Commercial Risk Europe
Insurance & Risk Management News

Risk Frontiers Europe 2019

European Risk Management Survey

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Commercial Risk Europe
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Time waits for no one

The year 2019 has been one of watching and waiting – watching and waiting to see if Brexit will happen; watching and waiting to see whether a hurricane or a typhoon will hit; and watching and waiting to see whether the insurance market will finally turn its cycle and start raising premium rates.

As we spoke to risk managers, insurance buyers and other risk professionals across Europe for their views, it seems much of the watching and waiting is set to continue.

But it has created some new risks. Political risks, for example, are on the increase, with some 88% of those who responded to our electronic survey citing them as a rising risk.

Interestingly though, they mostly felt that political upheaval has been factored into their business strategy and most therefore do not buy insurance against this risk.

And that has been at the heart of many conversations this year – what is insurable and what should be risk managed within the business? As signs of a tougher stance from insurers emerge, it is also a question that is occupying the minds of many – should they retain more risk to maintain programme costs at previous levels? Or does that expose them to gaps in their cover and the risk of underinsurance impacting the balance sheet?

Insurers and risk managers are set to clash, it appears, on what should and should not be included in traditional policies when it comes to cyber risks. The insurance industry is determined that cyber cover should be excluded from traditional policies, such as property, and be sold as a standalone policy. The argument stands that, by doing that, the insurers can deploy expert cyber underwriters to make sure the insured has adequate protection.

However, insureds are still not convinced by what they are buying and whether or not it will really provide the necessary protection – as evidenced by the 53% of respondents to our survey who felt it should be left within existing policies.

Whether or not cyber is standalone or wrapped into other covers, what was clear from both insureds and insurers is that those negotiating the insurance programme need expertise and understanding of the company's exposures.

Reason enough, agreed the risk managers wholeheartedly, not to allow anyone else to have control of the buying process, particularly for procurement teams to make the final decisions – unless working closely with the risk teams.

However, the risk managers surveyed are not Luddites. They are not simply arguing for the status quo to be maintained at all costs. They understand the risks of opting to stand still. The next generation and the one after that are all very different. They want a different approach to the environment they live and work in.

Gen Zs are set to challenge many of the business norms of 2019 and risk managers are alive to the challenge this might pose, not just in recruitment, but also in the very way companies operate. As Extinction Rebellion steps up its protests across Europe, and with hundreds of thousands of children joining the marches, risk managers would be unwise not to be watching and waiting to see what change might come.

But the risk managers I met while travelling across Europe this year were not content just to watch and wait. They are already incorporating that changing environment into their strategic thinking – and that need for enterprise risk management thinking is strengthening all the time.

The way the role of risk managers is changing is clear evidence of that. They said they are taking a more enterprise-wide role and are being called on to respond to myriad questions from across their companies, as whole workforces wake up to the value of the risk professional in their midst.

We hope that you enjoy reading the results of this survey and discovering whether your own risk management journey mirrors that of others, or is headed in a different direction. I would like to offer huge thanks to all those who have taken part, both physically in attending roundtable meetings and electronically in completing the poll. This sharing of views is so important in encouraging others within the sector and demonstrating that risk management is a vibrant and interesting profession to join.

And of course, we thank our sponsor HDI Global, which has once again been prepared to share its knowledge from across Europe and to put the argument for insurance remaining such an important risk-mitigation tool. Without HDI Global, this survey would not have been possible, so thank you.

Liz Booth
Editor, Risk Frontiers Europe 2019

Resilience and sustainability moving to centre stage

Extinction Rebellion, snowflakes, millennials and now Gen Z (or Zoomers) are all new concepts for corporate risk managers to factor into their thinking, but how are they impacting the resilience and sustainability of the world's major corporations?

◇ SOCIOECONOMICS

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In many ways, there are no surprises among the main issues concerning risk managers across Europe this year – climate change, cyber risks and business interruption all topped the list.

However, as Extinction Rebellion steps up its protests globally, there is no doubt that climate change was at the forefront of most risk managers' minds. There was little debate about whether climate change is happening; instead, risk managers were worrying about the rise in natural catastrophes and extreme weather events and how the insurance market is reacting to their exposures.

As one said: "We are not just seeing more extreme events in risk areas like the Caribbean or in Asia, we are seeing very localised events that are having a big impact. Flooding across Europe – or wildfires – are threatening our operations in places we wouldn't have expected 10 years ago."

The question was one of sustainability – how does a modern company survive in an era when its reputation might collapse because of a seemingly insignificant event? Should risk managers be questioning members of the board and expecting them to justify overseas travel? Can the company operate in a carbon neutral way?

But the risk managers surveyed stressed that sustainability is about far more than climate change alone. They reported increasing questions about the way the company operates, the internal culture and the way it reacts to its surrounding environment in terms of its social responsibilities. And, of course, companies increasingly have to look at governance and go beyond the basics in terms of compliance, they said.

> "Flooding across Europe – or wildfires – are threatening our operations in places we wouldn't have expected 10 years ago"

HOT TOPIC

One of the first questions every company needed to ask itself is: what is sustainability? The risk managers reported that, in many cases, their governments and regulators had yet to figure out exactly what that looks like.

However, that did not stop the need for companies to be making their own assessments. Different markets reported being at different stages of the journey but what they all agreed on was that it is not a topic that can be ignored.

Many companies are joining the Dow Jones Sustainability Index, which tracks a company's achievements on the environmental, social and governance (ESG) agenda. Being on the index also helps the company evidence its commitment to the ESG issues to shareholders and stakeholders alike. It provides a framework to which companies can develop their ESG agenda and identify what sustainability means to them.

Ratings agency Fitch recently launched its heatmap for ESG within rated entities. Earlier this year, Fitch analysis of ESG Relevance Scores revealed it was hard for any financial institution

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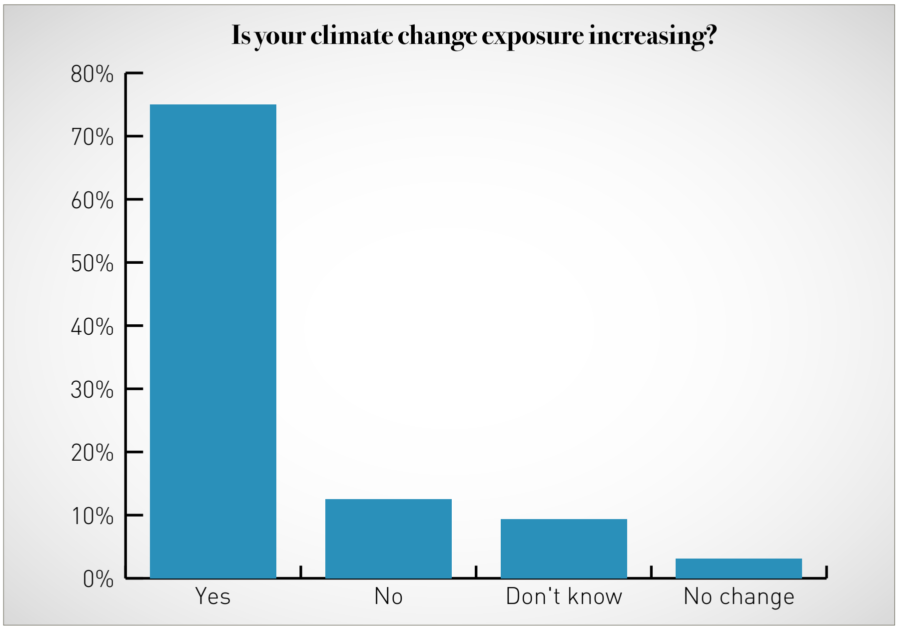

to do much directly in developing a more sustainable approach to its business; however, it definitely had clout when it came to extending credit to others (and financing business and the economy – banks do not finance coal, for instance).

Back in September 2018, Fitch Group announced it had signed the United Nations' Principles for Responsible Investment (UN PRI), underlining its commitment to incorporating ESG issues into investment practice and developing a more sustainable global financial system.

The global sustainable finance group at Fitch Ratings is responsible for reviewing how ESG factors are incorporated into the credit rating process, for increasing the level of transparency around ESG analysis and more broadly for the development of products and services beyond credit ratings to support and meet the growing needs of investors in this sector.

All of this shows that companies are being watched and need to be able to not just comply with changing regulations but also be seen to be acting in a responsible way.

Meanwhile, new laws across Europe will force companies to take greater responsibility, for example, but firms are already changing their approach in recognition that it is also a more sustainable approach to business.

France, like other European countries, has been transforming its corporate law to bring sustainability to the heart of all operations. As president of Amrae, Brigitte Bouquot, risk manager for Thales, said a company needs to become resilient so it can remain sustainable.

In June, the government introduced a company law, which requires businesses to take on greater corporate responsibility. Ms Bouquot said: "There is a uniform approach in France, which is developing across Europe, that businesses are more responsible."

She suggested that risk management has a central role in this. "You cannot be responsible without a real risk management policy," she argued, "otherwise it could be just window dressing and at best a tickbox on compliance."

She applauded the way in which this new regulation has put corporate social responsibility at the heart of a company and therefore will help put risk management policies at the core of business going forward.

The wider group of risk managers agreed that this is a huge fillip to the profession of risk management and will result in risk managers playing an ever-more crucial role in business.

As Ms Bouquot said: "It is about investing not just in sprinklers and fire protection but investing wholly in risk management policies, which include emerging risks such as cyber and ethical questions.

"It is about investing in sustainability, not in the old financial way but in a new way. It is a question of giving resources to risk management policies, because it is now a matter of reputation."

HOW TO MAKE CHANGE

The question for risk managers across Europe has then become one of not if they have to incorporate resilience and sustainability into their thinking, but how?

Where the risk managers surveyed parted company was on how to approach the issue – and whether risk managers can truly play a part. Some felt that it remains an issue for the board or the ESG team, while others felt the issues around sustainability are at the heart of risk management.

Some 75% of risk managers surveyed said their exposure to climate change risks is increasing

They also disagreed about whether it should be down to individual companies to take the lead – some felt that unilateral action may well have unintended consequences, which ultimately might be far more damaging.

As one German risk manager reported: "For example, can we choose an insurer on the basis that they are carbon neutral and then potentially limit our access to the cover that we need? We can prepare for extreme weather events but beyond that, it is much more difficult."

Many of them felt that sustainability was often considered to be mostly about climate change – ask the average person, they said, and they would name climate change first and foremost.

For risk managers, there are already changes afoot that have huge implications for their businesses. As one Italian risk manager pointed out, Italy is highly reliant on hydroelectric power, but the extremely dry winter of 2018/2019 was a warning that the supply of water is not guaranteed.

That access to power may well influence decisions around future locations, suggested the risk

Amrae president Brigitte Bouquot believes it is about investing in sustainability in a new way

managers, not least as insurance costs show signs of rising and those with risk exposures in natural catastrophe areas are likely to feel the force of those rises first.

Much of that conversation lies with government – it is government's job to ensure there is sufficient electricity and that it comes from increasingly sustainable sources. But the risk managers said that on the micro level, it is down to each individual to flag up the conversation and to encourage change. That applies as much internally within a business as it does within everyone's home.

ORGANISATIONAL CHANGE

That sense of personal responsibility, said the risk managers, does mean the sustainability conversation is actually changing the shape of organisations in other ways too.

For example, the next generation of workers has a very different outlook on life. Many are not so bothered by the fat pay cheque and company car. Instead they want to be able to walk or cycle to work, have a clear conscience about the impact the business has on its environment and to feel that, ultimately, they are doing good in some way.

Attracting the brightest and the best has become a new sort of challenge, risk managers reported, while the same conversation actually has an impact on urban development as a whole. Some risk managers reported that their boards are reconsidering that new out-of-town development, simply because it will require people to drive to reach it, while others are warning that some districts of capital cities could become ghost towns if businesses cannot find the staff prepared to work there.

The following quotes sum up the response to this question by this year's participants.

HOW DO RISK MANAGERS INTERPRET SUSTAINABILITY?

Alessandro De Felice, president, ANRA, and chief risk officer, Prysmian Group:
"It is all about how the company impacts the environment around it – that is both in physical and human terms. We aim to leave the world in a better place for the next generation. As the risk manager, I am part of the team that is responsible for this non-financial disclosure document but also responsible for translating risk into quantifiable impact.

"We have to have a better understanding of potential climate change and how it might impact our supply chain. There has been a massive improvement in this work in the past four or five years. Being part of the Dow Jones Sustainability Index means we have made a commitment to invest and to be transparent – both of which are key to a sustainable business."

Hans Berkers, director of risk management EMEA at Johnson Controls International:
"At a basic level, sustainability for us is to make sure a building does not burn down, so it is sustainable – it is about safety and ensuring that people are not killed as a result of corporate activity. Sustainability means different things to different people. Should we as risk and insurance managers own the subject? No. It is up to the company as a whole and all individuals."

Vito Fortunato, insurance manager at retail giant Migros:
"We take sustainability extremely seriously and for us it runs deep through the company. Migros does not sell alcohol, tobacco or e-cigarettes and has a strict enforcement policy on its internal approach. For us, it is about credibility.

"The company also stops short of investing in many other businesses in case they might breach its internal ethics – that includes banks or pension funds, which it might consider unsustainable."

WHAT IS THE ROLE OF THE RISK MANAGER?

Jorge Net, insurance manager at retailer group Jerónimo Martins:
"The biggest difficulty in communicating about sustainability and cyber risks, as well as other

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risks like D&O, is that it they are such sensitive subjects and can be so compromising to the company, that few people can take part in the discussions."

Paola Radaelli, vice-president, ANRA, and risk management senior consultant at Strategica Group:
"The role of the risk manager is to understand the importance for the company of sustainability and resilience in a changing environment. There are some issues we can try to solve; others we must find a way to adapt.

