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EUROPEAN INSURANCE & RISK MANAGEMENT NEWS

NEWS ROUND-UP FROM AMRAE, DEAUVILLE—FEBRUARY 3-4, 2011

Intense competition drives innovation and service among large insurers

By Adrian Ladbury
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[DEAUVILLE]—EUROPE'S LEADING CORPORATE insurance groups are stepping up their efforts to raise service levels in key areas such as global programmes, captive servicing, loss prevention and emerging risks in an effort to differentiate themselves from the crowd and maintain business volumes in the face of continued fierce competition.

The big corporate insurance carriers are also busy expanding their geographical reach to newer markets in Asia and Latin America, working hard to court the major producing brokers and focus growth on specialty lines, in their efforts to keep the best business, win new accounts and maintain profitability levels.

These were the key messages drawn from a series of high level interviews with the leading corporate insurers carried out during the AMRAE conference in Deauville earlier this month.

For insurance managers with larger French and European corporations this reaction to the stubbornly soft to flat market conditions is good news and a sign that the market works as it should do.

CHALLENGES

For the insurers it poses an increasingly tough management challenge as they seek to raise service levels and differentiate themselves to protect favoured accounts at a time of low interest rates and rising combined ratios.

This is why so many of the insurers and brokers are convinced that Solvency II could finally spark a harder market towards the end of this year as it will add yet another significant cost line to already stressed margins, or at least they desperately hope so.

The recent news from the European Commission that it has opened the door to transitional measures that could see large and important chunks of the new regime delayed as far as 2023 could, however, dash these hopes and condemn the carriers to an eternally soft market.

Reports just published by Moody's and Standard & Poor's state that the EC's latest thinking could severely limit the market disruption that they origi-

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AMRAE SIGNS TRANSPARENCY DEAL WITH THE CSCA

By Rodrigo Amaral
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[DEAUVILLE]—THE FRENCH RISK management association AMRAE unveiled an agreement with the leading French brokers' association during its annual conference in Deauville earlier this month that it hopes will govern the relationship between insurance buyers and brokers in France.

The agreement followed the announcement from FERMA late last year that it had signed a similar guide with BIPAR, the European brokers' federation, after a year of complex and sometimes tense negotiations.

The AMRAE agreement updates a charter that was signed in 2006 between the association and Chambre Syndicale de Courtiers d'Assurance, CSCA, the French insurance brokers representative body. The new agree-

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Risk management growing up fast in France

RISK MANAGERS are becoming ever more visible in France, said Gérard Lancner, the president of AMRAE, at the opening of the association's annual conference in Deauville earlier this month. The conference is now firmly the biggest national risk management event in Europe and attracted a record number of 1,900 participants. Les Rencontres d'AMRAE 2011 was designed to bring together innovation and tradition as risk manager's jobs evolve at a fast pace, said Mr Lancner. "This is a profession in plain mutation," Mr Lancner remarked during his speech. "Our work is getting out of the shadows and is gaining visibility and confidence," he added. But Mr Lancner also stressed that it is necessary to maintain 'extreme vigilance' as it is not clear that the French economy has left the crisis behind.

AXA EXTENDS SERVICE COMMITMENTS TO BROKERS

By Rodrigo Amaral
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[DEAUVILLE]—AXA CORPORATE Solutions used the AMRAE conference earlier this month to launch its first set of service commitments to French brokers to complete what CEO Philippe Rocard describes as the 'magic circle' of corporate insurance.

Philippe Rocard

Mr Rocard told *Commercial Risk Europe* during the event that the commitments, that include the ability for brokers to issue their own certificates of insurance and track claims much more easily via the AXA system, could be rolled out to

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DEAL: Focus on transparency, fees and legal security

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ment will adapt the previous document to reflect market developments of the past five years, said AMRAE.

The updates take the form of an addendum to the 2006 charter and concentrates on issues such as transparency, with a particular focus on brokers' fees, and legal security.

It also reflects concerns of large insurance buyers over the implementation of global programmes, with a special emphasis on a clear definition of the roles played by each party involved in the creation of an international programme.

"Practices have evolved, clients have evolved, brokers have evolved," explained AMRAE president, Gérard Lancner.

The business environment has gone through a great deal of change for French companies, adding complexity to operations, Mr Lancner added.

"It was necessary to translate this complexity into new ideas for the relationship between brokers and ourselves," he said, during the presentation of the document at the conference.

"The addendum brings improvements, and not corrections, to the charter," added Hervé Houdard, the head of CSCA's transparency committee, who chaired the discussions between the two associations.

The first of the seven items added to the charter covers the reinforcement of the legal security of insurance contracts. It states that the issuance of contracts on the day that they enter into effect is a common goal of buyers and brokers. As a result, both parties must work towards making sure that insurance companies play their part too, the parties agreed.

AMRAE has also insisted that both the text and the spirit of insurance contracts be formalised, in order to reduce the risk of legal conflicts in the future.

"It is clear that insurers, brokers and buyers enjoy the services of extremely bright legal experts, so it is important that the spirit that has preceded the signature of the contract is clear to everybody," Mr Lancner said.

MASTER AGREEMENT

On international programmes, the addendum emphasises that common manuals should be employed by brokers and buyers, with coverages described in plenty of detail.

This document will become a reference in case of disagreements, so that all parties share similar interpretations of the coverages that are described.

"The design and implementation of international programmes is a very delicate and difficult exercise," Mr Lancner said. "It is necessary for a certain amount of precaution for them to work properly."

The document also stresses that the remuneration of all branches of an international insurance brokerage network be clarified and that local brokers involved in a programme understand all its rules.

Furthermore, it emphasises the importance of writing down a description of the main characteristics of local policies, including limits, sublimits, excesses, premiums and other aspects.

The description should be written in a language to be agreed between all parties and be issued on the same day that the guarantees kick in.

The new document also recognises the right of insurance buyers to learn more about the fees charged by brokers. "Fair service requires fair remuneration," Mr Lancner said. "We want the price of services to be clearly identified, from that we can measure the value that is actually added to the process and to adapt remuneration to it," he added.

As with the FERMA/BIPAR agreement the addendum does not make the provision of detailed information on fees mandatory, but it states that the data must be provided if it is demanded by buyers.

The range of clarification desired includes direct and indirect remuneration, fees paid by the buyer and payments made by insurers to brokers that form part of their pay.

The extended charter also recommends the adoption of a bonus-malus system to define broker remuneration. Such a measure could help maintain the quality of services throughout the process, the document says.

"It is a practice that is spreading widely today, and which we believe responds well to our levels of demand," Mr Lancner said. "We are extremely demanding with our brokers, we must admit."

LOSS MANAGEMENT

The management of losses is also added to the charter, with clarity again proving to be the main focus.

