

What does the future
of insurance look like?

Find out on page 3

New tool to help negotiate
new cyber insurance policies

Find out on page 7

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Time to rethink business interruption

Marsh's Caroline Woolley warns of a mismatch between how risk managers and insurers approach business interruption

Insurers need to "take the blinkers off" and "start treating business interruption (BI) risk with the focus and attention it deserves", says Caroline Woolley, global leader of Marsh's business interruption centre of excellence.

A mismatch between how risk managers view BI and how the insurance industry deals with the risk often leads to gaps in cover, says Woolley.

To a risk manager, BI risk is anything that may interrupt business activity but insurers have historically focused on the property damage element of BI.

Woolley says: "BI does not fit neatly into insurance categories. There are BI elements to many different policies, such as cyber, environmental, terrorism, property damage and supply chain."

Historically, risk managers did not record non-physical BI losses because the risks were usually uninsured. This has resulted in a lack of data to assist insurers when quantifying these losses.

Woolley adds: "Risk managers are not making informed decisions on risk transfer because they do not have [sufficient] historic information that insurers would like them to have."

"Insurers should take the 'blinkers off' and start to look more broadly at BI risks facing [companies] and be willing to collaborate with underwriting teams. Brokers should be gathering the right information so they can make informed decisions about risk transfer."

How corporate insurance buyers rate insurers and brokers

Insurers and brokers often provide exceptional service but can be inconsistent. Furthermore, the insurance industry is failing to evolve as quickly as large corporations and faces becoming irrelevant

Major insurers and brokers are failing to keep up with the rapidly changing demands and expectations of the UK's largest corporate businesses.

That is the key finding of *The UK Corporate Insurance Buyers' Survey 2015*, produced by StrategicRISK and aimed at leading risk professionals.

Research was undertaken in the fourth quarter of 2014 among a cross-section of StrategicRISK's UK readership of corporate risk managers and insurance buyers representing FTSE 250 companies or those of

a similar size in the private sector.

Although they remain solid on traditional industry basics, insurance and broking firms need to evolve significantly to maintain relevance for corporate clients.

From a perceived lack of innovation to concerns around understanding fully the constantly shifting nature of globalised commercial requirements, the service provided often falls short of what is or will soon be needed by insurance buyers and risk managers.

(Continued on page 4)

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The future of insurance: avoid a silo approach to emerging risks

Willis, ACE, AXA Corporate Solutions and Lockton chief executives explain how to deal with emerging risk

Emerging threats are likely to become a sub-set of existing risks and risk managers must therefore avoid silo approaches and take a holistic view on potential threats.

That was the key message from a panel of insurers at Airmic's inaugural fastTrack forum chaired by *StrategicRISK* editor Mike Jones.

The panel comprised Willis chairman and chief executive David Martin; ACE UK and Ireland regional president David Robinson; AXA Corporate Solutions UK chief executive Matthew Caillat; and Lockton chairman of international operations Mike Hammond.

Themed 'Future of the insurance market', the panel reviewed the industry's approach to emerging risks such as cyber, terrorism and reputational damage.

Say "no" to silos

The crucial message from the panel was that each party involved in the transfer of risk must consider how emerging risks connect with existing ones. Delegates were advised to avoid a silo approach to emerging risks.

Lockton's Hammond said: "As an industry, we need to understand not so much the emergence of new risks, but how existing risks could merge into new ones.

"It is easy to think we can compartmentalise risks into old and new. [Risk and insurance professionals] should view risks holistically."

'As an industry, we need to understand not so much the emergence of new risks, but how existing risks could merge into new ones'

Mike Hammond, Hammond



Quantify exposures and losses

Martin moved the discussion to consider whether insurers could quantify exposures and losses linked to emerging risks, particularly with regard to cyber.

He said: "The problem with most emerging risks is that there does not appear to be a general consensus about the type of cover required."

He added that clients lack clarity over what risks should be transferred to an insurer because the true probability of a loss is unclear. "The market needs to know what premium is required... in order to create insurable propositions," he said.

By way of example, Hammond highlighted issues related to cyber risk. He said the industry must be more transparent about the frequency and scale of cyber breaches.

Being open with this information will provide insurers with more data to quantify loss and impact.

How globalisation has changed insurance

ACE's Robinson moved the discussion on to consider how globalisation has changed the insurance market. Clients are demanding faster results, he said: "Customer expectations have changed hugely in the past few years. Clients are more empowered than they have ever been; they are used to faster solutions and live in an instantaneous world.

"That means insurers must address emerging risks in a way that meets expectations in terms of speed but also regarding cover. We have got to embrace technology and data for us to do that."

