

Commercial Risk Europe

EUROPEAN INSURANCE & RISK MANAGEMENT NEWS

NEWS FROM AIRMIC, MANCHESTER — JUNE 14-16, 2010

Soft market set to continue says AIRMIC Forum panel

By Tony Dowding

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THE SOFT MARKET SHOWS NO SIGN of ending, according to experts on the AIRMIC Forum panel, who also questioned the added value that Solvency II will bring to buyers and its effects on captives.

The AIRMIC Forum, described by AIRMIC as a 'news-based debate about the state of the insurance market for risk and insurance managers,' included some lively debate from the four European insurance industry leaders on the panel.

The debate was chaired by Adrian Ladbury, editor of *Commercial Risk Europe*, who began by asking about the current state of the insurance market and whether the soft market would remain forever.

Andreas Berger, CEO, regional unit London, Allianz Global Corporate & Speciality, said he didn't believe in big bangs—the soft market is over, the market is hardening, and so on. He pointed out that the first quarter had seen a lot of major events, from natural catastrophes to air crashes, which were all signals for a hardening of prices in certain



Panelists agree no sudden change in prices imminent

segments. But he said that at the more commoditised end of the market there was still plenty of capacity driving the soft market. "If there is a hurricane season that really hits the balance sheets, then a hardening of the market will happen, but not as a big bang—maybe slightly into next year or the year after," he said.

He explained that for insurers, if you keep your underwriting discipline and don't write unprofitable business, then there is nothing for insurers to complain about. But the

market needs strong, sustainable insurance companies.

Richard Pryce, President, Ace U.K., said that experience shows that the market only moves significantly on balance sheet events and not on P&L events. He said that while profitability is down for most insurers this year, most were still in pretty good financial shape, so a change in the market would be some time off. "Insurers have kept their discipline

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Willis CEO urges brokers to embrace transparency

By Ben Norris

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WITH THE THORNY ISSUE OF BROKER remuneration still under consideration at the European Commission, as part of its review of the Insurance Mediation Directive, a leading broker has called for a swift resolution to the discussions and told brokers that they have nothing to fear from full transparency.



Brendan McManus

Whilst risk managers in the AIRMIC space should already have full disclosure on any business placed, it is imperative that all remuneration is put on the table, debated and an agreement reached between

broker and client in order to ensure full transparency, the AIRMIC Forum panel agreed.

However a leading insurer did warn that, with such a varied approach to transparency and service levels across territories, a single European-wide approach to transparency and disclosure will be extremely difficult to obtain.

"It is inevitable that there is going to be some regulation around transparency so why don't we just get over it and get on with it. It has not done our business any harm at all being transparent," said Brendan McManus, Chief Executive Officer of Willis U.K. & Ireland.

"So I would say to any broker

of any size in which ever segment they are working in you should be transparent. Put what you earn on the table because it forces you to display and demonstrate the value that you offer much more than when what you earn is hidden. So actually I think it is better for your business to be transparent and I do not think anybody has got anything to fear from it," he urged.

For Mr. McManus it does not matter whether the IMD review decides that brokers cannot take commissions or that remuneration has got to be paid in fees. But he wishes that the Commission would 'just come out with the final outcome so that we could all get on with it and

PAY: Continued on page 4

Policy wording and compliance the key issues for Global Programmes

By Tony Dowding

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AS GLOBALISATION CONTINUES ITS march and organisations have to increasingly consider the issues surrounding global insurance programs, a workshop at the AIRMIC conference, entitled 'International Programme Design focused on Compliance, Cost and Security', tackled some of the main concerns

The workshop looked at the different types of global programmes: DIC/DIL (Difference in Conditions/Difference in Limits), Non-admitted/Freedom of Services (FOS) programmes, Admitted (using multinational insurers) and Fronting programmes. And of course there are advantages and disadvantages with each type of programme.

One of the first points made, by Karen Gorman of the Global Servicing Team at Jardine Lloyd Thompson, was that you can never have a totally compliant global programme—there is not a solution that means you are compliant in every place in the world unless you just let everybody purchase their own insurance locally.

Tracey Clayton, also of the Global Servicing Team at Jardine Lloyd Thompson, looked at the patterns and trends of global programme purchasing over the last 12 months. Compliance is a great trend, she said. "If I had said ten or fifteen years ago, how many people here had a non-admitted programme, the hands would have gone up. But as time has gone on, the regulators are getting a lot stricter, and the real problems with non-admitted can come in when a big claim comes in." Indeed, when the buyers in the workshop audience were asked for the main priorities with regard to global programmes, it was policy wording and compliance that were the key issues.

There are more admitted

GLOBAL: Continued on page 4

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AIRMIC conference breaks all records but members believe soft market is over

By Tony Dowding

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WITH RECORD NUMBERS OF AIRMIC members attending, and the largest ever exhibition, Paul Howard, AIRMIC's Chairman, was in buoyant mood as he opened the 2010 conference.

He said that his theme for the year has been 'influencing outcomes' and pointed to some of the events of the year, such as the turmoil created by the Icelandic volcano. "Events like this show that you simply cannot have too wild a thought with regard to your scenario planning. Crazy stuff does happen. If it is not totally impossible, then it is possible."

John Hurrell, AIRMIC's CEO, then highlighted some of the results of a pre-conference member survey which revealed that 92% believed that the soft market was over—the majority believing that rates will be flat, with some expecting increases, depending on the classes of insurance.

The survey also revealed that departmental costs were still under pressure but were easing slightly—it was the old story of being asked to do more with less resources. Mr. Hurrell also announced the surprising result that 'Brokers were 73% transparent'. He said this was a bit like being 73% pregnant. This figure was slightly down on last year.

On the classic question of what was the number one 'keep awake at night' issue, it was once again reputation risk. On this issue, AIRMIC is carrying out a three phase programme with Cass Business School over the next year or two.



The first phase is to survey members on what reputation risk means for their individual companies. The second phase will be to analyse events from 2000-2006 and find out what happened to companies and what the implications were for those organisations. The third phase will be to provide best practice examples and lessons learned from the case studies.

Mr. Hurrell also pointed to a result from the survey which said that 27% of respondents had had a claim turned down in the past two years, a third on the grounds of non-disclosure.

In an AIRMIC member survey earlier in the year, one third of respondents had had a non-disclosure problem on an insurance programme in the previous 5 years. "Frankly, this is unacceptable," said Mr. Hurrell, "given the time and trouble putting together annual presentations."

He said that the 1906 Marine Insurance Act was outdated, and AIRMIC was having 'positive discussions' with insurers.

As a result, AIRMIC announced that in the Autumn it would be producing a member guide to the issue of non-disclosure, and how to overcome the problems.

The conference was attended by the RIMS President and the President of FERMA. The latter, Peter den Dekker, said that AIRMIC and FERMA were working together more closely than ever. He said it was important to work on disclosure and transparency. He noted the survey result that 73% of brokers were transparent and echoed Mr Hurrell's earlier comment: "You are either pregnant or not, and not just a little. Brokers are either transparent or they are not." He added that FERMA's goal was to identify potential conflicts of interest.

Expert warns risk managers on fraud

By Adrian Ladbury

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RISK MANAGERS AND THEIR INSURERS must be ever alert to the likely increase in fraudulent activity as economic difficulties continue or even deepen, warned Mark Newbould of AXA Corporate Solutions during a session on fraud management at the AIRMIC conference.

Mr. Newbould told *Commercial Risk Europe* after the session that risk managers must re-intensify their focus on fraud and work with their insurers to identify the trouble spots, tackle them and minimise losses.