"If we are considering an investment, there are opportunities as a risk professional to steer that investment and to consider it with a sustainable eye. As risk professionals, we can actually become more relevant to the business through this kind of work. We will have to take care of the risks in a different way going forward and we are well positioned to take that long-term view and to work with management on that."

Paulo Moniz, head of security and IT risk at energy group EDP:
"Risk managers need to learn how to communicate about sustainability risks. If you do not know how to communicate, the executive board of directors will not understand the risk and will not act on it.

"Risk communication is of the essence today. It is very difficult to spread the message about issues such as sustainability. Financial risks can be quantified with well-established mathematical formulas, even if they are not always accurate, so there is a framework to use. But that is not the case with other risks."

AND WHAT OF THE NEXT GENERATION?

Reiner Siebert, GVNW managing director:
"The next generation is far less interested in having a company car or even in the salary, but wants to see an improved work-life balance. We already know it is no longer a beauty parade for companies but instead, for students as they choose which company they want to work for. You cannot get qualified staff easily any more and companies have to learn to be flexible enough to attract the right staff."

OPERATIONAL RISKS CAN BE MANAGED...

Carl Leeman, chief risk officer at Katoen Natie:
"For example, as a risk manager we can offer advice if there is construction on a specific location. Is that a flooding area, is it at risk of high winds and does it have a high frequency of lightning? We can also advise on the safety and risks of installing solar panels, or we can offer solutions around getting building permits."

...AND SO CAN REPUTATIONAL RISKS

Marc Rombouts, insurance manager at the University of Louvain:
"In the education sector, image is very important. Not least because we have eminent professors researching and speaking on climate change. We need to make sure we are behaving in a compatible way with the messages coming from our famous professors. UCLouvain has the ambition to become carbon neutral in the coming years."

Sabrina Hartusch, global head of insurance at Triumph Holding:
"The textile sector had suffered from bad press in past years because of working practices in Asia. How people are treated is also about sustainability. I think the mindset has shifted in the textile industry and we understand that, but that shift is still to come in other sectors.

"We have employed a specific ESG specialist. We have always considered it as an issue but now there is a real person for people to engage with. Giving visibility to the way the company is handling the sustainability challenge was crucial in reducing reputational risks."

Carl Leeman of Katoen Natie says risk managers can advise on the safety and risks of installing solar panels

Ines Surholt, corporate non-marine risk and insurance programme manager, Nacora International Insurance Brokers:
"Supply chain risk management is a vast topic. Next to logistics performance capabilities, it is equally important to consider the supplier's sustainability footprint. Supply chain risks may put reputational pressures on companies. Customer relationships may be negatively impacted by news of unsustainable partners or practices within the supply chain. However, there will always be competing interests between the fastest and most cost-efficient logistics solution and the most sustainable way of managing logistics."

CAN INSURERS PROVIDE SOLUTIONS?

Carsten Schirmeisen, head of group insurance and risk financing at LafargeHolcim:
"We need a partner that can work with us, with a similar approach to sustainability, and that can provide solutions in this regard. It is not just about premium but about appetite for the risk, delivering good service. We are very ambitious in terms of our carbon footprint and sustainability, and we want our insurance partner to understand that."

At your back

The insurance industry always sells the promise of peace of mind and financial security but, when it comes to cyber risks, is the story as straightforward?

◇ CYBER

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Who would have thought just a decade ago that words like malware, computer viruses, worms, Trojan horses, ransomware, spyware, adware and scareware would become part of normal conversation. Sadly, the exponential development of the internet and global connectivity has brought just these sorts of the words into the vernacular.

The good news is that most of us are now aware of the cyber threats and (mostly) will take some basic security precautions to protect ourselves and our data.

Last year's introduction of the General Data Protection Regulation, with the threat of hefty fines for disobedient firms, has also had an impact. Most people report a drop in the spam making its way into their inboxes and the ability to unsubscribe has become that much easier.

It also increased awareness among businesses of the need to be that much more careful with their clients' data – it really is worth its weight in gold and must be protected in the same way.

Last year, much of the conversation in the risk management community was about the large-scale attacks – including WannaCry and NotPetya, to name the two most commonly known incidents.

This year, the conversation has turned to a series of large fines for data breaches at major companies – €50m for Google, $230m for British Airways and $123m for Marriott.

Google was fined €50m under the GDPR in January 2019

Companies want to be sure they are protected as far as possible. So, gone are the days when the IT department was a locked door for risk managers – today all parts of the business from the boardroom down are involved in the conversation.

And companies want insurance they can have confidence in. They want policies to react when called on and to provide sufficient limits for what can be a hugely difficult thing to price.

INCREASING UPTAKE

Back in September, Marsh and Microsoft published a survey that showed the number of global organisations buying cyber insurance is on the rise, as insureds grow increasingly confident about the cover on offer.

The survey of 1,500 organisations found that 47% of organisations have cyber insurance in place, up from 34% when a similar poll was conducted in 2017. Unsurprisingly, it showed that larger firms are more likely to have cyber insurance. Some 57% of those with annual revenues in excess of $1bn had a policy, compared to 36% of those with revenue less than $100m.

This is reflected in the Risk Frontiers Europe 2019 electronic poll, which found that 56% have cyber cover but 25% do not.

A UK government survey estimated that in 2014, 81% of large corporations and 60% of small businesses suffered a cyber breach. The average cost of a cybersecurity breach is £600,000 to £1.15m for large businesses, and £65,000 to £115,000 for SMEs. However, these

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"We are not scared of a data attack but what about the data of third parties?"

(latest available) figures are five years old and the expectation is that the cost of breaches may well have risen since then.

Meanwhile, uncertainty about whether available cyber insurance can meet their firm's needs dropped to 31%, down from 44% two years ago. In addition, 89% of those with cyber insurance were highly confident or fairly confident their policies would cover the cost of a cyber event.

Risk managers are still concerned – 81% of risk managers who took part in the Risk Frontiers Europe electronic poll said their cyber exposure is increasing.

It also revealed that risk managers were among the most confident that a policy would adequately serve the company, should an attack or breakdown occur.

That appears to be backed up by some of the insurance associations. For example, the Association of British Insurers has, for the first time, revealed that 99% of claims made (207) on ABI-member cyber insurance policies in 2018 were paid. This is one of the highest claims acceptance rates across all insurance products, it said.

Despite this, however, it warned that the take-up rate of cyber insurance by businesses in the UK is "still worryingly low", with the overall market size estimated at less than a tenth of the size of the UK's pet insurance market, for example. Just 11% of businesses are thought to have a specific cyber insurance policy in place, meaning millions of small businesses could be at risk.

SILENT CYBER

Insurers are certainly encouraging cyber cover take-up, however nothing is ever as straightforward as it may seem. The spectre of so-called silent cyber raised its head like never before in 2019. As the insurance market contemplated its own sustainability and pushed hard for increased rates, it also woke up to the threat already sitting on its books.

Selling policies, such as property, without specifically excluding cyber in the wordings had opened up a huge can of worms. Silent cover is where no cyber exclusion exists but there is no affirmative cover either. This leaves neither insureds or insurers knowing where they stand, and it is leading to coverage disputes.

And, while insurance broker Willis Towers Watson was also reporting that insurers were feeling more confident on the issue of cyber insurance by August this year, it also appears risk managers and brokers will have to work doubly hard during the coming months if they want to maintain their current covers.

There has been a concerted effort by the insurance market to tackle silent cyber and brokers are warning that it may potentially leave some customers with serious coverage gaps.

Buyer representatives are well aware of the disputes that can arise from silent cyber. Following the 2017 NotPetya and WannaCry cyberattacks, there are said to be ongoing disputes between Merck and its insurers, as well as Mondelez and Zurich Insurance.

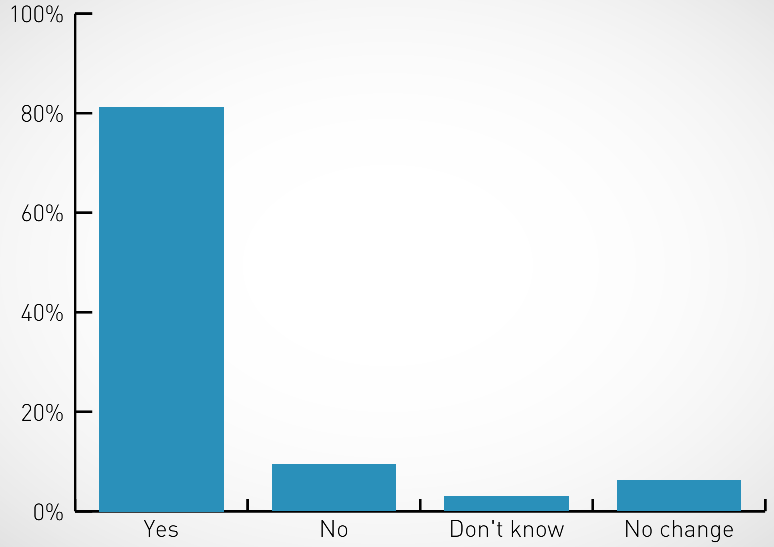
Partly driven in the UK by regulatory intervention from the Prudential Regulation Authority, Lloyd's has told its syndicates they must make clear whether they include or exclude cyber risk in property policies by the 1 January 2020 renewals. They will then have to do the same in other lines shortly after.

There is also growing, parallel action on this topic among the large, global company insurers. Kicking off with Allianz Global Corporate Specialty late last year, more and more have publicly stated they are removing non-affirmative cyber cover.

Alex Mahnke, president of GVNW, added: "With more of our companies working in increasingly virtual worlds, the question that should worry us is whether there will be enough capacity and also underwriting skills to offer us sufficient cover on adequate terms and conditions. Currently, I have my doubts.

"Our discussions with insurers around silent cyber is evidence of this because it shows they don't understand what they are doing. That probably won't increase their willingness to provide us with coverage. That will be a big problem."

Is your cyber exposure increasing?



Some 81.3% of respondents said their exposure to cyber risks is increasing

"The question that should worry us is whether there will be enough capacity and underwriting skills to offer us sufficient cover"

RISK MANAGER VIEWS

Risk managers may be well aware of what is going on, but that does not mean they are totally happy with the direction of travel.

Some 81% of those surveyed for Risk Frontiers Europe 2019 said their cyber exposure is on the rise, while 53% of risk managers who completed our electronic survey said they wanted cyber cover as part of their other insurances, and 47% were happy to have standalone cover. Only 56% have any cover but 19% said they were considering it.

Broadly, the risk managers welcomed clarity but said there are still plenty of issues around standalone cyber cover, which are far from clear. They still battle to identify the correct limits for cover, for example. Ask for too much, they said, and the cover becomes prohibitively expensive; ask for too little and there is the risk of gaps in the protection.

Ironically, the actual cyber policies, the risk managers said, do have clearer wordings.

Some of the risk managers surveyed pointed out that cyber cover is newer and has been built in a modular fashion. Instead of the traditional policies where endless policy wordings are simply bolted on and run the risk of confusion, the cyber policies are clearer, they said.

However, regardless of the wordings presented, they agreed it was the responsibility of the risk managers and insurance buyers to ensure it was fit for purpose and to take responsibility for that decision.

Fundamentally, they said, there is cover available, however there are still questions about limits and how it would operate in the event of a claim. Some of the risk managers surveyed admitted that much of the problem lies at their door.

It is, they said, still extremely hard to put an exact figure on their exposure. Are they overinsuring, they wondered, or not asking for high enough limits? Until they have experience of the true cost of a breach, they feel they are working in the dark.

One group of risk mangers meeting for the Risk Frontiers Europe survey admitted there is not necessarily enough understanding internally of the actual exposure the company faces in terms of cyber threats.

> "You could be exposed to claims from [third-party] risks but does your insurance policy cover that?"

It is still hard to quantify the risk internally, they said, because it is such a fast-moving area.

Third-party liability is a particularly difficult area, they agreed, in terms of establishing liability and then the limit of that liability.

Carlo Cosimi, vice-president ANRA and head of insurance & risk financing of Saipem, summed it up: "We are not scared of a data attack but what about the data of third parties? If your system feeds into the system of third parties, there is a big problem. How is that data protected? What are the risks? What are your liabilities and what might the limit of those liabilities be?"

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Supply chains prove very problematic, they agreed. Those third parties could well outsource some of their services and then the risk multiples very rapidly – and that is very hard for the core organisation to manage.

"You could be exposed to claims from those risks but does your insurance policy cover that?" asked one risk manager.

The group agreed that the insurance industry could have a key role in supporting insureds through that quantification process and then also in terms of providing adequate cover.

Third-party risks can also bring enormous reputational risk as a result of any cyber breaches and, while the value of that can be hard to quantify, it could also result in the total downfall of the organisation.

It is a risk that is hard to protect via insurance – and claims take a long time to be settled. In the meantime, the harm done to the company can quickly become irrecoverable.

While the insurers are quick to reassure that they can help, the scale of claims and the likely frequency are only really just emerging – it is still a class of business in its infancy.

What the risk managers all agreed was that cyber risk is here to stay for the foreseeable future. Talk of blockchain solutions and other improvements are all offering hope, they said, but there was also recognition that cybercriminals seem to be always one step ahead.

As risk managers, they said, their responsibility is to ensure that internal security is as good as it can be and that they work with third-party suppliers as much as possible to reduce those risks too.

To some extent, the conversation is a repeat of last year – the difference for 2019 lies in the changing approach of the insurers and a hardening stance in terms of silent cyber, with a clearly identified need to have standalone covers in place.

The Portuguese experience

The experience of risk managers in Portugal mirrors those in other European countries. In Portugal, they said, insurers are asking to review cyber contracts in a bid to adjust premium rates as risks covered by policies evolve.

