# Commercial Risk Europe

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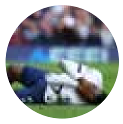

**FOOTBALL: COST OF INJURIES UP**
The cost of injuries across Europe's five biggest football leagues jumped 29%......22

# Ferma urges insurers to back PPPs as EC calls for discussion on systemic risks

◇ SYSTEMIC RISKS

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Ferma has called for more support from the insurance industry for the federation's campaign to develop a public-private partnership (PPP) at EU level to cover systemic and catastrophic risks, as the plan was given a potential boost by a speaker from the EC.

Addressing a record turnout at the Ferma Forum, president Dirk Wegener said risk managers and insurers must work in partnership to close the insurance protection gap that is leaving customers struggling to get the cover they want for a range of big systemic risks such as pandemic, climate change and cyber.

Ferma believes that solving this problem requires a combined effort from insurers, insureds and government, and so has been pushing for the creation of a PPP to build the risk transfer capacity that companies need.

Dirk Wegener addressed a record turnout at the Ferma Forum


And Wegener clearly feels insurers could do more to support their clients on this issue and thinks they are failing to grasp the important role they can play in protecting companies and society.

PPP: p3

## Don't 'fall into trap' over inflation and higher rates: Wegbrans

◇ INFLATION

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Leading broker Hugo Wegbrans, global head of broking and broking strategy at WTW, has told risk managers to be very wary of insurers using rising inflation as an excuse to raise insurance rates further at coming renewals.

He also urged insurers to take a pragmatic approach when asking corporate customers to readjust their insured values for inflation, and not force them to spend huge amounts of resource working things out to the last penny.

The commercial insurance market continues to harden but rate increases are coming down and buyers have been told to expect more stable conditions at year-end, with softening in some lines such as D&O.

Buyers had hoped that the wider market would start to soften after several years of aggressive rate hikes from insurers. However, several factors such as rising reinsurance prices for nat cat risk, the war in Ukraine and inflation have been cited by insurers as reasons to prolong the tough market conditions at 1 January renewals and into next year.

They argue that inflation will increases losses and therefore rates need to rise, but Wegbrans doesn't believe this should be the case for the vast majority of risks and urged insurance buyers to push back. He said risk managers will have to buy more insurance to cover higher values but inflation doesn't mean they should pay higher rates for the cover.

RATES: p3

## INSIDE–


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CONTINUED FROM THE FRONT PAGE

# PPPs: Opportunity to push for solutions for future systemic crises

Continued from page 1

"Frankly, I don't feel all insurers understand this discussion as an opportunity to extend their societal relevance. I wish they would team up with us to lobby for a PPP more often and more strongly," he said.

"The private insurance sector is essential to make this happen. Its combined financial capacity may not be enough to make up for accumulated losses from a systemic risk event. Yet it has the intellectual capability and expertise in modelling and pricing risks, administrating risk transfer and handling claims. These cannot be ignored if we are to achieve a more effective and sufficient use of government support coming from the public side of this partnership," he added.

Although such a PPP has gone on the back burner at EU level as members states grapple with a whole host of other crises since the pandemic, Ferma remains hopeful that the idea will gain traction again once things calm down.

And, speaking at the Ferma Forum yesterday, EC vice-president Maroš Šefčovič, responsible for inter-institutional relations and better policymaking, invited the European risk management and insurance community to play a full part in rising to these huge challenges.

In doing so, he opened the door for some concrete progress on solutions to these pressing systemic risks and potentially EU-wide PPPs.

"I am convinced that by working hand in hand with the private sector, we can not only answer the challenges of today but also equip ourselves to build a better tomorrow. That's ultimately what 'risk leadership in a fast-changing world' should be about," said Šefčovič.

"I would now like to hear from our distinguished panellists how they see the business sector, and specifically risk managers, being 'part of the solution' by contributing to mitigate the current [geopolitical, energy, and food] perma-crisis as well as increasing Europe's resilience, for instance in terms of supply chains. What more is needed?" he said.

Ferma will undoubtedly respond to this plea. Dirk Wegener, president of Ferma, told *Commercial Risk Europe* in the leadup to the federation's forum that he is encouraged by such positive noises from Brussels.

EC vice-president Maroš Šefčovič addressed the Ferma Forum via video link

"It is positive to see that the EC is looking into the climate protection challenge and is launching the Climate Resilience Dialogue to discuss this with policymakers and other stakeholders. Ferma has been invited to participate in this working group. This shows that we have gained a lot of credibility within the EC. Discussion at the European level is still ongoing for the climate protection gap," he said.

The EC has obviously worked out that by adopting best-practice risk management techniques, future crises and their impacts will be better managed and mitigated.

This gives Ferma the perfect opportunity to push for the creation of risk management-focused PPP solutions for future systemic crises that the insurance sector cannot handle alone.

**"I am convinced that by working hand in hand with the private sector, we can not only answer the challenges of today but also equip ourselves to build a better tomorrow"**

But the European insurance sector also needs to play its full part in the discussion to ensure that any solutions are commercially viable, and will help build a more resilient future for Europe's businesses and consumers.

# RATES: Increases to be expected for cover linked to social inflation

Continued from page 1

"Everyone is using inflation as an argument to increase pricing and I warn my clients not to fall into this trap," Wegbrans told *Commercial Risk Europe*.

"There is inflation as a generic increase on costs but that has nothing to do with the rates. It just takes more cash to rebuild the building, so you need the right value and buy a bit more cover... rates can be the same and you just apply it to a different number," he said.

"So you need to have accurate valuations in place for a whole range of risks affected by inflation and buy a bit more cover, but there is no reason to pay extra rate," said the broker.

He conceded, however, that inflation will lead to rate increases for cover linked to social inflation. "Here, within the same limit, the risk has increased because the verdicts of judges and juries are getting bigger across the globe. So I think social inflation is the only area where there should be discussion around higher rate," he said.

Hugo Wegbrans

"All the other discussions around inflation are around valuation of your assets, or picking the right values and limits, to make sure you don't get any underinsurance. So you are going to buy more cover but not at a higher rate simply because of inflation," said Wegbrans.

He also called for insurers to take a sensible approach when obtaining higher valuations from insureds. "We ask insurers to be reasonable when asking for true valuations, rather than forcing clients to spend a lot of money to calculate things to the last penny. Clients understand their risks better than everybody else. I think if we all get to the right level across the globe then we will be covered for inflation. We just call for a sensible approach," he said.

Wegbrans stressed to insurance buyers though that it is important they do their part and pay close attention to asset values ahead of renewals, rather than when there is a loss.

# AXA XL makes full return to international financial lines in Europe

## ◇ PRODUCT LINES

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Etienne Champion

“This has been a short but rather intense remediation and we are back on track for the whole suite of products”

AXA XL is targeting international financial lines growth in Europe after addressing problems in its book of business, Etienne Champion, chief underwriting officer (CUO) for APAC and Europe at the insurer, told *Commercial Risk Europe*.

He also explained that AXA XL is re-evaluating its appetite for cyber risk and will come to market early next year to explain its new strategy that will help deliver more options for risk managers.

And in further good news for buyers, Champion said he will continue to work to ensure his underwriters have more power to make decisions at local level during end-of-year renewals, after reverting to more central control during the hard market.

Champion said AXA XL had reduced its appetite in recent years and has been working hard to get back on track. This has now paid off and the insurer is set to fully return to the European market.

“We were suffering from the drift of back years that sometimes were as old as 2000. When those back years suddenly produce claims, you have to increase your reserving – and we had to act very quickly on financial lines. But we were very conscious that we needed to address the situation quickly because it was a painful situation for our clients as we pulled back,” he said.

“The good news I want to give is that this has been a short but rather intense remediation and we are back on track for the whole suite of products we have for international financial lines in Europe. We are back on track in D&O and professional indemnity (PI),” Champion added.

“We still have a very selective appetite on a limited number of D&O and PI risks, but we now consider financial lines a growth engine for AXA XL,” he said.

The CUO pointed out that AXA XL didn’t exit financial lines in Europe and APAC, and is fully committed to this market.

He said capacity for financial lines will remain at current levels but AXA XL has more appetite to invest that average limit into new business.

Champion also told *Commercial Risk Europe* that the insurer is currently re-evaluating its appetite for cyber risk and will be able to reveal its new strategy sometime early next year “to help grow the market”.

But the new strategy will maintain AXA XL’s approach to ransomware cover that was introduced about a year ago.

“This requires four mandatory technical measures be taken for cover and then additional measures to determine the level of capacity. The restriction is on the primary side. We are a little bit more generous when it comes to excess, particularly over €50m. So it’s an engineering-focused approach that we approach the market with but we will take more and more of the risk,” said Champion.

# Harmonisation and innovation key to navigating current crises

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Political unity at EU level, greater harmonisation and more cooperation between the private and public sectors, are key to surviving the current crises, according to a roundtable at the Ferma Forum.

The energy crisis is clearly at the front of people’s minds and Maroš Šefčovič, vice-president of the EC, said ensuring there is enough energy for the economy and industry during the next few years is a big priority.

“This is the topic that requires most of our time and political energy. The lesson learned is diversification. We need more energy suppliers but also different products. Political unity and European response are critical in making sure that we prevail in this very difficult situation,” he told forum delegates.

Emil Fannikke Kiær, EVP of political affairs at the Confederation of Danish Industry, said his organisation’s members are working on their energy supply, investing in facilities that, while not good for the green transition, will help maintain supply. But he stressed that longer term, companies need to make sure they keep track on the green transition.

Marie-Claire Daveu, chief sustainability and institutional affairs officer at KERING, stressed the need for greater regulatory harmonisation to help companies through this tough period.

“At the EU level, it is really important to push different member states to have the same regulation. In a global company, it is already complex to manage [regulation] all over the world. But at least we can ensure that in the EU we have the same regulation and the same ambitions,” she said.

Šefčovič agreed that there is a need for better and more uniform application of EU rules. “This is our goal. It is not always 100% accomplished but the single market has brought a lot of benefits. And if it can be properly applied across the board with all member states, it will be much easier for investors and for producers, and therefore we have to work on this consolidation and tackle the areas where we are still diverging,” he said.

Laura Kask, CEO of Proud Engineers, which helps governments and large corporations solve complicated challenges, said any shared legal framework cannot be based on past events, “because we never know what kind of crisis the next one may be”.

“We are in this together. More than ever, on a national level, on an EU level, on a global level, we should work together. I believe that cooperation should give more than take,” she added.

Daveu strongly believes that the business and public sectors need to cooperate more. “The public sector has to support research and development innovation because even if you are a big company, a big sector, you are not big enough to invest in order to find disruptive solutions and disruptive innovation,” she said.

The roundtable was in agreement that ESG is a must for companies but noted that there is always a danger of greenwashing or socialwashing.

“In Denmark, ESG is a licence to operate. You are not in the market if you don’t take ESG seriously,” said Kiær. But he warned there is a big risk that ESG is growing into a “bureaucratic monster”.

“There are so many rules and this is very hard for companies to deal with, in terms of time spent on reporting and so on. We all have a responsibility to ensure that this is going to help companies be more sustainable and not just some bureaucratic process,” he said.

The roundtable concluded that risk management is key to innovation. “Risk assessment should enable innovation. Whatever we do, we should consider the risks but also keep in mind that we need to move forward,” said Kask.

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# Marsh urges rate reductions in European cyber market

## New entrants boost capacity as losses fall

A number of new carriers have entered the European cyber market

CYBER

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Marsh's head of cyber in Europe is calling on insurers to reduce rates for 2023 renewals as appetite for the risk grows, partly thanks to new market entrants, and ransomware losses fall.

The cost of cyber insurance has risen by two to three times during the past five years, as insurers hiked prices in response to a spike in ransomware claims. At the same time, retentions have significantly increased. For the largest listed French companies, cyber insurance retentions have risen from €5m to €20m on average, according to Marsh.

Insurers' reaction to ransomware losses saw capacity in the European cyber insurance market almost halve to $300m-$400m in 2021. However, new entrants this year have boosted market capacity to $500m, according to Jean Bayon de La Tour, head of cyber for Marsh in continental Europe.

A number of new carriers have entered the European market, including Starr, Mosaic and insurtechs Resilience and Corvus, while some existing players have returned to "growth mode", he told *Commercial Risk Europe* at the Ferma Forum in Copenhagen.

Insurer appetite for cyber risk appears to be increasing after underwriting actions taken during the past two years have started to pay off, according to Bayon de La Tour.