"We will see more fraud as people struggle. Where there are unstable and unsafe systems and practices, opportunistic fraud will occur. Expenses will be 'fixed' and even false orders

created as targets are not hit. Stock may be sold at a discount to hit targets," said Mr. Newbould.

FIGHTING FRAUD

"We are trying to talk through with the clients what processes are necessary to combat fraud. We are trying to build awareness. There is a huge focus on fraud currently, but there seems to be a strong emphasis on motor.

Risk managers may not be aware of the wider impact of fraud upon their organisations, and may not have control over the processes that currently allow it to happen. Therefore we are happy to sit down and talk to clients, sharing the knowledge we have gained through experience of dealing with the many and various guises of fraud an organisation may face," he continued.

Mr. Newbould said that the U.K. market

is quite aware of the fraud threat. The U.K. Insurance Fraud Bureau is working hard to widen involvement in the battle against fraud, he said.

"Remember that a huge amount of fraud is self-insured and there is often no outsider looking in. Therefore, the challenge for us is to ensure we share experience of these situations. After all it's in all our interests to beat the fraudster," said Mr. Newbould.

One key matter to consider is the definition of fraud itself, he explained. "You have to be clear about the definition of fraud. What you may define as fraud may be considered by others as negotiation or exaggeration. A claim may be made for £200,000 when it is only really worth £25,000. Is this negotiation or fraud? The insurance market is sharpening its focus on this very question," said Mr. Newbould.

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SOFT: Still a buyer's risk transfer market

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in most cases better than the last cycle so maybe that will perpetuate the soft market." He added that it is easier to differentiate on service than it is on price—customers want reliable service.

Brendan McManus, CEO, Willis U.K. & Ireland, said that buyers are getting two stories from carriers. The first is that times are hard, but the second is 'please bring your business to me.' He said it was the drive for new business that was keeping the soft market going. "Clients will continue to see a slightly soft market, and it may get slightly harder in some product lines," he said.

Adrian Colosso, CEO, Heath Lambert, said he didn't see any hardening anywhere. He pointed out that everyone is competing for business, and everyone is trying to

cut costs, and added "There is definitely no change on the horizon."

The panel were then asked about Solvency II. Mr. Berger said that there was a lot of talk but that no-one yet knows exactly what the outcome will be. "There is no clarity about what it means," he said. Mr. Pryce pointed out that Solvency II was meant to be about improving policyholder security. "I think that policyholder security is pretty damn good at the moment, so really what this adds is questionable."

Mr. McManus questioned whether Solvency II would actually come to fruition. But as far as captives are concerned, he said it would depend on the rationale of the captive—if, as many captive owners do, it is set up to manage internal risk management, and ensure that individual operating divisions take responsibility for their risks, then

even if they require more capital, they will still have their captive. For others, if there is a requirement for more capital, the reasons for having a captive disappear, he said.

The panel were also asked about the issue of emerging risks. Ace's Mr. Pryce thought that the insurance industry had a good record on responding to changing and emerging risks over the years. Willis' Mr. McManus said that there will inevitably be a time-lag between the risk emerging and somebody being prepared to put the capital at risk—they have to be given enough time to understand it and assess it. "Overall, I think that risk managers need to be more open so that we can see what is happening in their business more easily, brokers need to apply more investigative skills, and the brokers and carriers need to be a little bit bolder in building new products."

BRIEFLY:

AON eSolutions launches counter-party module

» Aon eSolutions launched its Insurer Rating Module at this year's AIRMIC conference, which allows risk managers to evaluate their counter-party credit risk exposure to insurers via computer.

The new module provides a direct feed of insurer ratings from both Standard & Poor's and A.M. Best, to enable risk managers to obtain a clearer picture, both nationally and globally, of the soundness of insurers that they are dealing with for their insurance programmes, Aon explained.

It provides automatic weekly updates on credit ratings, alerts a client if its insurers have rating or other changes and allows risk managers to customise the ratings if their organisation has pre-defined rating criteria.

It is designed to cope with even the most complex insurance programmes developed for multi-national organisations or captives with reinsurance arrangements, Aon said.

"Many of our clients asked us to help them easily demonstrate exactly what exposure they have to all their different insurers across their insurance programme. Although many of them were spurred on to find this information out by the once-in-a-lifetime financial crisis, their boards and treasuries are still asking for this information, often at a moment's notice, particularly as the effects of the crisis are and will be felt for a long time to come," said Steve Cloutman, Managing Director of Aon eSolutions.

As the insurance industry gears up for the introduction of Solvency II and the capital requirements of insurers increase, credit ratings are likely to change. Risk managers are going to be faced with a mountainous task of re-evaluating the strength of insurers, often with serious implications for their business. While we would suggest you consult your broker, this module will help risk managers to evaluate whether they need to make changes to their insurance programme," he added.

PAY: Risk managers need information to decide

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stop debating the issue—as it is a distraction that we do not need'.

The key issue is that all remuneration is made transparent and then debated between the buyer and the broker, continued Mr. McManus.

"We need to say to a client this is what we get paid, from you and from anywhere else...now let's debate how much we retain and how much you pay," he added.

Andreas Berger, Chief Executive of Allianz Global Corporate &

Specialty (AGCS) London unit, said that he is happy with the current level of transparency in the market place. And he noted that in the cases dealt with by AGCS they have not come across any risk manager who did not know the exact details of any remuneration.

"But at the end of the day it is important that risk managers take a conscious decision in whatever way they see the arrangements," he said.

"We have arrangements in place where we ask a client if they are happy to pay, say an additional 2.5%...the insureds need to know

that this is part of the price, a fee that the client pays directly or part of the premium," he explained.

And Mr. Berger believes that a European-wide solution to the issue of transparency and disclosure could be problematical.

"If we look into each and every territory and look at the remuneration levels there is a very diverse picture, and if you look at the service levels attached to remuneration it is even more diverse. So I think it is very difficult to have a European-wide uniform approach," he explained.

GLOBAL: Different primary and reinsurance case law proves to be problematic

Continued from page 1

insurance classes, she said, especially on the financial risks side, such as E&O and D&O. This used to be largely on a non-admitted basis but increasingly it is being bought on an admitted basis in many countries, said Ms. Clayton. There is also a move towards greater understanding of local regulations, both by risk managers, and brokers and insurers.

Another trend she noted was central management and control—risk managers want to know what is going on in their business units. Costs are being rationalised and multinational pooling of risks is becoming quite popular, and she said that a number of clients were asking them to look into potential pools for their programmes.

In the past, there was a tendency to have a different insurer for different classes of business, such as property, casualty or marine. Now there is a trend to bring it all together under one insurer—not necessarily under one multi-risks policy, she explained, but all the covers with one insurer. This is particularly important where a claim might go over

two classes of insurance, such as, for example, casualty and E&O.

Buyers are also purchasing higher local limits within their global programmes, especially on the casualty side. And finally, a growing trend is for the globalisation of insurers. Previously there was a limited market, but this has now expanded, either through offices or strong networks of partners.

Ken McKenzie, Head of Dispute Resolutions, Davies Arnold Cooper, then took delegates through the difficulty of achieving the same cover across a variety of jurisdictions. In particular, he looked at some recent case laws, particularly on the reinsurance side, which provide a cautionary example of what can happen when different laws govern primary and reinsurance policies—the same principles apply where you have local and master policies reinsured under a captive global programme.