"A while ago, we were notified by the insurers who write our traditional coverages that they wanted to check our cybersecurity arrangements to recalculate premium rates for policies that are designed to cover other risks," said Paulo Moniz, head of security and IT risk at EDP, the energy group.

"They are reviewing their coverages to introduce new conditions in response to our cybersecurity capabilities. So, it appears insurers are not so static as they sometimes seem, at least when it comes to meeting their own needs," he added.

Portuguese risk managers agreed cyber policies are subject to this kind of approach by carriers because of the fast pace of change in the risk landscape. In fact, according to Pedro Cupertino de Miranda, the director of risk management at retail group Sonae, the insurance market has done well in keeping up with the threat.

"We bought a cyber policy for the first time four years ago and the degree of maturity of the coverage today means it looks nothing like it did then," he said. "It was very hard, at first, to understand the policy wording and how the risks could manifest themselves in our day-to-day operations. In this aspect, the coverage has evolved a lot."

But Mr Cupertino de Miranda also noted that, by reviewing policy conditions, the outcome may not be totally positive for policyholders.

"In terms of coverage, it is a natural process for insurers to create exclusions as loss events take place," he said. "Cyber events have become more frequent with higher impacts and I believe we tend to see coverage that has become less broad and more expensive."

What has not been tested so far, for many clients, is the efficiency of cyber coverages. That is why Mr Moniz has decided to put his underwriters to test.

"We haven't had any cyber claims yet. But we frequently organise cybersecurity drills within the company and we participate in initiatives organised by the armed forces and security agencies," he said.

"We have decided that, for our next drill, we will test the insurer's ability to react to a cyber-event scenario. We will get in touch with them without previous warning to check how they will react if we were to suffer a cyberattack."

The point of claim is where the value added by an insurance policy is actually experienced by companies. However the risk managers said there are still situations in which the claims handling takes too long, causing potential problems for policyholders.

"In terms of claims, we have faced losses of all magnitudes. We feel that, often, in large losses, it takes a long time for the claim to be processed, as it entails an investigation stage, adjustment, impact valuation and so forth," Mr Cupertino de Miranda said.

"It is not always a seamless process and the decision on whether the claim will be paid can also take a long time. Sometime, insurers quantify the potential payment that clients are entitled to and gradually release the money," he added.

"We had a case some years ago when a 21,000m^2 retail park caught fire and it took several months until the claim was settled, even though it was handled well. If we had needed the money to open a new store or trigger a business continuity plan, it would have affected us."

Should risk managers manage the insurance programme?

This year, we asked risk managers across Europe whether they should be buying the necessary insurance programmes or whether the job should be handed over to the procurement function. At the same time, we asked what makes for a good CRO...

◇ RISK TRANSFER

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Who should buy insurance? Slightly provocatively, we asked whether risk managers could, or even should, hand over insurance buying to procurement.

At the same time, we also asked: what are the skills and education needed to turn risk managers into chief risk officers (CRO)?

Could they become a CRO and relinquish the nitty-gritty of insurance buying to the procurement department?

The answer was surprising in that it was not the perhaps-expected unequivocal "no". Instead, some risk managers reported that, in fact, they already work closely with the procurement department and some, mostly those involved with government in some way, have to hand over insurance buying to ensure transparency and that there can be no question of any skulduggery.

Hans Berkers, director of risk management EMEA at Johnson Controls, was one who summed up how it can work, but who was also aware of the potential risks.

"Procurement has an important role to play and becomes involved in all areas of purchasing. If someone is educated in insurance within the procurement department then it could work, especially for more commoditised product areas such as motor fleet.

"But our liability policy is 180 pages long, which is difficult enough for me to understand, let alone non-insurance professionals within the group."

Risk managers surveyed said they preferred to be in charge of the insurance buying

Overwhelmingly the risk managers surveyed said they preferred to be in charge of the insurance buying. They agreed it is the responsibility of the risk managers and insurance buyers to ensure it is fit for purpose and to take responsibility for that decision.

For that reason alone, it is imperative that insurance buying stays with the risk management team rather than become a procurement function, they said.

While the group agreed it was possible for procurement to be heavily involved with the initial negotiations on price, the risk managers also argued that few in the procurement teams would want to see the deal through to the end of the claims process – something

"Our liability policy is 180 pages long, which is difficult enough for me to understand, let alone non-insurance professionals within the group"

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that might happen years after the insurance was initially placed.

Risk managers across Europe were unanimous in their belief that procurement teams had no interest in managing claims or even considering whether the insurance programme remained fit for purpose throughout the year – they would want to negotiate once on the price and then revisit the conversation a full year later.

As one German risk manager told Risk Frontiers Europe: "The procurement manager did ask how many days he would have to consider the insurance programme. I told him it would be a daily job. He simply shuddered."

Another risk manager, this time in the UK, explained: "Procurement is about numbers rather than relationships. Insurance policies are about buying a promise and trust – they are more than about numbers.

"You also have to have a critical understanding of the risks facing your business and the best way to mitigate those. Of the risks you choose to transfer, you have to make sure the transfer will provide the right levels of protection."

"We cannot buy insurance on price alone and simply go after the lowest prices," said another, while others agreed they have much greater concern around ensuring they have the right cover and that claims will be paid promptly, than about the cost.

WORKING TOGETHER

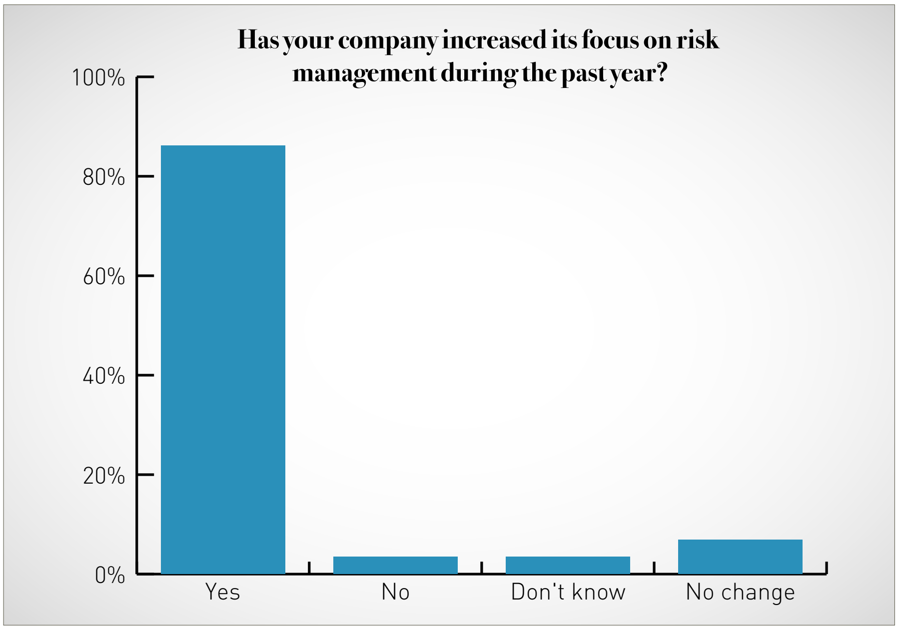
Luis Campilho, insurance director at Efacec, a risk engineering firm in Portgal, summed up some of the ways the teams can work together, explaining: "In our case, insurance management is not integrated into the risk management department. It is integrated into corporate finance, along with the management of financial risks like foreign exchange, interest rates, commodities, credit and liquidity."

He was equally sure about who should be in charge of purchasing cover: "I do not believe that insurance purchase should be delegated to the procurement department. The purchase of insurance involves several peculiarities.

"For example, the main focus of procurement is price and that must not be the main focus when insurance is purchased," he continued. "Purchasing new coverages and renewals demand careful risk analysis, which is often interlinked with other company policy, which the procurement department is not involved with."

However, few were totally opposed to the involvement of the procurement team. As one said: "Procurement teams can be very useful to have in the room when you are negotiating rates. It is the good-cop, bad-cop scenario. They are the bad cops arguing down on price and I am the good cop understanding the risk and the issues facing the insurer.

"We end up with lower rates, which pleases the procurement guys and the company, but I still have a solid working relationship with my insurer. A win-win for everyone."



Companies' focus on risk management is clearly increasing, with 86.2% of respondents stating it to be the case at their organisations

Daniele Zucchi, captive manager at Saipem /Sigurd Rück, believes that, in certain circumstances, procurement could have a greater role in buying of insurance.

But he suggested: "It should only be for standardised classes of insurance and not the complex types of insurance. And it depends on having someone within the procurement department who is sufficiently skilled to know what they are doing."

Mr Zucchi stressed however that when it comes to complex risks and claims, then almost all companies will want the process managed by a risk professional.

The risk managers did agree that procurement specialists are an asset that can be used selectively to assist where required, but not to be relied on in total for the insurance buying.

"Insurance is not a simply product. It is not picked off the shelf and bought but rather, it is a collaboration between insurer and insured," said one.

The other challenge for procurement teams, the group agreed, is the time they would have to spend on appreciating the various laws and compliance requirements within which the business may have to operate.

"Procurement teams can be very useful to have in the room when you are negotiating rates. It is the good-cop, bad-cop scenario"

The risk managers believed that they are uniquely positioned to bring differing parts of the business together and have the crucial overview of the risks and exposures of the whole business – a job that procurement would have little interest in.

Leaving insurance buying to anyone but risk professionals risks exposing the company to some dangerous shocks, agreed those surveyed.

Nathalie Vandenbroucke, compliance, risk and insurance officer at BAM Belgium, was among those who feared procurement would buy insurance simply on the lowest rate and rely too heavily on brokers for advice.

"Brokers have their limits and their own strategy," she suggested. "We know our own business better than anyone and we understand the risks for which we need coverage.

"Procurement teams do not always understand the loss side – how to handle a claim, how to negotiate, how to get a claim paid in good time."

Others worried about the claims process too. Boards are always concerned that claims are settled quickly and in full – something that often requires a close relationship with the broker and underwriter – and something that procurement teams simply do not have time to develop.

Another challenge would be in understanding the nuances of any policy – would procurement teams have the time and knowledge to be able to explain the intracacies of policies to various parts of the company?

The risk managers around the table were in full agreement that, even in a hardening market, buying insurance was best left in the hands of the risk experts.

CRO – TO BE OR NOT TO BE?

The question then became one of whether or not risk managers should aspire to the role of CRO, and whether having that voice on the board was an essential evolution for risk management.

Risk managers surveyed for this year's report concluded overall that it is not necessarily the right approach to pigeonhole the role of the risk professional, they suggested, but rather to allow him or her to have a fluid role where their skills can be maximised.

The danger of a single CRO, some said, is that the CRO might be tasked with treasury and organisational risks at the expense of operational risks – or vice versa. The risk professional instead has to have a wide-ranging remit encompassing all aspects of the business.

However, the value of a CRO in being the voice of risk on the board was not underestimated and many cited the value in having a CRO on the board who is able to develop the risk agenda and be the voice for the rest of the business at board level.

They also argued it can be crucial to have one central role where all elements of the business can be brought together.

Much depended, they agreed, on the size and type of business and the way in which the company as a whole operates – for example, being a family business or a multinational corporate with operations in 100 countries.

"It really depends on how the role is perceived within the company. Personally, I would rather have my own function operate with direct access to the board," said Titus Tiel, director of safety, risk and insurance at Pon Holdings, based in the Netherlands.

Adri van der Waart, Narim president and corporate insurance manager at Arcadis, said in his organisation the insurable risk team works closely with the CRO to deliver solutions to the key risks.

So, what are the core skills that the modern-day risk and insurance manager needs to deliver for their company in this rapidly evolving global economy? "If you talk skills, then you definitely need technical knowhow. But at the end of the day, in my view, the most important skills needed are the ability to effectively negotiate and social skills, which you either have or you don't," said Mr van der Waart.

Adri van der Waart said that at Arcadis, the insurable risk team works closely with the CRO

"This is important because, at the end of the day, we are the ones who have to raise the potential difficulties and therefore you need the ability to do this well and for it to be accepted and strategies agreed. Again, it also depends on your position in the company."

Juan Carlos López Porcel, president of Spanish risk management association AGERS and head of risks and insurance at ArcelorMittal España, stressed that professionals must make an effort to keep up with the latest trends and technologies.

"Risk management is delivered by teams within organisations and that is why it is so important to emphasise formation," he said. "Constantly updating one's knowledge, so that one can position oneself on the front line, as well as being able to anticipate events, coupled with an adequate communication policy – these are essential characteristics of future CROs."

A French risk manager from the telco sector summed up the skills required: "Risk management is one of those functions where we have a 360-degree view around the business – and a view of the horizon ahead."

A case in point: The Italian job

On 18 April 2019, the Italian parliament approved new laws for class action lawsuits, substantially widening the types of class actions that can be brought, as well as changes to their defensibility.

The new rules come into force in April next year. Previously, class actions could only be brought by industry bodies or non-profit associations, but this will change to allow any individual to launch a class action.

Class actions may now also be brought against public service providers, or bodies that manage services in the public interest, in relation to any breach committed in the performance of such service.

While the impact on business has yet to be seen, it is an area that risk managers believe will grab the attention of boards like no other. D&O protection is one of the occasions when risk managers are really listened to, they agreed.

It is also a really good example of why risk managers strongly believe they should maintain control of the insurance buying for their organisation.

They agreed that a broad understanding of the risks of the business is vital in making the right choices for any insurance programme and this is something that procurement, for example, would not have the time to invest in.

However, in Italy, state-owned entities are legally required to give insurance-buying processes to the procurement team, to ensure a proper segregation of duties, and the group of risk managers said they could understand the need to do that.

For privately owned corporations they agreed, however, that leaving risk transfer to the risk team made good sense – with collaboration from procurement, who could cover support in terms of negotiations.