'The problem with most emerging risks is that there does not appear to be a general consensus about the type of cover required'

David Martin, Willis

AXA's Caillat concluded the discussion by touching on future trends, namely related to intangible threats. He said the consequences of intangible risks are likely to soar in the future but that insurance is not designed for these risks.

"Insurance policies were not originally designed for these types of risks, meaning insurers have to evolve and adapt. They will need to be innovative and work with brokers and the insured to find the best solutions."

(Continued from page 1)

Failing to keep pace

Many insurers and brokers provide exceptional service to clients, but it is often patchy or sector specific.

One respondent said: “Some insurers are delivering what we need with some products, but if [the question was whether] insurers delivered across the board, then the answer is ‘no’... Insurers are failing to keep pace with the complexities of large multinational organisations in terms of understanding our needs and, for some, their ability to deliver anything that is of value aligned to those needs.”

Survey respondents were able to talk freely and frankly in exchange for anonymity – and they did. Claims was one area that elicited some particularly strong responses.

“Certainty of payment is absolute when it comes to claims,” said one respondent. Another, citing a

previous bad experience, said their company judged insurance partners “in terms of claims settlement, attention to detail and flexibility”.

Claims battleground

Problems with claims were potentially fatal for the insurance partnership. For example, one insurer was lambasted for turning claims into a “battleground” because they “lost the plot” in terms of who was dealing with the claims. Ultimately, this insurance buyer terminated the relationship.

On brokers, many respondents were critical of the changing nature of the market, with one suggesting that the broking industry had “cannibalised itself”, limiting choice for customers in the process.

Clearly, although the needs of every individual business are unique and depend on a range of

often different factors, some overall conclusions can still be drawn in respect of the state of the UK insurance and broking industry in relation to large corporate clients.

It’s not all bad...

With risk managers and insurance buyers able to speak anonymously, many took a tough line on what they thought was needed in the changing market, particularly during the longer supplementary interviews conducted with respondents.

As a result, although criticism is extensive, broadly speaking the results still indicate most insurers continue to provide a viable and valued service for corporate clients.

Seven of the largest insurance companies featured in the survey scored more than 4.00 out of 5.00 in terms of overall general service,

which indicates an appreciation of insurer performance among risk managers and insurance buyers.

Bespoke solutions

Look beyond the top line, however, and there are inconsistencies across the board, with no single insurer getting close to service perfection, with the exception of FM Global for its specialist offering.

Many respondents cited irritation at being offered “products” rather than “bespoke solutions” to their unique business situations.

Not all insurers are culpable, but the entire industry has some way to go to rectify this, particularly around more complicated and technological issues such as cyber.

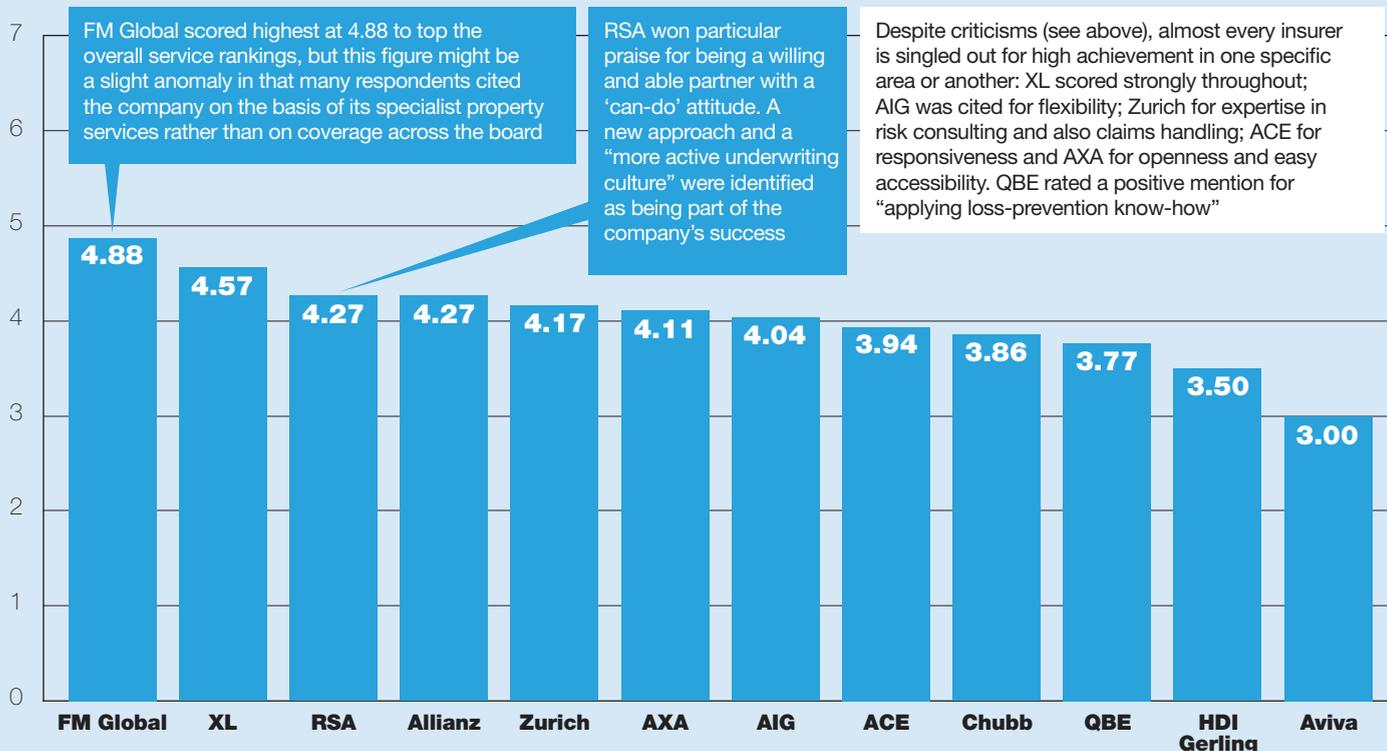
Meanwhile, the broker space has undergone substantial change in the past decade on several levels, with a greater emphasis on risk con-