One case resulted in a House of Lords ruling that reinsurance is not a liability insurance of the original insurer—it is reinsurance of the subject matter of the original insurance. And even if reinsurance is back-

to-back, it is still an independent contract. Another case highlighted problems with 'follow the fortunes' provisions, with Mr. McKenzie recommending the use of 'follow the settlements' provisions instead.

What these and other cases show, according to Mr. McKenzie, is that two of the prime aims of parents setting up captives are likely to be frustrated, or as he put it, "They highlight the paradox at the heart of captive insurance." Firstly, the parent is unlikely to achieve the same cover in all jurisdictions, because the reinsurance of the captive master policy is a separate contract and may perform differently, especially where it is subject to a different law and jurisdiction.

And secondly, parents are looking for control over their global programme. This may conflict with the need for the captive to show reinsurers that it is independent from the parent, and will act as a typical insurer, when it comes to handling claims.

On the reinsurance side, captives should look for back-to-back cover as far as is possible and seek 'follow the settlements' clauses.

AIRMIC unveils plans to tackle failings in law on disclosure

By Ben Norris

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AIRMIC WILL ISSUE A GUIDE FOR members in early Autumn to tackle what it sees as the failings in the current U.K. insurance law on non-disclosure, which the associations says is loaded against the buyer and rapidly becoming the number one issue for the London market's corporate customers.

The guide will outline in detail what AIRMIC believes are some of the pitfalls of the current legislation, reflect on best practice, include a draft specimen model clause and specifically outline the approach of its partner insurers to the question of non-disclosure.

The levels to which individual partner insurers are prepared to act on rebalancing market practices will hopefully be seen as a differentiator by both buyers and insurers, said John Hurrell, Chief Executive at AIRMIC.

Although the association will not then go out and speak to the wider market, as it is currently doing with its partner insurers, Mr. Hurrell said that AIRMIC will be putting their guide in the public domain.

And he hopes that this will encourage other insurers and brokers to take up the cause, on AIRMIC's members behalf, and ensure there is a culture change in market practices that will help facilitate law reform in the future.

The Marine Insurance Act of 1906 imposes an obligation on the buyer to anticipate what a 'prudent insurer' would deem 'material' underwriting information. An insurer that can show there has been a breach in that duty, even if inadvertent and unrelated to the claim, can avoid the claim or even the policy itself.

AIRMIC's proposals to address the law aim to promote 'a new way of doing business, suited to the 21st



John Hurrell

rather than the 19th century,' Mr. Hurrell said.

Their objectives are to eliminate innocent non-disclosure as a reason for avoiding a claim, and to define where knowledge rests within an organisation as it is very difficult for one person within an organisation to know what is in the minds of all of the employees in an organisation often based in many different countries.

And AIRMIC wants to ensure proportionality of penalty where there has been non-disclosure.

"For this we want a remedy clause that makes the punishment fit the crime. There will be occasions when policies will be avoided but that has got to be for deliberate or fraudulent non-disclosure but in many cases the claim will be paid for innocent non-disclosure. And there will be a grey area for redemption, which will re-

volve around what would have happened at the time of underwriting, be it a premium increase or higher deductible, which will be a point of negotiation at the time of the claim," explained Mr. Hurrell.

Talks have been taking place with all of AIRMIC's insurer-partners about the insertion of side agreements and clauses into contracts to achieve these objectives. Mr. Hurrell said that the feedback has been 'overwhelmingly understanding, but inevitably this is going to take time'.

AIRMIC has also spoken to the Lloyd's Market Association who have been as supportive as any of its partner-insurers, added Mr. Hurrell.

Whilst reform of the law is on the agenda at the U.K. Law Commission, and is agreed to be unfairly weighted in favour of insurers by its Commissioner, David Hurtzell, any

changes are unlikely in the next five years as it focuses on reforming the law for consumers.

"The cavalry in the form of the law commission will be riding over the hill at some stage and will likely make everything AIRMIC is doing unnecessary. But in view of the fact that it is unlikely to happen in the immediate and foreseeable future we think its is important to take the steps that we are taking—particularly as we carried out two surveys this year which both point to an unacceptable level of non-disclosure as a reason for turning down claims," said Mr. Hurrell.

In AIRMIC's pre-conference survey 27% of members said that they had a claim turned down in the last two years, of which one third was on the grounds of non-disclosure.

This backs up a survey in February in which one third of members said that they had faced a claim turned down for non-disclosure in the last five years.

"We're seeking a new approach from buyers, underwriters and brokers alike," said Mr. Hurrell. "Above all, we need a culture change where the underwriting takes place when the insurance policy is purchased. If the underwriter has any awkward questions he or she should ask them at this stage, not when a claim is made. For their part buyers need to start their data and information gathering earlier in the process than has historically been the case, whilst brokers owe it to their clients to help them avoid the pitfalls of non-disclosure," he continued.

Mr. Hurrell acknowledged that this will mean the need for more involvement and due diligence on behalf of buyers in terms of making sure their observation processes are robust and have satisfied insurers. But this is needed if members want to take advantage of some of the new market practices that AIRMIC hope to put before them, he added.

BRIEFLY:

Company boards still failing to take ownership of risk: AIRMIC

>> Boards at a surprisingly large number of U.K. corporations are delegating responsibility for risk management, rather than taking direct ownership of it themselves, according to initial findings from research carried out on behalf of AIRMIC by

Cass Business School.

And according to the research there is an apparent mismatch in many organisations between exposures and the risk management and insurance strategies devised to meet them.

A third of risk managers said that they were worried that senior management at their firms were not taking risk seriously as a board issue and 50% were concerned that their organisation as a whole has given insufficient consideration to the large risk that they face.

"This research has already highlighted one of the critical issues underpinning corporate resilience and that is

the essential role of the board in driving the risk culture of the organisation. Risk managers can only truly be effective if they are supporting corporate strategy, not battling against it. We expect this research to provide compelling evidence of the importance of implementing a robust risk management strategy driven from the top," said AIRMIC's Chief Executive John Hurrell.

Cass Business School is carrying out a three-year study into the impact of big events on organisations and their reputations and is due to report their first recommendations at next year's AIRMIC conference.

Reputational risk top concern for AIRMIC members

By Tony Dowding

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REPUTATIONAL RISK IS THE LEADING CONCERN FOR U.K. risk managers according to the annual survey of members carried out by AIRMIC. The last couple of years have been dominated by concerns over insurer insolvency, but this has now been overtaken by reputational risk exposures.

Given the problems of BP and the disruption to airlines caused by the Icelandic volcano, it is not surprising that reputational risk tops the concerns of risk managers. But it has been high on the list of concerns for a number of years.

The survey revealed that around a third (32%) of respondents said reputational risk was a great or very great concern. Insurer solvency worries appear to have abated a little, but still, 22% rate it as a major concern.

"Risk managers increasingly take a broad view of their responsibilities, and it comes as no surprise to see reputational risk taking the hot spot now that events have reminded us of the need to protect reputation," said John Hurrell, AIRMIC's Chief Executive.

He added, "The relatively low profile of insurer solvency is a tribute to the way insurers handled the financial crisis. Unfortunately, having the cash to pay a claim, and actually doing so, are two different things. This remains an enduring cause for concern and even dissatisfaction in some cases."

He was referring to another finding of the survey:



Booms surrounding New Harbor Island, off the coast of Louisiana, were put in place in an attempt to protect it from the Deepwater Horizon oil spill

risk managers reported facing continuing difficulties in getting claims paid, with 27% of respondents having had a claim declined in the past two years. And only 59% rated their lead insurer's speed of paying a claim as 'good' or 'very good'.