Alessandro De Felice, president of local association ANRA and CRO at Prysmian Group, said risk management is much more than pricing of insurance. It is also about knowledge of the whole business, governance rules and compliance obligations.

He said many risk managers have degrees in economics or law, while others have an engineering background. It is a powerful

combination of skills, he said, and gives corporations a wide view of the risk environment in which they operate.

Added to that, risk managers need a range of softer skills, including good communication skills, so that they can empathise with a range of people across the business, from the security guard on the front door to the CEO in the boardroom.

That allows the risk manager to not only understand the risks surrounding the organisation but also to communicate mitigation tools and to deliver messages both up and down, as well as across the organisation.

Carlo Cosimi, vice-president of ANRA and head of insurance and risk financing at Saipem, agreed, saying: "It is the most multidisciplinary role in a company and, as a risk manager, you need those multidisciplinary skills every day.

"You need to be able to address these risks from a variety of perspectives and be able to mitigate them or deliver risk transfer solutions to those issues."

It is not only a matter of dealing with the internal lines of communication, said Mr De Felice, who said the ability to understand the risks from wider stakeholder perspectives and to communicate with those external stakeholders is key.

He also strongly believes in the power of risk management associations in enabling risk managers to exchange ideas and experiences in a neutral setting. It provides forum for risk managers to maintain their continuing professional development and to maintain the highest standards.

Salvatore Lampone, risk manager at Leonardo Company, added that the new business code "is enabling risk managers to rise up the management structure and to have their voice heard in board meetings, if not to actually sit on the board", adding: "To do this, we have to have the skills to communicate at boardroom level."

One of the main messages, he said, is that it is impossible to have zero risk but it is possible to have zero tolerance to risk – and that is about how you manage risk within the organisation.

Returning to the question of whether risk transfer into insurance markets can be handed to procurement teams, Mr Cosimi was worried about the consequences of, for example, allowing the same people who buy five tonnes of steel for a plant to buy insurance in the same way.

"It is critical to establish relationships with your insurers. They have to properly understand your business and its risks, to be able to provide the right cover at the right price."

As a policy, he takes his chief financial officer to meet key partners in the insurance markets in London or in the US, so that there is a broader understanding of the way insurance operates and of the services it can offer the business.

The Italian group of risk professionals were not opposed to collaboration and to having procurement play a role. Mr Lampone also said the actual purchase of insurance is done by someone else in his company, to establish that important segregation of duties; however, he is very much involved in establishing the areas where cover is needed and in managing the insurance programme once paid for.

Mr De Felice said the conversation points to the way in which the role of risk managers has changed in recent years and the move towards enterprise risk management. "The profession has a more holistic role these days," he said, "and the risks need to be addressed with a coordinated approach.

"It needs to embrace both risk appetite within the organisation and risk financing. We transfer risk to the insurance market that is in excess of our risk appetite, but to do that you need a broader understanding of the company than simply the cost of that insurance package."

Turning to the state of the insurance market at the moment, the risks managers reported that it remains soft, with plenty of capacity for their risks.

Wait and see?

Insureds and insurers are playing a game of cat and mouse at the moment, as insureds wait to see how the insurance market increases rates and whether the push for a harder market truly works. With plenty of capacity around, the risk managers questioned for the Risk Frontiers Europe 2019 survey worry that rates might be applied unevenly and that would create a whole new type of risk

◇ THE MARKET

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A crackdown by Lloyd's on underperforming syndicates in May 2019 has reduced available capacity

Right now, risk managers across the globe are playing a wait-and-see game with their insurers. Will the much-vaunted rise in premiums happen – and will they hold?

Risk managers have been asking the same question for a number of years but in 2019 it appeared that, perhaps, there truly would be rate rises. However, as always, it was a far from uniform picture. Not only were there geographical differences but also huge variances between classes of business. And, as the meetings for Risk Frontiers Europe took place through the year, there was evidence of changing views as 2019 progressed.

According to the Risk Frontiers Europe 2019 survey, 69% of respondents felt the market was hardening, while 17% thought not and just under 7% said they didn't know.

Asked if the trend was likely to continue, risk managers were not quite as confident, with 62% believing it would and 27% saying not. A little more than 11% said they could not predict.

However, it emerged that, overall, risk managers were not unhappy with the prospect of rate rises, as long as they can see the justification, they receive value for money and there is sufficient capacity for their needs.

To date, they reported, the insurance industry mostly continues to deliver. However, few were convinced that any increases they are encountering are truly here to stay.

Insurance buyers from Portugal were typical of the overall view.

They want to be sure that the change of direction is a sustained long-term trend in the market which, as yet, is not entirely clear, they said.

"I do not believe that the market is hardening," said Luis Campilho, insurance director at Efacec, an engineering services group.

According to Mr Campilho, his company – which is involved in infrastructure projects around the world – is still able to find all the coverages it needs in the market. That, he said, is not indicative of a hardening market.

"We need specialist insurers but after changes in London, particularly at Lloyd's, capacity has been disappearing"

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The exception, however, is for solar projects. "In recent years, we have looked for coverage for solar plant projects, but we have not been able to find it," Mr Campilho said.

Cécile Bellord, French risk manager at Louis Dreyfus Armateurs, also sees problems in select areas.

As she explained: "For marine insurance it is a real nightmare. We need specialist insurers but after changes in London, particularly at Lloyd's, capacity has been disappearing.

"It should be good news for continental insurers as they have an opportunity to step in and build their market up, taking advantage of the London moves. But that is not happening, which just means it is difficult for those of us in this sector to find cover at the right price."

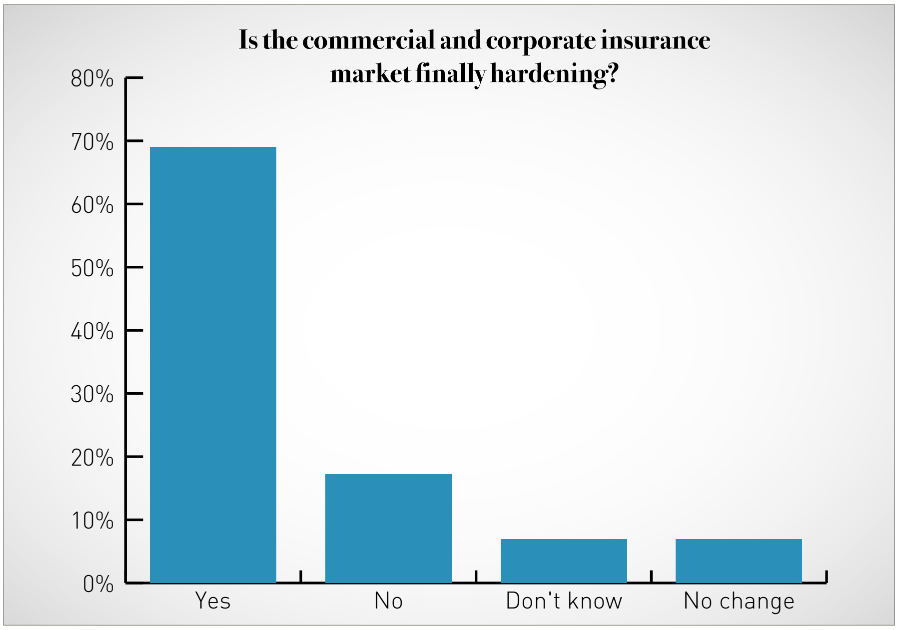
She admitted she was very worried by the prospect of the company's next renewal, despite a good claims history, because it will be driven by reinsurance availability as much as by what the primary providers are prepared to do.

If insurance is not readily available in Europe, she believes international firms will turn to other sources, including the likes of Singapore and China. The others agreed that they would look to alternative markets but said this would come with its own challenges. And there was real concern about the claims service if they were dealing with insurers in other parts of the world.

Other risk managers reported that jurisdictions such as the US and Australia offer the biggest challenges in casualty lines, while catastrophic regions lead price hikes in property, which are not limited to areas hit by natural events, reported the risk managers.

And it appears that property, D&O, as well as professional and indemnity (P&I) insurances are the toughest areas for negotiations as 2019 draws to a close.

"There is no doubt that there has been a significant change in the insurance market's perception of



companies' needs. What concerns me the most is a change of risk appetite among many insurers for some specific sectors or special projects," said one Spanish risk manager.

"More than a price issue, which also exists, the biggest problem, which can be very negative and dangerous, is the lack of answers to the transfer of some risks that, until today, presented no placement challenges."

KNOCK-ON EFFECTS

Risk managers were concerned that a scarcity of coverages that are essential to companies could have wider effects than simply depriving their business activities of insurance protection.

"I sincerely fear that all the progress that we have made in terms of helping companies to value insurance, and to see how relevant risk management is, could be hampered if hardening implies sending a message that the market refuses to provide solutions, thus preventing certain deals to be closed, or denying coverages that risk managers need to solve problems that cannot be tackled otherwise," warned one concerned voice.

However, Jorge Neto, insurance manager at Portuguese retail group Jerónimo Martins, said that, even

Almost seven in ten respondents said they believe the market is hardening

if insurers are now in a stronger position than before, they will find it hard to raise rates for clients with good risk management histories. They will, however, look for other ways to boost their bottom line.

"I believe insurers will continue to be receptive to corporate risks, even if the market gets harder. What we can see, though, is that services that were previously included in package bundles will be charged for from now on," he said.

"Premiums are likely to stay the same as they cost now, but the final cost will be higher if we want to keep all the services that insurers provide us with today."

If this happens, it would represent a significant change for policyholders.

Another of the risk managers referenced the 'crying wolf' syndrome. "I have been telling my board that rates will rise for some years now and nothing has happened. It could be a difficult conversation if the market does change, as my CEO just laughs now when I suggest a price rise."

However, president of Amrae, Brigitte Bouquot, risk manager for Thales, bsaid: "We are at a turning point for the market. It has started in aviation and in marine cargo, but it depends on who you are."

She explained that the picture varies company to company and from mid-sized to major corporations. For most European companies, she said, it is becoming more difficult to insure any US assets at previous rates.

ADDED VALUE

While they said it will not be the same for everyone, the one thing they all wanted to see is enhanced levels of service and having sufficient cover for the classes they need.

For example, in Portugal, risk managers said: "In Portugal, insureds feel there is a dearth of support in lines such as workers compensation, civil liability and motor, in terms of participating in the risk management process and in finding ways to mitigate the risk.

"We remain too focused on traditional risk transfer, where you pay a premium for an eventual indemnification."

As one said: "Today, when we select an insurance company, we do not look at them the way that companies traditionally looked at insurers. We want business partners.

"We want to transfer the financial impact of risks, but we also want them to help us manage our risks, to identify best practices in the market, to help us with staff training. We want to talk to the lead insurer to better know its business and also to learn how we can improve our part of the process."

Pedro Nazaré, head of general services at Infraestruturas de Portugal, the country's rail and roads operator, believes the change of direction in the insurance market follows a concerted effort by underwriters to achieve better results.

"The market has hardened due to an alleged need to guarantee its future sustainability," he said. "Market leaders have firmly committed to this and other operators have convinced themselves that it is in the best interests of everyone to follow. It has been a clear trend the likes of which we have not seen for 20 years. Only one or two insurers are bucking it."

The question is now whether the market is ready for the new conditions. For Mr Nazaré, buyers are more prepared than their providers and he believes there may be some positive outcomes from a tougher insurance environment.

"It looks clear to me that few are prepared to work in a hard market," he said, "with the exception of risk managers, who have always worried about the quality and efficiency of risk transfer arrangements. For a long time, the market as whole has sold on price alone."

In the UK, risk managers agreed that insurers need to up their game. They reported struggling with late decisions from insurers on renewal programmes, particularly if it is resulting in withdrawal of cover, major changes to terms and conditions, or sudden price hikes.

"We're told by members that a number of insurers are giving short notice to sort out alternatives – lateness of decisions coupled with a refusal to extend renewals or to do so at punitive terms is particularly unhelpful," warned Julia Graham, technical director at Airmic.

Another challenge for risk managers has been the speed of change – those who renewed late in 2018 found little changing but within a few months, companies were facing the prospects of tougher terms and conditions and/or increased premiums.

"We are calling it a harsh market," said John Ludlow, CEO of Airmic, "because it is not just about price. It is unlike other hard markets in that the picture is so varied from class to class and even insured to insured."

He added: "It is a different market this time around. This is not because there is limited capital available (there is plenty); it is hugely more complicated.

"Strategically, people have moved past a tipping point, so are now not offering a certain line of business or not offering cover to just anybody, but instead are starting to properly underwrite the risks."

REGULATION PLAYS A PART

Ms Graham believes it is also being indirectly driven by regulation, with regulators exercising greater scrutiny of the results and reserving. Insurers are in turn questioning their underwriting decisions and introducing greater discipline to the process.

Airmic's Julia Graham said a number of insurers are giving short notice to sort out alternatives

Insurers are required to retain a certain solvency margin and the cost of that has forced some changes, they agreed.

One risk manager admitted that it "was scary" to see how the market had been handling proposals historically. "It was almost as if they had had a drink with someone and that was good enough," he said.

"I was concerned to see how easily they agreed to everything that was put in front of them."

Another attendee agreed: "There seemed to be a chase for premium volume, rather than disciplined underwriting. In the past, we have had concerns about the sustainability of the insurers.

"They seemed to have lost sight of the risk management of the process. I think of all the time we invest as risk professionals in planning our insurance programme and analysing our needs and then to have seen it treated so lightly was concerning."

However, they all said the speed of change has been alarming and a challenge to manage internally.

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"The pendulum has swung from a buyers' market to the sellers," admitted one risk manager.

However, Amrae president Ms Bouquot said the silver lining is that risk management will be more valued, particularly when risk managers can evidence money saving in a harder market.