"We have the impression that losses are becoming more complex," Mr Lancner said. "A large number of players intervene today in the case of a loss. There are insurers, lawyers, experts and consultants for example. It is a lot of people. We want to have clarified the roles that each of them will play in the eventuality of a loss," he added.

The addendum also urges brokers to work creatively to find solutions for the needs of their clients. It stresses the value for large companies in selecting their brokers via invitations to tender.

Although the charter and the addendum have been drafted with large insurance buyers in mind, Mr Lancner stressed that they can be a useful tool for small and medium companies in their relationships with their brokers.

"AMRAE is very much concerned with large SMEs in France, especially those that are listed on the stock exchange," he said.

The extension to the 2006 charter was officially signed during Les Rencontres by Mr Lancner and the president of CSCA, Dominique Sizes.

ROCARD: Broker commitments could be rolled out to rest of Europe

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other European markets in time if local brokers ask for it.

ACS launched its first set of public service commitments to risk managers in France four years ago and has since extended these commitments to include other countries such as the UK. The commitments to customers include promises to speed up policy issuance, deliver timely engineer reports, manage accounts with more care and carry out formal annual business reviews. Mr Rocard said that it became increasingly clear, however, that the commitments should also include key brokers.

"We have offered these engagements (commitments) to customers for four years now and we thought in the magic triangle of risk, comprising risk manager, insurer and broker, we could not leave the broker out of this. We have formal commitments to clients but this was not enough, we also needed to make commitments to the brokers as they are involved in the business in almost all the main countries," Mr Rocard said.

The first commitment is to make it possible for the leading 15 brokers that deliver the bulk of AXA Corporate Solutions' business to generate their own electronic certificates of insurance via its system.

The company has also decided to step up its communication efforts with the brokers through technical conferences and regional meetings.

Mr Rocard explained that last year the company held a gathering of all AXA Corporate Solutions subsidiaries in Africa and the surrounding Mediterranean countries along with brokers, partner companies and customers.

He said that this required a big commitment from AXA and its staff but was a very positive experience for the brokers and customers who posed a lot of challenging questions about changing rules, laws and the like.

AXA Corporate Solutions has committed to holding both forms of events every six months in future.

Another big commitment is the decision to introduce a system of ratings for group companies and partner companies.

The ratings will be based upon speed and efficiency of policy issuance, claims handling and payment.

Only about 10% of AXA Corporate Solutions' business is generated by partner companies but Mr Rocard said that it remains very important because the group sells the quality of its network and so it is very important that it is 'under control'.

Other commitments to brokers include a promise that the quality of vessels charted by marine customers will be assessed in three hours and the appointment of in-house managers dedicated to brokers that demand individual servicing.

Mr Rocard explained that the package had been created on the basis of in-depth interviews with some 62 brokers that was a very clear and honest process. "It was very helpful for us to carry out this process and think about it and where and whether action was needed," he explained.

ROUND-UP: Big corporates continue global expansion

Continued from page 1

nally feared and probably prevent a rapid consolidation in the market that ultimately would have led to reduced capacity and higher rates for buyers (*see March issue of* COMMERCIAL RISK EUROPE *for full analysis*).

Back in the real world the market remains healthy for French and wider European risk and insurance managers if the evidence from the big insurers during AMRAE can be relied upon. Following are the key points from interviews with seven of the biggest players.

PHILIPPE ROCARD

AXA CORPORATE SOLUTIONS

"We have formal commitments to clients but this was not enough, we also needed to make commitments to the brokers as they are involved in the business in almost all the main countries."

■ Philippe Rocard, CEO of AXA Corporate Solutions, was positive about the year-end renewal for his business at its annual press lunch during the AMRAE conference at the start of January in Deauville, despite the continued high level of competition and soft to stable conditions.

He confirmed that turnover would be 'flat' for 2011 overall against a backdrop of still depressed economic activity. But he did say that the group had managed to achieve rate increases overall of 3.9% in corporate property business and 2.7% in liability lines during the year-end renewals.

AXA Corporate Solutions also managed to retain some 96% of its customers at this renewal, said Mr Rocard.

Regis Demoulin, chief commercial officer at AXA Corporate Solutions, said in an earlier interview with *Commercial Risk Europe*, however, that the group was prepared to walk away from unprofitable business and would focus on improved service for quality and long-term accounts to maintain volumes and profits.

"Our strategy remains unchanged: we aim at maintaining long-term relationships and proximity with our clients and brokers in what appears to be a successful strategy when we see the level of our retention rate. Therefore, we prefer to module our underwriting policy according to the quality of their risks. If we are asked to decrease our rate although the quality of the risk has not improved, we prefer to reduce our part in the insurance programme. In any case, we look at each account individually," he said.

To help drive growth in this competitive market the group has introduced a new set of service commitments for its key brokers. "We have offered these engagements to customers for four years now and we thought in the magic triangle of risk, comprising risk manager, insurer and broker, we could not leave the broker out of this. We have formal commitments to clients but this was not enough, we also needed to make commitments to the brokers as they are involved in the business in almost all the main countries," Mr Rocard told *Commercial Risk Europe* after the company's press lunch during the AMRAE conference [*see front page news for full story*].

The company also continues its annual service commitments to customers, expanding and enhancing its international network to improve its global programme offering and is extending its MATRIX loss consulting service to customers [*see page 7 analysis*] and is targeting larger medium-sized businesses too.

JEFF MOGHRABI

ACE

"Key areas are captive servicing and legal compliance. These are no longer secondary concerns; there is a real concern about compliance and whether the right premium is being allocated. Fiscal authorities are paying a lot of attention to this around the world."

■ Jeff Moghrabi, country manager for France at ACE, said that the focus for him is profitability rather than growth. He said that, despite the competitive market, ACE did manage 'good growth' on accounts where it could really differentiate itself such as in financial lines, EIL and information technology where the newer capacity finds it more difficult to compete than in the more commoditised traditional P&C business.

He said that overall ACE had defended its book of business quite well in France at the renewal. Some business it decided to let go because some lines, particularly property, are seeing unprofitable rates. Some accounts have been hard for the brokers to place, particularly those with not so good loss histories, he said. "It is flattening generally but otherwise we are still seeing some accounts reduce by 10–15%," said Mr Moghrabi.

As with many of his peers Mr Moghrabi is somewhat perplexed by the level of competition in the current market and suspects that some may be storing up problems for themselves soon and there is no room left for error.

"Capacity remains abundant in this market and there are still a lot of new players despite the competitive conditions. Why? I don't know, I ask myself every day but frankly they are still producing financial profit. The real long-term players are looking at the accident year loss ratios to see if they are really making an underwriting profit. There is no doubt that prior year development in the market has gone beyond 100% combined ratio since 2009 and no one can convince me that they are making money in this interest rate environment. So there is no margin for making mistakes this year," he said.