The survey found that 43% of risk managers were more concerned than a year ago about multinational compliance issues, mainly about non-admitted policy issues. Indeed, no-one in the survey had seen any improvement in compliance issues with their global programmes.

Risk management departments, along with everyone else, are clearly feeling the squeeze of the recession and its aftermath. Just over half

of respondents (51%) reported having lower departmental budgets, while over a quarter (26%) reported staff reductions and 38% had seen lower bonuses or pay. But at the same time, work pressure on risk management departments is increasing, with over half reporting that their responsibilities had broadened while resources were being cut.

On the soft market, risk managers take a pessimistic view, with the majority seeing the soft market running out of steam in all of the main classes, and anticipating rises in the next year or so. For property/business interruption, 29% predict an increase in rates, as opposed to 10% who expect a decrease.

For employers' liability, the figures were 34% expecting an increase, as against 10% seeing a fall. It was a similar story for public liability (31% versus 9%), D&O (40% versus 11%), and professional indemnity (41% versus 4%) while for motor third party 63% expected to see an increase in rates as opposed to just 6% who foresaw a fall.

And finally, the survey tackled the vexed issue of broker remuneration. It has been a concern for risk managers for a long while, and it shows little sign of going away.

The survey found that 40% of commercial insurance buyers have observed an increase in the number of brokers seeking remuneration from insurers for services not directly connected with the placement of individual policies. And more than a quarter (27%) said that they believed that the way their brokers are paid could give rise to a conflict of interest.

First AIRMIC casualty benchmark completes suite

By Ben Norris

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AIRMIC UNVEILED THE RESULTS of its first-ever benchmarking study into the Casualty insurance market at its conference this week, which completes its suite of benchmarking in the three major classes of insurance that effect the majority of its members—Casualty, Property and D&O.

Respondents identified 'maintaining compliance with local tax laws', 'maintaining compliance with local insurance requirements' and 'getting policies issued timely' as particularly significant issues when managing a global casualty programme.

Cyber liability was identified as the most significant emerging liability exposure and fewer than half of respondents use a captive insurance company for casualty exposures.

Another key finding was that public liability and product liability are the coverages most often included in an excess casualty programme, as a part of the total programme limit. Employers' liability is the coverage most often sold separately.

Carried out jointly with Advisen, the benchmarking specialists, and sponsored by Chartis, the study is an initial snapshot and is set to become an annual event, to allow for the identification and measurement of trends in the market.

It will be repeated annually along with the D&O and Property/Business Interruption studies

to give trend information on all three lines of business, said Paul Hopkin, Technical Director at AIRMIC.

"This first round of benchmarking is taking stock of insurance programmes, the deductibles that people take and the way that they arrange towers of insurance within the casualty area," he continued.

"Repeating the benchmark each year will add an extra dimension to the reports. So we can give AIRMIC members a very firm basis for giving them advice and information on how other people, their peers, structure their insurance programmes as well as trend information," Mr. Hopkin explained.

Chartis has also carried out separate research with AIRMIC members on the liability side of their insurance buying. A key finding was that 35% of risk managers said that loss consultancy was going to be more important in the next two years than previously.

With budgets under pressure, and balance sheets weakened by recent economic events, companies need, more than ever, to demonstrate robust and cost-effective control of losses across all of their operations world-wide, Chartis explained.

"This is happening at a time when certain risk management departments downsized as part of the cost saving process, which means increasingly risk managers have got to deal with

the issue externally and involve loss consultancy," said Russell Meagher, Senior Vice President of the Major Accounts Practice at Chartis.

As such there is no doubt that risk managers are looking to insurers and others to contribute to their risk management programmes, he added.

Chartis launched one such initiative a few years ago. Its Global Loss Prevention Practice brings together around 500 global consultants, which it had primarily developed as an in-house resource to protect its

balance sheet, to use a resource for clients.

"Particularly in the major accounts when we are going out to assess risk we can actually do that in partnership with risk managers to actually give them very valuable feedback, in partnership, about how they can attack the cost of risk," Mr. Meagher explained.

And given the soft market Mr. Meagher said it was important for insurers to have 'something else in the armoury to offer risk managers rather than just competing on price'.



Paul Hopkin

As debate continues as to the future role of captives, in light of the potential impacts of Solvency II and the credit crisis, the key concerns were discussed at a panel debate during the AIRMIC conference

Captives under pressure

By Tony Dowding

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THE AIRMIC DEBATE ATTEMPTED to look a short way into the future and examine the impact of the credit crisis and Solvency II on captives, and to provide some solutions to make captives a continuing and viable solution.

James Donald, who leads the captives services team at Zurich Global Corporate, said that the combination of the credit crisis and its fallout, and Solvency II, which is threatening to put more cost and complexity onto captive programmes, is making the decision-making for treasurers and risk managers much more complicated around the future role of their captives and how it plays in their future risk management strategy.

The panel then outlined a scenario looking forward to 2014 where there would be higher borrowing costs, as banking reforms have been implemented, and Solvency II has also been implemented. And any remaining tax benefits of using a captive have now been completely eroded.

ENHANCEMENT

All the various governance and disclosure requirements as a result of Solvency II will result in increased operational costs, but as Kieran Stack, Director, Aon Global Risk Consulting, explained on a more positive note, "there will also be an enhancement to the underlying manner in which captives are managed and the risks that are underwritten within captives, and the underwriting performance of captives will be enhanced."

David Hill, Enterprise Risk Manager for Cadbury PLC, said there were two squeezes in respect of capital—accessing more capital, and demonstrating better use of that capital. "To be able to demonstrate better return on invested capital, you've got to have greater sophistication in your risk management and

better communication as well. That has meant an increase in both in-house resources and outsourced services."

Back to the future scenario, and the panel looked at four issues affecting a captive's financial benefit to a company—capital, operating costs, cost of LOC's and insurance rates. With the future scenario situation factored in, the financial benefit of a captive was dramatically reduced, even given an expected hard market. All of which shows that the case for the captive is likely to become much more difficult.

What can be done in terms of mitigation strategies? Mr. Stack said that derisking any natural catastrophe exposures in the captive would help to deal with the increasing regulatory capital requirements in this area. He also said captives need to diversify risks flowing through the captive, with non-correlated risks or unrelated risks, such as perhaps employee benefits.

Mr Hill said that "there were still a lot of opportunities for capital-based risk modelling, working on optimising the attachment point for captives. So deciding very objectively how we involve our captives in our total risk management programme."

Other suggestions included changing underwriting appetite, loss portfolio transfers, and changing investment strategies. And trying to deal with the vexed issue of LOCs.

The issue of equivalence for non-EU domiciles was raised and Tony Hulse, senior partner at KPMG, said that there was simply not enough clarity yet about the penalty, or perhaps in some respects the advantage, of non-equivalence. "It will be interesting to see whether jurisdictions perhaps look for a dual regime. Bermuda would very much like this—equivalence for some of the largest captives but not for the smallest. There is a huge amount we don't know about the equivalence regime, the group's regime, and what the cost of Solvency II will be to implement," he said.

Deepwater Horizon oil spill kickstarts interest in specialist ELD cover

WHILST DEMAND FOR SPECIALIST POLLUTION cover in the U.K. remains muted, following the implementation of the Environmental Liability Directive, the recent oil spillage involving B.P. has sparked increased interest and should ensure that the issue receives more attention at board level, Grant Le Sage, Senior Casualty Underwriter at AXA Corporate Solutions UK told *Commercial Risk Europe*.