Others agreed, saying it will also make the internal debate about investment that much easier. One cited the example of sprinklers. "Investing in sprinklers is a good investment and helps with improving risks but it can be seen as an expensive luxury when there is no obvious payback. This could become an opportunity to display the risk-reward ratio in a more meaningful way," he said.

"It will be a good opportunity to show the added value of risk management, but we do need support from the insurance industry in this, if it is to pay dividends."

The risk managers also debated whether a harder market might drive some groups towards other solutions such as captives.

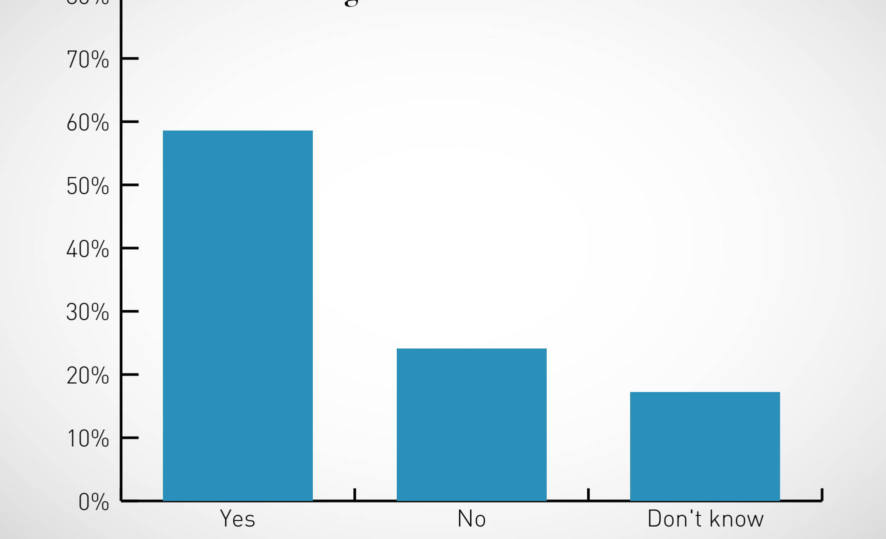
Frédéric Lycops, risk and insurance adviser, Europe and MEISA, at FedEx Express in Belgium, was one of the voices to echo this idea.

"It should drive innovation," he said, "so people will be thinking about captives and other ways to handle their programme."

But above all, they agreed, it should be a moment to prove their worth as insurance buyers and risk managers, with loss prevention key in securing better insurance rates and, importantly, better terms and conditions.

They also want to see a level playing field and to know that increases are being uniformly applied across the sector. They do not want to discover insurance costs have become a competitive advantage for those who renewed at lower rates earlier in the year, for example.

Carl Leeman, chief risk officer at Katoen Natie, again stressed the role of the broker as an added-value adviser, rather than as purely a vehicle to finding cover.



Do risk managers have the skills to negotiate in a hard market?

"I recently attended an event where we had some €1.2bn of premium between us in the one room," he said, "and every one of us agreed it was about having the right cover and having claims handled properly. Not one of us mentioned the cost of cover.

"That is not an open invitation to insurers to increase rates, but it shows that we do not think of insurance as a commodity, but instead as something to give our business value."

The importance of the relationship between insurers and insured was stressed by another Portuguese risk manager, who said: "Price stability will result in policyholders becoming more aware of the quality of the insurers they chose. In the end, the hard market could have a restorative effect on all those involved."

The message applies to underwriters, but also to intermediaries, who will have to fight harder for clients.

"It seems that all of us will have to learn best practices once more," said one risk manager. "And that does not exclude brokers, who will no longer be able to carry on being mere price intermediaries but will have to work as actual partners to clients, adding value to solutions and mitigating costs whenever possible."

Returning to regulation, Luis Filipe Caldas, an insurance lawyer who is also a member of the board at Apogeris, Portugal's risk management association, said decisions taken at the European Commission level may make the market tougher for buyers.

More than 40% of respondents were not confident that risk managers have the skills needed to negotiate in a hard maket

"The European authorities were blinded by competition issues when they limited the ability of the market to forge co-insurance arrangements," he said, referring to the ending of the EU's Insurance Block Exemption Regulation, in 2017. "It shrinks capacity for buyers. That is why Ferma is pushing to maintain the co-insurance tradition for the benefit of buyers."

Words matter

Risk managers across Europe agreed wordings matter, as these risk managers explain:

Vito Fortunato, insurance manager at retail giant Migros:

"As a group, we have a large portfolio with many different companies, so it is important we have the right limits in place. We have heard a lot of talk from insurers about the prices hardening, but the key for us is wordings. We want to have the right wordings in the policies and to have no nasty surprises if a claim materialises."

John Ludlow, CEO of Airmic:

"With a previous company, the risk management team had a pattern of gaining wordings in soft markets and then sacrificing them again when the market hardened."

A case in point: Going Dutch

Risk and insurance managers in the Netherlands and across Europe should view the increasingly tough insurance market as an opportunity to display their skills and professionalism, rather than shove their heads in the sand and hope for the best, according to the group of experienced Narim members gathered for this year's Risk Frontiers Europe survey.

The risk and insurance managers agreed that the insurance market is becoming tougher. They said it is not sharply hardening across the board as in the past, but explained that negotiations have certainly become more difficult in certain lines and especially for those with loss-hit accounts.

The survey participants said those insurance managers who have been milking the soft market for maximum benefit by shifting from insurer to insurer in search of the best terms and conditions in recent times, may be in for a rude awakening.

Relationships nurtured over the long term matter when the going gets tough, they agreed. For now, the market hardening is clearly not across the board as in 2001/2002. But the trend is definitely towards a stiffer stance among carriers, not least at Lloyd's where the new senior management team has demanded a much tighter approach from syndicates in some specialty lines.

"Whether the market is really hardening depends upon the line of business and sector you operate in," said Adri van der Waart, president of Narim and corporate insurance manager at Arcadis.

"Construction companies in the Netherlands have a major problem currently and this mainly comes from the London market. It is actually really annoying because it is not related to the loss records of Dutch companies, but really the impact of wider losses such as Grenfell Tower in the UK. The syndicates demand a 12% increase in price but this has nothing to do with our risk," he added.

Hans Berkers, director of risk management EMEA at Johnson Controls, pointed out that only those risk and insurance managers with more than 15 years' experience will have gone through a hardening market, so things could become tricky for many.

"There are many people in this market – risk managers, brokers and underwriters – who have no experience of a hard market, so this could be challenging. I have been asking for years when this [soft market] is going to stop and it looks like it may be now," he said.

The experienced Dutch risk managers all agreed that their colleagues who had maintained a close eye on safety and risk management standards during the soft market, rather than letting things slip because terms and conditions were so loose, will be better off.

"If you didn't do all the health and safety and loss prevention measures required in the last ten years, then you will have a big problem now. If you were loose on processes, then you can have trouble," commented Mr Berkers.

"Insurers are looking to trim their books, so you need to show the progress that you have made over the last three years. If you have simply been playing the market, then you are in for a hard time now," he added.

The same applies to global programmes, which have become an increasingly important area for the European risk and insurance management community. There are actually very few insurers, and brokers, that can offer a truly global service. Therefore, as the market becomes tougher and the impact of recent mergers and acquisitions bites, risk and insurance managers will have to show that their business is worth bidding for.

"There are only five or six insurers that can truly lead a global programme nowadays, so you potentially have a problem," said Ronald de Vos, corporate insurance manager and legal counsel at Nutreco.

"If two of the six merge, then we could have a real problem. This is not an easy area. To lead a global programme, you need a global network, good administration and claims handling, and be able to work with captive reinsurance companies," he added.

Another element of the supposedly hardening market worrying risk and insurance managers is the centralisation of underwriting controls and arbitrary underwriting limits enforced by head office, among leading international insurers.

This is starting to cause capacity shortages in some specialty lines and the fear is this could spread. "The insurers' underwriting models are changing. These are solvency-based decisions and it is really not clear what is driving them on the ground," said Titus Tiel Groenestege, director of safety, risk and insurance at Pon Holdings.

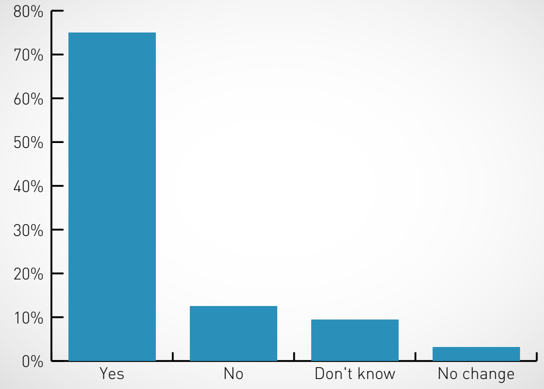
"Where you could easily find $50m to $100m for liability coverage, this can now be limited to $25m. This is happening in financial lines now and it may well happen in general liability," he added.

The response required by insurance managers to this increasingly difficult market is simple, according to Mr van der Waart: get back to the basics of decent risk management and put the effort in required to secure the best terms and conditions possible. "This is a time when you can show your quality and professionalism," he said.

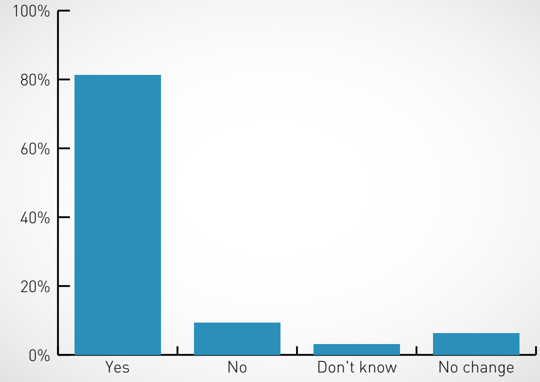
And, as Mr Berkers pointed out, at times like this it becomes clear why taking a longer-term approach and explaining that to colleagues and bosses makes sense. "You have to manage your management properly in the soft market, so they are ready for the change. Don't take the full credit in the soft market as this may come back to bite you. You need a long-term vision," he said.

The numbers

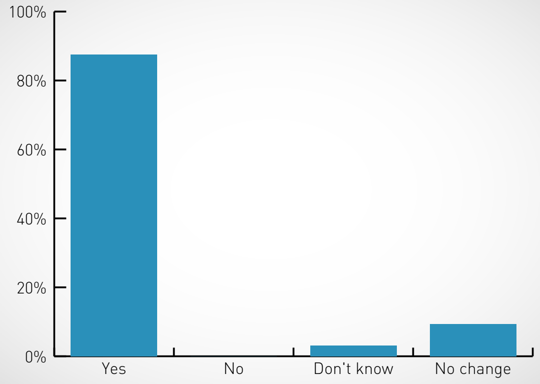
Is your climate change exposure increasing?



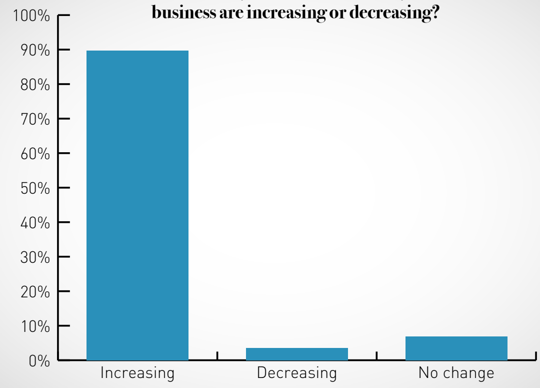
Is your cyber exposure increasing?



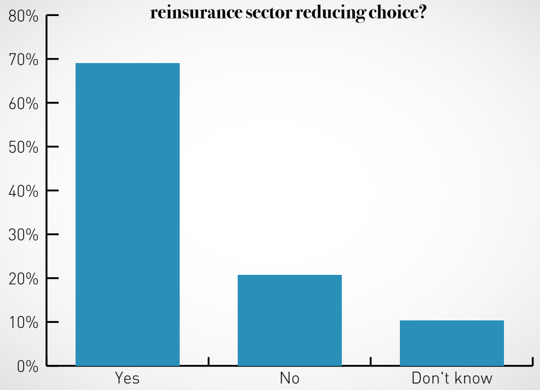
Is political risk increasing?



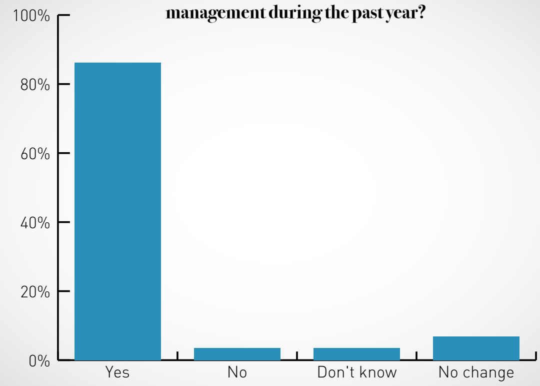
Overall, do you think the risks to your business are increasing or decreasing?



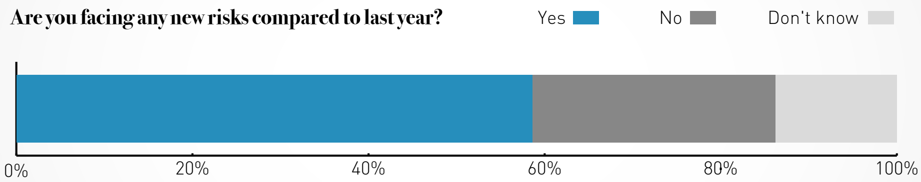
Is the ongoing process of M&A in the insurance and reinsurance sector reducing choice?