In this market the key for ACE is to focus on its strengths and offer more to buyers, said Mr Moghrabi. "Our big issue over the last 18 months and which is recognised by the market as a whole is how to give a homogenous service to all buyers of international programmes. We have extended the coverages available under such programmes to include areas like accident and health and the like. There is rising demand for this business partly because some of the big players retreated from this market in France so we asked ourselves why can't we offer this in financial lines and marine and therefore play on many different levels," he explained.

Mr Moghrabi concedes that the global programmes market is not easy currently as buyer expectations and demands for consistency, certainty and compliance rise and the big insurers cannot guarantee totally consistent service across all lines. But he said work is underway to constantly improve its offering.

"We are focused on this and it has given us higher visibility and results in this market. This year we are particularly keen to extend the package to include some of the lines mentioned above such as marine, financial lines and information technology—these are areas where the customer really wants to buy the same thing. Other key areas are captive servicing and legal compliance. These are no longer secondary concerns, there is a real concern about compliance and whether the right premium is being allocated. Fiscal authorities are paying a lot of attention to this around the world," he said.

Looking ahead Mr Moghrabi said that service will remain a big issue and ACE will continue to 'hammer' the point that captives and international programmes are essential. It will continue to develop new coverages such as data privacy protection, EIL and marine loss prevention and standalone terror cover in tricky territories such as Iraq where it just placed a coverage for a French company.

ACE is also enhancing its offering for brokers. "We have evolved our model and found intelligent ways to communicate with our customers and brokers. Many of the customers deal with us locally in various countries and want to deal locally but we also have a central resource to help navigate the company. We created global account managers and now have 20 of them who act essentially as facilitators for the brokers and risk managers and also increasingly on the claims side. They deal with any rough edges and can form a network rapidly to help clients and brokers," he explained.

THIERRY VAN SANTEN

AGCS

"I have a feeling that counterparty risk is not being properly assessed by many companies and the insurance buyers of groups need to be asking more questions and for more information about those companies that are insuring their property and liability for the next 15 to 20 years."

■ Thierry Van Santen, former president of AMRAE and FERMA and now country manager in France for Allianz Global Corporate & Specialty, said that much of his first full year in charge was taken up with the reorganisation of AGCS's business in France as a single entity which was created in October 2009 through the merger of its and AGF's operations.

At the same time he had to ensure that management did not become too bogged down with internal matters and remained focused on long-term relationships with quality clients on a mutually profitable basis, and not with trying to chase the rates down.

"I had a clear vision of what we wanted as underwriter and with client relationships—it was simply profitable growth which is easy to say but not so easy to do! You have to win customers who share the same values as yourself,

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Rising awareness of ELD risks finally sparks growth in market

By Ben Norris
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The sinking in 1999 of MV Erika led to France's worst environmental disaster. The Erika's owner Giuseppe Savarese [left, above] was found to be partly liable for the disaster on January 16, 2008, along with Total SA, Antonio Pollara (Savarese's manager) and Rina (the certificating company) and ordered to pay €192m in damages. On March 30, 2010, Total SA lost their appeal to overturn the court's decision.

[DEAUVILLE]—THE FRENCH EIL MARKET IS NOW showing signs of steady growth, following the implementation of the Environmental Liability Directive, as sophisticated buyers increasingly realise that the directive has increased exposures and insurance needs.

Multinational companies in particular have a well-developed dialogue with EIL insurers over the risks they face. But risk managers and insurance buyers must beware that EU-wide and global environmental programmes need careful attention. One size does not fit all—insurers have warned.

Overall penetration of EIL products across France's industrial companies remains low however, as some national and most medium-sized businesses still refrain from buying specialist cover.

In order to drive demand amongst these buyers the insurance industry must spread the message that general liability policies do not cover ELD liabilities, insurers say.

Risk managers should also be aware that the frequency and severity of pollution cases is increasing under the ELD and that the French authorities are looking to beef up their enforcement of the directive, they add.

The total number of submissions in France for specialist EIL cover has increased over the last year by 15% to 20%, following ten years of stagnation, Simon White, environmental branch manager at XL told *Commercial Risk Europe*.

Competition within the market is driving down insurance premiums, he added. But despite this the environmental insurance market is expected to grow by 15% to 25% per year from a current estimated turnover of around €40m.

With the introduction of the ELD companies are also buying higher limits, explained Mr White. Historically French companies bought limits for first party damage of around €1m, but they are now increasingly buying more cover, he said.

"We are on a good trend, and in 2010 we increased our income," said Sylvie Monereau, financial lines environmental expert underwriter at AXA Corporate Solutions.

"But we still have some work to do to make clients aware of the ELD because some have not underwritten that extension. But there are less and less of them and things are slowly getting across," she added.

Pollution and environmental liability is topical in France, agreed Stephen Andrews, senior vice president and environmental liability manager for Europe at Chartis.

"The public's awareness of the hazard and the industry's awareness of their potential exposure have combined to generate a level of interest that previously did not exist, and there is significant potential for development," he added.

But despite this increased awareness XL estimates that still only around 10,000 environmental policies exist in France, taking into account numbers published by Assurpol, the pool that reinsures French environmental risks, and estimates from the rest of the market.

"With around 2 million industrial companies in France this shows that penetration remains low," said Mr White.

"The message is getting through to large multinationals with dedicated risk or environmental managers, they are really looking at it. But the message is not getting through to the next level down—national and medium-sized companies," he added.

Those companies, and risk managers at larger companies alike, should be aware that there is anecdotal evidence of increased frequency of pollution cases under the ELD and signs that clean up costs could be up to 40 times higher under the new directive. The French Ministry of Environmental and Sustainable Development has projected clean-up costs of pollution cases that occurred in the 1990's were they to take place today.

In one case a bleach leak from a paper mill has projected costs of between €141,740 and €425,500. This is up from €42,700 in 1997 when the case occurred—a three to ten-fold increase.

A second case, which saw containments from a sodium chlorate storage escape into a river, would today, for primary remediation, cost a minimum of €116,600. The total costs, including compensatory remediation, is valued at €4,234,964.

The original settlement was €108,000, which suggests costs prior to the ELD to be 40 times lower. Regulatory authorities in France are looking to further step up their enforcement of the ELD, market sources confirmed.

"There are some signs that the number of French inspectors is increasing, which has to represent an increased likelihood of enforcement. There were 1,433 classified installation inspectors in 2009 and—we believe that—the 2008-2012 targets are for 200 plus positions to be opened," said Chartis' Mr Andrews.

Multinational companies appear to now be more focused on the ELD but problems can occur when trying to place European-wide or global environmental insurance programmes.

"The problem is that, quite naturally, companies base their knowledge of ELD on their home country, so French companies—just like UK companies—will rely heavily on their own experiences and knowledge of the local ELD regulation. So, there is not a harmonisation of the ELD across member states, there is a core but each country has its own tentacles and it makes it a lot more difficult for everyone involved," explained Mr Andrews.

