Frontiers Europe* survey agreed that renewals were better this time around.

Camel Sekkai, head of Amrae's Northern section and legal director at car parts and accessories group Mobivia, has already noticed a new attitude from insurers during negotiations.

"This year, renewals were noticeably better than in the previous two or three years, when they were catastrophic," he said. "It was the first time where insurers have come back to the discussion table, something that had been lost. They have agreed to talk and exchange views."

He said renewals were mostly stable. "We have not seen rate reductions, but no increases either," said Sekkai,

"But we have seen an impact on deductibles because insurers are increasingly mapping their risks, especially property with nat cat exposure. At some sites, deductibles have shot up, in a very localised way. That seems an intelligent approach to me, as insurers do not brutally apply a big deductible across the board because three or four sites are exposed to flooding or cyclones," continued Sekkai.

Amrae board member Frédéric de Serpos said that, to some extent, January brought a welcome change from what happened in recent years.

"The latest renewals were less difficult than in previous years. There was more continuity and the relationship with the insurance market was more serene," he said. "Insurance budgets suffered fewer changes, and we did not see rate increases of 20%, 30% or 50% as in recent years. There were even some rate reductions. It was a positive process for buyers," he said.

However, De Serpos, who is also the head of insurance and risk manager at retailer Groupe Casino, said that we are far from a return to the soft conditions of the 2010s. In fact, risk managers have had to prove their worth in order to get favourable renewals.

"Plenty of energy to demonstrate the quality of risks was required," he said. "It was necessary to be very convincing to obtain a rate reduction, there were no decreases due to higher competition alone. The key was to show that rates were too high, and the time had come to adjust them downwards according to the quality of risks."

So it seems clear that insurers will not pursue new business at any costs. Despite the recent loosening of reinsurance markets, brokers say that insurers continue to be selective with the risks they take on.

And there are plenty of risks that insurers are still very wary of. For buyers that work in areas such as waste disposal, passenger transportation, wood manufacturing or agriculture and food, the latest renewals were as tough as the past few years, market participants say.

Companies with nat cat or liability exposures in the US have also struggled, and specific covers such as war insurance in maritime policies encompassing the Red Sea, and political risks in some jurisdictions, have posed difficulties for buyers.

And then there are the old problem areas for French risk managers, such as motor fleet, construction risks and strikes, riots and civil commotion, which saw another round of harder market renewals, according to WTW.

So it is premature to talk about a definitive end to the hard market. A more civilized market may be a better description of France's insurance environment in 2024.

But it seems that one of the main developments in the hard-as-rock market of the past three years – ever higher deductibles demanded by insurers – will prove a tough nut to crack.

"It is easier for insurers to accept rate reductions than to agree on lower deductibles," said Denis Bicheron, the head of technical lines at WTW. "Accepting lower deductibles is a jump into the unknown, as insurers do not know the loss ratio of the layer that was retained by the client."

And nobody should expect that the market will now sail smoothly into softening territory. Plenty of factors could interrupt the current trend. Inflation, albeit lower than at the start of 2023, appears to be stickier than many economies expected. As a result, there is uncertainty about claims values and the impact of persistently high interest rates on long-tail segments such as civil liability or the ten-year mandatory construction insurance that new buildings must have in France.

Bankruptcies are on the rise in France, which means that credit insurance may come under pressure.

And secondary perils like drought, hailstorms and flooding, which have hit France hard in recent years, could add pressure to property prices. In fact, starting in January 2025, the mandatory overcharge on property policies that sustain France's nat cat pool will increase from 12% to 20%.

"There has been a growing awareness among insurers, and also among our clients and industries in general, about climate risks," said Loïc Le Dréau, head of operations at FM Global in Paris.

And while large corporations are enjoying better market conditions, it seems things have got worse for SMEs.

"We have noticed that the hard market has trickled down from large companies to SMEs," said Verspieren's Bohbot. "The latest renewals were mostly difficult for SMEs, as we've seen that insurers have strived to review their risks exposures and their commitments to smaller companies by reducing the capacities on offer. There were even clear-cut terminations of contracts."

Amrae and market expect French-based captive boom in 2024

Owners begin to look at bringing captives back home to France

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Brokers and insurers say that a growing number of clients are looking at the possibility of setting up captives in France, backing up a recent estimate from French risk management association Amrae that the number of such risk retention tools domiciled in the country could double to 30 by the end of this year.

One source even told *Commercial Risk Europe* that at least one captive owner is working to relocate its existing Luxembourg-based captive to France, although experts are still unsure whether, or when, such a move makes much sense.

The captive boom in France was triggered by new rules approved by the French government that create more favourable tax conditions for companies to build up provisions to finance future losses.

The rules state that French captives can use 90% of their technical results within ten times their minimum capital requirement, bringing the figure close to Luxembourg's much-vaunted equalisation mechanism.

Although they help with other kinds of structures, the new rules are especially conducive to the creation of captives by French companies in the domestic market.

The growth of domestically based captives is significant considering the size of the French market. According to Scor, there were 45 captives owned by French organisations at the end of 2022. Three out of every four were based in Luxembourg, and the others in Ireland.

If even the most conservative forecasts are confirmed, the number of France-based captives looks set to surpass those overseas in the next few years.

"It is definitely an option for companies to work on their attritional losses in lines of business such as P&C and employee benefits," said Julien Guenot, the country leader for France and regional manager for southern Europe at AXA XL.

A big outcome of the new rules in France is that new kinds of companies are looking at using captives, according to experts.

Previously, only France's largest corporations would consider having a captive, but now many in the tier below are studying the option, asked Jean-Marie Haquette, the CEO of HDI France.

"They may decide to start with a virtual captive structure before going all the way to a captive," he said. HDI Global has recently set up a 'center of excellence' in Paris to help clients with their captive projects.

Guenot divides new potential captive owners in two groups. On the one hand, there are companies that have long thought about setting up a captive but were unsure due to the financial costs and red tape involved.

The second group consists of organisations that previously had a less sophisticated risk management approach but are now boosting the function following a raft of catastrophic events and losses.

Mathieu Pascal, deputy CUO of specialty insurance alternative solutions at Scor, said the new rules are a game changer for French companies. He said they make captives attractive and relevant. Simplifying the process of establishing a captive has expanded the range of companies that can create and benefit from the risk management option, he added.

However, the experts says that there is a limit to the affordability of captives. Even with the new French rules, they can be expensive to maintain and are really only justified for companies that can transfer a significant volume of premiums.

Verspieren's Daniel Bohot, for example, estimates a captive is a more realistic option for companies with revenues of more than €1.5bn. He said their use still often hinges on the answers, or lack of, provided by the traditional market to a company's insurance needs. He estimates that the volume of premiums that would justify maintaining a captive hovers around €4m to €5m.

"A captive is not a tool for everyone. It is demanding and requires investment in time and money and it is not easy to understand," pointed out Marine Charbonnier, head of underwriting, captives and facultative for APAC and Europe at AXA XL.

For his part, Denis Bicheron, head of technical lines at WTW, said that following the new rules, captives are now better understood by French companies, and increasingly part of risk financing studies performed with clients.

Risk managers who have captives say they are using them more and more, both to retain high frequency risks and to transfer risks for which the insurance market does not provide satisfactory insurance solutions. A growing number say they are placing cyber risks in their captives, for example.

And one source said some owners are looking into whether it makes sense to relocate overseas captives in France.

The expectation is that the process of moving more risk into captives is not going to end any time soon because there is no reason to believe the traditional insurance market will miraculously meet all risk transfer needs.

"The latest renewal was easier than the previous one. I am confident that insurers will be more reasonable on the premium, and will be more supportive about the guaranties and the limits granted," said Amrae board member François Malan. "If they don't, they will suffer competition from captives and other self-insurance alternatives," he warned the market.

Insurers must adapt to energy transition or disappear, warns risk manager

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The insurance industry runs the risk of disappearing if it does not adapt to climate change and the ESG agenda, warned a leading French risk manager at the Amrae conference, where the Dalkia CEO demanded more risk transfer support for renewable energy and the association's president Olivier Wild wanted clarity on ESG underwriting policies.

Adapting to climate change implies offering buyers the insurance coverage they need to transition to cleaner production processes, something that is not happening today, according to Arnaud Bergauzy, head of risks and insurance in France at Lafarge, the cement group.

"In 30 years, the insurance industry as it is today will be dead," he said. "Today, insurers are not taking properly into account the urgency of the climate emergency."

The market must change to survive, Bergauzy warned. His argument has two main elements. First of all, climate exposures are growing fast, and underwriters will have to adapt to this reality in ways that may not be too popular with clients.

Sylvie Jéhanno, chairman and CEO at Dalkia

For example, CCR, France's state-owned reinsurer, which manages the country's nat cat scheme, will have to increase the mandatory rate it charges on property policies next year in order to remain solvent, he said.

On the other hand, companies are being forced to invest in the energy transition, implementing new production processes and technologies, but insurers are not always keen on helping them by offering adequate covers.

"Many French risk managers are not happy with the services offered by their insurers, and I am the first one to subscribe to that view," Bergauzy pointed out. "We do not feel supported by our insurers in the energy transition."

The CEO of a renewable energy firm in France attending the Amrae conference also asked the insurance market to provide more support for innovative technologies that will help trigger the energy transition.

Sylvie Jéhanno, the chairman and CEO at Dalkia, said that insurance prices for these risks are too high and it remains difficult for the company to find cover for some exposures.

The comments concur with recent analysis carried out by Amrae, which spotted ongoing hesitancy from insurers to provide capacity at reasonable rates and conditions for the renewable energy sector.

"When we innovate, we do not have much data or a cost history, so it is complicated to model it. But we must build the energy transition together, and there will be risks that we need to tackle together"

"We must not look at insurance as a cost centre, but it is really too expensive," said Jéhanno, adding that the company's relationship with the insurance market is "evolving".

She said it is sometimes difficult to find cover when the company develops new technologies to boost the production of clean energies.

The CEO urged insurers to work on a partnership basis with companies like Dalkia to accompany them through the development of renewable energy projects that, in her words, are "a bit new".

"It is not an easy subject for insurers. When we innovate, we do not have much data or a cost history, so it is complicated to model it," Jéhanno conceded. "But we must build the energy transition together, and there will be risks that we need to tackle together."

Meanwhile, Amrae present Wild urged insurers during his keynote speech to be more coherent with their underwriting policies because they are not yet rewarding the risk management and ESG efforts made by clients.