In response to ransomware claims, the insurance market tightened its underwriting criteria and placed cybersecurity requirements on prospective customers as a prerequisite for cover. Marsh developed a list of 12 key controls of basic cyber risk management and hygiene measures, including access management, multifactor authentication, backups, patch management, incident response planning and supply chain risk management.

Despite the heightened risk of cyberattacks due to the Ukraine conflict, cyber insurance claims are now reducing relative to growth in the number of insureds, according to Bayon de La Tour. The frequency of ransomware claims has declined, albeit slowly, having peaked in the first quarter of 2021, reflecting improved cybersecurity and risk management, as well as efforts by security services to tackle cybercrime, he explained.

With a stabilisation of claims, rate increases have moderated from a peak at the end of last year, according to Marsh data. Buyers were seeing average rate increases at renewal of 90% year on year in the last quarter of 2021, but increases are now averaging about 0% to 40%.

### TIME FOR CHANGE

Bayon de La Tour believes it is time for insurers to cease demanding price increases and begin to reward insureds for risk management improvements with premium reductions.

"We are asking insurers to flatten – to plateau – for the 1 January renewal season. For 2022, we hope to see a flattening of rate because it is needed for clients to stay in this line of business. For 2023, we ask for a decrease, and the increase in capacity we have seen should help with that," he said.

"The market adjusted [to the increase in ransomware claims] but now insurers are back to profitability and the partnership is there, so they can give clients some money back to show willingness to continue the partnership. That is what we hope for," Bayon de La Tour said.

> **"Now insurers are back** to profitability and the partnership is there, so they can give clients some money back to show willingness to continue the partnership"

Insurers risk "killing the cyber market" if they continue to raise prices, increase demands for information and/or introduce onerous coverage restrictions, warned Bayon de La Tour. Many buyers have already scaled back limits to keep their cyber cover within budget and are using captives to finance higher retentions or act as co-insurers, he added.

"We are seeing an increased use of captives, especially in the primary layer to buy back the huge retention. That is a tool that has been heavily used," said Bayon de La Tour.

Despite an increase in capacity, the cyber insurance market is still not working for some large companies. "New entrants are bringing additional capacity to the market. Is it sufficient to cover the real risk of our clients? The answer is no. For the big European corporations we need more than €500m, but because it comes at a cost, there are few clients willing to go up to €500m in capacity," he said.

### NEW MUTUAL

However, a new cyber insurance mutual, MIRIS, is welcome news for risk managers. It is in the process of being set up by a group of European corporates including BASF, Airbus, Michelin and Solvay. Incorporated in Belgium, MIRIS will offer limits of up to €25m from 1 January 2023.

The increased use of captives and the creation of a European cyber insurance mutual should send a warning to insurers that the market is not meeting the needs of large companies. The move has parallels with the creation of Oil Insurance Ltd, since renamed Everen Group. It was established in 1972 by 16 energy companies in response to inadequate coverage and pricing provided by commercial insurance markets.

"When you use a captive, or your own mutual, it can serve as a wakeup call for insurers. It can mean what they are proposing is not fitting the needs of large clients," said Bayon de La Tour.

Marsh is already working with some clients to bring MIRIS into their cyber insurance programmes at their next 2023 renewal, explained Bayon de La Tour. "This initiative is being led by clients. They are building this mutual. We have clients that are part of this project and we are working on their renewal to embed the capacity provided by this mutual," he said.

The creation of MIRIS, which will co-insure alongside a primary insurer, is significant because it will create additional capacity at the lower levels of cyber programmes, where the market is tightest, explained Bayon de La Tour.

"It is a very big move for the market. MIRIS will be a follower in terms of pricing and claims. It will not impact the market in terms of pricing but it will affect the market in terms of capacity. It will bring up to €25m of capacity per risk, which is no small amount. It will unleash capacity because the first $50m is the hardest to place, as it is considered by insurers as the burning layer. MIRIS will bring 50% of this, so we can quickly get above this threshold in order to unleash the excess capacity," he said.

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# Ferma says insurers not doing enough to help clients through energy transition

◇ ENERGY

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Ferma has said there is a lack of risk transfer capacity to support the transition to carbon neutrality and urged the insurance industry stop relying on "backward-looking underwriting guidelines", in order to deliver new solutions that can better support clients through this difficult period.

Ferma said there is a feeling among its members that insurers remain "very slow" at integrating knowledge that would help develop and underwrite the holistic cover needed to navigate the energy transition.

So the federation said risk managers want to work with the insurance market to improve options and will look to move things forward during the Ferma Forum this week.

Ferma criticised the insurance industry in a whitepaper titled *Insuring the Transition*. Prepared by the federation's sustainability committee, it says that European risk managers are concerned about a lack of risk transfer capacity to support the transition to a low-carbon economy.

Put simply, Ferma believes that the (re)insurance industry must do more than it is doing right now to support its corporate clients through the transition.

It challenges the insurance industry to step up to the plate.

Speaking to media, Ferma CEO Typhaine Beaupérin said there is "a real sense of urgency" for insurers to deliver because companies need adaptive insurance solutions.

"There is a lack of sufficient risk transfer, which is slowing down investment in innovative technologies. We know that to meet the transition, companies need to innovate and take risks," said Beaupérin.

"Businesses should not feel punished by insurers for embracing the green transition. As a community of insureds, we are calling on insurers to move from an approach where there is a notable and strict adherence to backward-looking underwriting guidelines. Instead, corporate customers want insurers to gain a holistic understanding of their risks and needs, which would give more flexibility to underwriters and engineers to do business beyond rigid guidelines," she added.

Ferma's CEO said some insurers are innovating, through parametric solutions, for example. But she stressed that there is "undoubtedly a feeling" among insureds that insurers are "very slow at integrating the knowledge available to help provide new solutions".

"They need to change their approach. As Ferma, we want to collaborate with them to help with that," she added.

## RESTRICTIONS

Ferma's whitepaper says businesses are suffering insurance restrictions in three areas related to the energy transition.

Typhaine Beaupérin

> "There is a lack of sufficient risk transfer, which is slowing down investment in innovative technologies"

Firstly, there is limited or unavailable cover for companies involved in certain past activities, such as links with coal or mining. This makes it more difficult for these companies to proceed with the energy transition, the paper says.

Secondly, it reports a lack of coverage for specific technologies or materials. This includes offshore solar panels, offshore wind farms, hydrogen fuel or storage, new construction techniques, and solutions or materials that are underpinning the transition from fossil fuels.

The third area of concern is exclusions for specific risks. The paper complains that property damage and bodily injury risks may be excluded from policies if the insured has direct or indirect links with coal plants or mining activities. It adds that exclusions can even apply when battery packs are stored or used in, for instance, sprinkler pumps.

Ferma points out that there is a flow of EU regulations in the pipeline to meet its Green Deal and a commitment from member states to be carbon neutral by 2050 that will impact companies. The Corporate Sustainability Reporting Directive (CSRD) is one such set of rules and means companies will soon have to start showing progress on their transition plans. This is made more difficult by a lack of risk transfer options to support the move.

"The Corporate Sustainability Reporting Directive will come into effect for financial reporting periods starting on 1 January 2024. This is only 16 months away. Companies will be under pressure to show their progress to carbon neutrality, but lack of sufficient risk transfer will slow investments in innovative technologies, as more risk must be carried by the enterprise," said Ferma president Dirk Wegener.

Ferma's CEO Beaupérin said a lack of data on new risks is one of the main reasons insurers say delivering solutions to support carbon neutrality is difficult. But Ferma believes this problem is "overstated".

"Corporate insurance buyers regularly hear from insurers that there is not enough data to underwrite certain risks or projects, such as those involving timber. To insurance buyers, this appears overly risk averse and backward looking," says the whitepaper.

"Further, we find that insurers are slow to incorporate new information into their technical and underwriting standards. This is especially the case when it comes to safety systems where insurers do not yet recognise many of the technical developments," Ferma adds.

Beaupérin said this is a "chicken-and-egg" situation and if insurers don't underwrite, they won't get the data.

"If you start writing projects, it will help with all the others. The impression we are sharing from the risk managers is that there is declining risk appetite from insurers and an aversion to take risks, which in the end is not helping companies to innovate. They need to innovate to be able to go on this transition," she said.

Ferma is aware that risk managers also need to play their role in helping insurers come up with better insurance cover, and has promised to do its part to boost that collaboration.

"There is definitely some room to improve the collaboration and share data. This is an area where if you have the trust, then you can do a lot of things. So we are conscious that insurers need data to underwrite properly and risk managers can help them with that. But it is very important there is not only more dialogue but also concrete action," said Beaupérin.

## CONSISTENCY

Ferma says in its whitepaper that a taxonomy of data shared between insured and insurer, and even among insurers themselves, could then help build more market consistency.

"As part of this taxonomy, underwriting guidelines could be updated more frequently to ensure they incorporate new insights and lessons. Further, insurers should put more effort into understanding losses involving new and innovative techniques and should share their expertise with their clients," it adds.

Ferma suggest the taxonomy could be linked to ongoing initiatives at EU level, such as those on open finance or the European Single Access Point and the CSRD.

"We understand that (re)insurers are grappling with regulatory, business and legal developments related to climate change and sustainability, but we urge them to read these comments so they can build a better partnership with their corporate clients to facilitate the transition," said Beaupérin.

The CEO said Ferma chose the theme 'transitioning together' for its forum because risk managers wants to work with the insurance community on this topic.

## Key points made by Ferma

- The shortage of insurance capacity is holding back the transition to low carbon.
- Insurers seem unwilling to cover new products and technologies that are part of the transition.
- Data issues are overstated.
- The insurance industry's aversion to risk and slow integration of knowledge aggravates data shortages.
- Insurers only gain experience if they underwrite.
- Insurers must play a more supportive role in the transition.

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# Insurers reject criticism over lack of energy transition support

Carriers back calls for renewed partnership to help bridge gaps

◇ ENERGY

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Insurers refute claims from Ferma that they aren't doing enough to support companies during the net-zero transition, but have backed calls for closer partnership between carriers and clients to develop solutions.

Ferma criticised the insurance market in a recent whitepaper (see story on p8) for a lack of adequate cover to help companies through the energy transition. Following consultation with members, it argued that the industry overstates the scarcity of data to underwrite these new risks and urged insurers to step up to the plate, in partnership with risk managers.

But Gabrielle Durisch, global head of sustainability, commercial insurance at Zurich Insurance, told *Commercial Risk Europe* that claims insurers aren't doing enough to support customers during the transition are not "accurate or fair".

"The transition is a unique time in history. We have natural competition between companies, yet some of the solutions will only be arrived at by working together because everyone is facing the same issues. If we have engagement and collaboration, then we can address the issues together. However, this will be a very different approach to how we have worked before," Durisch said.

"The transition is a unique time in history. We have natural competition between companies, yet some of the solutions will only be arrived at by working together because everyone is facing the same issues"

And she was keen to point out that the pace of insurers' response to the energy transition is accelerating every year. "Over the past 12 months, the progress we have made in underwriting and developing solutions has accelerated substantially. You will see it pick up much quicker in the next 12 months. This is just gaining momentum," she said.

Durisch explained that insurers have invested in sustainability experts, set strategies and are now looking to implement this in underwriting and claims.

"The type of people involved in sustainability are the type of people that will just keep going and going, in order to get things done. And there is so much to do. You have very dedicated people driving this within the organisation. They have a drive to educate, activate and improve how the underwriters are approaching this," she said.

## SHARED CHALLENGE

Durisch's view echoes those of many other corporate insurers. They argue that decarbonisation is a shared challenge that will require much closer cooperation and a different working relationship between buyers and underwriters. They also draw attention to the work of the Net Zero Insurance Alliance (NZIA) to establish net-zero underwriting standards, as well as individual insurers' efforts to invest in risk engineering, consulting services and risk transfer solutions for green technologies.

Many large corporate insurers have pledged to transition their underwriting and investment portfolios to net zero by 2050. Some 29 insurers have signed up to the NZIA, which is due to publish standards on measuring insurance related greenhouse gas emissions later this year (see story on p14). Insurers are now in the process of translating these commitments into their operations, which would see them gradually withdraw support for carbon-intensive activities while supporting sustainable alternatives.

But there clearly remains a feeling among risk and insurance managers that insurers could be doing more on the underwriting side. Ferma doesn't have a track record of criticising the insurance industry just for the sake of it. European risk managers seem to feel that insurers cannot this time turn around and say they need ten, 20 or

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30 years of data to start underwriting new risks. When it comes to climate change, time is clearly of the essence.