HOW INSURERS AND BROKERS RATED

Overall service scores for insurers and brokers in *The UK Corporate Insurance Buyers’ Survey 2015*

INSURERS



sulting and other services.

Yet, corporate clients tend to dismiss many such service offerings. Innovation and tools for better understanding risk was the only area of broker operations that respondents consistently rated below 4.00, scoring 3.92.

This indicates that appetite is limited for some broker services, with several respondents calling them “irrelevant”.

One respondent said that being proactive should not mean “the broker trying to upsell things... They do too much of that”.

Another said: “Brokers are generally very good at doing what you ask them to and not necessarily what you need.”

Indeed, overemphasis on non-specific sales is also criticised, with one interviewee imploring

brokers to ensure “service does not come a poor second to selling products”.

Less choice

Against this background of diversification in terms of providing new services, the broker dynamic has also shifted, with two major players, Aon and Arthur J Gallagher, growing rapidly through acquisition.

Although this has boosted the big firms’ market share, it leaves large corporates with “less choice” and “less recourse to alternatives and innovation”, one insurance buyer said.

Others argue that many brokers have become detached from customers because of their size and bemoan that by trying to be “all things to everyone” they end up providing little of genuine or meaningful value.

‘Brokers are generally very good at doing what you ask them to and not necessarily what you need’

Survey respondent

Yet, although large brokers continue to grow, it is the people working within them that matter most to those surveyed.

One insurance buyer said of their broker: “There are some very credible individuals working there, so much so that these people are now engaged in dealing with our senior management, who are far higher up in the organisation than I am, and this is excellent.”

To purchase copies of *The UK Corporate Insurance Buyers’ Survey 2015*, contact Tom Byford: tom.byford@nqsm.com or 020 7618 3081

WHAT CORPORATE INSURANCE BUYERS WANT FROM INSURERS

● **Long-term partnership**

but, as one commented: “We have to constantly remind [insurers] that our relationship is not something that should be taken for granted”

● **Recognition of good risk management and corporate governance**

“reflected in the pricing of my risks”

● **Not invoking or ‘hiding behind’ reservation of rights**

“I am not interested in an insurer that will invoke an automatic reservation of rights”

● **Continuity**

“We changed a key insurer, primarily because of changes in personnel”

● **Flexibility**

“Too many insurers still operate in silos such as cyber”

● **Time to be creative**

“We are not looking for off-the-shelf products but bespoke solutions and that does not happen overnight”

WHAT CORPORATE INSURANCE BUYERS WANT FROM BROKERS

● **More choice**

“Unless you want to be particularly adventurous, you are left with a choice of three or even two brokers and that is not a healthy situation”

● **More expertise**

“[There has been] a reduction in the technical approach among larger brokers”