He also demanded that insurers engage in more dialogue with buyers and provide covers for sectors, such as renewable energies, that currently struggle to find protection.

"Insurance policies are between the anvil and the hammer," Wild said at the opening of the *31st Rencontres de l'Amrae* in Deauville. "But there is little overall coherence among underwriting policies (implemented by) market players."

"Between a reduction of exposures and the resumption of appetite in certain insurance lines, this hot and cold approach does not reflect our prevention policies," he added.

Wild said that underwriting caution is understandable currently, but a broader view is required from the insurance market to meet the needs of French companies.

Supply chain solutions creating more risks

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In a world that becomes more dangerous by the day, risk managers are setting aside extra time to find alternatives for logistics disruptions caused by wars, trade conflicts and other supply chain risks. But implementing solutions such as re-localisation and diversification of suppliers or alternative shipping routes can prove much harder than it sounds.

The task is made more complex because supply chain-related insurance covers, such as for war and political risks, have become harder to arrange. Some companies are even forced to work without insurance protection in certain parts of the world.

Regulation is making companies increasingly responsible for the ESG sins of their suppliers, raising the stakes even further.

The complexities of managing supply chain risks were vividly illustrated during a panel at the *31st Rencontres de l'Amrae*, France's annual risk management conference in Deauville.

Catherine Lopez, the cargo insurance manager at pharmaceutical group Sanofi, told an audience of risk professionals that the company has had to rearrange shipping routes and delivery methods as it adapts to the war between Russia and Ukraine and the expanding Middle East conflicts.

"Right at the beginning of the Ukraine conflict, we found ourselves without insurance coverages there," she said. "There was no traditional transportation insurance available, no war risks cover and no capacity on offer. So it was impossible to insure our cargo once it got into Ukrainian territory."

"It was also impossible to find freighters unless we offered letters of indemnity, which are blank cheques that guarantee that all expenses will be paid to drivers and their families if anything happened, as well as damages to trucks that transport by road all those things that we can no longer send by plane or boat," Lopez added.

Insurance has generally not been available in Russia because of the sanctions regime activated after the start of the war. An additional complication is the fact that some of the products and equipment transported by Sanofi are seen as having the potential to be turned into weapons and used in the conflict.

"They will be employed for medical purposes, which are their actual use. But some components and accessories, such as needles for the injection of insulin for example, can be repurposed and used as weapons," Lopez said. "There are also products that have been banned and cannot be delivered anymore. So I have to control our compliance, and that means endless forms to fill."

In some cases, local Sanofi units have been able to find cover locally in Russia that does not go against sanctions regimes, and at least provides a degree of protection within the country. But even then, the company needs to make sure that the insurance partners, and even their shareholders, are not subject to sanctions, which adds to the compliance challenges faced by the group.

In the Middle East, the conflict around the Red Sea has forced companies like Sanofi to look for shipping routes that avoid the Suez Canal, adding a lot of time to deliveries.

Delivery times are critical for a pharmaceutical company. Some products have quick expiry dates, others are subject to limited time frames by local regulation. In certain countries, the authorities will not allow the delivery of a pharmaceutical product if it takes longer than originally agreed to arrive.

Lopez said that an alternative now used to avoid the Suez Canal is to travel around the Cape of Good Hope in South Africa, but that can cause big delays to deliveries to Australia, for example. This also increases the risk that products will be damaged during the trip, not to mention the added shipping costs and other expenses.

But logistics and transportation are not the only problems. With geopolitical tensions on the rise and trade restrictions popping up everywhere, companies are looking at ways to diversify their suppliers and become less dependent on markets such as China.

This, again, is easier said than done.

"We strive to implement dual sourcing of components, but sometimes we have no choice if a supplier has a monopoly," Lopez pointed out.

We kick off this year's pan-European *Risk Frontiers Europe* survey, sponsored by HDI-Global, by speaking to leading risk and insurance managers in France as they gathered for their annual Amrae Rencontres. **Rodrigo Amaral** reports.

Risk management making steps forwards on ESG

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In a world of interconnected risks, the need to comply with environmental, social and governance (ESG) regulations, not to mention social expectations about sustainability, ranks high among the priorities of French companies.

For this reason, participants in the French leg of our *Risk Frontiers Europe* survey backed risk managers becoming more involved in their companies' ESG strategies and urged the insurance market to provides more support for their clients to support such a move.

"The risks linked to a company's ESG strategy are becoming more important. There is less opportunity for greenwashing and more demand for transparency on ESG," said Oliver Wild, president of France's risk management association Amrae. "Although companies have been working on their climate change strategies for some years now, it is not always easy to comply with regulation that tries to fit everything into a framework. There is also the risk of being understood incorrectly on the ESG strategy."

"The main risks today are cyber and digitalisation, social responsibility and climate change, which is in fact linked to the social responsibility of organisations too," said Frédéric de Serpos, a member of Amrae's board. "In terms of social responsibility, the risks evolve faster than the ability of insurers to innovate. Organisations are increasingly the target of financial punishments due to ESG regulations, often with fines that are applied immediately, and

Oliver Wild, president of Amrae

obviously it is not possible to cover that [with insurance]," he added.

And De Serpos noted that ESG compliance risks do not exist in a bubble and are closely connected to other risks, such as disruptions to supply chains, where the insurance market has not followed the pace of change imposed on clients.

"Climate change creates changes to the provision of commodities, and for retailers that means much impact on suppliers. For the moment, the insurance market offers no solutions for that risk," De Serpos said. "At the same time, there has been plenty of innovation on the management of supply chain risks."

Wild pointed out that French companies have been forced in recent years to up their supply chain risk management game.

"Supply chain is definitely not a new risk, and there was a crash test with Covid on how resilient one's supply chain is," he said. "Plenty of adaptation was made during Covid, and many lessons were learned from that crisis."

The most careful companies are doing what they can to mitigate such risk.

"Half our supplies are from Asia and half are sourced in Europe, so we already have a supply chain safety back-up. But we increasingly work on the relocalisation of part of our production closer to home," said Camel Sekkai, the head of Amrae's northern section and legal director at car parts group Mobivia. "We are looking at more alternatives to find suppliers in Europe so that we can have a plan B if necessary. For example, we have started to produce our own tyres at Béthune, here in France. We would love to do the same with car batteries."

"Insurers are starting to ask questions about our supply chain. Two or three years ago, they showed no interest whatsoever in it, which was quite surprising. But now there are ever more discussions, which are becoming more interesting too," he added.

One of the main causes of supply chain disruption are the increasingly frequent and severe climate events that have hit the global economy over recent years. This is another point of contact with ESG risks.

For Amrae board member Marie-Elise Lorin, the confluence between those risks justifies broader risk management involvement in the formulation and implementation of corporate ESG strategies. This is already happening, in her view.

"We are moving that way. At the moment, regulation says that we must include durability risks in our risk maps. So the board has asked me to talk about how to deal with durability risks under three approaches: legal responsibility, physical damage and the energy transition," she said.

"As the risk manager of my company, I am very much involved in the implementation of the Corporate Sustainability Reporting Directive (CSRD), and also in ESG issues linked to our investments. We must pay much attention to make sure that we invest in companies that have a good ESG rating."

"We see the ESG trend as a very positive one, and we redistribute part of our profits to companies or organisations that work for biodiversity. We make sure that there is no greenwashing involved," continues Lorin, who is also the risk manager at insurer SMACL Assurances.

François Malan, another member of Amraes' board, and Sekkai are examples of heads of risk management who are already engaged in this process.

"I work closely with the sustainability department and my added value is the risk mapping of ESG risks, the insurance coverage, when it is possible, and the internal control monitoring of extra financial data collection and KPIs," Malan said.

"I am part of the company's ESG steering committee. It enables me to have a voice when we discuss our choices and priorities," Sekkai explained. "And we help the committee to identify ESG-related risks and how to mitigate them."

De Serpos, who is also the head of insurance and risk manager at retailer Groupe Casino, added that risk managers have much to contribute when it comes to defining ESG strategies.

"ESG directors are extremely aware of the impact of risks linked to the implementation of ESG strategies on their company's reputation. But they are not necessarily used to have a risk mapping-based approach, which is the main strength of risk managers," he said. "The two must work together."

But Malan, who is head of risk management, compliance and group internal controls at construction firm Eiffage, pointed out that it would be helpful if insurance companies were more supportive of their clients' efforts to transition to a greener economy.

"We do not receive any direct credit for our ESG efforts, and we must prove that we are compliant with bribery, embargoes etc," he said.

AI: Finding the balance between risk and reward

Generative Artificial Intelligence (AI) will create big opportunities for companies but also raises the prospect of aggravating some of the risks they face today, participants in the French chapter of our *Risk Frontiers Europe 2024* survey say.

They are particularly worried about the prospect of facing new risks that are still not well understood, and consequently not covered, by the insurance market.

"AI will be useful for the organisation of logistics, but it may also be at the core of its disruption," said Frédéric de Serpos, a member of Amrae's board. "We can imagine that we will see increasingly automated supply chains in the future thanks to artificial intelligence. If they collapse or are attacked by cyber terrorists, a whole industry can be affected. Which raises questions about the insurability of that risk."

One example of an emerging risk is the introduction of autonomous vehicles that have the potential to greatly increase the efficiency of supply chains.

"Autonomous vehicles are the link that will lead us to the automation of logistics. Will we be able to insure the whole of this chain, knowing that there will be no loss history data about autonomous vehicles and insurers will have to deploy AI to price those risks?" De Serpos said. "I see insurers working on it, that they are stepping on the gas, but I feel that innovation still moves faster."

The tantalising blend between opportunity and risk from generative AI enhances the role that risk managers must play as their companies go through the inevitable process of adopting the new technology.

"Generative AI is an interesting topic because some are seeing it as the innovation that will transform all activities, and some are seeing it as the scariest thing that can happen to the world. Our role as risk managers is to find the right balance," said Amrae president Oliver Wild. "If used efficiently, generative AI will simplify many human tasks, especially white-collar tasks. But I do not believe that AI can work only on its own. It can produce absurd results, and so it requires human activity and human intervention."

François Malan, head of risk management at Eiffage

"I do not see risk managers as obstacles, but more as enablers," he continued. "If we know our risks, or are aware of the risk environment, we will be able to make the best of opportunities, without jeopardising the whole company. So the idea is not to stop the business and say that we do not want to use a technology at all. It is more about developing, by test and trial, the best strategies."

The introduction of generative AI in companies' daily activities goes well beyond simply using Chat GPT. Companies must first decide how and when the new technology can be useful for their organisation.