Durisch concedes that insuring the transition is not business as usual for insurers. There are challenging risks and new technologies inherent in the transition – such as green energy, sustainable materials and battery technology – that are evolving rapidly, and may not come with historical data needed to assess risk, she said.

"Historically we might renew with limited engagement with the risk manager, but what we are looking for with emerging technologies is to sit down and understand what is changing and the impact it has on the business. In many cases, our clients will be the experts in new technology. It's a question of making sure our people are equipped with the right skillsets so we can share experiences and build solutions together," said Durisch.

The speed of change required to achieve net zero by 2050 raises major challenges, according to Peter Knaus, AXA XL's regional manager for northern Europe. "The insurance industry is being asked to underwrite projects with underlying technologies for which there is limited data. Our risk consultants are already gathering data and insights around the underlying technologies to inform underwriters and help them design appropriate risk transfer solutions," he said.

The transition will require a change in mindset from the insurance industry and its customers, argued Durisch. "This requires a new way of working. We need to break down silos, engage with customers on emerging technology, but also exchange knowledge both internally between lines of business and externally with other industry experts," she said.

When insuring transition technologies, risk managers should engage with their insurers early, prepare to provide more information and be open to different solutions, advised Durisch.

"Talk to underwriters and your contacts as early as possible. If there is emerging technology or new areas that they need coverage for, they may need to deep dive into some of the data aspects, providing more information than they would historically have done. Also be prepared for the fact that solutions that might be offered might not be structured in the same way," she said.

**"We believe that we can make a real difference by sharing our knowledge and developing products and services to help build more resilient and sustainable businesses and communities"**


Peter Knaus

Risk management will be crucial to insuring the transition, according to Knaus. In the energy sector, for example, AXA XL's risk consulting teams include engineers who specialise in renewable energy and are able to help clients understand their risk. These teams can make recommendations to help reduce exposures and increase clients' ability to secure insurance coverage, said Knaus.

## DATA

Data and analytics will also help insurers overcome some of the technical challenges, explained Julien Guénot, regional manager for southern Europe at AXA XL. "We are looking for ways to leverage new data sources and technology to better understand transition risks and develop solutions. Additional data helps us to better model new or existing risks, and price them more accurately, while data analytics is turning environmental and climate data into actionable risk insights and innovative solutions, including parametric insurance," he said.

AXA, which helped establish the NZIA, believes its biggest contribution to tackling climate change will come from supporting companies as they adapt to the changing severity of extreme weather events and transition to greener business models by incorporating ESG considerations.

"We believe our role needs to go beyond excluding polluting industries and decarbonising our portfolio. We want to support the transition of our clients to renewable energy with a holistic range of solutions for the energy and transport industries, helping pioneering companies to de-risk innovative projects and attract investment," said Guénot.

Allianz Global Corporate and Specialty (AGCS) also highlights the important of partnerships and risk management in delivering risk transfer solutions for the transition.

"Collaboration is the foundation of good partnerships," said Renate Strasser, AGCS board member and chief underwriting officer for specialty. "As we reshape our business in the light of ESG, so do our clients. We want to support their transition by partnering with them and supporting them with a range of traditional and structured insurance products and beyond. That's why we engage with clients and brokers, listen to their opportunities and challenges linked to ESG and identify areas where we can support them," she said.

AGCS argues that capacity and expertise is readily available for established green energy risks such as wind and solar. However, for more innovative green energy solutions such as hydrogen, carbon capture and battery storage systems, the insurance industry needs to find a way to establish both capacity and expertise, it believes.

"We at AGCS are committed to playing our part. We are investing in building special engineering knowhow on these new, often prototypical technologies. Solutions can come via classic risk transfer, but also through more creative, customised concepts such as alternative risk transfer, or through a hybrid combination," the German insurer said.

AXA XL also wants to support companies across a number of key areas, explained Knaus. In addition to insuring renewable energy projects, it is looking at how to underwrite the technology required to achieve net zero.


Gabrielle Durisch

**"We will get to a point relatively soon – a critical mass – where there is enough activation within organisations, when the majority understand transition and its impact on each industry, and you will suddenly see actions ramp up"**

The insurer is also providing products and services, such as data analytics and parametric solutions, to help clients manage more extreme and volatile weather. It is also exploring ways to reflect good ESG in underwriting.

"Our strategy is to take advantage of our in-house expertise to provide solutions to climate change – primarily through risk management expertise, vast volume of claims data, and by funding research. We believe that we can make a real difference by sharing our knowledge and developing products and services to help build more resilient and sustainable businesses and communities," Knaus said.

## KNOWLEDGE

In addition to insuring renewables, a lot of work has been going on in the background to increase knowledge and expertise, prepare underwriters and develop products and services that will facilitate the transition, according to Durisch.

For example, Zurich is educating and training its underwriters, risk engineers and claims professionals to prepare them for the changes ahead, such as insuring green technology and assessing clients' transition plans.

Similarly, AGCS has embedded ESG teams in its underwriting organisation and operations. It said these teams will drive decarbonisation of its portfolios and implement new EU Taxonomy regulation on sustainable products. They will also further develop traditional covers for renewable energy and create new solutions and risk consulting services for low-carbon technology, AGCS promised.

Durisch concluded that the insurance industry is approaching a "tipping point" on transition. "We will get to a point relatively soon – a critical mass – where there is enough activation within organisations, when the majority understand transition and its impact on each industry, and you will suddenly see actions ramp up," she predicted.

# Carbon standards should help allay buyer fears over transition insurance

◇ CARBON REDUCTION

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A soon-to-be-launched industry standard to measure insurance-associated greenhouse gas emissions will help address the concerns of risk managers about the transition to net-zero, according to two Switzerland-based insurers.

Ferma complained in a recent whitepaper that insurers aren't doing enough to help clients through the energy transition (see story on p8). In particular, Ferma called out a lack of sufficient risk transfer for green technology, and criticised insurers' "strict adherence to backward-looking underwriting guidelines" and the use of exclusions for specific risks.

Insurers we spoke to refute the criticism, but add that work underway to develop an industry standard to measure greenhouse gas emissions associated with insurance policies will help drive progress.

The Partnership for Carbon Accounting Financials (PCAF), in collaboration with the UN-convened Net-Zero Insurance Alliance (NZIA), are set to launch a global standard to measure and disclose emissions attributable to insurance underwriting portfolios, also known as "insurance-associated emissions", later this year.

In parallel with the PCAF accounting standard, NZIA members are also working out a Target-Setting Protocol providing the guardrails for the transition.

NZIA members have committed to publish their first interim science-based targets six months after the publication of the NZIA Target-Setting Protocol, which is scheduled to be released in 2023.

The 29 (re)insurance members of the NZIA, which manage almost 14% of global gross written premiums, have promised to transition their underwriting portfolios to net zero by 2050.

## SIGNIFICANT STEP

The world's first accounting standard for insurance-associated emissions, followed by the NZIA's protocol, will be a significant step in addressing the concerns of corporate clients over the role insurance is paying in the transition to carbon neutrality, Mischa Repmann, a senior risk manager in the sustainability team at Swiss Re, which leads the NZIA metrics and targets workstream, told *Commercial Risk Europe*.

"The NZIA was formed only 15 months ago, and the PCAF is about to publish an accounting standard by year-end, so this is a significant step forward. Once we then also agree on a framework to set targets, it will alleviate the perception that insurance might be lagging what is happening in the real economy," he said.

"If you can't measure [emissions], you can't manage [your portfolio]. But once you have an accounting standard and the Target-Setting Protocol, you have a good starting point. As an industry, we want comparability, so that when we say net zero, we all mean the same thing," said Repmann.

Gabrielle Durisch, global head of sustainability, commercial insurance at Zurich Insurance, also

**"Once you know the carbon footprint of an insurance portfolio, you can start to steer emissions"**

believes the NZIA workstreams should address some of the concerns of buyers, and reduce the need for broad-brush exclusion for carbon-intensive activities, especially where companies already have transition commitments in place.

"Being a member of the NZIA is important as it enables rational debate with peers, and helps us develop the reporting methodology that allows us to set emissions reduction targets in underwriting, and provide the reporting mechanism that enables us to explain how our book is developing. Once you have that in place, there is no longer a need for exclusion policies, because you can demonstrate that you are reducing the emissions associated with your book," she said.

Once published, the PCAF carbon accounting standard and the NZIA Target-Setting Protocol can be used by insurers to establish their underwriting strategies and criteria.

"Once you know the carbon footprint of an insurance portfolio, you can start to steer emissions – you can implement measures to achieve your target," said Repmann, who heads the NZIA's Target-Setting Protocol work.

The PCAF's carbon accounting standard, or carbon footprinting standard, will develop over time. "We have chosen the scope where we can comfortably start applying formulas and methodologies for attributing emissions, and we will produce further versions of the standard to step-by-step increase the coverage across an insurance and reinsurance book," Repmann said.

## COMMUNICATION

Insurers will need to communicate their position clearly to customers, Durisch stressed. "Our approach is to be transparent about what we are working on and our commitments. We recently had a two-day workshop with a customer, with an exchange of knowledge. They shared their transition plans and commitments, and we were quite open about our sustainability commitments, especially what we would expect around the NZIA. They might not have liked everything they heard, but they saw the value in transparency, and our commitment to continue working together," she said.

If businesses do not have publicly available emissions targets in place, they should expect insurers to want to know what their plans are, said Durisch. "If their transition plans and activities are transparent and publicly available, it should be more straightforward. But if they do not have plans in place, they should expect more questions around transition and how they are working towards that," she said.

Insurers will need more data on the transition but they are conscious that customers will not want to be deluged by different requests from multiple insurers, other stakeholders and suppliers, said Durisch. "We are trying to figure out how to make this process easier, such as using a standard format when engaging with customers, or leveraging the broker relationship to access the data we need. We do not want to bombard customers with information requests," she said.

"It is our responsibility as an insurer to ensure our underwriters know why we are asking for certain information and what we will do with the information, and make it as easy as possible for all involved," Durisch added.

## BUY-IN

The NZIA framework should get good traction in the commercial insurance market because most of the world's largest global insurers and reinsurers are members. However, the PCAF framework is not compulsory. It will be up to individual insurers to decide if or how they implement the accounting standard.

"All NZIA members have committed to using the Target-Setting Protocol. Within six months of publication of the Target-Setting Protocol, the members have agreed to publish their targets publicly. All 29 members are bound to that. The PCAF accounting standard, however, is optional and NZIA members are not bound to use it," said Repmann.

He expects other insurers will join the NZIA once the framework gains wider acceptance. "Once the framework is implemented, the industry will see its value and stakeholders will start to ask for them to be used. I would then expect to see an increase in NZIA membership, and it should take off from there," he said.

# Ferma stepping up to the plate as risks multiply

◇ INTERVIEW

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Ferma has a lot on its plate currently as it promotes and defends the position of European corporate risk and insurance managers in the face of difficult macroeconomic and financial conditions, a tough insurance market and ever-broadening regulatory, reporting and compliance requirements. So, *CRE* editorial director Adrian Ladbury discussed the big themes facing the European risk and insurance management community with Ferma president Dirk Wegener ahead of the federation's forum in Copenhagen.

**Adrian Ladbury (AL): What are going to be the main themes of the forum?**

Dirk Wegener (DW): Transitioning together and risk leadership in a fast-changing world. We see this as a natural progression from our previous theme, from risk to resilience. We are living through a period of great change, including our business models. More uncertainty is a natural consequence and we need to make it more measurable. This is what risk managers do.

Transitioning together is also an acknowledgement that sharing knowledge is the way we make our societies and organisations more sustainable in this new period of disruption. Risk leadership in a fast-changing world is our compass to achieving what we want for our greener and digital planet.

We are expecting a high number of attendees and inspiring speakers and exhibitors. The forum is an ideal environment to meet and share with more than 1,500 professionals across Europe and further away. It will be about inspiration, learning and development.

**AL: It's been a dramatic three years, first with Covid-19 and then the Russian invasion of Ukraine and all the implications. How has the risk profession evolved over this period?**

DW: Twofold. First there is the insurance management piece. For insurance managers, it was a hard time as they had to communicate disappointing messages to their boards. Covid-19 revealed an enormous gap in insurance cover for non-damage business interruption policies. The insurers denied the vast majority of claims for losses. So, there were a lot of disappointing messages to deliver. Since then, insurers have restricted coverage, tightening wordings and adding special exclusions, and this makes it even less attractive to buy insurance. This is a difficult message to communicate.