The same phenomenon is happening on a different scale all over the world, he continued. This further complicates the purchase of multinational programmes.

"Companies are coming to us and saying 'this is too complex, it is moving in a thousand different directions, we need to bring some sanity and organisation to this process'.

"That discussion is increasing and, in some cases, it is more consultation rather than risk managers saying we want to buy this or that. And we are starting to have direct access to risk management teams and how they deal with ELD and EIL cover. This is a fundamental change and that dialogue has accelerated," he concluded.

Experts warn companies to tread carefully in India

By Ben Norris
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[DEAUVILLE]—COMPANIES ENGAGED IN THE RUSH to take advantage of India's break-neck economic growth must be aware that new growth also carries risks that are particular to the country.

Not least of these is the risk of non-payment. Late payments and defaults are still common in India, and firms should be ready and prepared to be patient to deal with this problem.

The warning was issued during Les Rencontres d'AMRAE by Nicolas Garcia, the regional director of sales and marketing at Euler Hermes, the credit insurance group.

"Non-payment disputes are normal business life in India," he said. Mr Garcia noted that companies often disappear overnight, and in such cases it is virtually impossible to recover any money due.

Recovery rates in cases of bankruptcy in the country are a mere 15%, compared to 35% in China and almost 69% in OECD countries.


Life moves at a different pace in India

"Cash in India is key," Mr Garcia told the audience at the workshop dedicated to the Asian emerging market. "Electronic payment is still little used in the country. Cheques are widely employed, and it is not unusual to be paid by cheques written by clients of your clients," he continued.

Experts gathered in Deauville for the workshop stressed that an efficient risk assessment is key to operating in India. But a considerable level of patience is helpful too.

Andrew Hicks, the managing director of Willis India, pointed out that firms need to get used to a 'super-bureaucracy' and very slow legal procedures. But the opportunities available in the country make it a worthwhile exercise.

"It is important to be patient and not to try to go against the system," he said. Risk managers can at least count on a fast-growing insurance market to help mitigate their companies risks.

Mr Hicks noted that the insurance market grew by a compounded 20% each year in the 2000s, and is currently a very competitive environment.

But there still is potential for development, stressed Gaurav Garg, the CEO of Tata-AIG, the Indian subsidiary of Chartis. Corporate insurance represents a small share of the global market, which is dominated by personal health and motor lines.

But firms can already find options to complex needs in the Indian market, he said. "It is possible to set up global programmes and captives for example," Mr Garg added.

RISK MANAGERS MUST WORK TO KEEP CAPTIVES VIABLE UNDER NEW RULES CLAIMS HECQ

By Rodrigo Amaral
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[DEAUVILLE]—COMPANIES SHOULD NOT CLOSE THEIR EYES TO the benefits of captives for their long-term insurance strategies because of the extra costs and complexity that Solvency II will add to them. But the directive is likely to drive more opportunistic captives out of the market.

These were the main messages heard by participants during a training session on captives during Les Rencontres d'AMRAE 2011 earlier this month. The session was popular among French risk managers as concern remains high across Europe about the future of captives because of the tighter regulations and continued uncertainty about what the rules will actually mean.

But, despite the threat to captives, the global crisis has also highlighted that they can be important tools for risk managers, according to Martine Hecq, the director of risk finance at GDF SUEZ, who spoke during the session.

"A lot of people put the matter of Solvency II on one side of their desks, and the time is running out," she told *Commercial Risk Europe* after the session. January 1, 2013 will be here really soon. People should really take some time to understand how Solvency II will impact on their captives, and include the directive in any feasibility studies they are doing right now.

"Captives will feel the impact of the new rules in their capital requirements and also in the form of extra administrative burden. Besides the financial impact of Solvency II, everybody should also be aware of the consequences it will bring to the management of a captive, how it will affect the treatment of information and data," Ms Hecq, who also advises FERMA on captives, pointed out.

"The new complexity should make sure, however, that companies take the long view when devising a captive, and will make it much more difficult to use the vehicle to play the market. I have the impression that the opportunistic setting up of captives will disappear," she added.

In the past, a company could decide that the formation of a captive could be a good thing just for one insurance contract to help place the business in the insurance and reinsurance markets above the retention.

"These captives will disappear for sure," predicted Ms Hecq. The risk manager also warned that excessively tight rules could have a negative effect on the market, and warned regulators that they will have to calibrate the requirements carefully to ensure they remain viable.

"It is important not to jeopardise the role of captives as a tool for risk managers because if they become too complicated or too expensive, they will disappear from our toolbox and this would have a very negative impact," said Ms Hecq.

Commercial Risk Europe

AMRAE—A happy marriage of risk management and transfer?

THE FRENCH RISK management community appears in many ways to be more sophisticated than its peers across Europe and the success of the AMRAE annual conference, the largest national gathering on the continent, surely reflects that fact.

French risk managers are always fascinating to interview because it never takes long for the conversation to stray into big macro economic, political and social questions of the day that are neatly linked back to the day-to-day job of managing corporate risk and buying insurance.

This was underlined in spades the last time I went to Paris to interview a group of leading risk managers for our annual Risk Frontiers Survey. The trip was made all that much more fun by national strikes, mass protests of workers and students together (only in France) and hot debate about President Sarkozy's apparently increasingly hard line and stubborn approach.

Not surprisingly perhaps that then, as at the AMRAE conference, much of the discussion focused on wider themes than the price of insurance coverage, such as the duties of corporations in employee physical and mental welfare [*see HR risks analysis, opposite*], the problems caused by the privatisation of French economy and the role of French companies in emerging markets.

Despite the tendency among French risk managers to think and talk bigger than many of their European counterparts there also does not seem to be the same level of paranoia about the supposed inferiority of insurance management compared to business risk management.

The Baromètre report that is analysed in this report shows that those risk managers who spend more time involved with enterprise-wide risk management and the board as opposed to insurance management and the finance department are better paid and higher up the corporate ladder.

But this does not seem to cause undue levels of self doubt and friction within the French risk management profession.

French risk managers seem to have somehow found a happy medium whereby the two functions sit amicably together and identify solutions to their problems as a whole, rather than vying for position in a seemingly eternal struggle for recognition and influence.

Likewise French insurers and brokers do not seem to consider the topic worthy of discussion. They appear to happily sell their services to pure insurance managers and pure risk managers and all kinds of combinations of the two in-between without any bother.

There does not seem to be much talk of the need for French insurers and brokers to bypass the risk and insurance manager to try and reach main board members to open a direct dialogue with the real decision-makers.

Perhaps this is because the French market is more subtle and skilled at masking a jarring and inevitable conflict that bubbles below the surface between the superior business risk managers and downtrodden insurance managers as it seems to do more openly above the surface in other European countries.

Or perhaps in France, the traditionally less *laissez-faire* corporate culture dictates that business risk management is simply an established and accepted corporate requirement while at the same time the protection of vital assets by insurance is regarded more highly?