"For the moment, AI is not relevant for our activities," said François Malan, a member of Amrae's board and head of risk management at Eiffage, which works in sectors including construction and energy. "We are working on it to imagine what AI could do for us. It is clearly an opportunity

to support our operations, but it should also be managed because it could be a threat."

He cites themes such as ethics, the GDPR and cybersecurity among the main points of concern linked to generative AI.

Insurer SMACL Assurances, which specialises in local government risk in France, has already started to implement the new technology, according to Marie-Elise Lorin, the firm's risk manager.

"We see AI as an opportunity to fight fraud and to optimise our contact with local governments," she said. "We have a tool that synthesises the insurance documents presented by local governments, which sometimes reach up to 400 pages, and also to moderate the parts of our website that are open to comments by the public. AI can be also employed to target customers in the underwriting process and to manage claims."

At the same time, SMACL is aware of the risks entailed and is already on the lookout for ways to mitigate them, even though they may loom far in the future.

"We have invested in start-ups that work with AI, and we have considered the risk of being cannibalised by new companies that come out of that area," Lorin said. "But we have concluded that it is too early for that, as there are still barriers that prevent an AI company from becoming an insurer."

Wild points out that many companies are developing their own chatbots and ring fencing them to make sure that the information will not leak out of the organisation. This is the kind of careful approach that is required by a technology that is in a constant state of flux and about which companies are still learning.

"AI is going to happen, but we need to know more about it. I think a lot of people do not actually know what it means, what it can do and how far it can go," he said. "Even some of the people developing generative AI are actually scared of how fast it is moving. So we need to be careful."

Market remains reticent over certain risks, say French buyers

Despite the market stabilising during recent renewals, French risk managers that took part in this year's *Risk Frontiers Europe* survey stressed that tensions can still surface when renewing some insurance programmes, and a number of risks that have been hard to sell to the market in recent years remain uncovered.

The insurance buyers said they certainly want carriers to show more willingness to provide insurance protection for new technologies that firms are implementing to deal with emerging trends, such as the energy transition.

Some segments of the French insurance market remain very tough for buyers. This is the case for French local governments.

Marie-Elise Lorin, a member of Amrae's board and risk manager at local government insurer SMACL Assurances, said that this pressure begins in the reinsurance market, despite the recent signs of loosening reported in January.

"We have seen of late a disengagement of reinsurers from some of the risks, and attachment points have moved upwards. There have been some clause limitations too," she said. "For example, in the previous renewals, we were able to offer political risks insurance for local governments with the same trigger across the French territory. Today that is no longer possible."

"In general, we have been able to offer the same programmes we offered before, but the costs are higher," Lorin points out.

Local governments in France have struggled to buy insurance as they face a perfect storm of risks such as civil unrest and weather events. The French government estimates that urban violence caused losses of more than €200m in 2023 alone, which goes some way to explaining why underwriters are nervous about the risk. In October, the French Finance Ministry even created a group to find solutions for the lack of insurance protection for local communities.

But that is not the only risk that insurers are failing to offer solutions for, according to Amrae vice-president François Beaume.

"These include a certain number of activities, among which are the so-called giga factories. The wood manufacturing industry is another case, and so is the transportation of passengers," he said, during an Amrae press conference in January. "It is quite a long list that has been expanded over time, with the inclusion of sectors that are difficult to cover today for a number of reasons that are linked to the almost prototypical nature of certain construction processes or equipment, for example."

Companies that operate in sectors that have the potential to generate a large number of claims, or very severe losses, have also seen a limited appetite from insurers for their risks.

"It has nurtured some tension, an impossibility for some companies to access the markets," Beaume said.

Another example is civil liability, according to Amrae board member Frédéric de Serpos.

"France's civil liability market is moving towards the Anglo-Saxon model, where there is a distinction between general liability and professional liability. That will entail some difficult conversations," he said. "Risks linked to technological innovation are difficult to transfer. For example, those related to photovoltaic panels or the use of AI in production processes. Will insurers accompany us on this road?"

François Beaume, vice-president of Amrae

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Unpredictable risk environment causing concern

Commercial Risk talks to **Jean-Marie Haquette**, head of HDI Global's French office, about a volatile and unpredictable risk landscape and the growing need for alternative risk transfer options.

◇ HDI GLOBAL

Natural catastrophes dominate the global risk landscape. However, France has seen a big increase in extreme weather, the likes of which have been rarely experienced.

"Natural catastrophes have caused $380bn in global economic losses, according to a broker report, and almost $120bn in insured damages last year. The insurance losses were almost a third above the 21st-century average. This shows not only the severity of the catastrophes but also the size of the insurance/protection gap" says Jean-Marie Haquette, managing director of HDI Global's French office.

One implication of the higher unpredictability is the impact on modelling, says Haquette. "It is becoming more difficult to devise models that can adapt to the changes. In France, we have had unprecedented storms in areas that had not experienced this kind of weather before. So it is not just the severity but the destinations."

Another global risk that is having a local impact in France is geopolitical uncertainty, says Haquette. This clearly has an impact on global trade – problems in supply chains, especially shipping lanes in the Red Sea, and a rise in inflation.

But there has also been a rise in civil unrest within France, says Haquette, with riots, political violence and civil commotion. "This is a result of having political instability on one side and disinformation on the other. This mixed situation makes it even more difficult for the key players in our industry – risk managers, brokers and insurers – to keep a clear view of the crucial risk scenarios."

Jean-Marie Haquette, managing director of HDI Global's French office

Finally, cyber risk continues to be a major concern for risk managers and insurers. "There remains a lot of volatility in the cyber market, which is a worry for insurers. Even the most well-protected companies can be subject to an attack. We can provide services pre and post attack and we can also provide insurance capacity."

The rise of ESG

Another trend affecting corporates globally is the inexorable rise of ESG and an ever-expanding set of disclosure requirements. While there is now little doubt that climate change is the cause of the rise in destructive weather phenomena, which has led to almost universal acceptance of the need for action, there is less consensus on the value that ESG processes bring.

Haquette, however, is a firm believer in the value that ESG provides. There has been 90% adoption of ESG processes among French companies, he says. "For us that is a very good indicator of the importance of ESG and sustainability to our clients. It is also an additional way for us to have a deeper relationship with our insureds. We want to be a true partner in times of transformation, we want to listen to them very carefully and provide them with our expertise and our tools."

"It is becoming more difficult to devise models that can adapt to the changes. France has had unprecedented storms in areas that had not experienced this kind of weather before. So it is not just the severity but the destinations"

He cites the example of ARGOS software, which is designed to help HDI Global's underwriters understand a client's exposure to environmental elements like tornadoes, floods, earthquakes and other kinds of extreme weather and natural hazards.

"Our software," he says, "is used to better assess risks for a customer so that our risk engineers and underwriters can provide customers with optimal advice on how to reduce these risks."

The great AI opportunity

Artificial intelligence (AI) is another issue that divides the insurance industry. "AI is a great opportunity and not a threat if it

is used properly," says Haquette. "We are using it for some tools on a daily basis to improve our risk assessment and pricing strategy."

AI has also helped deal with the rise in information as a result of digital technology, says Haquette. He refers to an AI-based tool that analyses the wordings of different policies and establishing links, and another that calculates inflation.

This is not to say the technology comes without risks in terms of accuracy, privacy and electricity consumption, but they are outweighed by the benefits, says Haquette. In addition to being a labour-saving technology, Haquette also sees AI as a valuable educational tool for the insurance industry. "I think that is one way to properly handle AI technology – to engender a more collaborative spirit between the different actors in the French insurance market."

Stability amid volatility

When it comes to assessing the outlook for France's commercial insurance market over the next 12 months, Haquette sees different dynamics between the middle market and the upper-mid market. The former is increasingly competitive with new entrants and HDI Global has some modest targets for this sector.

But the upper-mid market in France (*entreprise de taille intermédaire*) with a turnover between €500m and €1.5bn is a greater priority for HDI Global France, says Haquette. "We see more opportunity here to bring services and expertise in terms of risk management to those Fortune 500 companies operating in France. We not only offer our risk engineering expertise, but we also have our own and functioning global network covering more than 175 countries all over the world, which helps us to manage and orchestrate more than 5,000 lead international programmes."

HDI Global also offers captive services – be it captive fronting, reinsurance support or help setting-up of virtual captive – which could be much more in demand over the next year given the new legislation introduced in France to promote an onshore captive market. "Ever since HDI Global started operating in France 20 years ago, we have wanted to work with captives. We have done this a lot with large companies, and we are now looking to work with mid-market companies as well, in terms of providing capital but also services," says Haquette.

Companies with exposure to natural catastrophe will face challenges when it comes to commercial insurance rates and capacity, although in France HDI Global has managed to offer the same level of capacity at the latest renewals. And while the rise in claims is an obvious concern, Haquette is confident that HDI Global's expertise and close relationships with clients and its broker partners will meet any climate change-related challenges that emerge in 2024.

"We offer a very high level of service and expertise, and we are recognised as one of the top insurers in the French market in terms of the quality we provide to our clients and their brokers. So that means we can offer stability and value to our clients and broker partners during this volatile time," he concludes.

Protestors against pension reform in Paris, March 2023. France has seen a rise in civil unrest, with riots, political violence and civil commotion

Ferma gears up for busy year as European legislation builds

As the French and wider European risk and insurance management profession prepares for another busy year, Adrian Ladbury asked Ferma president **Charlotte Hedemark** and CEO **Typhaine Beaupérin** about their plans for the next 12 months.

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What are the main objectives for Ferma in 2024? What is the federation planning to do to help its national members raise the profile and advance the profession?

Charlotte Hedemark (CH): Ferma's priorities in 2024 are to expand our advocacy capabilities, strengthen our leadership position, and elevate the overall value of risk management, while also making the federation more agile and dynamic.

Our overarching mission is to support our members by raising the profile and advancing the capabilities of the risk management profession. To achieve this critical aim, we will undertake a number of targeted actions in 2024.

We will be providing our member associations with more data and insights about the profession based on the findings of the inaugural *Ferma International Risk Manager* survey. The results will help guide their future actions as the survey will enable them to compare their approach to that of their peers at regional and country levels.

We will be further developing our Rimap certification programme. As part of this, we will launch an online preparatory course in English in June to help candidates prepare for the Rimap exam. We will also launch equivalent programmes in Germany and Greece.

This year will also see the launch of a series of Ferma Notes (regulatory) to explain the impacts and requirements of new EU legislation, including Solvency II, the Corporate Sustainability Due Diligence Directive (CSDDD), and the Corporate Sustainability Reporting Directive (CSRD).