Second, for risk managers, crises like these are an opportunity to demonstrate their capabilities and how important they are for companies. After the pandemic, a McKinsey survey revealed that 90% of business leaders viewed risk management as more important to their organisations. So, from a risk management point of view, it was an opportunity to show capabilities and demonstrate the importance of risk management.

I think the war in Ukraine has had a similar outcome. You had to report to your management that war-related losses were not insured. At the same time, there are opportunities, not just for risk managers but also for production, procurement and the like. You can show how a proper risk

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management system can actually contribute to keep things going and manage the consequences.

**AL: Do you think the current hard market is truly justified? Have insurers actually used the turbulent political, social and economic situation to push for more than really needed, especially in cyber and D&O?**

DW: The hard market was certainly accelerated by the pandemic and it's again been accelerated by the war. However, the hard market started before. Insurers constantly argued that the losses were too high to allow this to continue. We have gone through hardening markets before. It's not a new experience.

However, as clearly documented in Ferma's European risk management survey this year, the frustration with the insurance market is very high. Some 78% reported a significant impact from increased insurance pricing and 71% in terms of reduced capacity. So, this time it was about a double dip – reduced capacities and increased premiums. We have also seen limitations and further exclusions in the renewals. This makes the value of the insurance cover less than it was before. In that respect, it was really tough.


But when it comes to cyber, there's more frustration because it is a newly introduced product that was heavily promoted by insurers in the early years and we heard complaints that it was not well received by clients, the penetration rate was not very high.

When the buyers started to buy the coverage, it was then restricted or taken away, and some insurers have even left the market entirely. This is not good if you, as a risk manager, have promoted the coverage as something you want your company to buy and then have to say that it's no longer available.

Even though we hear that cyberattacks are increasing in numbers and impact, when you really look into the details it is not really the case. Amrae's Project Lucy, which investigates the cyber market, shows that on the basis of premiums versus claims the coverage is not dramatically underpriced. It looks as if the former pricing was ok.

As to D&O, this is not an official Ferma position, but it seems to be almost the last resort for everything. Whatever happens – pandemic, the war, supply chain issues – it takes minutes for someone to say things will be a huge D&O problem. You really wonder if this is helpful.

Of course, management has to manage all issues and they can make mistakes in doing so. But, likewise, just because there is a risk does not mean that it automatically triggers a liability for the management. There is much ground inbetween. This, in my mind, is not rightly communicated. When it comes to D&O, there's a lot of talk and it remains to be seen if all these theoretical exposures will turn into insured losses.

**AL: If we are to assume the new obsession with exclusions is going to continue because of the inflationary and economic outlook, what do you advise risk managers to do?**

DW: The market continues to harden and buying insurance might not be as favourable as in the past. You have a protection gap, in the sense that your risks are evolving, going into different categories that have not existed in practical terms in the past. We have the sense that the insurance market is not keeping pace, so there is a growing protection gap. Risk managers are willing to pay a decent premium but often there is just not capacity available. Going back to our survey, some 41% of the surveyed risk managers expect that some of their locations or activities will become uninsurable in the future because of natural catastrophe exposures. This gives you a hint of how confident the risk managers are that the traditional commercial insurance market has the answer.

We appreciate the fact that the market is working hard to try to find new solutions. Parametric is one of these potential solutions and insurance-linked securities (ILS) are another. But ILS solutions for the individual commercial insurance buyer are difficult to organise and achieve. Time will tell.

Retaining more risk is something that's widely used already. Again, in the survey, risk managers said they were considering higher risk retentions.

The use of captives is understandably widely discussed in the market currently. But it's quite burdensome to set a captive up. If you have a captive already, for sure it's a tool that can be used more to respond to the hardening market. It's a question of your own priorities and financial capabilities.

It has to be said, however, that most of these measures are in reality limited to very large corporates. For SMEs, the situation is therefore more difficult. We must not rest here. We must try to push and make sure that the offerings of the traditional commercial insurance market are improved going forward.

**AL: SMEs are obviously critical, the backbone of the European economy if you like. At the height of the pandemic, when forced into lockdown, there was talk about public-private partnerships because of the failure of BI to respond, particularly for SMEs. Is there any progress to report on discussions with the EC in this critical area?**

DW: I think it's fair to say that the momentum has been lost because of other crises. The commission is dealing with things like the war in Ukraine, the energy and inflation crisis and so on. We are still pushing with this. Just recently, I was invited to participate in a round table discussion hosted by the OECD to discuss what the insurance market can contribute in the future to resolve or balance the impact of the pandemic.

The discussion was limited to the pandemic only and there was a broad consensus that such a scheme would be better than the pure spending of government money to help individuals or corporates after an event.

There was consensus also that a system like the one Ferma had suggested to the EC – a European risk framework first focused on risk management and then supported by the private insurance industry – would work best. Under such a system, individuals and corporates would be incentivised first to do what they can to avoid or limit the impact of a systemic risk.

The capabilities of the insurance industry to assess and price risks, and its ability to then transfer those risks and deal with claims, would be critical. There was also consensus that the private insurance sector cannot bear the financial consequences of a pandemic or systemic risk, and therefore there is a need for the public, the government, to support them financially on top of a certain layer.

The conversation is ongoing and hopefully, at a later stage, the policymakers will find the time to look at it and see the advantages and take concrete steps to make this real.

There are national solutions for risks like terror, and in some countries for nat cat exposure. But we are living in a global economy so these national solutions are just not fit for purpose for corporates whose activities are cross-border. So, a European solution would be much better and Ferma will need to argue in this direction.

It is positive to see that the EC is looking into the climate protection challenge and is launching a climate resilience dialogue to discuss this with policymakers and other stakeholders. Ferma has been invited to participate in this working group. This shows that we have gained a lot of credibility within the EC. Discussion at the European level is still ongoing for the climate protection gap.

**AL: It's easy to get caught up in the short term and forget about the big picture, and the legislative process continues despite the crises. The EC is carrying out a consultation, for example, on the Environmental Liability Directive (ELD). What are Ferma's key messages on the ELD and does it actually need updating?**

DW: It does not need to be updated. We are not in favour of the EC pursuing a line of action that will require companies to take out mandatory financial security, which often means a mandatory insurance scheme. Then we are back to the old debate of whether mandatory insurance is a good thing. This will discourage firms from taking the necessary prevention measures and possibly disincentivise the pursuit of enterprise risk management. We don't think that kind of an update will be helpful.

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

**AL: There are also the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence (CSDD) proposals for Europe's risk managers to deal with. What is Ferma's view on both initiatives?**

DW: Ferma's view on both is positive. We agree that sustainability is a big issue. The idea that corporates have to deal with that and report on it is not the wrong idea. However, as often, the devil is in the detail.

We think the concept of value chain within the CSDD is not clearly enough defined, it's very broad. So, it's not limited to a certain tier level, neither upstream or downstream, which makes it almost impossible for companies to really comply and make sure that in their entire value chain there is absolutely no wrongdoing. This creates an unacceptable level of potential liability.

The other thing is that again the liability within the civil liability framework among the member states is also problematic, because it's not completely harmonised. This is a more dramatic problem as the directive doesn't really give a clear definition of damage.

The damage of the third party considered wrongdoing within the value chain if you like, or caused by a wrongdoing, creates a liability. If this is not clear, it becomes a risk from the view of the corporates that is almost impossible to manage and to mitigate.

With the CSRD, again the devil is in the detail. The directive is promoting this idea of double materiality in a sense that an act has to be reported if it happens, if it has an impact on the corporate itself or on the environment including personnel and so forth. The problem here is that materiality is not clearly defined and as this reporting has to be audited, or in certain industries to be disclosed to external stakeholders, their consent needs to be signed off.

You will end up in endless debates that will, of course, be controversial about whether or not an event was material either for the corporate or for the environment. This is not good and it is not fit for purpose at this time.

These two directives clearly closely interact and this will be something risk managers will have to deal with going forward, but hopefully based on clearer guidance from the Commission.

**AL: This is a complicated area and again seems to shift the focus of European risk managers away from core insurance risk management towards more enterprise risk management, which does not seem tenable from the outside. Is this going to form a split from core to enterprise risk management, so we have two very different sets of members of the national associations?**

DW: I think we already have members who have a different focus in their daily work, who consider themselves ERM people, and we have people who consider themselves insurance risk managers. Then we have people saying they are risk and insurance managers in combination.

I would argue this goes way beyond ERM. You need to work with procurement, with legal, production etc. It comes back to the point that risk managers are risk conductors. Their role is to know where to go to seek information and likewise learn from their colleagues what is required by law, by reporting standards and so on.

They need to be able to adapt and broaden their skills. I think that the link between risk and transfer of risks is still very strong and therefore, despite what I said in the beginning, I think that we will not see a clear cut between risk management and insurance management going forward.

It will depend on which industry you are talking about. Time will tell. But my personal projection is that we will not see a complete cut between these two professions.

**AL: Ferma members are looking to use their captives more, or to create a captive to cope with the tough market. What should be done to promote captives, raise understanding of their value and make them easier to create and manage?**

DW: It's not an easy task to set up a captive and it's not an easy task to operate a captive. In the EU, captives are fully exposed to Solvency II and it's very burdensome, not just financially but also because of the administration, reporting and the like. We are to some extent used to it, however we are still fighting for a more proportional implementation of the rules for captives.

It is always the same argument that captives are a less risky operation than commercial insurance companies and they do have the full financial backing of their mother companies.

We think we were successful to an extent because we managed to convince the French presidency in the first half of this year that captives should be classified as low-risk undertakings and should get some relief on reporting requirements. This was a big step forward in the effort to promote the idea of more proportional regulation for captives as originally laid out in Solvency II but not followed through.

It is fair to say that the deal is not yet done of course, but I think we managed to get the discussion in the right direction. This took a lot of effort in several meetings with the French treasury and of course European Parliament members.

We consider this to be a bit of a breakthrough in the perception of what captives are doing and what distinguishes them from other traditional insurers.

**AL: This is good news that you have made progress with the EC. But the OECD still refuses to classify European captive insurance companies as "regulated financial services" in its latest consultation on base erosion and profit shifting (BEPS), which makes it difficult to gain those proportionality benefits. What needs to be done here?**

DW: The latest consultation on BEPS is a bit of a setback because the OECD is a bit suspicious of captives and denied that captives are regulated financial services operations. This means that we will not enjoy certain advantages that other regulated financial institutions receive. We are disappointed with this because for the European captives that are fully exposed to Solvency II, it is very difficult to understand how the OECD could come to this conclusion.

All in all, captives are important and we will continue to promote them as a risk management tool, and likewise fight for more appropriate regulation in the Solvency II framework.

As I stressed earlier, given the complexity of setting up and operating a captive, it is not a perfect tool for SMEs and that means that we must not forget to focus on, and strengthen, the traditional insurance market to meet their needs, so that proper risk transfer solutions are available.

# Eiopa tells national supervisors to focus on exclusions in effort to find systemic risk solutions

◇ SYSTEMIC RISK

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Insurance supervisors across the EU have been told to keep a close eye on how insurers react to the rise in systemic risks, and in particular how exclusions are applied in difficult areas.

The European Insurance and Occupational Pensions Authority (Eiopa) recently published supervisory statements on exclusions related to systemic events such as pandemic, natural catastrophes or non-affirmative cyber exposures.

The responses to the consultation leading up the statements, which were published in late September, made for interesting reading. They showed a clear divide between customers and carriers that suggests state-backed and even pan-European solutions to these systemic risks will ultimately be needed.

Policyholder representative bodies such as Ferma and the European broking association federation Bipar were clearly looking for more clarity, certainty and better communication from insurers in the wake of failures over business interruption (BI) coverage to respond to Covid-19-related claims, the original spark for Eiopa's investigation.

Eiopa's response to comments made during the consultation strongly suggest it sympathises with the policyholder community – whether they be individual consumers, SMEs or corporates. Carriers must brace themselves for closer scrutiny from supervisors over how they approach ongoing and future crises.

There is no suggestion that Eiopa or national supervisors will force insurers to stop excluding systemic risks that they find difficult to measure, price and carry on their balance sheets. But insurers will, it seems, come under increased pressure at EU and national level to clarify and communicate their appetite more clearly so that customers have a much better idea of where they stand.

The first of Eiopa's supervisory statements giving guidance to national supervisors was on exclusions for risks stemming from systemic events.