Commercial Risk Europe will attempt to find out whether there is any credence to this idea and set of observations from AMRAE this year.

It is a question worth asking through our pages, events and surveys because if the French have found a way to effectively marry the two often distinct disciplines then there will be lessons to learn for risk managers in other European countries.

Please read this review of the key issues discussed during the AMRAE conference, made possible by the sponsorship of AXA Corporate Solutions, and please send your opinion on this topic, wherever you are based. They are as welcome as ever.

ADRIAN LADBURY
EDITOR—*Commercial Risk Europe*

The rise of human risk

French risk managers are working hard to improve relations with HR departments to tackle the recent rise of stress-related risks as companies cope with the big challenges posed by recession, change and globalisation. RODRIGO AMARAL reports

A SPATE OF SUICIDES AMONG WORKERS AT SOME OF THE best known companies in France have highlighted the urgent need for proper management of human resource risks in the country, according to experts.

Last year's strikes and legislative action that is set to bring unpopular and stress-inducing changes to France's pension and health system also illustrated that the challenge is widespread and must be dealt with from several different angles.

And such risks are compounded by the growing internationalisation of French firms. Experts agree that this implies that HR policies often need to take account of international as well as domestic law which only adds to the complexity of the task.

These are some of the reasons why AMRAE, the French risk management association, is working to increase awareness of human resource risks and highlight the advantages of cooperation with HR departments to tackle the risks.

The latest effort by Association pour le Management des Risques et des Assurances de l'Entreprise was the publication of a technical paper in which the subject is analysed by risk managers who already work with human resource risks.

The paper explains how risk managers can help human resources departments use their expertise on risk-mapping and negotiation with the insurance market.

It also stresses that risk managers should remember that their HR colleagues are the true owners of those risks and that their involvement with this matter must take place within a framework of confidence building and mutual collaboration between the two activities.

"HR directors don't always have the ears of the CEO," said Philippe Hellich, the vice-president of risks, controls and audit at Danone. "We can work together to increase awareness on HR risks."

The theme of HR risks has gained relevance in France in the past two years, because of cases of work-related suicides by employees of large companies such as France Telecom and Renault that have received wide coverage in the media.

Legislation has been proposed by the government to deal with psycho-social risks in the workplace, and unions and other social agencies have been engaged in discussions with firms about how to better tackle the problem.

French companies also face legal pressure to guarantee the health and safety of their workers as the efficiency of their measures is determined by the results, rather than simply compliance with rules.

The need to provide assistance to stressed workers who cannot cope with the pressures of their jobs has mobilised HR departments and, in a growing number of companies, risk management professionals too.

For companies, tragedies such as work-related suicides can also bring important reputational risks, the experts note.

The French Labour Ministry has even drafted lists of companies that it believes are not doing enough to fight the problem of work-related stress. At least one of these lists has found its way onto the internet.

But the range of HR risks faced by French companies goes well beyond cases reported by the media.

They include work-related accidents, workers' unrest, bullying, discrimination and frauds perpetrated by employees.

AMRAE members recall that, as early as three years ago, the subject was all but absent from the debate at Les Rencontres, the association's annual conference that took place earlier this month.

In 2011, however, as last year, more time was reserved for discussion about human resource risks.

But HR risks have also been lifted to the top of the agenda of many risk managers because of changes that French companies are experiencing.

"French risk managers were not as focused on issues related to human resources because the French state, via Securité Sociale, has always taken responsibility for lots of things related to workers' compensation, health and life, long and short term disability insurance," said Frédéric Lucas, a member of the AMRAE board and global real estate, risk & insurance manager at multinational media giant Publicis.

"But now there is a growing sensitivity to those risks and to the fact that people constitute an important capital, maybe the most important, for companies," added Mr Lucas.

AMRAE suggests that thorough risk mapping can be a very useful tool for companies to help identify the risks to their business that are linked to their workforce as well as to draw attention to them in the higher echelons of administration.

"It is difficult for human resource risks to stand out from the mass of risks that are faced by a company," said Franck Verdun, a Paris-based lawyer who specialises in HR issues.

In his contribution to the AMRAE paper, Mr Verdun, along with Mr Hellich, claims that the involvement of risk managers can also help HR departments to take a more global view of the risks and to understand them within the framework of all the risks faced by their firms.

The growing internationalisation of large companies has also increased the importance of the management of human resources in countries where labour law, social security networks and health systems vary widely.

It would of course be convenient for risk managers and human resources directors to be able to devise a single formula to apply to their firm's worldwide operations. But it is always necessary to adapt policies to local conditions, the experts say.

Sometimes this is even more important in other European Union countries where workers benefit from considerably lower protection than their French peers.

"Belgium and Germany are two important examples," said Marie-Noelle Arrigault, one of the authors of the paper and the risk manager for financial risks and personal insurance at Alcatel-Lucent. "We tend to think that there is social security everywhere in Europe, but that is not true," she added.

The situation becomes often more complicated as economic opportunities are found in the emerging world, where French companies are becoming more involved by the day.

In those markets health and other benefits often need to be provided entirely by the employers and other challenges typical of fast growing economies are also popping up.

"The risk of losing talent is much bigger in the BRIC countries than in France today due to higher employee turnover," said Mr Lucas.

HR risks are also created when European companies enter merger processes or make acquisitions in other countries.

In these cases, HR policies, such as in the area of compensation and benefits, need to be brought together and harmonised.

The paper tells the experience of Alcatel and Lucent in India, where, after joining forces globally in 2007, the new group had to perform such tasks with five different companies, encompassing 4,000 workers.

Insurance coverage for employees involved no less than 10 different policies from a number of different providers.

In this case, the group's risk manager helped to define a strategy to gather all policies under a single broker and the risk manager also helped develop strategies to keep the firm's talent after the merger and to unify health insurance coverages, among other measures.

In a paper written with Françoise Kleinbauer, a director of the Adding Group, Ms Arrigault argued that the help of risk managers can also be useful for human resources departments when the time comes to negotiate new contracts with the insurance industry for employee health and life coverage.

"The risk manager...can obtain better conditions for insurance [contracts], making use of the 'volume' effect, thanks to the existence of other insurance contracts in other business lines. The proximity of risk managers with insurance players can prove to be a valuable help for HR departments that often don't know the market well and the practices of the company in the insurance field," the authors claim.

In mid-December, the technical paper was presented to the French media during a meeting at AMRAE's new headquarters in central Paris. The document, which is titled *Risk Management et Ressources Humaines: Pourquoi et comment mieux travailler ensemble?* Can be ordered on the association's website (http://www.amrae.fr/amrae/publications.html).

The market is also starting to react to the issue and to offer solutions to risk managers who want to become more involved with the minimisation of HR risks.

Broker Gras Savoye, for instance, presented a new consultancy service that is aimed at risk managers who are expecting to deal with a growing number of such problems during Les Rencontres.