Many buyers in the U.K. do not feel that they need specialist cover that will respond specifically to the Environmental Liability Directive, said Mr. Le Sage. One reason for this is the wrongly held belief that general liability policies will cover the new liabilities—however in 99% of cases this is not the case, he added.

And the lack of headline claims and signs of prosecution from the Environment Agency is also holding back demand, he explained.

"Part of the trouble in the U.K. is that we have had a couple of scares over the years, with the Environmental Protection Act in the 1990's for example, in which people said that the new legislation is going to cause a lot more claims and it has never actually happened. So I think there is an element of the boy crying wolf here and I do not think we will see huge demand until the authorities prosecute and we get big headlines claims," he noted.

However, whilst there has been no explosion in demand for cover Mr. Le Sage believes that risk managers are now beginning to think about EIL protection, which is an advance from a few years ago. This has in part been caused by a reduction in premiums, with capacity plentiful and growing competition amongst insurers for business, he added.

The recent incident involving B.P. has sparked an interest in cover, and will cause more discussions at board level, Mr. continued.

"I think it will make people more aware and take notice of the issues, if it can happen to B.P. it can happen to anyone. I think one of the issues for risk managers is their board's reaction to insurance. Following this incident it should be easier for risk managers to talk to their boards about pollution cover, and I would in-fact imagine that they will receive more questions from the board," Mr. noted.

One problem for buyers is that with different implementations of the ELD across member states it is potentially difficult to build a pan-European programme.

In response AXA Corporate Solutions have launched a product called Ecosphere, which is specifically designed to respond to the ELD and provide cover across Europe.

"It is designed to respond locally to the local legislation and covers gradual pollution as well as all the specific new liabilities under the ELD," explained Mr. Le Sage.

This includes, for example, complimentary remediation. Whereby, should an authority use it powers to force an organisation to remediate a site elsewhere, as it is not possible to restore the site that caused pollution, the policy responds.

ANALYSIS | *What the market thinks...*

U.K. insurance buyers will have left the AIRMIC 2010 conference in Manchester relieved to hear that the cost of coverage is unlikely to rise in the near future. Leading insurers told ADRIAN LADBURY during the event that the market is ever closer to turning, but, one leading broker thinks this is wishful thinking

All rosy in the U.K. insurance buyer's garden



Emmanuel Nivet

By **Adrian Ladbury**
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CORPORATE INSURANCE BUYERS in the United Kingdom need not panic about the spectre of a sharp increase in the price of coverage in the near future because healthy recent insurer results coupled with still low domestic losses and high competition will make sure it does not happen.

The insurers are in fine fettle because domestic claims have remained relatively low and more importantly they weathered the financial crisis rather better than most commentators expected.

Reserve releases have helped buoy results and the pot is now practically dry in most cases. But, overall balance sheets and P&L accounts look good.

This is the basic reason why the hard market that was predicted at last year's AIRMIC has not materialised and insurers have enjoyed a stabilisation at best.

It is also probably the reason why insurance buyers have also not had to cope with an expected re-emergence of disputes over claims. And, during this year's AIRMIC few predicted a re-emergence of a claims war, looking forward.

As a result of the highly competitive corporate insurance market in almost all lines the leading U.K. insurers are busy attempting to differentiate themselves from the competition in any way but price and that can only mean one thing—better service and more new products (see story below).

The biggest threat on the horizon remains therefore the old classic of the mega catastrophe (probably in the United States) or string of nasty ones as was experienced in the first quarter that would force a big capital shortage at both reinsurance and primary insurance levels.

Make hay while the sun shines was the clear message to buyers.

Emmanuel Nivet, CEO of AXA Corporate Solutions in the U.K. said that 2009 was a good year for his company and the sector in general. The downside for him was that a firming in prices was therefore only reported in isolated lines.

"Last year was an interesting year for insurers. There were no major losses and insurers reported good results. Subsequently rates remained at the same low level as they have for the past four to five years. Whilst there were no strong trends we did however see some rate increases in motor, property and casualty, perhaps a move from minus to plus, but without a substantial change," he told *Commercial Risk Europe* during the conference.

Mr. Nivet does, however, expect the recent slew of catastrophes to have some impact.

"This is likely to change in the near future as we face a more normal year in terms of natural catastrophes. We had the big hit in Chile and major reinsurers such as Munich Re and Swiss Re have recently upped their liabilities by about 30%, Munich Re from \$700m to \$1bn and it will now probably be an \$8-10bn event rather than the \$6bn event expected earlier. Whilst we at AXA Corporate Solutions remain on track, current market conditions dictate that there is likely to be less room for manoeuvre," he said.

MORE FLEXIBILITY

Mr. Nivet pointed out that U.K. insurers do enjoy a little more flexibility than others in Europe because the renewals are not all bunched up at year end. This means that insurers do not have to wait up to a year to catch up with losses.

Like many of his peers, Mr. Nivet believes that one more big event would probably change the market.

He also pointed to the recent report from Mactavish consulting that suggested, even without a major event, it is likely that results will deteriorate because of a rise in attritional losses.

These losses will hit loss and combined ratios as customers react to the fast changing economy with innovation, new processes and a re-evaluation of supply chains, he suggested.

"We are not there yet, but we do need to remain cautious. If you do not keep an eye on things then you can find it is too late," he said.

To control and manage this 'attritional creep', insurers need to move even closer to customers and fully understand what is changing within their organisations, he said.

"Risk managers are being challenged by their board and we need to support them. You also have the potential impact of Solvency II and inflation which will affect capital levels and capital," said Mr. Nivet.

On the down-side for insurers, capacity remains plentiful, but buyers should not expect this to last forever, he said.

"There is still plenty of capacity with new syndicates at Lloyd's for example. Having said that everyone will need to be careful about how they allocate capital and generally capital may well become somewhat more scarce. This trend is unlikely to fatally injure the industrial insurance market but obviously groups have to consider where it is best to allocate capital given the regulatory framework.

"We have been working on this [Solvency II] for the past two years and this work has identified the percentage return each line of business must achieve to ensure we are adequately remunerated. At the end of the day this needs to be clearly communicated to all our business partners, brokers and clients alike. In addition, Solvency II is likely to put upward pressure on premium rates," explained Mr. Nivet.

Given these strains it is perhaps surprising to many insurance buyers in the U.K. and elsewhere that insurers keep throwing fresh capacity at them.

Mr. Nivet said that he sees new capacity announced 'almost daily' and in all lines of business, mostly for catastrophe, property and marine and it is fuelled by a basic desire for growth, in spite of the wider economic circumstances. But he still remains hopeful of a change.

"This is because the insurance industry wants to grow and seeks new areas to maintain

turnover. Globally, property rates are quite flat, in liability there are still opportunities to increase business particularly if clients have global exposures and they, and the brokers, tend to accept that increases are fair. Motor is picking up, even fleet motor. Increases are not high but they are coming," he said.

For its part, AXA remains disciplined and has been happy to turn business away if inadequately rated, said Mr. Nivet.

"We have lost business in some lines because we considered that it was rated too low and we will do so again mainly in the property market because of competition which is exacerbated by the number of new players coming in to the market. As a result, I don't see any likelihood of rate increases prior to year end," he said.

Mr. Nivet said that the market has to consider the impact of the new U.K. Government policy and added that the chance of a double dip recession should be taken into account.

AXA's strategic reaction to this market has to be to 'remain close' to clients because only then can the insurer find pragmatic solutions to the evolving needs of customers and work together on vital areas such as loss prevention, he said.