"As the frequency of systemic events increases, there is a risk that insurance products covering them become unaffordable or unavailable. At the same time, products covering such events or products silent about the coverage may explicitly exclude them in the future. These developments have the potential to further widen existing protection gaps, which can have a detrimental effect on consumers and make our economies and societies less resilient," stated Eiopa.

Its supervisory statement aims to promote supervisory convergence on how national competent authorities assess the treatment of exclusions as part of the product design and terms and conditions drafting process. The statement also seeks to ensure that the "interests of existing and prospective policy-holders are duly taken into account when products are developed or revised or when events casting doubt on the scope of the coverage materialise", as with the BI dispute during the lockdowns caused by Covid-19.

Eiopa recommends that national competent authorities monitor whether insurance

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"manufacturers" appropriately assess the terms and conditions, and the scope of coverage, when risk arising from systemic events becomes uninsurable, or there is lack of clarity over whether the risk is covered or not.

Eiopa recommends that national supervisors ensure carriers assess their target market's needs, objectives and characteristics when setting exclusions for systemic events, "including when determining whether risks stemming from systemic events are covered or not".

"While there may be a limit to insurability, Eiopa is of the view that consumers and small businesses can assess the risks involved better – including those stemming from systemic events – when coverage is clear and aligned to the target market's needs. The supervisory statement therefore advocates greater clarity and specific tailoring to the target market," stressed Eiopa.

Its second supervisory statement was on the management of non-affirmative cyber exposures, a hot potato before the arrival of Covid-19.

Eiopa said that given insurers' exposure to this "burgeoning" risk category, national insurance supervisors should pay "closer attention" to insurers' assessment of terms and conditions in their existing insurance products covering cyber risks.

"Eiopa's supervisory statement aims to promote supervisory convergence in how national competent authorities address the market regarding cyber risks. The statement addresses the need for a top-down strategy and a risk appetite definition for (re)insurance undertakings underwriting, or wishing to underwrite, cyber risk. It also reflects on the potential need for a review of the terms and conditions of the contracts regarding their cyber coverage and the need to have in place a strategy on how to communicate such a review to policyholders clearly and in a timely manner," stated Eiopa.

These are words that will be welcomed by Europe's risk managers, who have struggled to meet fast-rising demand for adequate cyber cover from bosses, at a time when the insurance market has pulled capacity often in a dramatic fashion.

Interestingly, the recent move by the insurance market to limit its exposure to cyber-related war risks, following Russia's invasion of Ukraine, is also a focus for Eiopa.

"Undertakings should devote particular attention to traditional war and terrorism exclusions that may not take into account the digital aspects of modern warfare and thus lead to uncertainty and ambiguity regarding coverages. The outcome of this exercise should result in terms and conditions that are clear, simple and aligned with the undertaking's overall strategy and cyber risk appetite, while at the same time providing value for money to the policyholder in line with the target market," it stated.

Eiopa also said its statement highlights the need for insurers to identify and measure their exposure to cyber risk, to help implement sound cyber underwriting practices.

"The management of non-affirmative cyber exposures is of particular importance, including a regular evaluation and use of available reinsurance capacity to mitigate accumulation risk related to cyber risk," it said.

Eiopa's reaction to comments made by various bodies make clear which side of the fence the supervisory body sits on, and will come as welcome news to Europe's risk managers.

There are a couple of clear examples of this contained within Eiopa's summary of comments.

For example, Eiopa said: "When systemic events materialise, insurers are often required to review their terms and conditions to limit disputes, promote certainty and avoid losses due to ambiguous contractual terms. Such reviews may often not to be carried out in accordance with product oversight and governance processes, which would ensure that the target market's interests and needs are balanced vis-à-vis other business needs and considerations. This creates an expectation gap, which can be significantly detrimental to existing and potential customers, and indirectly to the sector at large in view of reputational impacts and political exposure."

Insurance Europe, the representative body of the European insurance community, responded by stating that it agrees that clear communication is important. "A lot of work has been carried out by the industry over recent years on ensuring clarity of contracts. Supervisors should focus on clarity and consumer understanding, rather than expecting exhaustive lists covering all possible eventualities," it said.

But Eiopa's response strongly suggests it feels this argument is simply not good enough.

"While Eiopa acknowledges the efforts by the industry to improve clarity in insurance contracts, the pandemic and other work carried out by Eiopa in relation to exclusions unveiled persistent issues, ambiguous contractual terms and lack of clarity in the cover provided," it said.

The whole topic of exclusions, the value of insurance and rising cyber threat is clearly top of the agenda currently. It is good news that Eiopa has carried out this initiative because, if nothing else, it will raise the level of awareness about an escalating problem among the wider business and political community.

But it is hard to see how Eiopa, or national insurance supervisors, could force any significant change in approach among the insurance community.

The really significant move would be for Eiopa to push hard at European level to create state and/or EU-backed systemic risk schemes that would force better risk management and loss prevention, while using the insurance industry's risk assessment and claims handling expertise backed up with national and EU-level reinsurance capacity. Simple!

# Macro risks dominate agenda as Europe's risk managers gather in Copenhagen

◇ SURVEY

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It will come as no surprise to Europe's risk and insurance management community as they gather for the Ferma Forum in Copenhagen that macroeconomic, financial and political instability top the risk agenda for most currently.

This was the headline finding of this year's *Risk Frontiers Europe* survey carried out by *Commercial Risk Europe* in partnership with Ferma's national association members, and sponsored by HDI Global.

Those who took part in the survey, which is being published at the Ferma Forum, all agreed that the world feels a more uncertain place, particularly in the wake of the Ukraine war and all its consequences.

The fact that these major events seem to be becoming more frequent was a theme echoed across the survey, which included risk managers from France, Germany, Spain, Portugal, Netherlands, Belgium, Italy, Denmark, Sweden and the UK.

The drive from Copenhagen to Kiev is only 1,905km, or 1,184 miles, so the war in Ukraine is really only just on the doorstep.

No surprise then that some 32% of the risk managers surveyed said they are heavily impacted by the war, while 50% said they have felt some impact and only 18% claimed to be unaffected.

The interconnectedness of risks was also highlighted by many of the risk managers taking part in the survey, pointing to Ukraine and its consequences for energy prices.

Many fear a winter of discontent as we head towards 2023, with consumers facing rapidly rising energy bills, combined with other existing inflationary pressures, including supply chain problems that have been a legacy of the pandemic and are fuelling inflation worldwide.


**"Some 32% of the risk managers surveyed said they are heavily impacted by the war, while 50% said they have felt some impact"**

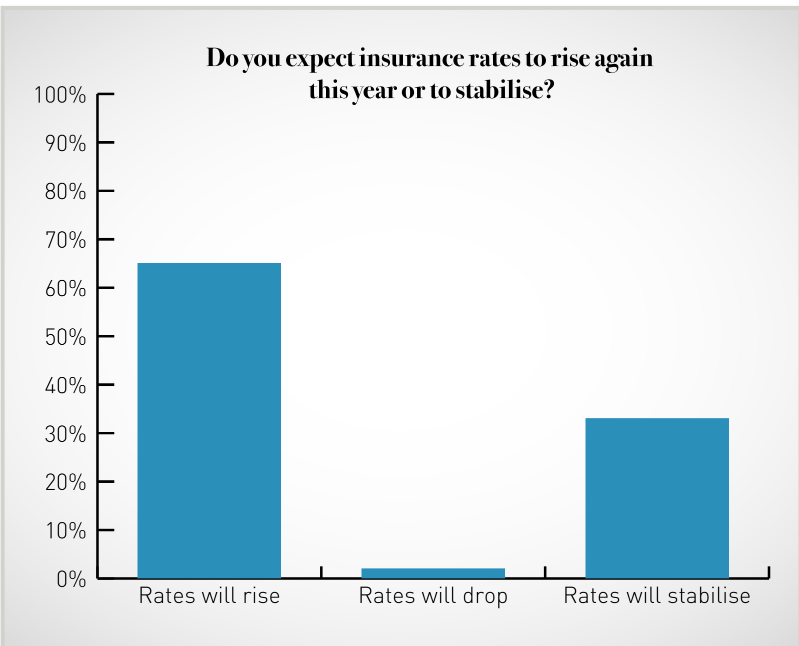
Many of those surveyed are also worried by the rise in the number of natural catastrophes and longer-term impacts of climate change. However, they were equally realistic about the chances of maintaining a path to net zero at a time when energy is short because of the Ukraine-Russia war.

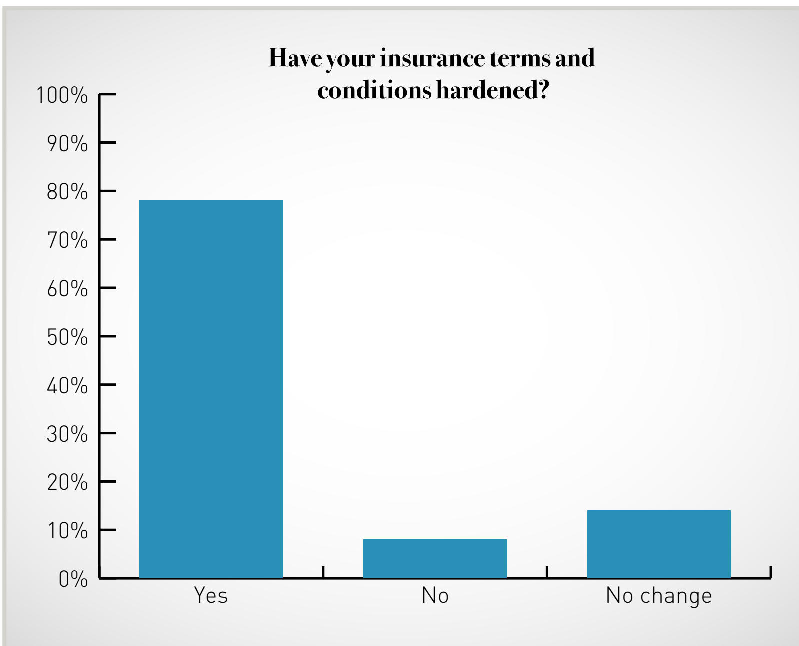
While Europe's risk managers help their organisations grapple with these macro risks, the rise to prominence of ESG has not fallen away. Some 62% of the risk managers surveyed said ESG has risen up their risk radar, compared to 23% who said there had been no change and 15% who said it had not risen up the agenda.

Some 77% felt that political risk was on the rise, compared to 20% who felt it was unchanged and only 3% who believed it had decreased. Taking a look back at the 2021 survey figures, 67% of risk managers were monitoring political risk as a rising issue.

## STAFF SHORTAGES

Human resource is another big risk, with 54% of survey respondents rating it a bigger concern than in 2021. This perhaps reflects the fact that



many participants said they are underresourced, not just in terms of their own risk management department but across the company.

Risk managers said some of the shortages in their own departments reflects the fact that risk management has risen in priority internally and more responsibility has landed on their desks.

Many only have small teams and responding to the growing challenges externally, as well as a difficult insurance market and pressure from their boards to deliver, has been a challenge.

Finding new staff is one thing, the risk managers said. But retaining the right people has also become a challenge – again, something reflected across organisations everywhere.

Overall, as the world feels more uncertain, and to some extent as a consequence of the Covid-19 pandemic, 71% of risk managers surveyed felt risk management is now taken more seriously within their organisation.

Last year, just half the risk managers felt risk management had moved up the agenda. The shift this year possibly reflects the rapid rise in uncertainty and the feeling that change is going to become the new normal.

Despite the recent hardening market, insurance remains a key risk transfer tool. However, 51% of risk managers who took part in the survey said they are still considering an alternative such as a captive – a similar number to last year (56%).

> "Some 62% of the risk managers surveyed said ESG has risen up their risk radar"

**51%** said they are still considering a captive

## RISK TRANSFER

Satisfaction with insurers remains low in 2022, with 65% of risk managers stating that they believe rates will rise at their next renewals. Only 2% believe that rates will fall in coming renewals.

The more encouraging figure is that 33% felt rates would stabilise.

That fits the pattern of comments from risk managers contributing to the *Risk Frontiers Europe 2022* survey, who generally believe that the market should enter a period of calm this year after the ongoing turmoil since 2019.

However, 78% reported that terms and conditions had deteriorated in the current year and there is little sense of the pressure easing.

Almost two thirds (60%) reported that the relationship with their broker was unchanged from 2021, while 42% said the relationship with their insurer had worsened, compared with the 29% who said it had improved and 28% who said it was stable.