Charlotte Hedemark, president of Ferma

We will also be hosting the Ferma Forum – entitled *Join the Risk Revolution* – in October. This will serve as an ideal platform to help enhance the overall expertise of the profession through promoting best practice and promoting innovation, as we look to lead risk management into a new era.

2024 will be a standout year for Ferma as the federation celebrates its 50th anniversary. What will be some of the milestone events over the next 12 months that will help Ferma celebrate its half century?

CH: Celebrating the 50th anniversary of a European federation is not merely a chronological milestone; it is a testament to the enduring relevance of our mission, the value we provide to our members, and the unique qualities that help us stand firm in a dynamic and rapidly evolving risk management landscape.

The significance of this achievement extends beyond the passing of time. It embodies Ferma's considerable impact on the risk management industry, members and the broader European risk and insurance management community.

Our goal is to mark this significant achievement in style by engaging with our community throughout the year. This will involve several virtual events and activities with, of course, the standout moment being Ferma's anniversary gala event on 20 October, which will bring together key stakeholders, industry leaders and long-time supporters for an unforgettable evening of celebration and reflection.

This year also sees the launch of the new Ferma logo – can you give me an insight into the rationale behind the image and strapline?

CH: We are thrilled to announce the launch of our brand-new logo and a revamped website, which we see as a significant development in Ferma's journey. Our rebranding is more than simply a visual transformation, but rather a renewal of our commitment to excellence in risk management and part of our strategic evolution, which is deeply rooted in Ferma's rich history.

Our new logo reflects our dynamic, collaborative spirit, and our position as an organisation developed by, and for, the European community of risk managers. It symbolises our shared vision and the world we are helping to shape together.

We believe our rebranding serves to mark the accomplishments of Ferma throughout the last five decades, boldly affirming our ability to undergo transformation, foster innovation, and actively shape the future.

The rising complexity of risk and speed of change is one of the greatest challenges facing the profession. What do Europe's risk managers need to do to ensure they are equipped to adequately and consistently identify, measure and manage these fast-changing risks?

CH: The growing frequency and complexity of risk events has meant that in recent years, risk managers have essentially been in fire-fighting mode. It is imperative that practitioners can get ahead of these events and ensure they are prepared and able to respond, if and when they occur.

That is why the focus of our 2023 Seminar was on developing a roadmap to implement strategic risk management to better navigate this new era of risk.

Based on the discussions at the seminar, plus the findings of the ERM Maturity study, Ferma recently published a white paper detailing those risk-related undertakings that require greater focus.

These included the need to address the balance between short-term and long-term views on risks and opportunities, as well as establishing quantitative risk-analysis approaches and scenario analysis to support improved decision making.

The findings also highlighted the importance of applying greater amounts of data and deploying innovative technologies to identify early warning signs more quickly and effectively. In addition, risk managers were advised to focus on enhancing their risk culture and amplifying risk awareness and collaboration across key stakeholders, while ensuring risk communications are more effectively aligned with business objectives.

Ferma is also setting up a Strategic ERM Committee, which is chaired by Laurence Eeckman, Ferma board member and vice president of group risk management at Atlas Copco AB. The committee will aim to provide risk managers with the knowledge, tools and resources to support their enterprise risk management efforts.

What could and should Europe's risk managers be doing to help ensure their organisations are ready for the challenge of the transition to net zero? What role could and should risk managers be playing in the world of ESG?

Typhaine Beaupérin (TB): In the transition to net zero, there will clearly be a high degree of uncertainty, and, as a result, risk, associated with undertaking the actions necessary to reach the target. Risk managers can therefore be in a prime position to educate boards on the risks and opportunities associated with these various paths of action.

On a specific aspect of the transition – insurance – it is clear that risk financing and transfer have a crucial role in enabling the necessary investment or risk taking required to open up the innovation needed to facilitate this process. If the insurance is not available, it may discourage much-needed investment.

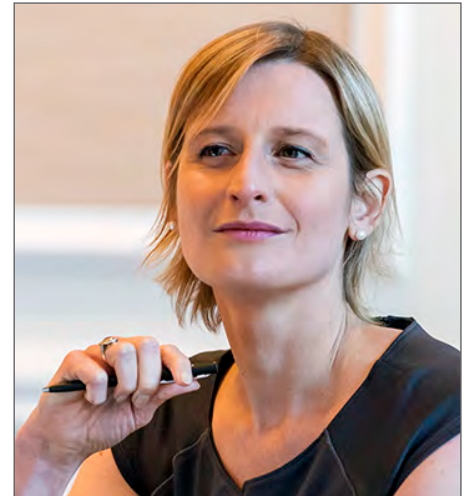
Risk managers have a key function in enabling companies to meet ESG objectives and ensuring a strategic approach to dealing with an expanding range of ESG-focused requirements. It is important that this approach is beyond mere compliance and aligned with the strategic objectives of the organisation.

In Ferma's joint report with ECIIA and ecoDa – *ESG embedding: are you ready?* – two points became clear for risk managers. Firstly, the board and internal audit confirm that the risk management function is a trusted partner in ESG, and, secondly, risk management is seen as a function linked to resilience and one that is important in providing the board with risk-relevant information.

The main emerging risks identified by Europe's risk managers are climate change, cyber and the emergence of AI/technological transformation and its impact on business models. The EU is busy drafting new rules in all these areas. What does Ferma need to do to ensure they are fit for purpose?

TB: In short, Ferma needs to both ensure that the voice of risk managers is heard at EU-level during the policymaking process, and inform and educate its members and networks about the oncoming requirements.

Risk-based approaches are increasingly at the heart of EU legislation such as the CSDDD and the AI Act, which we strongly welcome. Risk monitoring and mitigation is also a significant component within the Critical Raw Materials Act, while the Cyber Resilience Act also relies on risk management. Ferma believes EU 'horizontal' legislation, which is not sector-specific, should be developed with a risk-based approach at its core.



CREDIT: AUDREY DE LEVAL

Typhaine Beaupérin, CEO of Ferma

It is also imperative that there is greater recognition of the role of the risk manager in EU legislation. This is what Ferma will seek to push for the next EU term, as well as encouraging the establishment of a risk manager function within the European Commission to be responsible for this.

During Ursula Von der Leyen's presidency of the European Commission, companies are having to address a host of regulatory and reporting requirements due to the number of key pieces of EU legislation that have been adopted. This is particularly the case in the digital arena, where in the case of cyber incident reporting, those multinational companies classified as critical infrastructure entities may be required to undertake five different levels of reporting on an incident.

In this context, Ferma welcomes the European Commission's commitment to reduce the reporting requirements by 25% by the end of the year. Moving forward, Ferma advocates for further simplification and reduction in duplication of legal and regulatory requirements facing enterprises in EU.

In addition, Ferma has lobbied for more proportionality at the heart of the prudential regulation Solvency II. This would result in more streamlined regulatory requirements for smaller and less complex insurers such as captives, which in turn would help build a more competitive (re)insurance marketplace in the EU.

Cyber and BI remain biggest concern while fears over political threats rise in Allianz Barometer

Pandemic risk 'plummets' to bottom of ranking

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Cyber and business interruption remain the biggest concern for companies across the world, according to the latest *Allianz Risk Barometer*. Natural catastrophes, fire and explosion, and political risk are the big risers in the poll, while the energy crisis and pandemics tumble down the ranking.

Allianz says in its barometer report that the resilience gap between large and smaller companies is widening because risk awareness among larger organisations has grown since the pandemic, following a "notable drive to upgrade".

This year's barometer polled more than 3,000 risk management experts – including risk managers, brokers and insurance experts – in 92 countries, and found that cyber incidents (36%) are the biggest worry for companies globally in 2024. Cyber risk topped the risk list for the third year in a row but Allianz said it is the first time that cyber was top by a clear margin, this year by 5%. Last year it was joint top with business interruption on 34%.

Cyber is the number one risk across all regions in 2024 and the top peril in 17 countries, including France, Germany, India, Japan, the UK and the US.

A data breach is the most concerning cyber threat for Allianz Risk Barometer respondents on 59%, followed by attacks on critical infrastructure and physical assets on 53%. The recent increase in ransomware attacks – which according to Allianz saw a "worrying resurgence" last year, with insurance claims activity up by more than 50% compared to 2022 – ranks as the third-most worrying cyber threat on 53%.

The most important business risks in 2024: global

Ranking changes are determined by positions year-on-year, ahead of percentages.

Rank		Percent	2023 rank	Trend
1	Cyber incidents *(e.g., cyber crime, IT network and service disruptions, malware / ransomware, data breaches, fines, and penalties)*	36%	*1 (34%)*	→
2	Business interruption *(incl. supply chain disruption)*	31%	*2 (34%)*	→
3	Natural catastrophes *(e.g., storm, flood, earthquake, wildfire, extreme weather events)*	26%	*6 (19%)*	↑
4	Changes in legislation and regulation *(e.g., tariffs, economic sanctions, protectionism, Euro-zone disintegration)*[1]	19%	*5 (19%)*	↑
5	Macroeconomic developments *(e.g., inflation, deflation, monetary policies, austerity programs)*[2]	19%	*3 (25%)*	↓
6	Fire, explosion	19%	*9 (14%)*	↑
7	Climate change *(e.g., physical, operational, and financial risks as a result of global warming)*	18%	*7 (17%)*	→
8	Political risks and violence *(e.g., political instability, war, terrorism, coup d'état, civil commotion, strikes, riots, looting)*	14%	*10 (13%)*	↑
9	Market developments *(e.g., intensified competition / new entrants, M&A, market stagnation, market fluctuation)*	13%	*11 (11%)*	↑
10	Shortage of skilled workforce[3]	12%	*8 (14%)*	↓

Source: Allianz Commercial

1 Changes in legislation and regulation ranks higher than macroeconomic developments based on the actual number of responses
2 Macroeconomic developments ranks higher than fire, explosion based on the actual number of responses
3 Shortage of skilled workforce ranks higher than energy crisis based on the actual number of responses

Top 10 risks in France

Source: Allianz Commercial. Figures represent how often a risk was selected as a percentage of all responses for that country. Respondents: 87. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2023 rank	Trend
1	Cyber incidents *(e.g., cyber crime, IT network and service disruptions, malware / ransomware, data breaches, fines, and penalties)*	44%	*1 (40%)*	→
2	Business interruption *(incl. supply chain disruption)*	40%	*2 (32%)*	→
3	Fire, explosion	25%	*7 (20%)*	↑
4	Climate change *(e.g., physical, operational, and financial risks as a result of global warming)*	23%	*6 (22%)*	↑
5	Natural catastrophes *(e.g., storm, flood, earthquake, wildfire, extreme weather events)*	22%	*5 (23%)*	→
6	Political risks and violence *(e.g., political instability, war, terrorism, coup d'état, civil commotion, strikes, riots, looting)*	21%	NEW	↑
7	Changes in legislation and regulation *(e.g., tariffs, economic sanctions, protectionism, Euro-zone disintegration)*	16%	*8 (15%)*	↑
8	Energy crisis *(e.g., supply shortage / outage, price fluctuations)*	15%	*3 (28%)*	↓
9	Macroeconomic developments *(e.g., inflation, deflation, monetary policies, austerity programs)*	14%	*4 (24%)*	↓
10	Critical infrastructure blackouts *(e.g., power disruption)* or failures *(e.g., aging dams, bridges, rail tracks)*	13%	NEW	↑

"Cyber criminals are exploring ways to use new technologies such as generative artificial intelligence (AI) to automate and accelerate attacks, creating more effective malware and phishing. The growing number of incidents caused by poor

cybersecurity, in mobile devices in particular, a shortage of millions of cybersecurity professionals, and the threat facing smaller companies because of their reliance on IT outsourcing are also expected to drive cyber activity in 2024," said Scott Sayce, global head of cyber at Allianz Commercial.