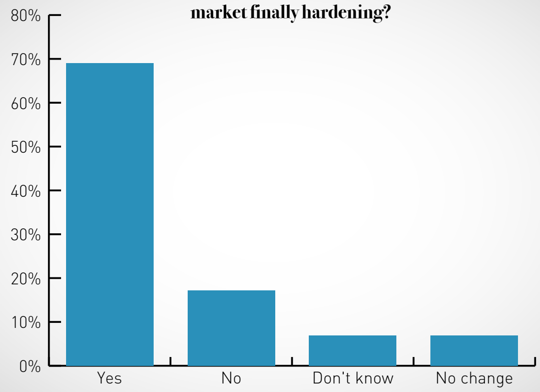
Has your company increased its focus on risk management during the past year?



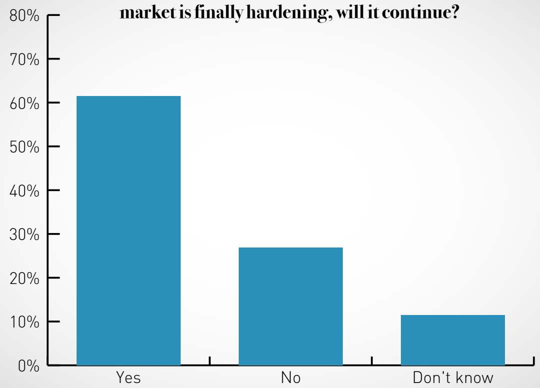
Are you facing any new risks compared to last year?



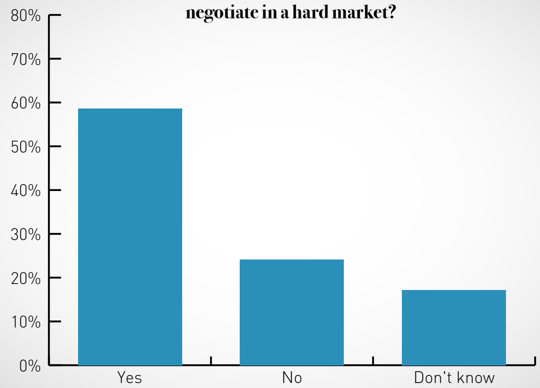
Is the commercial and corporate insurance market finally hardening?



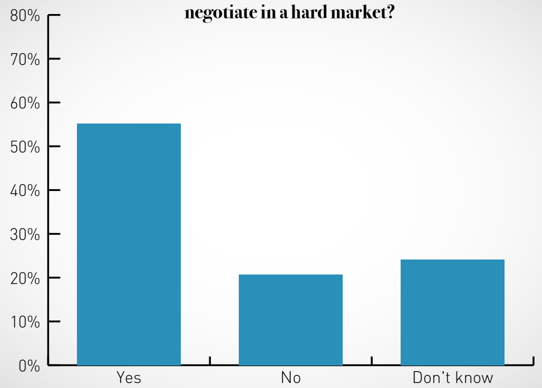
If you believe the commercial and corporate insurance market is finally hardening, will it continue?



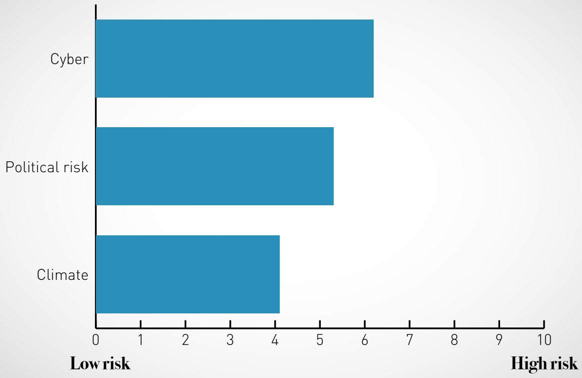
Do risk managers have the skills to negotiate in a hard market?



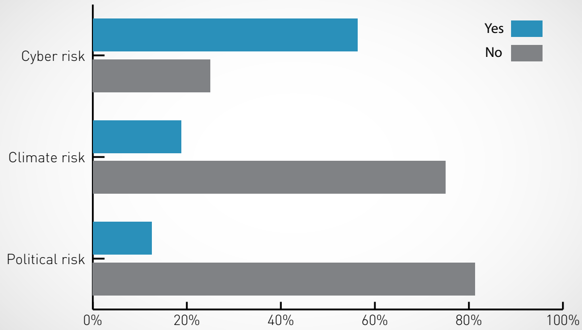
Do brokers have the skills to negotiate in a hard market?



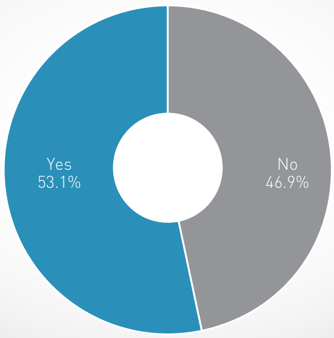
On a scale of 1 to 10, how high are these threats to your business?



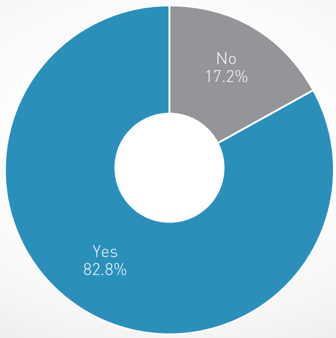
Do you have insurance for these kinds of risk?



Should cyber insurance be included within existing traditional lines of business?



Respondent group:
Are you a risk manager?



On the move

Mergers and acquisitions across the insurance industry are leading to concerns among risk managers about service and choice

◇ M&A

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This year has seen a swathe of insurer and broker mergers and acquisitions involving everything from fairly small companies to the giants.

While the businesses in question then spend time sorting themselves out, the question for risk managers is: what will be the impact on their insurance programmes?

So, for this year's Risk Frontiers Europe 2019 survey, we asked if the ongoing mergers and acquisitions among insurers and brokers were reducing choice.

Risk managers overwhelmingly responded in the affirmative. In fact, 69% of those who answered the question in the Risk Frontiers Europe 2019 poll said it was reducing choice, while 21% said no and 10% said they didn't know.

Drill down into the qualitative survey however, and the answer is not quite an unequivocal "yes". Risk managers were split down geographical lines and in terms of how their local market is made up.

Some felt the M&A activity was reducing choice and were worried about the overall impact in a market where insurers were also limiting choice by reducing their appetite for certain risks.

However, others said the mergers were actually a wake-up call in their local market and could produce good news for the insureds.

In France, for example, the risk managers surveyed said it could shake up the remaining insurers and encourage more innovation and creativity. However, they also acknowledged that fewer insurers could also make it more difficult for insureds to negotiate, simply because there will not be an alternative insurer to switch to.

There were also fears that a diminishing number of players might result in a loss of talent from the sector "killing off the opportunity for innovation". However, the French risk managers also questioned whether it could result in some new players emerging, bringing that innovation to differentiate themselves from the old guard.

Some respondents felt the recent M&A activity has reduced choice

Aileen Lowe, an insurance director with a financial institution, said: "My concern would be about asking the market to innovate and cover new risks. If the market is hardening and choices are reducing, the focus might go back to traditional risks."

Another risk manager summed up the concerns: "Often, mergers and acquisitions create great uncertainty. As insureds, we don't know who will stay and who will go, while for the insurer there is usually a period of introspection. That just creates even more uncertainty. It is really important for us to know who we are dealing with."

The fact there is a lot of uncertainty among the employees of those insurers caught in such a merger does not increase the focus of those employees on the client,

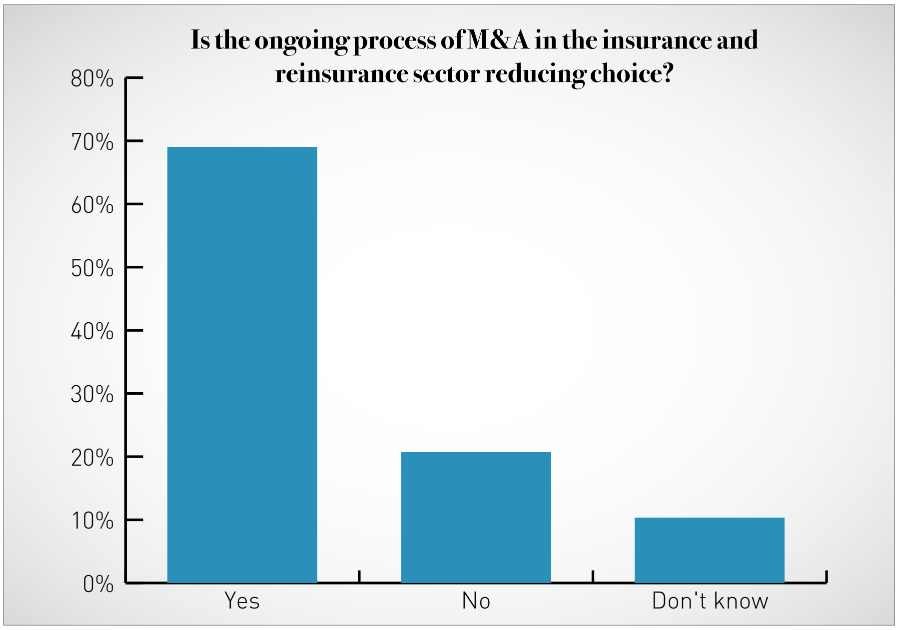
> **"Often, mergers and acquisitions create** great uncertainty. As insureds, we don't know who will stay and who will go, while for the insurer there is usually a period of introspection"

but more on their own survival, the risk managers worried.

Others pointed to history. The reality is, they said, that few of those operating either as risk managers or in the insurance world who are under the age of 40 will have ever encountered these conditions before.

And risk managers believed experience really does matter.

As one said: "You don't like to be in a position where you chose a broker for the quality of its staff (service) and then you find completely different staff members in place, as a result of movement, acquisitions or merging."



SKILLS SHORTAGE?

Asked whether the required skillsets were out there, 59% of those surveyed said they believed risk managers had sufficient skills to cope with the potential new environment, however they were even less confident about the brokers, with only 55% of risk managers agreeing that brokers had the requisite skillset.

Slightly worryingly, as well, was that 24% of respondents did not believe risk managers had the right skills, while 21% said the brokers did not have the right skills.

Brokers need to be careful to maintain their relevance and their expertise if they are to continue to have a meaningful role in the insurance cycle, warned a group of German risk managers.

They are worried that people could start losing their jobs and that could mean a loss of valuable experience. They worried that too often, mergers result in older staff leaving, either to set up their own operation or to retire, simply because they do not want to go through the upheaval that a merger inevitably brings.

As Alex Mahnke, president of GVNW, said, there are several core qualities that the broker needs, including a proper understanding of the client company. "I don't expect people to walk in and ask me what my company does," he said.

"I expect them to come prepared, have done some pre-reading and to have done their homework, so there is an understanding of what we will need from them."

Additionally, he wants to see real commitment from the broker and a willingness to have a long-term relationship. However, it is not about the individual broker but about the company they represent. "When people meet with me, I stress that I am seeing them as a representative of my company and not as an individual. It is about the understanding and the long-term commitment," said Mr Mahnke.

DO YOU MOVE?

The question became, not only could people in the market manage the process, but could or should risk managers choose a different carrier?

Almost 70% of respondents said M&A in the market is reducing choice

Moving insurer is not that easy, they admitted, and it will usually take more than a merger to force change. However, for some insureds there is no choice.

As one said: "We don't like to move because we believe our broker and insurer fully understand our risks. But if we have to, the first question is about service.

"We need good quality of service sustained for a long period of time. We need to feel we are a valued partner in the relationship and when we suffer a claim, we need to be sure that we will be covered."

Support through the claims process was seen as crucial, but another essential is having an insurer that will innovate and adapt as demand changes.

Cyber insurance is the obvious current example of this, said the survey respondents. They want to see the right cover at the right price and don't necessarily want it as a separate product.

One French risk manager said: "The main problem is understanding our exposure and understanding how we are covered through our existing insurance programme.

"We need to be in discussions with our internal teams across the business, but we also want support from the broker and insurer."

"We don't like to move because we believe our broker and insurer fully understand our risks. But if we have to, the first question is about service"

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Julia Graham, technical director at Airmic, said the changing market is actually giving ownership to risk managers, who need to take control of the process and evidence that ownership within their organisations.

"It is an opportunity to showcase your skills to the board and executive," she suggested.

Another attendee said their company, while often partnering with insurers for the long term, was not afraid of switching insurer to find the right match of cover and cost, but also importantly to ensure a spread of risk across the market. He said that desire for a spread of risk was something that the ongoing insurance market consolidation might make more difficult.

However, Ms Graham warned against changing broker and insurer at the same time: "You need some certainty in your programme and the years of knowledge that working with one or other organisation might bring.

"Change your insurer, or change your broker, but don't do both at the same time – that could spell disaster should there be a large claim and you have just given up the bank of knowledge and people who know your business intimately and would have supported you through that claim."