"If this is not managed properly then the company can expect attritional losses to build in the captive and this will place extra pressure especially with the Solvency II requirements for captives," he pointed out.

Nigel Bamber, Head of Client Relationship Management at X.L. U.K., agreed that there is still enough capital around to ensure that this remains a buyers' market for the time being. This is bolstered by the fact that most insurers have a dual strategy that means they aim for technical rates, but at the same time seek to win new business, he added.

Mr. Bamber agreed that the reserve releases from prior years had boosted results and thus effectively elongated the soft market. But, he said that the ability to release reserves from previous years will become 'more challenging' in future and may help stabilise the market.

"Insurance results have not been disastrous, even if combined ratios have recently been quite high. As a company we need to balance the needs of all stakeholders and nobody will benefit in the long run if we follow the market down to crazy levels. We will selectively compete for business in all lines," he said.

And, Mr. Bamber, for one, believes that the market may have just reached tipping point, particularly after the recent run of catastrophes in

Chile and elsewhere.

"After some very large losses at the start of the year all insurers are looking at their exposures and prices are showing signs of firming. Most insurers feel that the market is getting to a level where it is not sustainable and cannot see it carrying on. It may only take a big event for all insurers to agree that it is time to draw a line in the sand and the market to turn."

Richard Taylor, managing director of HDI-Gerling, believes that the market will need a big shove or two to move rather than nudges.

In interview at AIRMIC just before the government announced its budget plans for the year including an increase in insurance premium tax, he said: "If the government increases insurance premium tax it could become an issue. I recall when this was first introduced at 2.5% and suddenly the brokers wanted to shift from commissions to fees on major accounts, and those still paying commission were expected to absorb the cost by reducing the premium," he said.

"Currently, we are seeing premium volume reducing by 5-10% because of pressures on rates and reduction in insured values and turnover. Brokers are finding it relatively easy to meet their client's expectations, but it will be interesting to see how the market reacts to any increase in IPT. It may be that more clients will go to market and this will create opportunities, but not necessarily based just on price. Larger customers may consider restructuring their programmes and this may create opportunities for markets like us," continued Mr. Taylor.

GOOD LUCK

He pointed out that before the last hard market, towards the end of the 1990s, companies reported combined ratios well in excess of 100% and some as high as 150%.

"This lasted for almost 10 years! I would have to say that the last five years have been kinder to insurers and therefore there are currently no signs of a big change in rates," he said.

But, Mr. Taylor did remind buyers that insurers do have fixed costs such as staff, buildings and variable costs, mainly in the form of claims, which have remained relatively low in recent years.

"This may have been as a result of improved risk management, underwriting discipline or just good luck. However, should claim's costs increase dramatically and are sustained over several years, this will have an impact. If this were to happen, I think rather than a gradual increase of 5% in

premium rates, we would see rates spiking by significantly more than 10%-15% on average. However, in order for this to happen, we will need to see a faster deterioration in profitability than the market is experiencing now," he said.

"The big question you have to ask yourself is: What would happen in the current market if one of the big insurers went bust tomorrow? When I asked a broker the answer was 'I could probably place everything as there is so much available capacity,'" concluded Mr. Taylor.

Julian James, CEO of privately-owned broker Lockton International, said that the outlook definitely remains rosy for buyers from a pricing perspective and he sees no reason why this would change, save a huge event or two.

"It remains very, very competitive from a buyer's standpoint and there is no real reason for the carriers to justify the argument that premiums need to go up. We are beginning to see a slight movement in commercial motor which is going up more than other areas. But, every business is facing really tough times and external pressures such as increased taxes. This is a tough economic environment and buyers are spending less. Therefore, any risk manager who goes to their CFO and tells them premiums will rise will not be very popular," said Mr. James.

"Without an extreme event, there is no compelling factor that is going to lead to an overall hardening in the market. Also, the market has lost some credibility because it talked up real rate increases this time last year, saying it was the end of the world and they would have to generate the income to pay for losses. But, rates did not go up and many of the insurers reported record results for the calendar year," he added.

It is difficult to find fault with Mr. James' logic and, despite the fact that some of the insurers say that rate increases are inevitable this year they are not talking a very hard game, like this time last year.

Solvency II remains some way off and the final impact on capital is very uncertain at this stage. As reported in the June issue of CRE the big insurers and reinsurers have plenty of capital currently and even if it turns out to be a busy hurricane season as forecast, a dramatic hardening 2002 style looks highly unlikely.

For insurance buyers this will be welcome news as they continue to struggle with fixed or reduced budgets and smaller teams, apart from those companies that have decided to actually buy more coverage to protect against volatility in such uncertain times.

Vive la difference!

Given the tough market outlook still faced by insurers after five years of soft underwriting conditions it is perhaps not surprising that the leading U.K. insurers are working hard to differentiate themselves through any means other than price and move closer to the customers than in the past. ADRIAN LADBURY spoke to a number of insurers during AIRMIC to find out what they are up to

ACCORDING TO PHILIPPE GOURAUD, Head of Chartis' U.K. Major Accounts Practice, insurers can bring many benefits to customers beyond insurance including a better understanding of risk and improved control and that certainly seemed to be a key theme at this year's AIRMIC conference in Manchester in June.

Mr. Gouraud stressed that, in an environment where costs are being cut, retentions are increased and coverage is tightened, it is more important than ever to control the underlying risk.

"There is a growing concern about reputational risk, but there is no limit of insurance that can restore a damaged reputation to what it was before. This is why it is so important to identify, mitigate and control risk and have access to the right level of experience to deal with it," he said.

But, improvements in services comes at a cost to the insurer and, ultimately it cannot reduce its return on equity by transferring

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profits to customers through ever improved service. So, how is this investment financed and justified?

"You have to recognise that the risks between customers and insurer will be more effectively aligned if it is better risk managed and controlled at source. Thus we will be less exposed and better risk managed," explained Mr. Gouraud.

"The key at this point is not to entrench ourselves, but to seek to innovate and differentiate ourselves. We have, for example a new D&O wording, a wider casualty offering and have developed a new trade credit facility that is based upon three core elements: the information system—Global Limit Manager which is updated on a daily basis from client's ledger and provides a detailed picture of the receivables situation," he said, for example.

ANONYMOUS BASIS

This product helps provide an accurate technical underwriting perspective of an individual client's portfolio and also enables Chartis to spot trends on an anonymous basis. The company can then warn customers about potential problems that have occurred elsewhere, but which may have not manifested themselves yet within each client's business, explained Mr. Gouraud.

And, beyond this, the company also provides credit insurance to back it up on an excess of loss basis. Clients are then able to combine the two elements within their captive, he added.

"This helps customers and ourselves better understand the risks and manage the risks. The challenge for the captive owner is always to work out how to price risks and this enables the risk manager to price the primary, or retained, layer," he said.

Emmanuel Nivet, CEO of AXA U.K. said that the French-based company has a more regional focus this year to help ensure that it is covering all corners of the programme.

One of the major facets of this process is a review of support services for liability underwriting including health and safety issues which are important but may not be part of the basic insurance coverage, he explained.

"During the past year we have extended our expertise in this area, developing a product at the top end which has been tested in France and Germany. This will be introduced in the U.K., and elsewhere in Europe, during September," said Mr. Nivet.

"Risk managers cannot focus on everything, but this can help identify what needs to be, and can be, managed within the global programme and thereby provides valuable support. We have specialist staff currently undergoing training and working with customers on a case by case basis to fully understand and adapt to what is really needed," he continued.