● **Openness**

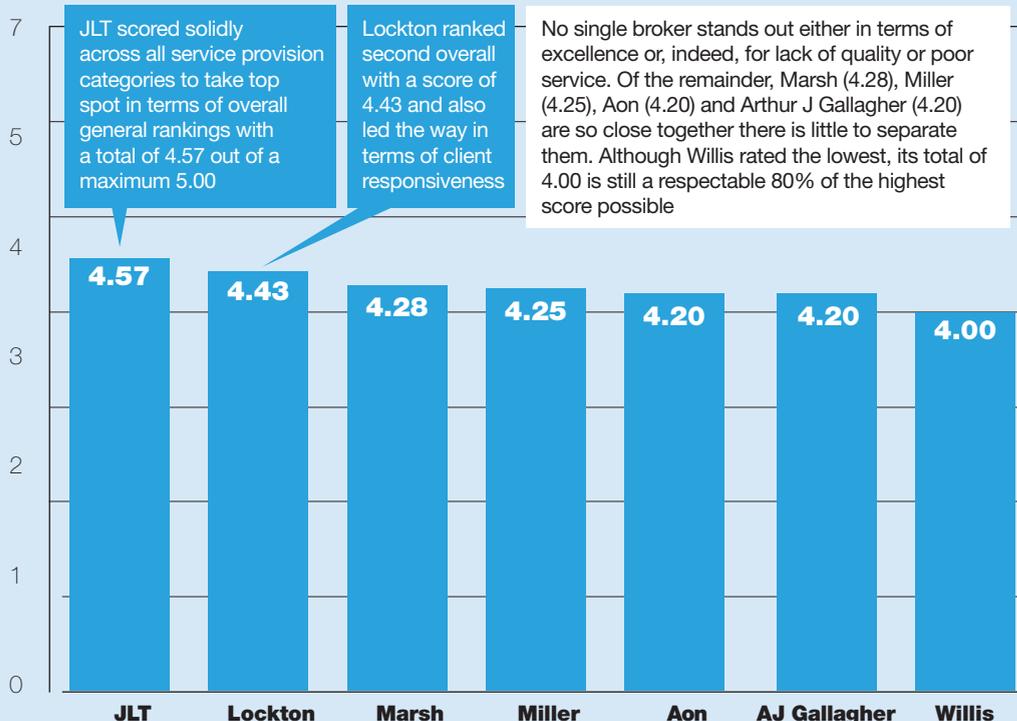
“It must be an open relationship and very much a tripartite one. We need to be one team”

● **Fee transparency**

“It would concern me more that I did not know, rather than the actual details of who receives what”

Source: StrategicRISK UK Corporate Insurance Buyers’ Survey 2015

BROKERS



A round-up of news and analysis from AMRAE's 23rd conference in Cannes

What does the future of risk management look like?

Risk managers have to change how they manage risks in a risk landscape that is constantly evolving, according to Michel Dennerly, vice-president of FERMA.

Speaking at the French risk management association, AMRAE, conference held in Cannes, France, in February, Dennerly said: "Traditionally, risk managers focused on

operational risks and threats arising from insured risks.

"However, nowadays, the responsibilities for risk managers have extended to include financial and strategic risks.

"The risk landscape has become so complex that risk managers have to change how they deal with risks.

"For instance, 10 or 20 years ago, when a risk arose, a risk manager's approach would be to treat the threat as an operational risk. However, nowadays, in a globalised world, risk managers have to take a more strategic approach and not only consider how a given risk could interrupt business but how it could damage a company's reputation.

"There are two main tiers to a risk manager's role now, operational and strategic, and risk managers should practice both. It would be ineffective if risk managers focused solely on strategy or operations as this will not prevent or mitigate risks and could exacerbate a product recall, for instance."

Being more involved

At the conference, Dennerly moderated "The future of risk management" panel debate, where panellists discussed the role of risk manager.

One of the panellists, Sébastien Rimbart, senior manager at EY, said risk managers are not involved in strategic decision making. "There are a number of challenges for risk managers. The first is that they are not sufficiently involved in strategy. FERMA's 2014 *Benchmarking Survey* also identified this gap – risk managers must be involved in



discussions about business strategy and areas such as investment and acquisitions.

"To be credible and recognised at strategic level, risk managers must be able to influence decision making and advise executive management on areas such as the cost of a risk, business strategy and risk financing. Supplying top management with a risk report is no longer sufficient."

"The second challenge is that risk managers must develop strong relationships with all departments within the business. FERMA's survey highlighted several departments that risk managers do not have strong engagement with, including HR and IT.

"The last challenge is in providing regular quantitative analysis to executive management. Interestingly, the survey found that risk managers do not use IT or audit tools enough to support them, but if they did, they may be able to provide regular quantitative information to the board."

Francophone Club to target Tunisia and the Ivory Coast

AMRAE will continue to develop its newly launched Francophone Club, after the initiative's first conference was a "huge success".