SMALLER COMPANIES

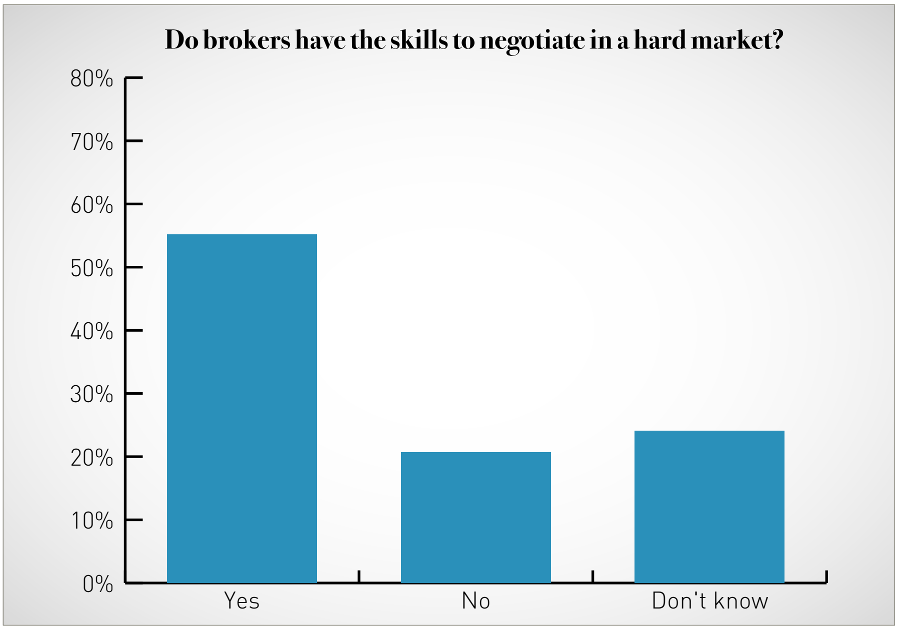
Medium-size and smaller companies are most likely to be impacted by the recent swathe of mergers and acqusitions among insurers and brokers, the risk managers suggested.

"It could impact the level of services offered and limit the available choices," said Alessandro De Felice, president of ANRA and chief risk officer at Prysmian Group.

"These companies are less likely to have an established risk management department and may well rely more heavily on their insurer or broker in particular to provide risk management advice.

"This concentration will risk the quality of these services," he feared.

In Italy, for example, the business community is 95% SMEs and only 5% large corporations, which highlights the potential risk of shifts in the insurance market.



However, Mr De Felice also sees this an opportunity for risk managers. "More companies might look for an outsourced risk management solution," he said, "and that could create opportunities for risk managers to offer consultancy services in the future."

Likewise, smaller brokers might see new opportunities to offer niche services to the middle market – a view shared across European markets.

The key, reiterated Mr De Felice, is that the person at the other end of the deal properly understands his company and its requirements.

Almost half of the respondents were unconvinced that brokers have the skills needed to operate in a hard market

ANRA president Alessandro De Felice believes the recent M&A could impact service levels and limit choice

"They need to understand what we are doing and what our organisation is about. They need to understand our goals and how insurance plays a role in protecting that," he added.

"We don't necessarily want a standard package but instead, something that is tailored to us. Cyber is a good example of how we are seeing cover offered on a standard basis but that will not necessarily match our needs."

Another challenge was cited by Portuguese risk managers. "Portugal faces a unique situation in terms of workers compensation," said Luis Filipe Caldas, a member of the Apogeris board, explaining that when risk managers put a programme out for tender, few if any insurers are responding. The situation has been compounded by the reducing competition in Portugal's insurance market, thanks to mergers and acquisitions both at home and abroad, the Portuguese risk managers agreed.

"Market concentration at the international level may be beneficial for Portuguese companies like ours. At the national level, though, it certainly is not," concluded Jorge Neto, insurance manager at Jerónimo Martins, a retail group.

Overall, however, the risk managers across Europe were unanimous in one thing – insurance remains a people business and relationships matter.

Wordings, wordings and more wordings

If risk managers want to see claims settled quickly and efficiently, the process must be right from the start, according to European risk managers surveyed for the Risk Frontiers Europe 2019, who said that is all part of their job. They argued that means it is equally important for risk professionals to be the ones to see the claims process through too

◇ CLAIMS

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Claims are the commitment part of the insurance process – it is the moment when people discover whether the promise they bought was worth the paper it's written on.

That is a well-worn premise but is something that not just the insurers stake their reputation on. Risk managers too need to know that the claim will be paid – as many will say their boards suddenly take enormous notice of the risk management department when there is a claim waiting to be settled.

So, in this year's Risk Frontiers Europe 2019 survey we asked risk managers: who is responsible for making sure the claim is paid in full and paid quickly?

The answers varied. Some thought it should be the insurer. Others take on the responsibility themselves, while others look to their relationship with the broker and the insurer to settle things collaboratively.

However, it is clear that it is not always an easy thing to do.

As one anonymous risk manager said: "That's a great question – should be the broker in my opinion but they rarely step up and take ownership." Others suggested bringing in the loss adjuster as the fourth link in the chain.

While a number mentioned their chief financial officer as the person who ran claims for their organisation, the vast majority said the claim needed to be dealt with by the risk department rather than being handled by any other part of the organisation.

They said the risk manager is the one with the hands-on relationship with both broker and insurer and has the experience of what was agreed at placement, to bring to the negotiations at the claims stage.

Boards take enormous notice of the risk management department when there is a claim waiting to be settled

"Should be the broker [that takes responsibility for ensuring the claim is paid] in my opinion but they rarely step up and take ownership"

BOARD ATTENTION

Talking to risk managers in more detail, however, it seemed that it will be unavoidable to escape the board's attention, particularly if the claim reaches a certain critical size.

However, they worried that insurers did not necessarily realise that and did not consider the consequences of arguing too hard over a claim that ultimately would be paid.

Boards, said the risk managers, were very unlikely to support any risk manager who proposed using the same insurer the following year, if a claim has landed up in court or even been delayed unnecessarily.

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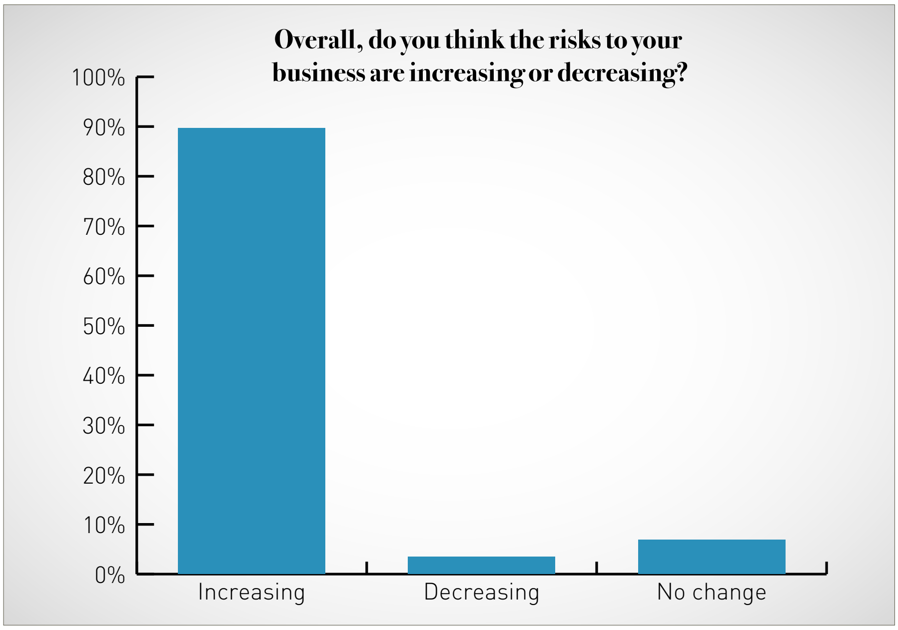

Risk managers in Germany typified this concern, saying: "When we buy an insurance policy, we are also buying a commitment for the insurer to settle a claim and not a service provider, a law firm for example. For us, it is very important that we deal with them directly. We want to see the whites of their eye, not to have an intermediary."

Jörg Henne, managing director at GVNW, pointed out: "What insurers don't seem to realise is that a claim of a certain size is a board-level matter.

"Day-to-day business is rarely at board level, but a claim is immediately at board level and they need to perform. In the end, if they don't, the CEO will say, 'I don't like this insurer and don't want to work with him', and you need a lot of argument to convince the board that they should use that insurer again."

Overall, they agreed performance in claim settlements is an area where insurers still have room for improvement and that they need to take more seriously.

The German risk managers agreed that this is an issue that can force them to switch brokers and insurers – and that can be sooner than the next renewal.

As they agreed: "I cannot have a relationship with an insurer that I am fighting in court with [on a claim] – it makes no sense."

They suspected that they have a much more cut-and-dried approach than elsewhere in Europe. "In Germany, when you pay premium you acquire the right to get it paid, but in London you acquire the right to negotiate to get it paid," joked one.

HARD MARKET

The risk managers also believe that if the market does harden, the conversation internally will be that much tougher. Risk managers already report keener interest from the board about the insurance programme.

Boards are questioning the value for money and a failure to settle a claims quickly and easily will not help the risk managers at the next renewal.

The risk managers said this is the point where all their skills come into play – not just the technical understanding of what the policy includes and what the wordings mean, but also how to handle delivering the unwelcome news that the insurance programme costs are rising (or likely to rise).

Where those skills are needed more than ever, they said, is at the point of claim, where those softer negotiating skills are essential. As one said: "Calling them softer skills is not quite right, as they are essential tools of our trade. If we can't negotiate or argue our case properly, then we are in the wrong job."

They also agreed that the risk manager is key in the relationship, managing and balancing the expectations of all parties and keeping the lines of communication open and transparent throughout.

Almost 90% respondents believed that overall risks to their business are increasing

Risk managers in the UK agreed wholeheartedly with their German counterparts that their CEOs and CFOs all take an extremely keen interest in the claims process at the first sign of any large claim not being settled quickly and easily, and also highlighted the impact that might have on business plans and objectives.

Whoever bought the insurance was likely to be the first point of contact on claims, they agreed, and that person was seen as responsible should the claim not be settled or become entangled in a lengthy legal fight.

ADDING VALUE

However, that offers risk managers a silver lining, as a competent claims process will shine a good light on risk management, they agreed.

Many of those taking part in this year's survey suggested that sorting the claims rapidly and efficiently, with the right result, will show off the value of risk management to the overall organisation – and do their own career prospects no harm either.

Several suggested risk managers should regularly stress test their systems, not least because of the legal uncertainty around such claims.

"In Germany, when you pay premium you acquire the right to get it paid, but in London you acquire the right to negotiate to get it paid"

"There are so many grey areas," warned president of Amrae, Brigitte Bouquot, risk manager for Thales, "where you don't know whether the insurer will pay out or not.

"We need to decide who is carrying the risk – particularly when it comes to contingent business interruption. Is it us as the customer, or the supplier down the chain? There are a lot of structural issues to clarify with insurers."

As another risk manager concluded: "It is a huge topic and one that needs to be addressed."

In Italy, Carlo Cosimi, vice-president of ANRA and head of insurance and risk financing of Saipem, believes that the claims notification process is critical.

"We see so many problems with claims, often arising from the first notification of the claim. That has to be done correctly," he stressed. "The more information that is provided accurately at that first stage, the less likely there is to be a dispute down the line."

He also suggested it is critical that all parties involved see the physical site when a large and complex claim arises, including the insurer. "The more people who can see the problem for themselves, particularly on a large claim, the better the understanding of the claim results."

He explained that having full disclosure and a survey on site with the loss adjuster and insurer also helps the insurer to fully understand the exposure and how the claim evolved.

ALL IN THE WORDING

For many, the question of how the claims will be resolved goes back to the start of the process and policy wordings.

Vito Fortunato, insurance manager at retail giant Migros, summed those thoughts up, saying: "As a group, we have a large portfolio with many different companies, so it is important we have the right limits in place.

"We have heard a lot of talk from insurers about the prices hardening, but the key for us is wordings. We want to have the right wordings in the policies and to have no nasty surprises if a claim materialises."

In London, John Ludlow, CEO of Airmic, spelled it out. "In the US, wordings are black and white. Wordings are very crisp because the legal fees are horrendous. In the London market historically, it has been more about the relationship. Do you think ambiguous and silent wordings are coming to an end?" he pondered.

The risk managers said they would welcome any moves to reduce ambiguity across any class of business. They did not understand why an 'all-risks' peril could not be an all-risks peril.

"Why is that I buy an all-risks peril and then get a long list of exclusions?" asked one risk maanger.

However, the group did question whether insurers and brokers alike still employ enough sufficiently competent people to achieve that goal. Too many brokers and insurers, they claimed, have lost their skilled technical wording specialists.

The inference from a group of London-based risk managers was that today's market entrants are not interested enough in spending time sifting through clauses and wordings to find the answer, admitting it was not a job that many more experienced people enjoyed either.

"Today, everyone is demanding fast-and-furious solutions. The days of spending an entire day poring over wordings may have changed," one acknowledged, while also recognising now should actually be the right time to pore over wordings and make sure they say exactly what is needed, to ensure claims can be satisfactorily settled for both inured and insurer.

The risk managers recognised the need for balance and also noted that, at a time when insurers are under pressure to deliver an underwriting profit, claims are likely to be carefully scrutinised – all the more reason, they argued, for clear wordings at the outset.

David González, corporate insurance manager at construction group Sacyr, summed it up: "The question is not 'who' is responsible for a good claims handling process, but 'what'.

"And the answer is the contract, which reflects the agreements freely negotiated between all participants in the deal," he said.

Daniel San Millán, president of IGREA, believes that insurers should lead the claims handling process

A more efficient claims handling process is one of the main flags waved by Spanish risk association IGREA, which has launched a campaign to engage underwriters and brokers in efforts to reduce the time it takes to decide whether a loss is covered or not.

"All parties are responsible for the claims handling process. But insurers may play the most important role in the sense that they must prioritise the questions that they ask their clients," said Daniel San Millán, the president of IGREA and corporate risk manager at Ferrovial.

"They must aim to promptly find out whether the loss is covered or not. Policyholders and brokers can also be more diligent, but insurers are those who need to lead the process and to do that in a more efficient way."

Balancing the workforce

The gender gap has been hotly debated for decades as increasing numbers of women rise through the ranks, but as our survey revealed this year, there is still much work to be done if there is to be gender equality in the European workplace

◇ EQUALITY

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Since the MeToo# movement of 2017, the ongoing debate about gender balance and equality has risen rapidly up the agenda. While some might see it primarily as a HR issue, risk managers are also involved at a strategic level and as employers within their own departments.