"Corporations have been facing very serious situations regarding their staff, including suicides, stress and harassment," said Renaud de Pressigny, general director at Gras Savoye. "We want to help them to employ the risk-mapping concept to identify the areas where they might be at risk," he added.

Mr De Pressigny said that the service has been designed to help human resources departments to pinpoint the risks before they occur.

"Most risk managers in France are not yet involved at all in employee benefits insurance programmes," he said. "We would like to give them arguments to cooperate with their HR colleagues and show them that risk-mapping can be useful for them too."

"We believe that HR departments are moving, from being reactive to proactive when it comes to these types of risks. Our idea is to identify the risks before they happen, and implement mitigation solutions," continued Mr De Pressigny.

BACK ON THE FRONT FOOT

Experienced French broker Robert Le Blanc was invited by Aon's Steve McGill to join the group and lead the regeneration of its French operation that had suffered a bad run and lost a lot of people in 2008. The former SIACI man decided to rejoin the corporate world after a period of working for himself and said that he has enjoyed the opportunities and challenges involved with the turnaround job. ADRIAN LADBURY asked him about developments at Aon in France and how he sees the market for French risk managers

ADRIAN LADBURY: How was the year-end for you? Was it still very competitive here in France?

ROBERT LE BLANC: It was clearly once more a soft market and we were able to find high capacity with established and newer players and prices were still down if perhaps a little less than the year before. Property underwriters were a little more reluctant but prices were still down here and casualty prices were down again. This is probably because the cash arrives early and the claims come later in longer tail lines and underwriters continue to write a lot of casualty business with very soft prices. This market is clearly capacity driven. There are some new underwriters but it is very aggressive overall. A lot of reserves have been used up for old claims which can be based on the fact that the insurers decided that they have more than is necessary. This can be done for one, two or even three years but it cannot continue for 10 years. So I would imagine we are near the end of the reserve releases.

AL: What will turn the market? Solvency II perhaps?

RLB: Probably yes. I do think that Solvency II will have a significant impact upon underwriting policies but this will probably be more for January 1, 2012. Maybe we will see some impact in July. Customers don't ask too many questions about this currently but we are very worried about the impact because it will signal a hard market. My personal view is that Solvency II is ridiculous and I do not understand why the commission decided to do it. Why build something specific for Europe when the competitor insurers from other countries and regions are not covered by it? Basle III is for all banks worldwide but Solvency II is only for European insurers. Therefore, from a global competition perspective this is ridiculous. Where are the real life stories that demand such a change? Apart from the problems faced by AIG, that were driven by its asset management business not underwriting, and very specific to them, there was no other pressure on insurers' capital because of the crisis. So why do we need any new rules on capital and solvency? It is just not necessary. It will also impact the stock market as it seems likely that it will make insurers invest less in equities which will damage the French stock market and investment in French industry. And for captives business will become very expensive. Captives are useful for big groups to control and manage their risks. Also I am surprised that London has not made more noise about this because of the impact on Lloyd's syndicates. The big insurers thought originally that it would be good for them because it would force the smaller players to sell and they thought this would be a great opportunity to grow. Now they see it as a constraint.

AL: Has much business changed hands? How competitive is the broking market in France currently?

RLB: We face a lot of hard competition in France between brokers and not so many are involved with large accounts. Clearly a lot of risk managers think that only Marsh and Aon are able to solve their problems because they have global networks. We are more aggressive than Marsh in this respect and our truly global position gives us a big advantage over the competition. Customers need a global network and resources plus local advice and if they have problems they know they are with the number one broker in the world. But they still need local talent and teams to complement these global networks and competition can be fierce at the local level and this has an impact on pricing too in many cases. It is just as important for the big insurers too. They need underwriters who know the legal issues in different countries, especially newer countries where there is more change. It is very important to have a solution to provide robust coverage in such countries and you need an insurer with knowledge and which can deliver the right level of service on the ground. A network for them is just as important as for the brokers. There are not so many of them that can genuinely offer this kind of service. Another important part is what they can do with engineers for loss prevention services. This is quite significant and I have to say that AXA has made a lot of progress with its acquisition of Matrix and I believe others will follow this approach.

AL: But in such a competitive market all this improved service comes at a cost. How can that be justified?

RLB: Risk managers are starting to ask how can I get this kind of service if I only pay this fee? Recently we had one client tell us that a keen global competitor had quoted €30,000 to manage their account which was ridiculous as we had worked out a charge of €120,000 to use the global network to manage it. In the end we reduced our fee to €100,000 and the customer chose us despite the big difference in price because it appreciated that we would deliver the service they needed at a fair price. We have a more transparent market now. In the past brokers earned their fees in lots of different ways and it was not so clear how. Now it is a lot clearer and we can be more confident that the customer appreciates what we do for what we earn. We are moving in the right direction in this regard. Our group has a culture of transparency at group level and there are constant changes coming from all the discussions with risk management associations and broker associations such as that between FERMA and BIPAR that led to the agreement. Also AMRAE has just announced its agreement with the French broking association [*see page 1*].

AL: How did you fare in France last year?

RLB: We were lucky enough to win much more business than we lost last year. We did face some problems here in France in 2008 and 2009 but we have recovered quite fast and during 2010 we stopped losing business and actually won a lot of tenders. A lot of clients stuck with their brokers but when they did change we were able to compete and win business. I became CEO in October of 2009 and it was a bit of a mess frankly as so many people had left. But during the past year we have hired a lot of professionals and top people in the key lines such as property, casualty, construction and the like. The outlook is now very positive as we have good new people and those people who chose to stay did so to help clear up the mess that had been created.

WATCH THOSE COMBINED RATIOS...

Stanislas Chapron, CEO of Marsh in France and member of the management board of the broker's EMEA operations, is a well known and respected figure in the French corporate risk market and often on the podium at AMRAE. He took time to talk CRE's BEN NORRIS about how he sees the market currently and what may shift it

BEN NORRIS: How were the year-end renewals in France?

STANISLAS CHAPRON: We are still in a soft market which was more evident with the large international clients, but even for large French or pure European clients. It was soft in all lines of business—casualty, property, excess casualty to D&O—except some niches but they are very remote. These include political risk in some countries of course, war risk for marine and medical malpractice, which is a difficult market in all countries. Roughly for us, on our book, for large risks rates were down 10%. For these larger clients' risks sometimes the softening was 30%. But these tended to be on accounts where long-term agreements were finishing so it is difficult to compare these with those just one year old. For SMEs we experienced some increases in some lines such as motor fleet and some insurers pushed to increase their rates. But not all the market was in that same mood and there were few increases. The increases were small because there is still competition on price and a soft market.

BN: How was it specifically for Marsh in France? Did you gain or lose business?

SC: We gained business. Roughly we had more than 2.5% growth with underlying growth of 10%. This has been done clearly through market share acquisition and expanded business.