Mr. Nivet said that risk consulting has been successful for AXA in recent times and, in some ways, it is perhaps easier for the risk manager to justify the fees for this service rather than simply increasing premium spend. "The price of cover can be held but risk

management extended to uninsured areas," he explained.

Richard Taylor, managing director at HDI-Gerling Insurance said the German owned company is building its U.K. business in the tough market by also deepening its regional strategy by focusing upon specialist lines.

Gerling was an established business in London prior to its acquisition by Hannover-based HDI and had been operational in the U.K. since the 1950s.

"The business model that Gerling had in the U.K. prior to the acquisition by HDI has very much continued, with a focus on property, liability and engineering and is based on strong relationships with the national brokers," he said.

But, more recently the company talked to the brokers—the nationals and the super provincials—and realised that it needed to segment its property and liability business differently. It therefore now operates in three segments—U.K. corporate, Major and Global Risks and Engineering and Construction, said Mr. Taylor.

"The U.K. corporate business will focus on business with a turnover between £50m and £350m. We do not wish to be in SME sector, just above in the larger corporate risks. London is still, and will remain, the centre for our Major and Global Risks business, but we also recognise that a lot of large corporate business is also placed in key markets such as Manchester, Birmingham and Scotland," explained Mr. Taylor.

He said that the company's research showed that, to access the business in the U.K. Corporate sector, it needed a more permanent presence outside of London.

It has therefore set up three hubs in London, the Midlands and the North. It has just opened an office in Manchester as the hub for the North, and Birmingham will be the probable choice for the Midlands hub.

"We are serving the same markets, but have hired top quality people to develop the business locally in this sector. We do not want to build unnecessary cost and so we are not looking to hire teams of underwriters that then demands that you generate a certain level of income, particularly in this market which remains very challenging, when we achieve the growth then we will add the people from the top down," explained Mr. Taylor.

Mr. Taylor is adamant that HDI-Gerling's U.K. growth strategy will not be volume-based given the market conditions.

"We are not looking for market share. That is not our strategy. We have a good strong brand, are responsible and through our understanding of risk management, approach risk differently. Price is a given, but many clients want something different to what is currently being offered, and want to do business with an insurer that understands their business. So we have a change in distribution, but we are not changing the focus of what we do and what we stand for," he said.

Nigel Bamber, Head of Client Relationship Management at X.L. U.K., said that his company hopes to maintain growth also through a more regional focus and specialist lines.

For example, XL recently hired a dedicated underwriting team for D&O aimed at financial institutions and now hopes to become a lead player in this market. The team is based in the U.K., but this is a pan-European business, he said.

"More generally we are also looking to expand in our mid market segment. We work with different distribution channels, with the bigger and smaller brokers to develop more of a regional presence. In the UK we currently have a main office in London with a regional office in Newcastle. Recently we have strengthened our regional presence in Europe with new regional underwriting offices in Germany and Spain," explained Mr. Bamber.

"In product terms we continue to innovate around the standard property & casualty products. We already work with smaller companies, for instance, in product recall and environmental protection and we are expanding these offerings," he added.

During AIRMIC, XL's U.K. casualty team launched its new ExClaim offering. The goal of this is to help companies manage their liability risks through the provision of a 'robust' claims management process, he said.

"This is evolution rather than revolution. It is about providing support before and after the claim, for instance, with rehabilitation services, support to injured staff or legal reviews, all aimed at reducing the overall claims cost, helping the client and the insurer. This is about adding services valued by clients. We would like to give risk managers a real reason why they should choose XL. If they look at the overall costs for the business they can convince their CFO of the benefits of such an approach," explained Mr. Bamber.

ACCESSIBLE UNDERWRITING

New products, a more accessible underwriting team and firm commitments to service levels particularly in claims, such as AXA's ongoing 'Redefining Standards' program, and healthy market support for initiatives such as AIRMIC's 'Claims Best Practice' can only be welcomed by insurance buyers.

In some respects the leading U.K. corporate insurers are being forced into action because of pressure exerted by high levels of competition and low rates—an example of free market capitalism at work.

There have been no major failures in recent years. The biggest threat was probably Gerling and the market sorted that one out as HDI successfully acquired and integrated the business with few market problems, despite initial fears in Germany in particular.

AIG is a special case, but, there are few who would suggest that, even if the U.S. government had let it go under, the market would not have gobbled up the ongoing and healthy corporate insurance business that has become Chartis.

XL had its wobble and pulled through without any need for government support.

So, with all this healthily priced coverage, plenty of new products and services and no security fears maybe someone can explain why the European Commission plans to significantly raise the cost of capital for insurers and therefore their customers in the U.K. and across Europe via Solvency II?

Succeeding in a buyer's market

By Ben Norris

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WITH RATES IN THE MAJOR CLASSES of commercial insurance showing no signs of any up-tick it remains a buyers market, Marsh's George Davies [pictured, right] told *Commercial Risk Europe*.

However, whilst this makes the transfer of risk an easy decision for buyers, with insurers underwriting risks at very competitive prices, counter-party risk is an issue that must be considered by organisations and their risk managers, added the U.K. Leader of Marsh's Risk Management Practice.

Other big issues currently for risk managers include the increasing need for business continuity management, highlighted by recent events such as the recent Icelandic volcanic eruption, and an increased focus on corporate responsibility and sustainability, added Mr. Davies.

All were high on the broker's agenda at the AIRMIC Conference, held in Manchester last week.

According to figures from Marsh, for FTSE 350 companies, rates for the key classes of risk—property, employers liability, excess employers liability, public liability and excess public liability—have shown no up-tick in any quarter over the last four years, said Mr. Davies.

RATES SUPPORTED

The biggest reduction over the last four years has been in the excess employers liability, where there has been a 47% reduction in rates. However in the first quarter of 2010 Marsh has seen reductions down by only 1.3%. Property rates are down by 27%, over a four-year period, and in the first quarter of 2010 rates dropped by around 7%.

"This was probably the biggest reduction of those five classes in the first quarter of 2010, with the other lines showing reductions in the one and two percents. So these are really profound figures and there are no signs yet that any of the key classes of insurance for property and casualty insurance are turning northwards" said Mr. Davies.

"There is a feeling that this cannot continue, but the insurance industry has been saying that for a long time and it is still reducing. So it is absolutely a buyers market and it is allowing risk managers and purchasers of insurance to make a pretty simple decision around retention of risk versus risk transfer," noted Mr. Davies.

However with insurers underwriting



these risks at 'incredibly competitive prices', risk managers are now being asked by their stake holders to answer questions about their organisations' exposure to counter party risk and the credit risk of their insurance programmes, explained Mr. Davies. And as the market gets softer and softer these questions become 'more and more profound', he added.

In response to this, at the AIRMIC conference, the broker showcased its Marsh Market Information tool (MMI). Covering around 600 insurers, it is a real time information system that allows organisations and their risk managers to 'plug in' an insurance programme placed by Marsh and answer any questions relating to the financial strength of insurers that business is placed with, said Mr. Davies.

Another big issue currently for risk managers is how they manage the unpredictable risks, noted Mr. Davies.

OUTLYING RISKS

"Who would have picked out volcanic ash as a risk to be identified, quantified and treated?" asked Mr. Davies. "Seemingly as years go by, outlying risks that could have an impact on the capital structure of a business become more and more profound and more difficult to predict," he argued.

"If all that very clever identification fails, how quickly can a business respond to an outlying risk that hasn't been identified and what processes are in place...and we see a real harnessing of business continuity management with enterprise risk management or risk identification," he added.