Across Europe, women earned on average 16% less than men in 2016 – or in other words, women earned on average 84 cents for every euro a man makes per hour.

The gender pay gap in the UK stands at 21% – the fourth highest in the EU and an increase of 1.3% since 2011 – according to data issued earlier this year by Eurostat, the EU's statistical agency. Only Estonia (25.3%), the Czech Republic (21.8%) and Germany (21.5%) recorded higher pay gaps.

The smallest pay gaps were recorded in Romania (5.2%), Italy (5.3%), Luxembourg (5.5%) and Belgium (6.1%).

Between 2011 and 2016, the overall gender pay gap dropped in most EU member states, but most significantly in Romania (-4.4%), Hungary (-4.0%), Spain and Austria (-3.4%), Belgium (-3.3%) and the Netherlands (-3.0%). Portugal and Slovenia recorded the highest increases, of +4.6% and +4.5% respectively. Across the EU, the overall pay gap dropped by 0.6% to 16.2%.

So, should risk managers worry about gender issues in their businesses?

WORK IN PROGRESS

Risk managers across Europe said this debate is not necessarily as mature as they would like it to be.

Across Europe, women earned on average 16% less than men in 2016

Some admitted that, culturally, gender balance has yet to be achieved, while others said the aspiration is there, but the answers are not fully formed.

Some wondered why our question was about gender rather than the broader diversity issue. The answer to that lies in the pay gap. For the most part, employers don't ask about sexual orientation, for example, when taking on a member of staff and certainly don't give someone a lower salary because they don't approve of their sexual choice.

However, the pay gap between men and women still exists – as does the gap in opportunities to rise through the ranks. This is also reflected in the way companies expect their staff to operate.

As mentioned in the conversation about sustainability, the next generation, the so-called Zoomers, are much less eager to be tied to a

"Culturally, gender balance has yet to be achieved, while others said the aspiration is there, but the answers are not fully formed"

desk for a 9-5, Monday-to-Friday stint at work.

Not only do they expect flexibility in their working hours, they may well also want to choose whether they work from home or at the office.

And, as the tables turn and employers have to woo the best candidates, employees have increasing power. Examples include those returning from maternity leave and able to demand part-time or flexible working conditions.

Women at work are beginning to realise that they have more power – companies that need to be seen to be creative and sustainable, also need to offer that flexibility. As women recognise they now have the 'whip hand' in helping companies evidence their flexible approach, many risk managers expect to see substantial changes in the workplace.

But not everywhere is the same. In Germany, the risk managers admitted many German companies run behind colleagues and competitors elsewhere in Europe. Flexible working hours are often only just being introduced at the large corporations, while many do not understand the concept of hotdesking or allowing staff to work from home or satellite locations.

And certain companies have to be more inflexible than others – it is much easier, for example, for those in financial services to offer home working than those in manufacturing, who need people physically on site.

STRATEGIC CHALLENGES

Where does this leave the risk manager? Beyond ensuring there is flexibility and a modern approach within their own teams, they have both strategic and operational challenges to face.

For example, home workers are equally protected by company law as those in the office. Ideally, there would be a risk assessment of the home-working conditions – is there a suitable chair and desk? Is the lighting and heating sufficient, and are the communications suitable?

It is in terms of strategy though that the risk management community continues to debate. In advising and working with the main board, can risk managers play a part?

Of course, they said. They can advise on any operational risks and also raise the issue of strategic risks, should a company fail to deliver and face reputational damage, or a day in the courts.

The following quotes sum up the response to this question by this year's participants.

Jörg Henne, GVNW managing director:
"Some can travel to the other side of the world and be expected to work at whatever hours are needed but, when you are back home, you are expected to sit at your desk in the office or it is not considered working. Companies are already struggling to find the right talent. We really can't afford to be ignoring one half of our society, in our quest for the right people and for future leaders."

Alessandro De Felice, president of ANRA and chief risk officer at Prysmian Group:
"Talking about an average in Italy is very difficult. If you look at a large city or even at a large company, you will see a better split between women and men, along with a deep commitment to diversity, flexibility and innovation around working practices. But SMEs make up the majority of businesses operating in Italy and there the approach can be very different."

Nathalie Vandenbroucke said companies that embrace all forms of diversity are more successful than those that do not

Nathalie Vandenbroucke, compliance, risk and insurance officer at Bam Belgium:
"The evidence is there. Companies that embrace all forms of diversity and listen to ideas from different groups are more successful than those that do not. It makes perfect sense because if you think about it, only listening to ideas from a group of middle-aged white men will mean you have a very narrow pool of experience to draw from. Introduce diversity and the pool of ideas will be so much wider. Companies should be embracing all forms of diversity."

François Malan, chief risk and compliance officer at Eiffage:
"It will not just be about the risks of human capital but also the risks created by increased automation and digitalisation within the workplace. We will have to bring our young people onto the board, so older generations can fully understand the dynamics of Generation Z, for example."

> **"Companies are already struggling to find** the right talent. We really can't afford to be ignoring one half of our society, in our quest for the right people and for future leaders"

Working together is key to making insurance pay

Risk Frontiers Europe 2019 editor **Liz Booth** spoke to HDI Global CEO Edgar Puls about the big risks facing European businesses this year and the important role risk managers will play as the insurance market shifts

◇ INSURER'S VIEW

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Liz Booth [LB]: Which of the big risks do you see the most potential to help the risk management community with? What will you do to help?

Edgar Puls [EP]: As always, we don't have to ask ourselves: 'what are the big risks?' We have to ask our clients what is keeping them awake at night and what is worrying their boards. Having said that, we always do look at what emerges from Davos, because that is where so many of the worldwide CEOs will meet and the answers are always quite clear.

Climate change and extreme weather events are high on that list this year. But there is also real concern around cyber and data protection. And political risks are never far from the risk list.

My concerns this year are really nothing new – so much depends on where a business operates. If you are building a plant in California, your top risk will be earthquake, while if you are operating in the Gulf of Mexico, you will be worried about hurricanes. However, what we are seeing is that more and more medium-sized companies, that may have operations in or outside of Europe, are suffering from the effects of a severe weather event.

We saw the severe floods in Germany for example, and we are seeing a lot of windstorms in Europe. We are seeing an increasing number of losses from very localised weather events. This is something that has really happened in the past four or five years – it may have become something to worry about. But whether or not it is a long-term trend, it is clear our clients are thinking about climate change. They are aware of the risks of, say, environmental pollution resulting from an event. They are also more cognisant of the local regulations and the consequences if something happens. For example, in the US, companies have greater freedoms but the penalties are higher when an event occurs.

Of course, cyber is also a big risk. Manufacturers are particularly affected through the digital networking of plants and machinery. This means that disruptions to production, competitive disadvantages and damage to image in the wake of a cyberattack can cause considerable damage. What do we do to help? We offer a cross-segment insurance solution. It combines insurance against physical damage as well as business interruptions resulting from cyber incidents and provides crisis and risk management assistance.

HDI Global CEO Edgar Puls said climate change and extreme weather events are high on the risk list this year, while there is also real concern around cyber and data protection

What's especially important, in my opinion, is that the policyholder will be supported in crisis measures such as communication with customers and media as well as forensic examinations. This is where cyber insurance – with its ability to act both as a risk transfer mechanism and also provide clients with access to specialist cyber risk-related services – can greatly support a business's risk strategy.

[LB]: Is the commercial and corporate insurance market finally hardening and will it continue?

[EP]: The first thing to point out is that I personally don't think any of our clients would continue to trade while their core business is losing money, particularly if it has been losing money for years on end. As insurers, we have done exactly that in the past few years. Insurance rates have been falling for the past 15 years and in that time there has been claims inflation too, as well as costs inflation.

Efficiencies in manufacturing means a much smaller plant may have a multiple of the production capacity a larger plant had in the past. An increase in reliability of production lines means companies no longer need backup lines. However, should something go wrong, it means their entire production line is out, so while the frequency of claims from one site may have fallen, the severity of claims has increased.

All of this adds up to the reasons why it has been necessary for our book of business to increase premium rates and that is something that we have been explaining to our clients.

[LB]: How does insurance add value or is it really just a cost to be minimised?

[EP]: No one likes increasing prices. We know that is true for our clients, but we have been explaining the reasons behind our increase and there is general understanding of the need for an insurer to remain sustainable and able to cope with all the claims made. Clients who want insurance also want a financially strong partner in which they can have confidence.

It is critical to have a two-way conversation. We make presentations to our clients and spend a lot of time with them talking about their needs and how we can support them. We price our risks individually so that we match the policies to their needs but also so it is accurately priced. It is very important to us that we do not just walk away from any category of industry but that we are a reliable partner for those we are working with. Sometimes that means it is hard for us, but we stay because we have made that commitment. We want a partnership.

Very localised weather events such as storm Friederike in Germany in January 2018 have resulted in an increasing number of losses

[LB]: What cover do you find customers want to buy but can't find at an economic price?

[EP]: The question is: what is an economic price? Speaking for us, we only write those risks for which we believe the premium is commensurate with the risk. In other words, prices must be determined that are equally fair for policyholder and insurer alike. Moreover, we have to be very cost sensitive and make sure we are not overspending. We are also in a low interest rate environment, which means that to make suitable margin we need to make that margin in our core business – underwriting.

We are proud that our costs are among the lowest in the market, while also providing a high level of service to our clients. We want to spend the maximum of money collected from the community of insured companies to pay money back to those that have a claim.

[LB]: Should cyber insurance be included within existing traditional lines of business or as a separate line?

[EP]: Risk managers and their companies are really considering two things. First of all, it is about how the risks are developing and how the resulting claims are developing. Then the question is if covering those claims can be satisfied under a combined policy or whether it needs to be a standalone policy.

Firstly, there is more 'classic' cybercrime – viruses, blackmail, ransomware etc. Secondly, a tremendous change in our clients'

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world is going on. The dependence on the internet and now the internet of things (and the industrial internet of things) has grown exponentially in the past five years. Our clients have more automated processes than ever before, so if someone hacks into their system, it is not just about accessing emails but about disrupting the machinery and the production line.

Because of that, it is important cyber is sold as a standalone policy so that the policy terms are clear in the clients' minds and there is no risk of misunderstanding. But also it is key for clients to remember that cyber is not like buying business interruption or physical damage cover – the main part of it is about assistance after an event. Clients need help in the first few hours of a claim, so the main part of the insurance is about providing that assistance and access to experts. Some large corporations may have the experts in-house and have teams on standby, but that is rare among mid-sized companies and they are the ones that need the most help to recover fast. That's where we can really give an added value to our clients when they urgently need it.

[LB]: Is the ongoing M&A in the insurance and reinsurance sector reducing choice?

[EP]: We listen to our clients. What we hear is that there is still enough competition and choice in the market. Some brokers and clients tell us that it's harder to get a cheap price for exposed risks with a high need for capacity. Having said that, there are still many players around us, all competing with each other and with us. What I have personally experienced in the last year, is that some clients and brokers asked us to lead or to complete a programme with a price that did by far not meet our minimum price/risk-ratio.

Another challenge for insurers is accumulation. We have been talking about this in terms of cyber. Cyber is like a hurricane that goes once around the whole world without any geographical limit – so accumulation risks are high. And the more capacity you give to insureds, the more capital you need as an insurer. It is so different from, say, property where the risks are local and limited by that geography.

So all in all, from my perspective 'choice' is not the limiting factor – it's more about how big the accumulation of risks is for the insurance industry, how much capital is needed and how much risk the risk manager wants to take away from their own balance sheet.

[LB]: Why do you think a risk manager would switch insurer and what three core qualities should they look for in a replacement? What do you offer that would persuade a risk manager to choose you as lead insurer?

[EP]: I think risk managers will always make up their own minds, but I think it is about reliability and partnership. Risk managers don't want to hop from one insurer to another, but to build a relationship. It is also about service. Can the insurer provide what they need – what about the quality of the international programmes on offer, for example? What is the claims handling experience?

Risk managers want to be buying good service, efficient policy administration, a reliable international programme, solid risk engineering and risk assessments. They also want an insurer that will deliver when there is a claim. They may be asking themselves: what is the quality of service, what is the long-term sustainability of the insurer, and what is the claims handling behaviour?

In my opinion, we give the right answers to these questions. HDI has deep roots in industry. As an insurer based on mutuality, HDI was established in 1903 by industry for industry. Some of our customer relations with major industrial groups go back more than half a century. This means that we have a very long track record in the industrial insurance business. Moreover, we are well aware of the risks confronting companies, as well as their requirements for an industrial insurer. This applies for all my colleagues across the world. As a global player, our claims professionals have access to a wide variety of industry experts around the world for the benefit of our clients. Our risk transfer and claims management solutions are tailored to the requirements of our large corporate customers, as to our mid-market clients. In this way, we actively differentiate ourselves from many of our international competitors that might be to some extent distracted by commoditised business.

[LB]: Who is primarily responsible for making sure that your customer's claim is paid in full and on time?

[EP]: We pride ourselves on our claims handling philosophy. We start at our combined ratio. We don't want to influence our profit margin through poor claims handling. If we see our loss ratio is becoming out of line, we will go back to the start and look at the underwriting – where we gave our promise. It might be that we see we can't give that promise again, unless the rates rise.

When it comes to the claim, it is both the responsibility of the insurer and the insured. We need full collaboration on the claim and to bring maximum transparency to the process, including the brokers as well. That transparency makes it easier for everyone to see what should and should not be included. It allows us to pay the claim in the minimum time possible and as efficiently as possible. But without transparency, that cannot happen. Personal trust is important, which is why it is so key that we work in partnership with the brokers and insureds. The risk manager has to have every confidence in us and in our claims-paying ability. We have agreed a contract and made a promise to pay – and we need to deliver with that in mind.


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