This compares with figures from 2021, when 75% of risk managers surveyed said the relationship between insured and insurer had been damaged, and some 46% said the relationship with their broker had worsened. So it appears there has been a slight thawing in relationships.

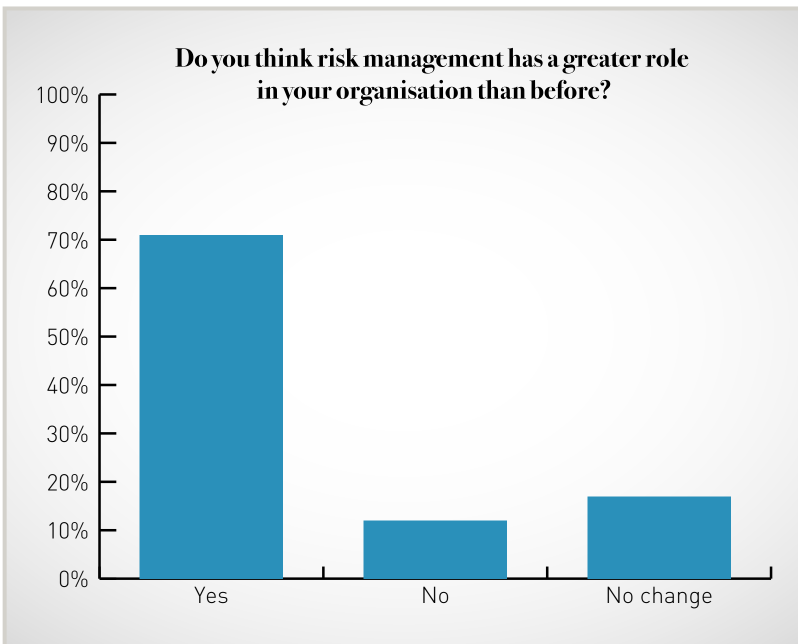
## STILL FURIOUS

However, anecdotally, the risk managers reported that they are still furious with their treatment during the past few years and it would take a while for them to forgive the insurance market.

Europe's risk managers say they understand the need for insurance to be sustainable, and welcome this. But, based on our survey, they still feel hard done by when insurers consistently passed portfolios of risk onto far-flung head offices for decisions on pricing and capacity, and the difference between 'good' and 'bad' risks remained hard to find in terms of capacity or service.

Risk managers remain hopeful, however, that well-managed risks will receive better treatment in the next round of renewals.


**Do you think the relationship between risk manager and insurer has changed?**




**Do you think risk management has a greater role in your organisation than before?**

# Cost of injuries across Europe's top leagues jumps 29%

◇ FOOTBALL

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The cost of injuries across Europe's five biggest football leagues jumped by 29% last season to break the £500m (€610.75m) barrier for the first time, finds Howden's European Football Injury Index.

Now in its third edition, the index tracks injuries in the German Bundesliga, the English Premier League, La Liga in Spain, Ligue 1 in France and Serie A in Italy.

English clubs suffered the greatest loss at £184.57m (€219.64m). Spain's La Liga was a distant second with £109.34m (€130.12m) paid out to injured players.

French club Paris Saint Germain (PSG) suffered the highest costs from injuries at £34.22m (€40.73m), followed by Real Madrid on £33.95m (€40.41m) and Barcelona third on £27.92m (€33.23m).

The total number of injuries sustained across all of Europe's top five leagues reached 4,810 during the course of last season. This is 20% higher than in 20/21 when 3,988 injuries occurred.

The English Premier League experienced the most injuries with 1,231 in total during the 2021/2022 season, up from 938. Next came the Bundesliga with 1,205 injuries, up from 902 the season before.

La Liga suffered 848 injuries last season compared with 761 the year before, Serie A 835 compared to 781, and Ligue 1 691 from 606.

## ON THE RISE

"This research confirms what leading club managers have been saying for a while now – injuries are on the rise across European football," said James Burrows, head of sport at Howden.

"The reasons for this will be the subject of much debate but Howden's extensive research shows there's a 20% rise season on season in injured players. With football's authorities currently negotiating the game's calendar, the Injury Index provides a deep insight into the human and financial cost of congested fixture lists and a packed calendar. It will help answer the question of whether there's just too much football being played," he added.

The English Premier League experienced the most injuries during the 2021/2022 season

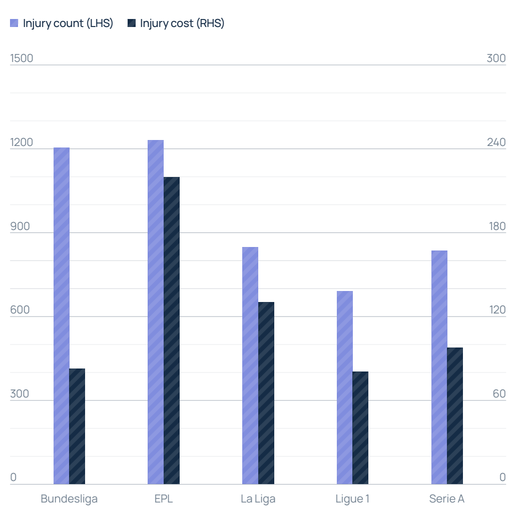
> "The Injury Index provides a deep insight into the human and financial cost of congested fixture lists and a packed calendar"

The index shows that Chelsea topped the injury count in the English Premier League with 97, Manchester United registered 81 injuries and Liverpool 80. Real Madrid recorded the highest number of absences across Europe at 114, as well as the second-highest costs.

Howden said analysis of the champions in each of the five leagues offers an interesting insight on squad depth. Bayern Munich (97), Real Madrid (114) and PSG (91) all recorded the most injuries in their league during the season, yet still claimed their respective titles. This points to vast squad depths at these clubs that enabled them to overcome league-leading injury rates, the broker said.

The research also found that the impact of Covid-19 on clubs worsened compared to the previous 2020/2021 season. Only Serie A recorded a decline in cases. In the first full season since the start of the pandemic, a number of games across Europe were still postponed because of the virus.

**Injury cost and count for the five leagues across the 2021/2022 season (€m)**




Source: Howden European Football Injury Index

**Leagues at a glance**

| | Bundesliga 20/21 | Bundesliga 21/22 | English Premier League 20/21 | English Premier League 21/22 | La Liga 20/21 | La Liga 21/22 | Ligue 1 20/21 | Ligue 1 21/22 | Serie A 20/21 | Serie A 21/22 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total injury instances | 902 | 1205 ▲ | 938 | 1231 ▲ | 761 | 848 ▲ | 606 | 691 ▲ | 781 | 835 ▲ |
| Total days out | 16.35 | 15.15 ▼ | 14.87 | 16.02 ▲ | 16.93 | 17.50 ▲ | 23.29 | 25.02 ▲ | 16.25 | 18.08 ▲ |
| Average unavailable players | 40.39 | 50.02 ▲ | 38.22 | 54.01 ▲ | 35.29 | 40.65 ▲ | 38.67 | 47.38 ▲ | 34.78 | 41.37 ▲ |
| Points of league winners | 78 | 77 ▼ | 86 | 93 ▲ | 86 | 86 ▸ | 83 | 86 ▲ | 91 | 86 ▼ |

Source: Howden European Football Injury Index

PARTNER CONTENT

IN ASSOCIATION WITH ZURICH

# Managing the energy transition

With continued focus on the shift away from fossil fuels to clean energy, companies need to understand the impact on their business, employees and customers, according to Zurich's head of sustainability, commercial insurance and group underwriting, **Gabrielle Durisch**, and **Frank Streidl**, head of energy, marine and construction, commercial insurance in the UK

◇ ENERGY

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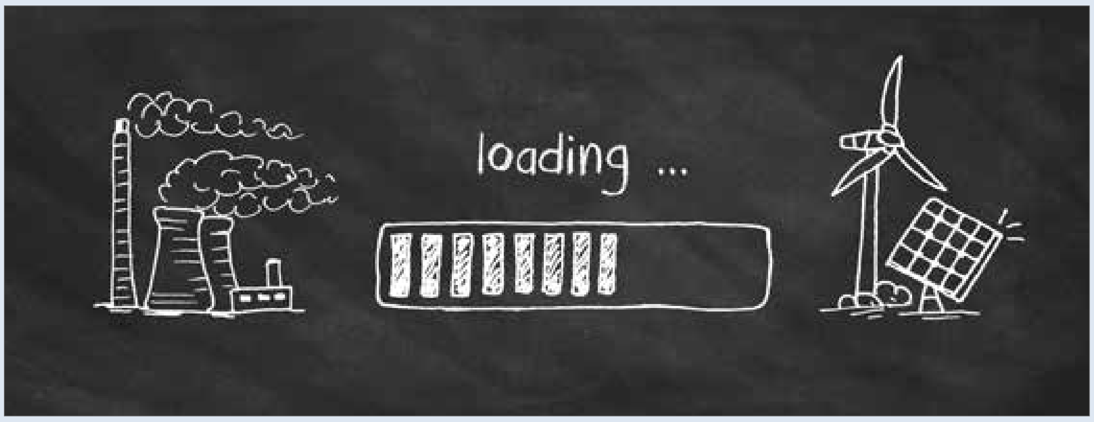


Energy is back at the top of the corporate agenda.

The war in Ukraine has highlighted the risks of an energy crunch in Europe, but the current situation is likely to be just a bump in the road on our journey to net zero and the transition away from fossil fuels.

Climate change remains one of the biggest challenges of our time. The pandemic and the conflict in Ukraine may have driven up prices of fossil fuels and raised the spectre of shortages, but the transition to a low-carbon economy is inevitable, requiring a huge investment in clean energy and a drive for greater energy efficiency.

According to the International Energy Agency (IEA), by 2050 the energy world will look completely different to today. Global energy demand will be 8% smaller than today but it will serve an economy more than twice as big and a population with two billion more people. Almost 90% of electricity generation will come from renewable sources, the IEA predicted in its *Net Zero Roadmap*.

## SHORT-TERM CRISIS, LONG-TERM VIEW

The past year has given us a taste of what a future energy crisis might look like. Even before the war in Ukraine, energy prices were rising. A surge in demand following Covid-19 lockdowns saw power outages and rationing in China last year and big increases in the price of natural gas used to generate power and heat homes in Europe.

The combination of the pandemic and the current geopolitical environment is likely to have a dual effect. Short term, the price of energy is rising, which in turn drives inflation and higher costs of living, especially in Europe that relies on Russia for about 40% of its natural gas. The conflict may also temporarily slow the transition to clean energy as countries extend the life of coal-powered plants or increase fracking and oil exploration.

Long term, however, the current crisis is a reminder of our dangerous dependency on fossil fuels, and should accelerate investment in clean energy. For Europe, in particular, the likely shift away from Russian gas will take time and could see further price volatility as countries adapt. However, short-term measures in reaction to the crisis will need to be aligned with ambitions to keep global warming to within 2°C, and preferably 1.5°C, of pre-industrial levels.

## ADAPTING TO HIGHER ENERGY COSTS

Many companies around the world are now planning and implementing pathways to net zero. Of the world's 2,000 largest public companies, at least one fifth (21%) now have net-zero commitments, according to the Energy & Climate Intelligence Unit. A recent survey by Deloitte found almost two thirds (65%) of organisations believe they are on track to achieve net zero by 2030.

> "Energy will become an even more important factor in both strategic and operational decisions going forward"

The transition to net zero will affect companies of every size and in every sector, impacting day-to-day operations, employees and customers. It will mean the adoption of new technologies, regulation and changes to the way in which goods and services are manufactured, transported and consumed.

The move away from fossil fuels is also likely to result in greater price volatility. Higher prices could speed up the adoption of green energy and more sustainable manufacturing, transport, construction, food production. But they will also support an increased focus on energy consumption and efficiency, with corresponding changes in consumer behaviour.

Higher energy costs could translate to political and societal risks, adding to existing inflationary pressures and potentially impacting consumer spending and employee wellbeing. As the energy transition gains momentum, the focus will shift to the 'social' aspect of ESG, with potential issues for energy poverty and unemployment in carbon-intensive industries and regions. Solutions need to address every aspect, from reducing emissions to providing affordable, reliable energy globally, while at the same time balancing the needs of a workforce adapting to significant upheaval.