"And the role of the risk manager in all this is becoming more central. The risk manager is the glue within an organisation, which must tie together the various functions, controls and systems in place," he continued.

Marsh has also seen an increased interest from clients in, and a trend towards, corporate sustainability, corporate social responsibility and the green agenda, noted Mr. Davies.

"Whilst the insurance market is pretty immature in this area we are seeing an increased interest in the service that we, as brokers, can offer in terms of helping to identify environmental risk within a business. How much of the risk is covered and how much is not? What can we do to help enhance an organisation's reputation?" explained Mr. Davies.

"Risk managers have to be so flexible these days in terms of the issues and the range of subjects that he or she has take on in this area and will be asked upon internally by their stakeholders," he concluded.

AIRMIC bangs the drum

By Tony Dowding

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THERE WASN'T A CLOUD IN THE SKY OVER MANCHESTER during the recent AIRMIC conference, and the same could be said of the risk management world, judging by some of the talks and discussions taking place over the three days.

Risk management is in the ascendancy and firmly in the spotlight, the soft market appearing to stretch on into the future, and a large exhibition hall offered all sorts of attractions: chocolates, cocktails, 'grab-the-cash' machines, Formula 1 racing cars, card tricks, even rugby stars Ben Cohen and Jeremy Guscott. But dig a little deeper and the concerns were there: Solvency II, departmental cut-backs, broker remuneration, non-disclosure, and emerging risks.

The conference opened with a talk by Paul Moore, the whistleblower and former Head of Group Regulatory Risk at HBOS. At first glance, it might have appeared a strange choice of opening speaker—a risk professional whose warnings were ignored, was sacked for speaking out against a 'culture of greed, unethical behaviour and indisposition to challenge', and since then has been effectively shut out of the financial services industry as his reward, in effect forcing him into consultancy and the lecture circuit.

But his aim was not to scare risk managers into silence with a 'look what happened to me' message, but to inspire them to do the right thing. After all, his message about corporate ethics and the role of risk management has been taken up by the media and is now out there in the business world. And the consequences for companies that don't listen to their risk professionals are clear to see.

All of which backed up the view, expressed at various times during the course of the conference, that risk management is finally starting to achieve the sort of recognition it deserves.

The place on the board has always been a bit of a pipe-dream, but having the ear of the board, and the recognition of the importance of risk management to an organisation, is music to the ears of risk managers.

Of course, risk managers have to make sure that they are not simply seen as the prophets of doom. "We don't want to be seen as just the brake or a shackle on things," said Paul Howard, AIRMIC Chairman. "We need to be seen as adding something to the business." He added that this meant having good relationships in place. "But a lot of what we flag up can be unpopular and we need to have broad shoulders and not be thin-skinned."

The conference also heard from a number of insurance industry leaders about a variety of topics—not least the soft market, in which there was surprising agreement about, and acceptance of, the soft market continuing for some time. The insurance company leaders seemed remarkably relaxed about the fact. And they were equally relaxed about Solvency II.

A number of themes kept cropping up and one was of course Solvency II. When there is uncertainty about the impact of a big regulatory change—it makes people nervous.

And Solvency II could be a very big change... or not. It could do wonders for the European insurance industry, putting it on a firm foundation and giving buyers confidence that the insurance market will be there for them in a sustainable and productive way for years to come.

It could also cause mayhem in the market, not least for captives. This is the sector that is perhaps most concerned about Solvency II, and yet ironically it is the sector that should be least affected by it. Given that it is driven fundamentally by a desire to improve policyholder protection, captives writing their own parent's risks should not even be considered for inclusion within the Solvency II regime.

AIRMIC has been working hard with other risk management and captive associations to ensure that there is at least an element of proportionality to Solvency II, if not total exemption. The President of FERMA, Peter den Dekker, was at the AIRMIC conference, and told delegates that they were working with AIRMIC and others to try and influence the debate about captives and Solvency II through extensive lobbying of the EU in Brussels about proportionality.

Alan Fleming, the leader of AIRMIC's Captive Special Interest Group, and a

seasoned captive professional, both as an owner and later as a regulator, said that for AIRMIC members, another crucial issue was one of equivalence. He said there were arguments on both sides as to the benefits of jurisdictions outside of the EU, such as Guernsey and the Isle of Man, seeking equivalence. "There is just so much uncertainty," he said, echoing the views of many on this subject.

Non-disclosure was also a big theme. AIRMIC has been hearing from its members that insurers are increasingly using a 'forensic magnifying glass' when there is a large loss, and as a result, claims being turned down on the grounds of non-disclosure are a growing problem.

John Hurrell, AIRMIC's CEO, called this unacceptable: "We're not talking here about people who have deliberately withheld relevant information. The legal framework is more than a century old and places an impossible burden on the buyer." He pointed out, "We don't want insurers underwriting the risk at the point of a claim," adding that the U.K. has the most customer-hostile disclosure legislation in any western country."

In a press conference at Manchester, AIRMIC pointed out that although insurers might respond to all this by saying "Why should we change?", the fact was that in some areas, such as on large Public Finance Initiatives, insurers frequently waive all of their rights. And when dealing with banks. And on many professional indemnity policies.

AIRMIC clearly feels this is an area where they can exert some pressure on insurers to insert side agreements and clauses into contracts to deal with the issue, and so far, according to Hurrell the feedback from AIRMIC's insurer-partners has been 'overwhelmingly understanding and supportive, but inevitably this is going to take time'. Also, AIRMIC members can expect a guide to dealing with the issue of non-disclosure in the autumn as the first step in tackling this issue.

There are still many paradoxes and contradictions around risk management—not least the extent to which boards are engaging with the need for greater attention to be paid to risk. On the one hand, the impact of major events in the media, from the banking crisis to oil spills to volcanoes, ought to be focusing the minds of board members on the need to take risk seriously, particularly large risks.

And yet the AIRMIC conference heard the surprising results of some research commissioned by the association from the Cass Business School which seemed to show that boards were not engaging on the subject and were failing to take ownership of risk.

The research discovered that a third of those risk managers questioned said that they were worried that their firms was not taking risk seriously as a board issue, and half were concerned that their organisations as a whole had given insufficient consideration to large risks facing them.

Either boards are placing far too much reliance on their directors' and officers' policies, or risk managers need to do a far better job in getting their message across at a very senior level. Or perhaps they are, and, as Paul Moore found, board members are either too incompetent or greedy to take note. As in many areas, it is difficult to risk manage stupidity.

The truth is, risk management is being recognised in a way that was unthinkable 20 years ago. It is discussed at board level and there are more chief risk officers, or those with responsibility for risk at board level. Apart from the fact that budgets are being slashed thanks to the legacy of the financial crisis, it has perhaps never been a better time to be a risk manager. And AIRMIC is doing its bit through lobbying and working with other associations, regulators and insurers, to ensure that the risk management message is heard loud and clear.

Delegates to AIRMIC conferences in the past were always greeted with a shoulder bag full of goodies and pens and pads. This year, they were given a passport-sized guide to the conference. Not even a note pad. Of course, this was part of AIRMIC doing its bit for the environment. But it also reflected the new reality.

We are living in austere times, and risk management departments have suffered as others have with a reduction in numbers and resources. But at the same time, the role and significance of risk management is growing rapidly. The delegate pack may have shrunk, but the conference delivered on content and in terms of numbers. And the sun was still shining in a clear blue sky as delegates left Manchester.



Paul Moore