Business interruption, including supply chain disruption, was the second-biggest risk on 31%. It was joint top with cyber 12 months ago after coming second in 2022, when it was knocked off the top spot by cyber. Business interruption is the second-most feared risk across all regions in 2024.

Allianz said ongoing concerns over business interruption reflect the interconnectedness of risk in an "increasingly volatile" global business environment, as well as a strong reliance on supply chains for critical products and services.

It added that improving business continuity management, identifying supply chain bottlenecks, and developing alternative suppliers continue to be key risk management priorities for companies in 2024.

Natural catastrophes (26%) came third in this year's risk ranking. It was the biggest riser in the survey, up from sixth position and 19% in 2023. It came third in all regions apart from Africa and the Middle East, where it ranked sixth.

Rising concern over nat cats comes as 2023 became the hottest year since records began and insured losses exceeded $100bn for the fourth consecutive year, driven by the highest-ever bill of $60bn from severe thunderstorms.

Fire and explosion, up from 14% and ninth last year to sixth and 19%, was another big riser in this year's poll. Political risks and violence, up from 10% and tenth position last year to 14% and eighth in 2024, is the other big climber.

Allianz said the rise in concern over political risk is unsurprising given the ongoing conflicts in the Middle East and Ukraine, and tensions between China and the US.

It also noted that 2024 is a "super-election year", with as much as half the world's population potentially going go to polls, including in India, Russia, the US and UK.

"Dissatisfaction with the potential outcomes, coupled with general economic uncertainty, the high cost of living, and growing disinformation fuelled by social media, means societal polarisation is

Top 10 risks in Germany

Source: Allianz Commercial. Figures represent how often a risk was selected as a percentage of all responses for that country. Respondents: 454. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2023 rank	Trend
1	Cyber incidents *(e.g., cyber crime, IT network and service disruptions, malware / ransomware, data breaches, fines, and penalties)*	44%	2 (40%)	↑
2	Business interruption *(incl. supply chain disruption)*	37%	1 (46%)	↓
3	Changes in legislation and regulation *(e.g., tariffs, economic sanctions, protectionism, Euro-zone disintegration)*	23%	4 (23%)	↑
4	Shortage of skilled workforce[1]	20%	6 (17%)	↑
5	Natural catastrophes *(e.g., storm, flood, earthquake, wildfire, extreme weather events)*	20%	5 (19%)	→
6	Climate change *(e.g., physical, operational, and financial risks as a result of global warming)*	19%	8 (17%)	↑
7	Energy crisis *(e.g., supply shortage / outage, price fluctuations)*	17%	3 (32%)	↓
8	Fire, explosion	16%	10 (13%)	↑
8	Political risks and violence *(e.g., political instability, war, terrorism, coup d'état, civil commotion, strikes, riots, looting)*	16%	NEW	↑
10	Macroeconomic developments *(e.g., inflation, deflation, monetary policies, austerity programs)*	15%	6 (17%)	↓

1 Shortage of skilled workforce ranks higher than natural catastrophes based on the actual number of responses

Top 10 risks in Italy

Source: Allianz Commercial. Figures represent how often a risk was selected as a percentage of all responses for that country. Respondents: 42. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2023 rank	Trend
1	Business interruption *(incl. supply chain disruption)*	40%	2 (37%)	↑
1	Cyber incidents *(e.g., cyber crime, IT network and service disruptions, malware / ransomware, data breaches, fines, and penalties)*	40%	1 (47%)	→
3	Climate change *(e.g., physical, operational, and financial risks as a result of global warming)*	33%	5 (18%)	↑
4	Natural catastrophes *(e.g., storm, flood, earthquake, wildfire, extreme weather events)*	26%	7 (13%)	↑
5	Political risks and violence *(e.g., political instability, war, terrorism, coup d'état, civil commotion, strikes, riots, looting)*	21%	8 (11%)	↑
6	Macroeconomic developments *(e.g., inflation, deflation, monetary policies, austerity programs)*	19%	4 (21%)	↓
7	Loss of reputation or brand value *(e.g., public criticism)*	17%	NEW	↑
7	Market developments *(e.g., intensified competition / new entrants, M&A, market stagnation, market fluctuation)*	17%	8 (11%)	↑
7	Product recall, quality management, serial defects	17%	NEW	↑
10	Energy crisis *(e.g., supply shortage / outage, price fluctuations)*	14%	3 (32%)	↓

Top 10 risks in The Netherlands

Source: Allianz Commercial. Figures represent how often a risk was selected as a percentage of all responses for that country. Respondents: 45. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2023 rank	Trend
1	Business interruption *(incl. supply chain disruption)*	38%	1 (46%)	→
2	Cyber incidents *(e.g., cyber crime, IT network and service disruptions, malware / ransomware, data breaches, fines, and penalties)*	31%	4 (34%)	↑
3	Fire, explosion	29%	NEW	↑
4	Energy crisis *(e.g., supply shortage / outage, price fluctuations)*	24%	3 (37%)	↓
5	Changes in legislation and regulation *(e.g., tariffs, economic sanctions, protectionism, Euro-zone disintegration)*	18%	9 (11%)	↑
5	Macroeconomic developments *(e.g., inflation, deflation, monetary policies, austerity programs)*	18%	2 (40%)	↓
5	Natural catastrophes *(e.g., storm, flood, earthquake, wildfire, extreme weather events)*	18%	6 (23%)	↑
5	Shortage of skilled workforce	18%	5 (26%)	→
9	Climate change *(e.g., physical, operational, and financial risks as a result of global warming)*	13%	7 (17%)	↓
9	Market developments *(e.g., intensified competition / new entrants, M&A, market stagnation, market fluctuation)*	13%	NEW	↑

expected to increase, triggering more social unrest in many countries," warned Allianz.

Going in the other direction, the energy crisis is the biggest faller in the ranking, down to the 11th most-feared risk on 12%, from fourth and 22% in 2023.

Macroeconomic developments have also fallen globally, from 25% and third place in 2023 to 19% and fifth place this year. Allianz said there is some hope among Allianz Risk Barometer respondents that 2024 could see the "wild economic ups and down experienced since the Covid-19 shock settle down".

However, Allianz said the economic growth outlooks remain subdued, at just over 2% globally. But it added that this lacklustre growth is a "necessary evil" as high inflation rates finally look set to become a thing of the past.

"This will give central banks some room to manoeuvre – lower interest rates are likely in the second half of the year. Not a second too late, as stimulus cannot be expected from fiscal policy. A caveat is the considerable number of elections in 2024 and the risk of further upheavals depending on certain outcomes," said Ludovic Subran, chief economist at Allianz.

The other big faller is pandemic risk. It has plummeted to the lowest-ranked risk, on 4% from 13th position and 7% last year.

The Allianz research also finds that large corporates, mid-size firms and smaller businesses are united by the same risk concerns – cyber, business interruption and natural catastrophes.

However, Allianz said the resilience gap between large and smaller companies is widening after bigger firms increased their risk awareness following the pandemic. But it said smaller businesses often lack the time and resources to identify and effectively prepare for a wider range of risk scenarios and, as a result, take longer to get the business back up and running after an unexpected incident.

Allianz Commercial CEO Petros Papanikolaou said the top risks and major risers in this year's barometer reflect the big issues facing the world right now – digitalisation, climate change and an uncertain geopolitical environment.

"Many of these risks are already hitting home, with extreme weather, ransomware attacks and regional conflicts expected to test the resilience of supply chains and business models further in 2024," he added.

Top 10 risks in Spain

Source: Allianz Commercial. Figures represent how often a risk was selected as a percentage of all responses for that country. Respondents: 141. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2023 rank	Trend
1	Business interruption *(incl. supply chain disruption)*	**40%**	*2 (45%)*	↑
2	Cyber incidents *(e.g., cyber crime, IT network and service disruptions, malware / ransomware, data breaches, fines, and penalties)*[1]	**38%**	*1 (50%)*	↓
2	Fire, explosion	**38%**	*3 (27%)*	↑
4	Natural catastrophes *(e.g., storm, flood, earthquake, wildfire, extreme weather events)*	**38%**	*4 (24%)*	→
5	Climate change *(e.g., physical, operational, and financial risks as a result of global warming)*	**19%**	*7 (12%)*	↑
6	Changes in legislation and regulation *(e.g., tariffs, economic sanctions, protectionism, Euro-zone disintegration)*	**16%**	*6 (15%)*	→
7	Energy crisis *(e.g., supply shortage / outage, price fluctuations)*	**14%**	*5 (20%)*	↓
7	Macroeconomic developments *(e.g., inflation, deflation, monetary policies, austerity programs)*	**14%**	*7 (12%)*	→
9	Theft, fraud, corruption	**12%**	**NEW**	↑
10	Political risks and violence *(e.g., political instability, war, terrorism, coup d'état, civil commotion, strikes, riots, looting)*	**10%**	**NEW**	↑