## UNCERTAIN PATHWAYS AND OPPORTUNITIES

The transition to clean energy is already well underway but the path ahead is fraught with uncertainties. The main drivers will be government policy and carbon-pricing mechanisms, which are ill defined at present. Timescales and key decisions – such as which green technologies will prove most successful, or how quickly they will be adopted – are also difficult to predict.

The phasing out of fossil fuel will also create opportunities, with massive investment and a period of dynamic innovation in sectors like energy, transport and construction. According to the IEA, achieving net zero by 2050 will require annual energy investment of $5trn by 2030 and an increase in energy efficiency of 4% a year through to 2030. There will also be commercial and reputational benefits for 'first movers' and organisations that are quickest to adapt to changing consumer behaviour.

Without doubt, future capital expenditure will need to be sustainable. Energy will become an even more important factor in both strategic and operational decisions going forward, while difficult decisions lay ahead for existing assets, such as whether to replace existing production facilities and buildings with low-carbon alternatives.

## ENGAGEMENT AND COMMUNICATION KEY

Given the complexity and unpredictability of the transition to clean energy and net zero, communication and engagement will be key. Stakeholders will need to share knowledge and work together to create solutions across the value chain, including insurance and risk.

The transition will have direct implications for property and liability exposures. For example, more and more companies are generating their own renewable energy or finding ways to make their operations more sustainable.

However, such actions can change the risk profile. For example, adjusting manufacturing processes to adopt a more circular approach may have implications for property risk; and for those companies looking to build carbon-capture and storage facilities, they are entering into new areas of risk that will initially be unfamiliar.

Early engagement with insurers is essential for understanding risks and creating solutions. Insurers can provide cross-sector expertise and knowledge, as well as data and tools to identify and quantify exposures. By working with customers, the industry can help de-risk investments in clean energy and more sustainable processes, as well as help mitigate social and environmental consequences of the transition.

Risk managers are well positioned to play an important role in the energy transition, helping organisations understand the risks and opportunities and make informed decisions that are aligned with net-zero and ESG commitments. Ultimately, the energy transition will become a critical factor in strategic and operational decisions, and one that should be embedded into everyday business.

PARTNER CONTENT

IN ASSOCIATION WITH
Swiss Re
Corporate Solutions

# Honest risk-based discussion to dominate Ferma Forum

Swiss Re Corporate Solutions' EMEA CEO **Fred Kleiterp** discusses the need for closer collaboration and risk-based dialogue between insurers and risk managers

## ◇ FERMA FORUM

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The first in-person Ferma Forum for three years is due to take place in Copenhagen on 9-11 October. For many, this cannot come quickly enough, given what has occurred in the intervening period.

It is also a chance for insurers, insureds and brokers to embark on a more collaborative approach to risk management – something that Fred Kleiterp, CEO EMEA, Swiss Re Corporate Solutions, believes is critical.

"Three years ago at the Ferma Forum in Berlin, it was the beginning of the hard market, driven largely by significant large losses and nat cat events," said Kleiterp.

The hard market has subsequently arrived and the challenges facing risk managers have become even greater. The pandemic may be in its final stages but the supply chain disruption it created is still ongoing. Added to this are an energy crisis, war in Ukraine and global inflation. Plus, insured losses from natural catastrophes continue to rise as the impact from climate change becomes more visible.

According to the Swiss Re Institute's data, between 2013 and 2016 there was $48bn in nat cat and manmade losses per year, whereas between 2016 and 2021 this rose to more than $117bn. Strikingly, in the first half of 2022 alone there have been $35bn of insured losses from natural catastrophes, 22% above the average loss of the last ten years ($29bn).

The relationship between risk managers and insurers has become more complicated, fuelled by the perception that insurers are retreating from the market at the worst possible time. "Risk managers have been confronted with increased price levels and reduced capacity for critical classes, so I can understand their perception," said Kleiterp.

Fred Kleiterp

"It is a joint effort between customers, brokers and insurers to quantify, assess and model risk with the aim to improve risk mitigation"

More engagement is necessary across the market and all players in the insurance process need to look again at the risks in more depth, he said.

"We need a more data-driven, risk-based dialogue. It is a joint effort between customers, brokers and insurers to quantify, assess and model risk with the aim to improve risk mitigation, and to optimise risk retention strategies as well as risk transfer solutions," said Kleiterp.

### COLLABORATIVE AND DATA-DRIVEN TECHNOLOGY

To date, insurance industry players have primarily used technology to optimise their own processes and generate cost efficiencies, but there is an opportunity to address inefficiency through more collaborative use of technology and developing common standards.

To this end, Swiss Re Corporate Solutions has opened up its international programmes platform, Pulse, for third parties to use in order to achieve greater interoperability between systems, thereby increasing efficiency and reducing costs.

There is also a huge opportunity to combine data and analytics to provide more transparency around evolving customer risk landscapes, allowing for a more robust and in-depth risk dialogue including those risks that are currently more difficult to insure, said Kleiterp.

"It is not enough for insurers to model the risks in the privacy of their offices and then offer x capacity at y premium. Risks are still insurable, but we need to change the way we do business. We will go through this together and find ways for risk managers to take back control of the risks based on shared data. For example, can you identify and reduce bottlenecks in the supply chain? How is risk landscape changing over time due to climate change?" he said.

"Creating transparency in risk exposures, risk accumulations and being able to quantify and model risk better, will allow risk managers to take better informed decisions on risk mitigation, risk retention and risk transfer," he said. "And collaboration between industry partners will only lead to even better outcomes."

### ALTERNATIVE RISK TRANSFER STRATEGIES

In the hard market environment, many alternatives provide efficient risk transfer in addition to traditional insurance. Captives, international programmes and parametric are important tools designed to optimise risk transfer strategies. For customers that do not yet own a captive, for example, Swiss Re Corporate Solutions has developed the 'virtual captive', a structure that emulates the workings of a captive and has seen strong demand from clients, said Kleiterp.

Swiss Re Corporate Solutions will be taking a large delegation to the Ferma Forum representing almost all lines of business to address concerns of the insurance industry. In line with the Forum's motto 'transitioning together', they will explore the ways for a more meaningful and data-driven collaboration with all relevant stakeholders.

"Remote working helped us all get through the pandemic, but we need to get again into those face-to-face meetings to have an honest and open risk-based discussion," said Kleiterp. "Risk managers are critical of the insurance industry. The hard market came as a surprise to many and it should not have been. We need to change the way we do business and focus on the risk and not only the insurance capacity, and we need to use technology and data collaboratively so that we can jointly address the many pain points."

PARTNER CONTENT

IN ASSOCIATION WITH

# Defining moment for the industry

**Charles Taylor Adjusting** discusses some of the big issues facing risk and insurance managers as they gather in Copenhagen

## INTERVIEW

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Carlo Spadoni

**Q: What do you see as the big risks on the radar?**

**Carlo Spadoni (CS), head of Charles Taylor Adjusting PCTSR for the European region:** The long-term consequences of the international conflict in Ukraine on the global supply chain are front of mind at the moment, as the war could have very devastating consequences on businesses, as well as the communities they serve.

We are facing a new scenario that has never been experienced before. Europe – which is currently facing this rising conflict – has a global supply chain that is incredibly interconnected. There are contingency business interruption risks and threats to both large corporations and smaller companies, which are related to this macro geopolitical scenario. These risks are increasingly difficult to assess, and some of them may not be covered by today's insurance policies.

This scenario causes an altogether new threat to large corporations and new challenges to the insurance industry. We therefore need to think about how we can better define what is covered and what is not, and determine which tools we should use in order to deliver the right solution to policyholders.

**How could this impact businesses and the insurance companies that support them?**

**Daphne Naudy (DN), senior loss adjuster for property, casualty, technical and special risks at Charles Taylor Adjusting:** There are varying degrees of severity in terms of potential loss. At one extreme, a loss may involve the total disruption of the supply chain and a complete outage; or a loss could relate to a simple partial outage for some key clients.

In both cases, some companies, or their key suppliers, may therefore be forced to stop or reduce their own production. This, combined with an increase in the cost of materials, services or energy, is going to be a common issue for most manufacturers worldwide and in Europe especially.

> "It is also a moment to redefine some of the roles of our industry, and Ferma is a valuable opportunity to address these important topics together"

**Are there any measures companies can take to avoid business interruption?**

**CS:** This strongly depends on what has already been put in place in the past in terms of diversification of supply sources. Insuring or reinsuring is, of course, a trend that had already gained momentum in the last two, or three years.

There is also the possibility to transfer the risk beyond the pure financial solution. An alternative solution could be to purchase futures on the supply of raw materials or services. However, as far as our industry is involved, the risk must be managed through insurance policies designed for business. In the pandemic we saw that only some contracts included provisions for this kind of risk, leaving many businesses without cover. The same applies to property or first-party coverages, which may or may not include a provision for contingency business interruption and have appropriate limitations.

Our ability to assess how we consider these occurrences to be related to an excluded peril, notably war, is therefore a recurring topic.

Daphne Naudy

**How are Charles Taylor's teams preparing to support their clients?**

**DN:** First of all, we have our own people working as a single team in all of the world's main regions. In Europe, we have Charles Taylor teams, not affiliates, present in our offices on the ground. In addition to our people in the UK, we are present in many countries from Scandinavia to Turkey, from France to Poland and from Italy to Germany and beyond.

This allows us to assess losses and provide local knowledge to a global challenge. Our adjusting teams – spanning P&C, special and technical risks, aviation, marine, and natural resources – are joining up to support our clients. In addition, our insurtech team delivers connected technology solutions for customers in the insurance value chain.

**You have attended Ferma Forums for many years, what makes this 2022 edition important?**

**CS:** We are facing two key challenges: the lingering pandemic and this macro/socio/geopolitical challenge. It's a defining moment for our industry and the sheer fact of having a chance to meet in-person after a couple of years is already an achievement. Yet, it is also a moment to redefine some of the roles of our industry, and Ferma is a valuable opportunity to address these important topics together.

# Jupiter climate risk data: Uniquely addressing the urgent needs of risk professionals

◇ CLIMATE

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Risk professionals and insurers in Europe today confront two implacable forces.

One is extreme weather driven by climate change, with events – flood, extreme heat or cold, drought and fire – likely to become more severe and happen more frequently than ever in history.

The other is mandatory climate risk disclosure as investors, governments and regulatory bodies move to make companies, industries and economies more resilient to the financial fallout of climate disasters and the transition to a low-carbon world.

## A TOOL FOR EU TAXONOMY AND OTHER REGULATORY DEMANDS

The EU Taxonomy is an immediate example. By the start of 2023, companies listed on regulated markets (including subsidiaries), or with at least 500 employees within the European Union, must report physical risk impacts on its two initial objectives: climate change mitigation and climate change adaptation.

The urgency of this deadline and the importance of qualifying as a sustainable investment under the Taxonomy are driving companies' concentrated efforts to identify, assess and report physical climate risk.

In order to prove that their activities contribute significantly to the EU's environmental objective of climate change adaptation, and that they do no significant harm to the separate objective of climate change mitigation, respondents must conduct a climate risk vulnerability assessment.

Jupiter Intelligence, the global market, science and technology leader in climate data, is uniquely suited to this task for four main reasons:

- Its climate analysis is based on the most thorough and state-of-the-art climate models, and provides the most reliable and scientifically sound projections.
- Jupiter's flagship solution, ClimateScore Global, covers the majority of the EU Taxonomy's required climate hazards at 90-metre (portfolio-scale) resolution; in addition, it enables users to project potential climate impacts until 2100 in five-year increments, and across three different climate change scenarios.
- Its unique combination of aggregated hazard scores and 75 detailed peril metrics allow easy identification of portfolio-wide risk and the assessment of expected impacts in depth.
- Jupiter partners with some of the world's biggest consultancies and auditors, to provide a full range of services for sustainability reporting if needed.

A successful climate risk assessment is a prerequisite for reporting on eligibility and alignment for the Taxonomy's environmental objectives. In addition, it can be applied to other proposed mandates, TCFD frameworks and TCFD-aligned proposed regulations across jurisdictions such as Singapore, the UK, the US, Canada, Hong Kong, and New Zealand.

**"The importance of qualifying as a sustainable investment under the EU Taxonomy is driving companies' concentrated efforts to identify, assess and report physical climate risk"**

## BEYOND DISCLOSURE: JUPITER SUPPORTS RISK MANAGEMENT AND RESILIENCY USE CASES

In the private sector, Jupiter works with at least one of the world's five largest firms in asset management, banking, insurance, pension funds and reinsurance – as well as top-five chemicals, minerals and mining, oil and gas, pharmaceuticals and utilities companies.