The conference, which was held in Casablanca, Morocco, last November, and which attracted more than 100 senior risk managers, is a sign that there is a "real appetite" for such an initiative in French-speaking countries across Africa and other parts of the world, according to Gilbert Canaméras, AMRAE's president.

Canaméras said: "Our conference was a huge success, demonstrating that there is a real appetite to develop risk management in French-speaking countries where risk management is not mature."

Canaméras said that following the success of the club's first conference, the association's focus for 2015 will be to build the Francophone Club.

Three objectives

AMRAE first announced the formation of the Francophone Club in 2013 during the association's annual conference in Deauville, France.

It has three main objectives:

- strengthen the risk management culture in francophone countries;
- provide education and support the professional

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development of risk manager skills; and

- share risk management practices and identify areas of common interest.

Canaméras said: “Risk management practices in some French-speaking countries are in their infancy and the association felt that it could help develop the profession in these countries.

“There are many similarities between France and these French-speaking countries, such as culture, history, not least language. This means AMRAE can support these countries to build up their risk management practices.”

Training programme

The 2015 conference also marked the launch of the association’s training programme ARM54. The educational programme is delivered by the association’s education unit AMRAE Formation and will be offered to all francophone members.

As part of this initiative, AMRAE will host conferences. So far, two conferences are planned this year in Tunisia and the Ivory Coast.

‘There are many similarities between France and these French-speaking countries, such as culture, history, not least language’

Gilbert Canaméras, AMRAE

Canaméras said: “AMRAE will support risk management in French-speaking countries by organising conferences that will look in detail at best practice in risk management, mitigation and prevention techniques and latest risk trends.”

“Although the events will primarily target risk managers, they will be open to the wider industry, insurers and brokers for instance, as these professionals will also be able to offer knowledge and expertise.”

Why board members must shadow risk managers and create risk maps

Top management must be involved in creating risk maps if they are to fully understand the value of ERM, said Lionel d’Harcourt, partner at risk consultancy firm Arengi.

Speaking after a panel debate about ERM at the AMRAE conference in Cannes last month, d’Harcourt said: “The best way to involve top management in risk and ERM is to get them involved in risk mapping and to shadow an experienced risk manager. Only by involving senior management and showing them how risk is managed through an ERM programme will they truly understand the value of the function.”

During the panel session, d’Harcourt and four risk experts discussed three questions, namely how: risk managers can sell the

benefits of ERM across the business; risk professionals can involve leaders and managers in the ERM process; and they can measure the added value of ERM.

Working together

On involving management, d’Harcourt said: “Aligning the views of senior management and the risk team will help identify the risk priorities for the company. Once that has been established, there will be a clear view as to what the risk portfolio is and this can be communicated to all departments across the business. All departments can then work together to improve business resilience.”

He added: “In some large organisations, the risk team comprises several professionals: risk managers, insurance buyers, internal

control and audit, for example, and these departments often work in silos so there is a lack of cohesion. Getting management involved in risk will create better cohesion because they can begin to understand where the expertise is and how to build the right team to handle a particular risk.”

ERM value

On the second challenge of how to showcase the value of ERM, d’Harcourt said integrating risk management into operations was a good first step. “Embedding risk management concepts and principles into operational decision making will help to promote the benefits of the function.

“Top management is always grappling with several projects – the problem is they do not always know with which projects to proceed and which ones to stop.

“Risk managers can help here because they will be able to assess and quantify the risks of each project and compare the threat level of each, as well as assess revenue expectations and advice on which ones to invest in and which ones to stop immediately. In essence, risk management can be closely aligned to operations. However, in order to get close to top management, risk managers need to be proactive about it.”



New tool to help risk managers make modifications to existing cyber policies

AMRAE has launched a new cyber booklet aimed at helping risk managers approach insurers for modifications to existing cyber policies or for a new policy to be drawn up.

In his opening address, Gilbert Canaméras, AMRAE president, said cyber risks are set to exacerbate with advancements in robotics and artificial intelligence.

Speaking to *StrategicRISK*, he

said: “Before insurers can provide the best solutions to cyber risks, risk managers have to define the risk for their company.

“AMRAE has published a new cyber risk booklet to help risk managers define the cyber risk for their company. They can then make their case to insurers to help them obtain the best possible coverage, whether the best cause for action is modifications to their existing policies or

whether a new policy needs to be drawn up.

“Until now, insurers have provided a range of products for cyber risk but, generally, these policies cannot be adapted to fit the company’s risk profiles. The AMRAE booklet aims to encourage risk managers to clearly set out their company’s risk profile, which can then be used as a basis to discuss how policies can be adapted.”

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