1 Cyber incidents and fire, explosion, rank higher than natural catastrophes based on the actual number of responses

Top 10 risks in Switzerland

Source: Allianz Commercial. Figures represent how often a risk was selected as a percentage of all responses for that country. Respondents: 65. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2023 rank	Trend
1	Cyber incidents *(e.g., cyber crime, IT network and service disruptions, malware / ransomware, data breaches, fines, and penalties)*	**51%**	*1 (57%)*	→
2	Business interruption *(incl. supply chain disruption)*	**34%**	*3 (41%)*	↑
2	Changes in legislation and regulation *(e.g., tariffs, economic sanctions, protectionism, Euro-zone disintegration)*	**34%**	*5 (18%)*	↑
4	Shortage of skilled workforce	**25%**	*7 (16%)*	↑
5	Market developments *(e.g., intensified competition / new entrants, M&A, market stagnation, market fluctuation)*	**23%**	**NEW**	↑
6	Political risks and violence *(e.g., political instability, war, terrorism, coup d'état, civil commotion, strikes, riots, looting)*	**18%**	*4 (20%)*	↓
7	Macroeconomic developments *(e.g., inflation, deflation, monetary policies, austerity programs)*	**15%**	*8 (14%)*	↑
8	Natural catastrophes *(e.g., storm, flood, earthquake, wildfire, extreme weather events)*	**14%**	*5 (18%)*	↓
9	Climate change *(e.g., physical, operational, and financial risks as a result of global warming)*	**12%**	*10 (9%)*	↑
9	New technologies *(e.g., risk impact of artificial intelligence, connected / autonomous vehicles, lithium-ion batteries, electric vehicles, Metaverse)*	**12%**	**NEW**	↑

Top 10 risks in The UK

Source: Allianz Commercial. Figures represent how often a risk was selected as a percentage of all responses for that country. Respondents: 132. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2023 rank	Trend
1	Cyber incidents *(e.g., cyber crime, IT network and service disruptions, malware / ransomware, data breaches, fines, and penalties)*	**36%**	*1 (40%)*	→
2	Business interruption *(incl. supply chain disruption)*	**30%**	*2 (37%)*	→
3	Natural catastrophes *(e.g., storm, flood, earthquake, wildfire, extreme weather events)*	**23%**	**NEW**	↑
4	Shortage of skilled workforce	**21%**	*5 (21%)*	↑
5	Climate change *(e.g., physical, operational, and financial risks as a result of global warming)*	**19%**	*7 (15%)*	↑
5	Political risks and violence *(e.g., political instability, war, terrorism, coup d'état, civil commotion, strikes, riots, looting)*	**19%**	*8 (13%)*	↑
7	Changes in legislation and regulation *(e.g., tariffs, economic sanctions, protectionism, Euro-zone disintegration)*	**18%**	*6 (20%)*	↓
7	Macroeconomic developments *(e.g., inflation, deflation, monetary policies, austerity programs)*	**18%**	*3 (34%)*	↓
7	New technologies *(e.g., risk impact of artificial intelligence, connected / autonomous vehicles, lithium-ion batteries, electric vehicles, Metaverse)*	**18%**	*9 (11%)*	↑
10	Market developments *(e.g., intensified competition / new entrants, M&A, market stagnation, market fluctuation)*	**13%**	**NEW**	↑

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23-24 April 2024 | London

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26 June 2024 | London
NEW EVENT

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Construction Risk Management Asia
17 October 2024 | Singapore

Global Programmes Asia
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Protecting the continued rise of intangible assets

Back in the 1970s, approximately 80% of the value of any business was to be found in its tangible assets – the property, the machinery and the products it produced. But fast-forward 50 years and that picture has been flipped on its head.

The real value of a business today lies in its intangible assets, estimated to be between 80-90%. Intangible assets represent the intellectual property (IP) that sits behind the product or service and the patents that are designed to protect it. Despite that, in a commercial insurance market worth billions of dollars, it is estimated that the IP insurance accounts for just $60m... globally.

With the intrinsic value of any given company shifting towards intangible assets, it appears that while some businesses have recognised this shift and responded to protect themselves, others have not followed the change in direction with their insurance buying behaviour.

There are a host of possible reasons for this – ignorance of the product and how it works, a belief that they don't hold any IP and that even if they do it's not at risk – but as Stéphanie Landes, senior underwriter for financial lines at Tokio Marine HCC warns, the threats to company IP have never been more pressing.

"Companies can take a variety of legal steps to protect their IP but that doesn't prevent an expensive legal claim being brought against them," she explains.

"For example, patent trolls are a real threat and will bring litigation against companies of all sizes claiming IP or patent breaches. And with the cost of IP legal claims ranging from the tens of thousands to millions of euros, the threat is very real, particularly for smaller businesses."

Patent trolls are companies that, more often than not, don't actually produce any goods or services but buy up IP and patent rights from active or bankrupt companies with the sole intention of bringing legal

claims against any company they can, arguing that their IP rights have been breached.

"They are usually based in the US and will start their proceedings with mediation to try to secure a payment for the claimed breach. But if they don't get a settlement, they will take it to court, and when you consider that US IP lawyers charge as much as $1,500 an hour, the costs for any business can be prohibitive," says Stéphanie.

And with an estimated 12,000 IP cases filed every year in the US alone* – driven to some extent by the surge in the development and use of AI and renewable energy technology – it's obvious that the appetite to challenge IP breaches is growing.

"It is a real and increasing risk for many companies, particularly those in the software and tech sectors as there is a huge amount of IP that sits behind the products and services they create," Stéphanie says.

"Our core appetite lies in the software and tech, life science and manufacturing sectors but our protection is available to a wide range of organisations as we know that patent trolls will go after any kind of company and of any size if they think they can pursue a successful claim."

And it is to protect against this kind of legal pursuit that Intellectual property insurance has been designed, with two main types of cover available – one that protects against legal action and one that allows a business to pursue it.

"The most common type is a defence policy that provides cover for damages, defence and plaintiff costs and it will cover the cost of a product recall following a successful claim against the insured," Stéphanie explains.

"On the other hand, we have the enforcement cover, which allows policy holders to sue someone who has breached their IP and pays for the associated legal expenses as well as any investigative costs that may arise."

While the life sciences and manufacturing sectors are core targets, she says that the most at-risk businesses are those that don't manufacture anything and therefore believe they have no risk to protect. But as their operations become increasingly digital in nature, ignoring the protection afforded by IP insurance leaves them exposed to claims.

"Most big service companies, like large banks and retailers, are digital now and they have their own technology and IT subsidiaries that have IP rights inherent within them. That puts them at risk," says Stéphanie.

"Being a service company rather than a manufacturer doesn't mean you don't have any valuable IP, and you could find yourself on the wrong end of a legal claim if you don't protect it. And even if the claim isn't valid, answering it can be very expensive and distracting to the business."

And she adds that with patent trolls targeting start-ups and small businesses, insurance can make the difference between survival and failure: "Having the insurance in place is vital as many companies won't have the funds to defend themselves. A €1m limit on your policy can provide a very high level of protection, even in response to the most ambitious legal claims."

* Willis Towers Watson, *Intellectual Property Litigation Risk Report*

AI-driven disinformation tops WEF's global risk list as elections loom

Survey reveals growing pessimism about longer-term risk outlook

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AI-driven misinformation and disinformation has shot straight in as the number one short-term risk in the World Economic Forum's (WEF's) latest *Global Risks Report*, and now features alongside extreme weather, societal polarisation and cyber risk as a leading near-term concern.

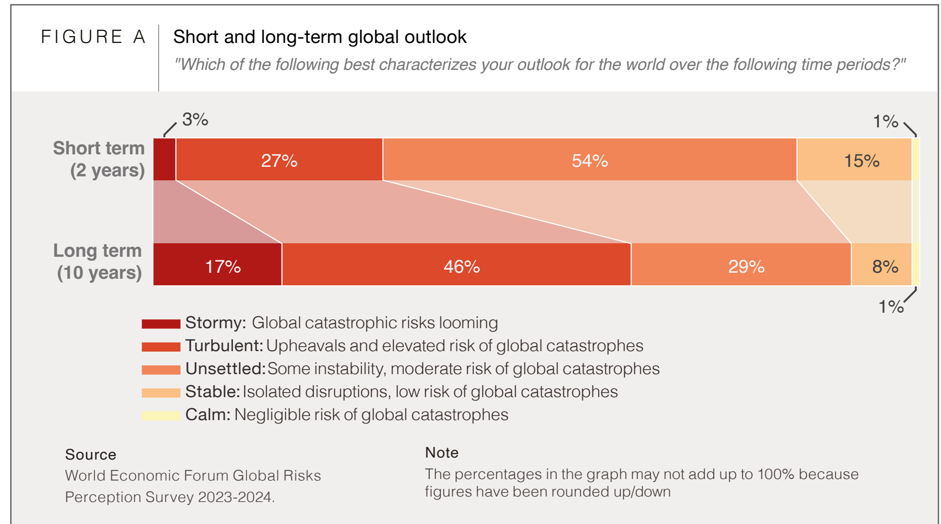
Environmental risks, such as extreme weather and critical change to Earth systems, dominate the longer-term risk outlook, but misinformation and disinformation is the leading risk outside of these issues here too.

The WEF's *Global Risks Report 2024*, based on a survey of 1,400 global risks experts, policy makers and industry leaders surveyed in September last year, also reveals a pessimistic outlook for the world over the next two years that only worsens when looking further ahead.

And the WEF warns that cooperation on urgent global issues could be in short supply, so it calls for new approaches and solutions from all the stakeholders to address some of the big risks.

Misinformation and disinformation appeared for the first time ever in the WEF's annual risk survey and, with many elections set to take place over the next 24 months, jumped straight to the number one spot over a two-year horizon. It was voted the second-most-likely risk to cause a global crisis in 2024 and was seen as the fifth-biggest risk over the next ten years.

The 2024 WEF report, produced with Zurich Insurance and Marsh McLennan, reveals a real mix of leading risks from the five economic, environmental, geopolitical, societal and technological categories over the two-year horizon. Extreme weather events came second, societal polarisation third, cyber insecurity fourth and interstate armed conflict fifth.



Extreme weather came top in the outlook for 2024, followed by AI misinformation and disinformation, then societal or political polarisation, the cost-of-living crisis and cyberattacks.

Over the ten-year horizon, Saadia Zahidi, managing director of the WEF, told media that climate risks are still "very much the number one concern". Extreme weather is seen as the biggest threat, followed by critical change to Earth systems, another new risk option in the survey. Next comes biodiversity loss, natural resource shortage, and then misinformation and disinformation completing the top five.