BN: And looking forward in which direction do you see the market going?

SC: We see the trend as the same. We are, however, entering a zone when there are questions about combined ratios of insurers and the effects of Solvency II. The question is when it will turn. It will turn when the majority of actors in the market turn at the same time, which is not the case yet.

BN: What is Marsh's strategy in France?

SC: We are 75% risk management and 25% SME—so very heavy on larger clients. Our strategy in this sector is called 'client vision'. Clients now expect solutions that you define with them. In the end, if you are a good broker it will be a client solution. When you succeed in getting a good matrix between your client and your technical people and they can share and build a team with the client and bring the best of knowledge of the markets then you design the best solutions.

BN: Risk innovation and service are key concerns of risk managers. What developments are occurring in these areas?

SC: Clients are pushing for that and they should have it. In the past people thought innovation was only new products but it can be products, understanding of risks or it can be innovative on service. Clients often now ask how can we measure the adequacy of our covers against the analysis of our risks? That is what we do now more and more. This needs investment and there is a cost. But some clients now say this is the big issue. If you understand your risk and you are paying for something you need to make sure it is adequate.

BN: In which risk areas is innovation being seen and what are the key risks currently under attention?

SC: Political risk, loss buyout in mergers and acquisitions and more and more regulation on environmental protection—pollution, CO_2 impact and liability during acquisition are areas under focus and where there is high interest and product development. Catastrophe exposure is one area where more and more buyers want to understand where is the limit of the market in catastrophe exposure and how this can impact the structure of their PDBI (property damage business interruption) programme.

BN: There has been concern about the take up of Environmental Impairment Liability (EIL) insurance following the introduction of the Environmental Liability Directive. Is interest in this insurance now growing?

SC: Yes it is growing both on the liability side and on the pollution side. Ten years ago the focus was more on pure accidental pollution and pure liability. Now it is a combination. So we have designed some solutions to combine property and casualty and to incorporate biodiversity legislation.

BN: And finally how do you think Solvency II will impact the market? What are you hearing from insurers?

SC: For captives there are issues. But less and less I see carriers saying they need to raise prices because of Solvency II. Rising rates will have more to do with their combined ratio.

Survey finds ERM needs to be personal goal for ambitious French risk managers

By Rodrigo Amaral
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[DEAUVILLE]—Risk managers who are responsible for ERM strategies in France tend to be closer to the top in their companies than colleagues who restrict themselves to the management of insurance and loss prevention activities, according to the latest profile of the profession commissioned by AMRAE, the French risk management association.

The 2011 issue of Baromètre AMRAE, a survey published every two years, also found that professionals who are responsible for the implementation of enterprise risk management policies earn higher salaries than their insurance-focused peers.

In fact, those who are only responsible for ERM, and not insurance, tend to be better paid even than their colleagues who are responsible for both areas, the survey found.

Higher paid and better placed ERM specialists, however, still represent a minority in the profession. Less than one in every four risk managers surveyed classified themselves in this category.

Insurance-focused risk managers still constitute 45% of the total, while the newly arrived all-rounders who deal with both areas represent one third of all respondents.

The survey was conducted by AMRAE and Deloitte with 106 risk managers at French companies, 45% of whom work for large firms with revenues of more than €7.5bn.

INTERNATIONAL OUTLOOK

The sample comprised mainly international companies (85% have operations outside France), and 44% of them have more than 40,000 employees on their payroll.

The survey was officially presented during Les Rencontres d'AMRAE 2011, that took place in Deauville, Normandy earlier this month. It underlined the gradual progress of the risk management profession within French companies, but also highlighted some of the serious challenges that still lie ahead for the profession.

For example, while French risk managers say they are often consulted by top managers about matters of strategy, they remain generally excluded from the higher echelons of their firms' hierarchies.

In fact, 64% of those surveyed reported that they are not even part of the operational risks committees in their organisations. The ratio reaches 67% in audit committees and 78% in risk committees at board level.

The survey has also identified a relatively low level of preparedness of French companies to deal with the recent financial and economic crisis.

Only 39% of the respondents said that crisis management is one of the functions that they perform in their daily activities.

But even this ratio shows potential for progress, found the study, as crisis management emerges as one of a number of new areas that French managers have been asked to take responsibility for.

Others include taking part in audits of acquisitions and improving business continuity plans.

The study notes that the role played by risk managers is set to evolve towards greater participation in risk-related decisions at board level.

In the future, more chief risk officers will be hired by French companies, the report suggested.

For the moment, however, only 17% of those surveyed said that they are part of the first level of executives in their companies and report directly to their chief executive officers or other board members.

ERM-focused risk managers are the most likely to figure closer to the top management structures, the survey found.

Risk management departments have not been depleted by cost-cutting measures implemented by French companies as they coped with the economic downturn in the two years since the last Baromètre was published.

A large majority of respondents said that staff numbers under their management have not been slashed since 2009, although new staff were also not hired.

The authors of the study interpret the study in a positive way and commented that the resistance of risk management teams to staff cuts in hard economic times shows that the activity is firmly anchored in the organisation of French companies.

MONSIEUR RISQUE

The average French risk manager is a man who is more than 40 years old and who began his career as an engineer or in the sales department.

ERM-focused professionals are different. They tend to be younger, have a background in newer activities such as audit committees, and include a higher percentage of women.

The survey may actually have identified a trend for female risk managers to play a more significant role in France.

Among professionals under 35 years old, they constitute a majority of the sample, with 60% of the total.

ERM-focused risk managers also make more money, with more than 60% of them earning wages of over €120,000 a year.

This is attributed to the fact that these managers tend to be closer to the top managers in their companies, according to the survey.

The most common salary range among insurance specialists is between €60,000 and €80,000, accounting for more than 35% of the respondents.

SALARY CENSUS

About one out of every four respondents earn more than €120,000 a year. Almost 40% of risk managers who are responsible for both ERM and insurance make €80,000 to €100,000 a year, while about 22% said they earn over €150,000.

Variable remuneration is an important part of their compensation packages, amounting to 10% to 20% of annual pay for 54% of the total, and more than 20% for a further 17%.

In many French companies, current risk managers are the first to implement the function in their organisations. Some 48% of respondents reported that they took the job as the function was created.

The survey points out that a growing number of risk managers have been recruited by head-hunters (23%, compared to 16% in 2009), although the most common path to the job still is an internal promotion, with 35%.

The survey has also concluded that French risk managers are reasonably upbeat about their future.

Most of the respondents believe that the function will gain relevance or at least stabilise within their companies.

Many are also optimistic that their current duties will prove to be a launch-pad for promotion to the top management levels of their organisations.

A total of 17% expect career advancement in the financial department of their firms, while 16% see themselves more involved in the compliance department, and 15% in the main executive office.