Reporting and compliance comprise only one application of Jupiter climate data. Companies are using it to make themselves, their operations and supply chains, and their portfolio of investments more resilient in the face of physical climate risk.

In financial services and insurance, Jupiter analytics are used for processes such as:

- **Portfolio planning** – to incorporate climate analytics into portfolio and reinsurance decisions; and to identify regions and lines of business that may become less economically viable to insure, or invest in and operate in.
- **Pricing and underwriting** – to improve underwriting guidelines to improve risk selection; integrate short- and long-term hazards into pricing; and to design and bring to market insurance products triggered by adverse climate conditions.
- **Investment management** – to understand how climate change will affect expenses and exit values for long-held real-estate assets; and to incorporate climate risk into market value analysis.
- **Risk/resiliency engineering** – to help customers minimise impacts of climate risk through risk engineering and resiliency insights; and to offer solutions to companies that have invested in mitigation.

Jupiter's data and services, based on constantly advancing science, are designed to address organisations' immediate needs, and demands of the future.

### Talk to a Jupiter expert today

To learn more about how Jupiter can help your organisation and its disclosure, risk management and resiliency initiatives **contact a Jupiter expert** and schedule a demo of ClimateScore Global.

Or **watch our webcast series** Making Sense of the Upcoming EU Taxonomy Mandate, and view or download our use cases and presenters' blogs on the **Jupiter website**.

PARTNER CONTENT

IN ASSOCIATION WITH Brokerslink

# How can insureds keep track of inflation?

Nuno Rodrigues, director of property and engineering at MDS, a Brokerslink partner

## ◇ INFLATION

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The Covid-19 pandemic has brought major disruption to logistics chains across the world. We're still feeling the consequences and they could take a few years to fade away. The pandemic, along with rising energy, raw material and foodstuff prices, as well as the sudden eruption of war in Ukraine, have led to historically acute inflation levels the likes of which we had not witnessed this century.

The price hikes impact all sectors of the economy and the insurance sector is no exception. The repercussions of inflationary pressure and disruption to supply chains in insurance contracts have severe impacts.

Rising prices, of which we would draw attention to material and labour costs in construction and renovation projects, can mean insufficient funding which, if a claim arises, will bring harmful consequences to the interests and assets of the insured.


> "In a world shaped by inflation, we are at greater risk of underinsurance when an accident happens; meaning that the insured capital is lower in value than the actual assets at risk"

Correct determination of insured capital is the basis for good settlement, and such determination always falls under the policyholder's responsibility, not only at the inception of the contract but for its duration. This is a point of capital importance, especially in difficult, volatile economic junctures, like the one we're living through.

It is when a claim arises that insurers confirm whether insured amounts have been correctly determined – a task that nobody other than experts should perform.

### UNDERINSURANCE

Now, in a world shaped by inflation, we are at greater risk of underinsurance when an accident happens; meaning that the insured capital is lower in value than the actual assets at risk.

In such cases, contracts only compel insurers to take on liability in the proportion between insured capital and its actual value (proportional rule).

To avoid this, insureds must diligently review and update insured amounts based on market prices at the time of review.

We must point out that greater plant and equipment replacement and repair costs have other consequences, namely, they entail greater risk of replacement or repair not being financially viable because the costs exceed market value, leading to total loss. In such cases, as a rule, compensation for an asset written off as a total loss will match its replacement value while new, minus depreciation for wear and tear. So, indemnity amounts will not cover the acquisition of a new, replacement asset. To overcome that limitation, an insured can sign up for a New Replacement Value Clause.

Beyond the effects on the price of consumer goods and services, other collateral damage comes into play: significant delays to production, distribution and delivery of material and equipment, delays to building renovation, to replacement, repair and assembly of plant and equipment. When a claim arises, such delays could stop operations altogether and cause business loss and/or declining sales.

### BI COVER

This deteriorated context in logistics means that now more than ever one must acquire coverage for business interruption.

In this respect, businesses should ask for a leeway clause covering fluctuations in at-risk capital versus insured capital and, additionally, the insured would do well to undertake a meticulous review of compensation periods outlined in their insurance policies to guarantee that the timeframe necessary to rebuild, repair or replace damaged assets takes into account the greatest delays owed to current difficulties in supply chains and is duly covered in their policy. The same goes for the insured amounts.

As for civil liability policies, we now see rising claims costs as a result of higher compensation for third parties. So, repairing damage is inevitably affected by this upward climb.

Such an environment, added to growing appetite for litigation, a broadening scope for civil liability, plus the tendency to award higher indemnity amounts, means we would advise reviewed and updated contracted capital so that this capital matches exposure and liability, in as much as that capital is the maximum value for which an insurer is liable. If damage and losses exceed that amount, the insured will be liable for the remainder.

PARTNER CONTENT

IN ASSOCIATION WITH BELFOR

# Staying ahead of the storm

Amid a dramatically shifting risk landscape, BELFOR Europe's CEO **Elvir Kolak** talks about the importance of getting ahead of a crisis to ensure a rapid recovery

Flooding in Regensburg, Germany: one of many such incidents across Europe in 2021

## ◇ RECOVERY

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Many risk managers feel they have been in firefighting mode for the last two years, struggling to stay ahead of one crisis after another. Reporting risks is no longer enough. It is critical that risk managers are able to prepare for risks before they happen.

While new risks have emerged in recent years, traditional risks have also increased. In the last five years, insured losses from natural catastrophes have resumed a long-term growth rate of 5% to 7% annually, following a benign phase of lower annual losses in the 2012-2016 period.

Risk managers have also had to deal with a hardening insurance market and all that brings – rising premiums and exclusions alongside a reduction in capacity and coverage.

One area where the lack of capacity is conspicuous is business interruption (BI). Not only has coverage declined but the likelihood of long business interruptions has increased. For example, the cost and waiting times for replacing machinery have both risen; the availability of spare parts has declined, as has the number of skilled mechanics and mechanics in general.

And the lack of insurance will itself make recovery from BI much more difficult.

### GETTING AHEAD

The concerns around BI were evident in the floods that wreaked damage on households and business across Europe in 2021. The lack of restoration companies, insurers and other service providers was exposed for all to see, contributing to the commercial trauma experienced by so many small and medium-sized enterprises.

> "It seems that we are always struggling, always in firefighting mode, always trying not to drown, always in the middle of the storm"

Consequently, the floods also showed why risk managers must try and get ahead of the crisis and how a solution like BELFOR's RED ALERT® is of critical importance in today's market.

As one senior risk manager said: "It seems that we are always struggling, always in firefighting mode, always trying not to drown, always in the middle of the storm. We need to get ahead of the wave. We need to prepare for foreseeable challenges and risks before they happen. We need to get ahead of the wave. Only reporting risks is not enough."

BELFOR's RED ALERT® service is structured to work alongside companies' response plans and emergency procedures so that recovery can be more rapid and effective, and that any gaps in business continuity plans can be minimised.

- BELFOR covers entire supply chains across all continents.
- RED ALERT® clients receive exclusive access to a dedicated hotline.
- RED ALERT® clients enjoy priority status. In the event of a national disaster and increased demand, RED ALERT® clients skip the line and get served first.
- No two businesses or even industries are alike. This is why BELFOR experts bring in specialist knowledge and experience of all businesses, being able to customise their services before, during and after a business interruption.
- By their nature, emergencies create uncertainty. RED ALERT® supports companies in defining their appropriate level of service, which corresponds to their prevention planning – making their business more resilient.
- The first hours following a disaster are crucial. Step-by-step protocols tailored to the client's needs reduce the impact of any business interruption. That way, companies are ideally prepared for both minor incidents and worst-case scenarios.

### PRIORITIES

The rise in natural catastrophes and BI, the decline in insurance capacity and the need for companies to manage their own risk are all subjects that will be discussed at this year's Ferma Forum in Copenhagen on 9-11 October.

Ferma's 2022 European Risk Management Survey showed that risks such as cyber and supply chain failures have increased rapidly, as has the importance of the risk manager's role. "Resilience is more than ever a priority for top management and the role of the risk manager is evolving as a result," said Ferma president Dirk Wegener. "We see risk managers taking on additional responsibilities, particularly for business continuity and crisis management."

BELFOR will be present at the forum and will take part in the discussions and debates, and listen to the demands and concerns of risk managers. Forum participants are invited to learn how restoration after complex damages can be 25% faster, at the company's new mobile electronics restoration truck, which is located directly behind the exhibition hall.

On 12 October, the day after the Ferma Forum, BELFOR is also inviting about 100 customers to its own event at BELFOR's Danish headquarters in Slagelse, where their services and expertise after large and complex damages will be presented.

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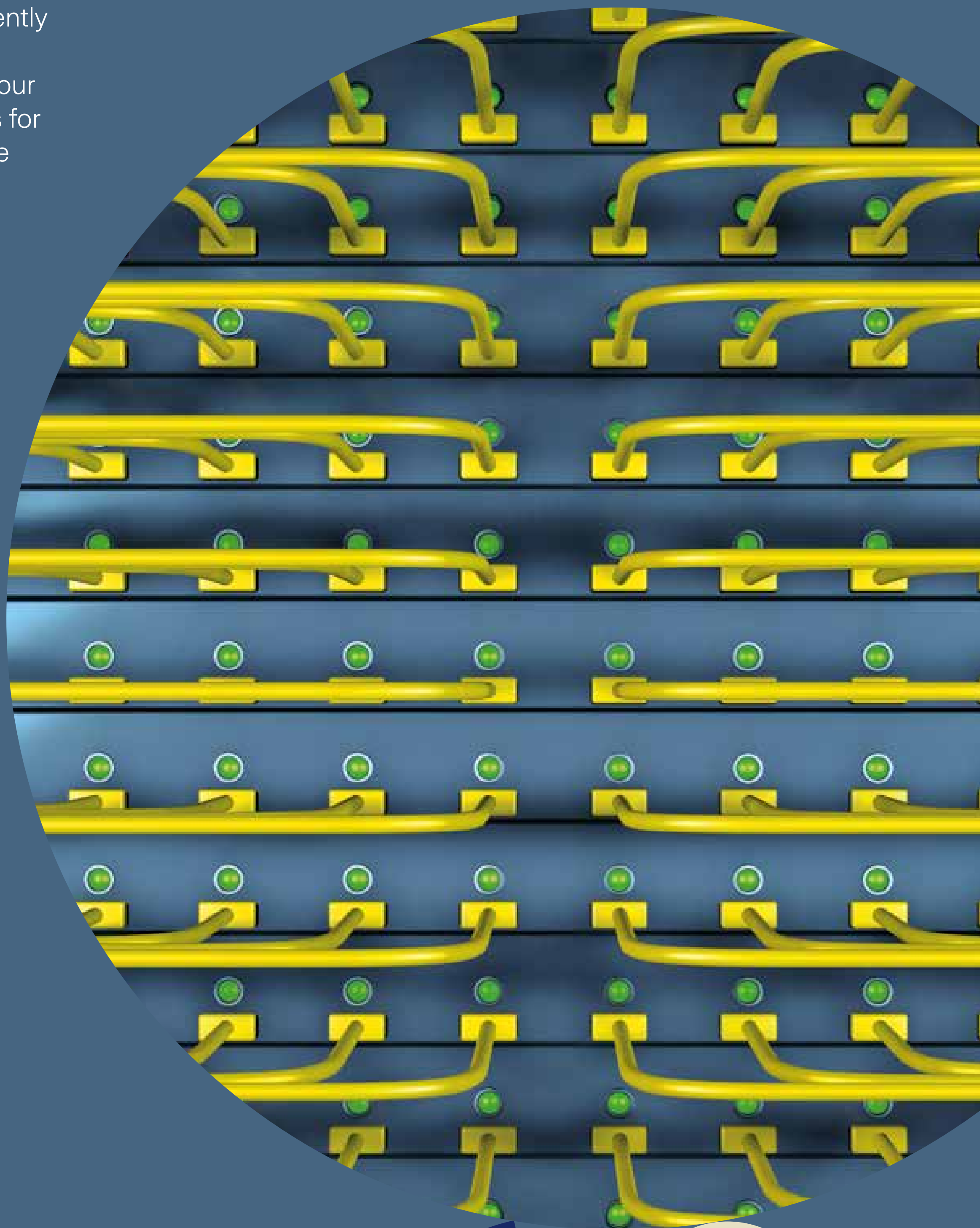
**Casey Markovic**
Manager Risk Management, Prologis



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