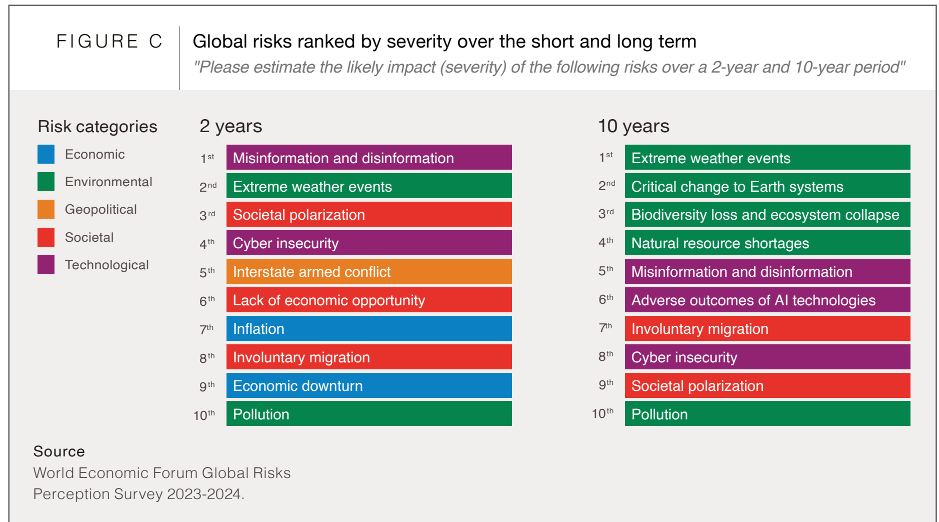
Zahidi also said that participants in the WEF survey entered 2024 with a "fairly pessimistic" global outlook for the next two years that gets "progressively worse" over the longer term, ten-year timeframe. While 30% of global experts think there is an elevated chance of global catastrophes in the next two years, this rises to nearly two-thirds over the next ten years. Zahidi said this is markedly different from last year when the longer-term outlook was more optimistic.

"The nexus between falsified information and societal unrest will take centre stage amid forthcoming elections in several major economies"

The WEF said concerns over a persistent cost-of-living crisis, alongside the intertwined risks of AI-driven misinformation and societal polarisation, "dominated" the short-term risk outlook.

"The nexus between falsified information and societal unrest will take centre stage amid elections in several major economies that are set to take place in the next two years. Interstate armed conflict is a top five concern over the next two years. With several live conflicts under way, underlying geopolitical tensions and corroding societal resilience risk are creating conflict contagion," it warned.

Carolina Klint, chief commercial officer in Europe at Marsh McLennan, said the



potential impact of this misinformation on worldwide elections is "significant" and could lead to elected governments' legitimacy being called into question. "This in turn could threaten democratic processes, causing further social polarisation, riots, strikes or even intrastate violence," she said.

The WEF's Zahidi agreed that the threat of misinformation needs to be taken seriously given that large parts of the world will be voting in elections over the next couple of years.

"The speed with which some of that synthetic content can be created, and that it is not tagged or watermarked in many parts of the world, combined with the fact that most people are not educated at present to the risks of some of this synthetically generated misinformation, is a very potent mix. When you throw on top of that a situation where there are already a lot of economic grievances and other things, you are looking at a very difficult combination going into elections," she said.

Klint said that given the sudden accessibility of user-friendly interfaces like ChatGPT, larger scale AI models and synthetic content to manipulate public opinion, it is "no wonder" that misinformation and disinformation is ranked as the top short-term risk in the latest WEF survey.

She said AI offers businesses many fantastic opportunities but stressed that companies have to also consider the societal, economic and security implications of using the technology.

"AI breakthroughs will radically disrupt the risk outlook for organisations, with many struggling to react to threats arising from misinformation, disintermediation and strategic miscalculation," she said.

Adding: "The success of this will depend on regular testing, updating, verification and lots of upskilling and training. It is the only way we can prevent strategic and tactical miscalculations by AI that could lead to catastrophic errors, reputational harm or even significant liabilities."

The WEF's *Global Risks Report 2024* report also warns that the coming years will be marked by persistent economic uncertainty and growing economic and technological divides.

"Lack of economic opportunity is ranked sixth in the next two years. Over the longer term, barriers to economic mobility could build, locking out large segments of the population from economic opportunities. Conflict-prone or climate-vulnerable countries may increasingly be isolated from investment, technologies and related job creation. In the absence of pathways to safe and secure livelihoods, individuals may be more prone to crime, militarisation or radicalisation," it says.

New approaches needed

The report calls on leaders to rethink action to address global risks. It recommends focusing global cooperation on rapidly building guardrails for the most disruptive emerging risks, such as agreements addressing the integration of AI in conflict decision making.

However, the report explores other types of action that aren't dependent on cross-border cooperation. This could include shoring up individual and state resilience through digital literacy campaigns on misinformation and disinformation, or fostering greater research and development on climate modelling and technologies, with the potential to speed up the energy transition, it says.

John Scott, head of sustainability risk at Zurich Insurance, said collective and coordinated cross-border actions can play their part in helping the world rise to the many challenges it faces, but added that localised strategies are critical to reduce the impact of global risks.

"While there are many different approaches to managing risk, there is no one silver bullet. In fact, what we need to do is

"AI breakthroughs will radically disrupt the risk outlook for organisations, with many struggling to react to threats arising from misinformation, disintermediation and strategic miscalculation"

pull together all these different approaches, whether they are local strategies, collaboration, international cooperation or individual and collective action," said Scott.

"But if we do all of that, we can move the needle. The good news is that within this fractured and fast-moving risk landscape we see, there is an opportunity to address these risks for all of us. However, the fact is we are all going to have to take these actions," he added.

And Zahidi was equally keen to stress that positive action is more than possible, despite the pessimistic picture painted by the WEF report.

"This [report] has a very gloomy outlook but by no means is it a hard, fast set prediction of the future. The future is very much in our hands. Yes, there are structural shifts underway, but most of these things are very much in the hands of decision makers across different stakeholders. And that is where the effort needs to be," she said.

Risk prioritisation key to avoiding overload amid 'intense volatility', says Signorelli

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Zurich Commercial Insurance CEO Sierra Signorelli has told *Commercial Risk* that the next decade is set to be characterised by "intense volatility", and believes risk managers will need to be able to prioritise key risks more than ever before to avoid overload.

Speaking to CRE as the World Economic Forum (WEF) published its *Global Risks Report 2024,* Signorelli added that she supports public-private partnerships (PPP) to help manage some of the big systemic risks facing the world today, such as rising natural catastrophes and cyber. But she stressed that improving risk management and resilience must come first to keep the exposures manageable.

The CEO said that the latest WEF report, which paints a fairly gloomy picture and finds that pessimism is growing among risk experts, strongly suggests that the world will face huge volatility over the next ten years as it

"There are many different considerations for multinationals as they look at their geographic footprint, as they look at their trading partners, as they think about their supply chains"

transitions through geopolitical changes, climate challenges, demographic changes and shifts in technology.

She thinks there are four key groups of risks within the report that rank high in the survey and are going to be the biggest challenge for multinationals.

"When I look at the top risks and the most relevant for companies in the report, they would be extreme weather, global warming and weather-related events as one group of risks. Technology, misinformation and cyber security also come as a group together. Economic impacts are a third risk area and then increased conflict and societal polarisation is a key group too," she said.

Another thing that stands out in the report to Signorelli, and will make it more challenging to deal with many risks, is global cooperation looks likely to come under further pressure given the geopolitical trends.

"There are many different considerations for multinationals as they look at their geographic footprint, as they look at their trading partners, as they think about their supply chains. Having these geopolitical tensions is going to require companies to really think through these issues more than ever," she said.

"Supply chains are incredibly complex. With the conflict in Middle East, we are now seeing problems with trade routes, which increases timing risk or the threat

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Sierra Signorelli, CEO, Zurich Commercial Insurance

of non-delivery of critical supplies, to an increase in costs if you have to ship things a further distance, which will inevitably have an impact on inflation," added Signorelli.

Given the polycrisis the world seems to have been going through since Covid-19 and mounting global tensions, Control Risks warned in its *2024 Risk Map* that risk management overload has become one of the top five risks facing companies this year *(see story on pg 2)*. But the company said overload is not inevitable if risk managers reboot their operations and take advantage of their rising prominence.

Signorelli agrees with both conclusions, and advised risk managers to really focus on risk identification and prioritise key risks.

"This seems like an obvious statement but some things are going to be more important than others. With the overload piece, you simply cannot treat everything as equal. Different companies will have different critical exposures, so being thoughtful about those things that matter the most is increasingly important," she said.

"There is far more data available to make better decisions. So this can help risk managers to better evaluate risks and what will matter most financially. There are so many different things to respond to so it is important to use data to inform decision making," she added.

RSA

Specialist insurance and worldwide coverage

Commercial Risk Europe talks to **Rodolphe Menn**, director-general of RSA France, about the insurer's growth ambitions for the French market.

RSA has a long history in France and Europe as a specialist insurer. RSA France, which operates as a branch of the Luxembourg business, has offices in Paris and Lyon, and the business prides itself on the long-term partnerships it has built with clients.

However, amid a rapidly developing risk landscape, RSA is looking to renew its commitment to the French market and has set itself some ambitious growth targets as a result, according to director-general of RSA France, Rodolphe Menn.

He describes the French insurance market as "fragmented", where insurers have different strategies and appetites for both domestic risks and international programmes.

"The assets to be insured are increasing worldwide and clients want increased risk prevention combined with a more customised approach in terms of risk transfer and insurance coverage," he says.

One recent development in the French market has been the introduction of new captive legislation in an effort to build an onshore captives market. This should lead to a significant growth in captives, especially from large corporates, says Menn. "It also illustrates the continuing demand for alternative risk transfer tools."

Risk registers

A major risk concern for French commercial clients, says Menn, is changes to legislation and regulation, and any potential restrictions on their business activities that may result. Like elsewhere, natural catastrophes and cyberattacks are top of the risk register.

"It is not just about insurance coverage – clearly there is a need to better understand how to prevent severe consequences from extreme weather and from cyberattacks," says Menn.

"Our risk consulting team, together with the RSA Red tool, enables risk managers to track and prioritise preventive actions and is a key element of our value proposition. RSA also distributes cyber coverage with its MGA Resilience service and cybersecurity tools, where prevention is also critical," he adds.

A key development for RSA France has been its integration into Intact's Global Specialty Lines (GSL) group, which Menn says will open up exciting new prospects for the insurer.

Growth ambitions

"GSL has ambitious growth targets – $10bn in direct written premiums by 2030, with a combined ratio of less than 90. Europe is a key element of this strategy, and this will also influence our trajectory in France," says Menn. "As the leading country in terms of premiums, RSA France will make a major contribution to this effort."

RSA France's strategy is based on creating insurance solutions for large national and international companies, using a risk engineering approach, says Menn. "Our priority is to strengthen and develop our existing lines of business, as well as identifying potential new segments that match our expertise and capabilities."

"We are a market leader in specific sectors such as rail, infrastructure, property, retail, and marine, which underlines our high standards and technical capacity," says Menn. "We have also strongly developed our property and casualty offering, in conjunction with our CAR (construction all risks) offering, and we have looked to expand in niche markets such as marine project cargo and construction damage for <30m target sites in the construction industry."

"In addition, we will be launching new products in 2024, particularly in the areas of technology and management liability, while consolidating our position through a strategic alliance with a partner for cyber risk (Resilience)," says Menn.

Rodolphe Menn, director-general of RSA

Internal efficiencies

The firm has also invested heavily in its own processes in order to simplify things and make them more efficient. "There are dual objectives – to free up the energies of our experts to use them on value-added tasks and to gain better control of our data so as to exploit its full potential," says Menn.

The biggest challenge for RSA France, says Menn, is to preserve its heritage and its reputation, while also "energising" the new company structure.

"We want to make it a more agile organisation, capable of responding to our customers' risks, which are increasing in intensity and, above all, in complexity in a virtually permacrisis environment," he says.

If last year's results are an indicator, 2024 is shaping up well for RSA France, says Menn. "Our results reflect our commitment to our customers and our ability to innovate in a constantly changing environment. We continue to maintain a balanced approach to underwriting and to provide a quality service to our partners. These strengths contribute to our positive performance."

AI, data protection and the extraterritorial effect of the UK GDPR

◇ DATA PROTECTION

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On 15 January 2024, the UK Information Commissioner's Office (ICO) launched its consultation series on generative AI and data protection, due to close on 1 March. The first chapter of this consultation and call for evidence covers the lawful basis for training generative AI models on web-scraped data.

Web scraping-related processing of personal data has been a particular focus of the ICO. This was highlighted last year in *Clearview AI Inc v The Information Commissioner {2023}*, in which a first-tier tribunal (Tribunal) ruled that the ICO did not have jurisdiction to issue an enforcement notice and monetary penalty notice to Clearview because, although the processing related to the monitoring of data subjects' behaviour in the UK, it was beyond the scope of the GDPR. The decision provides guidance on the extent of the ICO's jurisdiction over a company with no establishment in the UK or EU. The ICO is currently seeking permission to appeal.

ICO enforcement notice

Clearview is a US-based facial recognition software company that collects and uses images of people scraped from the internet to create an online database.

In May 2022, the ICO fined Clearview £7.5m for breaching data protection laws and ordered the company to delete images of UK citizens from its database. The ICO determined that Clearview was a controller under the UK GDPR and its processing of personal data of UK residents came within its scope.

While Clearview was no longer offering

"The ICO determined that Clearview was a controller under the UK GDPR and its processing of personal data of UK residents came within its scope"

services to UK clients at the time of the enforcement notice, the ICO determined that its database still contained images of UK residents, which could be seen by overseas customers and was therefore effectively monitoring the behaviour of UK residents within Article 3(2)(b) GDPR and UK GDPR.

Clearview's appeal

Clearview appealed on the basis that it is a foreign company providing its service to "foreign clients, using foreign IP addresses and in support of the public interest activities of foreign governments and government agencies, in particular in relation to their national security and criminal law enforcement functions". Clearview argued that the functions being targeted were within their jurisdiction and outside of the UK, and therefore beyond the territorial scope of Article 3 of the GDPR and/or UK GDPR.

By October 2022, the Clearview database was estimated to include 20 billion images, with a growth rate of 75 million per day. The Tribunal concluded that there must be some images of UK residents within the database given its size, however Clearview did not use any website scrapers directed at websites with any connection to the UK.

Clearview offered its service on a trial basis to law enforcement/government organisations within the UK between June 2019 and March 2020 but it hasn't offered the service to customers established within the UK since that time.

For processing to fall within the

The ICO's Wycliffe House office, London

territorial scope of Article 3(2)(b), four elements need to be satisfied:

(1) that there has been processing of personal data;

(2) the personal data subject to processing was that of data subjects in the UK;

(3) the processing must be carried out by a controller or processor not established in the UK; and

(4) the processing must be "related to" the monitoring of the behaviour of data subjects in the UK as far as their behaviour takes place within the UK.

The Tribunal agreed the first three elements were met – Clearview is a controller for creating, developing, maintaining and indexing the database of images, as well as a joint-controller with its customers for matching images to search results used by clients. As for the fourth element, the language "monitoring" implies an element of targeting and intentionality is required and suggests a controller has in mind a specific purpose for the collection and reuse of the relevant data about an individual's behaviour.

The Tribunal found that "behaviour" indicates something more than simply being alive and goes beyond mere identification or descriptive terms, to also include where they are, what they are doing, who they associate with, what they are holding or carrying, and what they are wearing.

The Tribunal concluded that Clearview's clients are "monitoring the behaviour" of those who appear in the images because they are seeking to identify facts about those individuals. It added that Clearview's processing was "related to" the monitoring carried out by its clients, because the clients' monitoring could not take place without Clearview's processing and the service enabled the monitoring of behaviour carried out by Clearview's clients to take place.

The Tribunal accepted that Clearview's service was only provided to non-UK/EU law enforcement or national security bodies and their contractors.

Accordingly, Clearview's pre-Brexit processing was an activity that fell within the territorial scope of the EU GDPR based on Article 3(2)(b), but nevertheless fell outside of the material scope of the EU GDPR because the activities of non-UK/EU law enforcement or national security bodies and their contractors fall outside the material scope.

As regards to the post-Brexit processing, Article 3(2A) UK GDPR states that the regulation will not apply to processing an activity which, immediately before the Brexit transition completion day, fell outside the scope of EU law. Therefore, post-Brexit processing would not be within the scope of the UK GDPR because the material scope provision is disapplied.

ICO appeal criteria

The ICO contends that Clearview was not processing for foreign law enforcement purposes, but rather was a commercial enterprise offering access and analysis of digital images of UK people. Accordingly, Clearview should not be shielded from the scope of UK law on that basis.

It is important to note that the Tribunal's decision was very fact specific to Clearview as an organisation; a similar organisation processing data in a similar way may find themselves within the scope of the UK GDPR by being caught by the territorial scope provisions.

The UK GDPR still has extra-territorial scope to issue fines to non-UK organisations, however there are specific exemptions depending on the processing activities taking place, e.g. processing for law enforcement purposes. Organisations operating outside of the UK should maintain an ongoing assessment of what processing activities are taking place both by themselves, and any clients that use their data.

◇ **LEGAL EYE:** THE BRIEFS

Cyber war debate rumbles on as Merck settles with insurers

◇ Merck's settlement with its insurers early this year draws a line under NotPetya cyber insurance coverage disputes, but insurance buyers remain frustrated by the market's inconsistent approach to cyber war, experts have told *Commercial Risk*.

US pharmaceutical company Merck reached a last-minute settlement with insurers in January over its disputed claim under its property policy for losses related to the 2017 NotPetya cyber-attack, which US and European authorities attributed to Russia.

In May last year, a New Jersey appellate court upheld a prior ruling in favour of Merck that the insurers could not use war as an argument to deny coverage for NotPetya losses. Insurers were subsequently given permission to appeal, but the settlement was announced just before the appellate court ruling was due to be reviewed by the New Jersey Supreme Court in January this year. The terms of the settlement are confidential.

Merck's NotPetya losses were said to total $1.4bn, with its insurers denying coverage under the "hostile/warlike action" exclusion. Initially, more than 30 insurers denied cover, but most have since resolved their claims. Chubb and seven other insurers – representing around $700m in coverage – took their appeal to the Supreme Court. They have now settled.

The Merck settlement effectively draws a line under the big insurance coverage disputes triggered by the NotPetya cyberattack. Confectionary maker Mondelez also settled its NotPetya cyber coverage dispute with Zurich Insurance in 2022.

However, the wider issue of cyber insurance and nation-state attacks has yet to be resolved and new coverage disputes have emerged. Last year, for example, Viasat Inc filed an insurance coverage lawsuit against Lloyd's underwriters related to losses incurred by the US-based broadband satellite internet service provider following a suspected Russian cyberattack hours before the 2021 invasion of Ukraine.

Brazil court orders mining firms to pay $9.6bn for 2015 dam collapse disaster

◇ Brazilian mining company Vale, Anglo-Australian mining firm BHP and their joint venture Samarco have been ordered to pay $9.6bn for damage caused by the collapse of a tailings dam in 2015.

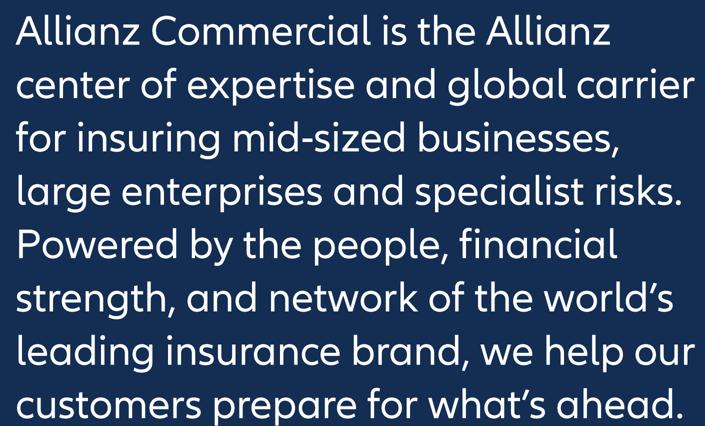
A ruling from a Brazilian court said the companies should pay moral damages compensation for violating human rights of local communities affected by the collapse of the Fundao tailings dam owned by Samarco, which was one of the country's worst environmental disasters.

A federal fund will be set up to administer payments, which the court said should be adjusted for interest. All three companies said they have already paid for clean-up work and damages, with money also set aside for compensation.

Climate group sues ING after Shell victory

◇ A group of climate activists in the Netherlands, which won a landmark case against Shell in 2021, has named Dutch bank ING in a new climate suit. Milieudefensie, the Dutch arm of Friends of the Earth, said ING is responsible for more emissions than Sweden through its client book of polluting companies.

From strategy to success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