IN SEARCH OF THE BORDERLESS SOLUTION

Globalisation of business, the challenges of doing business in emerging markets and the role of global programmes continues to dominate the risk management agenda in Europe and was a hot topic of debate during the AMRAE conference in Deauville earlier this month. ADRIAN LADBURY asked Ergu Genya, head of global risk management business and new markets P&C at AXA Corporate Solutions, about how the French market leader is evolving to meet the fast-changing needs of its cross-border customers

ADRIAN LADBURY: What is the key to success in the large corporate cross-border business?

ERGU GENYA: The key is to understand our customers. That really sounds simple but it is not because not everyone really has the ability to listen properly to what customers express about their needs and translate that into action. You need a positive exchange and this can open up a whole new direction if handled properly. You can really learn a lot from your customers!

AL: What are the clients saying to you currently that they need and want?

EG: The position of risk managers within their corporations is becoming key to them. There is a growing need to demonstrate that the objectives of risk management and the broader corporate level are aligned so that risk management can support the business and the strategy and growth of the enterprise.

It is therefore essential to adapt the view that elements of risk are simply inherent to any business and risk management can be a very positive contributor to the business. It is fundamental and critical to work out how risk management can be worked into the wider business dynamics in an offensive way. The biggest challenge currently is therefore to help the risk manager accomplish his or her objectives and achieve their goals.

AL: How can you do this?

EG: On the risk consulting side we expanded beyond risk engineering for underwriting purposes to offer risk consulting for customers directly. This can also be used to come up with optimised risk transfer alternatives and provide appropriate advice to the insurance manager. The goal is to understand the objectives of underwriters, the risk manager, CFO and board so that the risk consulting advice can be used positively to cement this triangle.

We are also suggesting taking a more strategic and long-term view of the risk consulting/risk transfer equation and correlating them to a hybrid approach—not mixing—but bringing it together. For example if you offer risk consulting advice it can be used to obtain better terms from underwriters.

Also some business risks may simply not be insurable and so the insurance manager may choose to use a captive to handle such risks and risk consulting again can be applicable in these cases.

AL: What about global programmes? How can you make them work better for customers?

EG: We have a global network and most companies in the network are AXA companies. Those that are not AXA companies are carefully selected and we have key performance indicators (KPIs) that the network has to strictly meet. We have rules about the financial security of companies and our network is driven by an efficient IT system. It is a hard process but improving constantly. In conjunction a key aim is to constantly monitor and review what is covered locally in comparison to the master policy and programme objectives so that the structure and mechanics are in place to make sense at all levels. Occasionally there might be arguments for taking a more local approach instead of using a global master. But this kind of approach can cause big gaps in limits and coverage and reduce the positive impact that is provided by the volume carried in the global programme.

AL: What are the main challenges for 2011 and beyond?

EG: Our presence and investment in emerging markets is key but beyond territories and markets, it is about being aligned with the new world economic order. Our base is in Europe but we are growing beyond that particularly in Asia—China, Singapore and India. But we are also in the gulf region and Mexico this year and most likely in Brazil in 2012 which is where many of our customers are also expanding. All this growth is accompanied by risk consulting with AXA MATRIX Risk Consultants therefore the challenge is to be able to bring enough business together so that we can truly mutualise large risks which is much more difficult in a single country. So the fact that our customers are ever more global is very much supporting us. Of course there is also the profitability issue. We need to be profitable to make our long-term business model work and offer our customers better solutions and it is key that our customers share this philosophy of mutually beneficial partnership with us.

AL: What about distribution? Are the brokers doing a good job for you and how can it be improved?

EG: The brokers are doing a good job and without them our business would not work. Maybe in the past insurers regarded brokers as something of an obstacle between them and their customers but this is definitely not the case today. We have a true partnership and when you can bring it all together it really works. We are therefore trying to spend much more time with our brokers and customers which is becoming a must to be successful in our business.

AL: What is next on the table for you? How can you improve service and still maintain or improve profit levels at the same time?

EG: There will be an accelerating underwriting development for us in emerging markets. We also intend to further develop our risk consulting activities and our international network. We have new partners with high skills joining us, we use better technologies and continue to train our teams and apply more demanding KPIs. We all have to exercise cost reductions to the ultimate benefit of our customers. With more efficiency and a better understanding of our customers and their objectives it is definitely possible to improve service and our profitability at the same time. It is all about transforming the model from one which is driven internally and by the past to one which is totally driven by the needs of the customers and to the future.

ROUND-UP: Solvency II may spark a harder market

Continued from page 4

people who want to work with you in the long term and seek a long-standing partnership with a robust company. We want to work with people who are risk managers within their organisations not keen to buy insurance as a commodity. At the end of the day the good customers pay for the bad and if you have too many bad customers then the good ones leave," he explained.

Mr Van Santen said that the year-end renewal went well for AGCS because it enjoyed a high retention level despite the fact that it was not aggressive. "We did not want to be volume focused and targeted the business that we wanted. At the end of the day we were more successful than I thought we would be despite it still being a very competitive market," he said.

Mr Van Santen said that AGCS gained six or seven very big accounts while some were lost because it decided not to fight for them and heard that they went for discount prices in some cases. Some AGCS stuck with for 'strategic reasons' but most movement was purely price-based, he said.

"At the end of the day there were very few accounts on the market because there are many long-term agreements and those customers who are not happy do not see their accounts ending on the same day. I got the feeling that many clients tried to consolidate their relationships rather than seek new markets. But every company has their own strategy and I can understand it if customers look for the cheapest option in some respects," he continued.

Mr Van Santen is not sure that all customers are carrying out adequate assessments of some of the new competitors that are winning business in this market.

"We all know the market is underpriced technically and when we see accounts move because we are not prepared to underwrite some programmes at uneconomic prices then you know there are newer players that are prepared to fill the capacity gap. They may have strategic reasons to do so but some of them I have not even heard of before and some I know a little about. I asked myself—if you join Allianz which is a €600m–700m company in France, €3–4bn as AGCS and €100bn for the group you know where you are.

"The other day I met an underwriter who worked for a company I had not heard of and asked him how many people they had and they had two people and €2.5m of premium income. The gross written premium was no more than €60m and it was very unclear who was behind the group. I asked myself if I were a risk manager again and the CFO asked me about this company with which we insured our business I could do myself a lot of harm. I have a feeling that counterparty risk is not being properly assessed by many companies and the insurance buyers of groups need to be asking more questions and for more information about those companies that are insuring their property and liability for the next 15 to 20 years," he said.

Looking forward Mr Van Santen does not believe that the market will soften further and noted that even at the renewal just past buyers did not see many significant decreases, even in property. He also believes that as conditions tighten buyers will opt for those insurers who can offer the service that they need, particularly if they have cross border operations.

"The big players decided to be more careful. It is nice for the buyer to have fresh capacity coming along but maybe they will not be able to survive for too long and also remember many of these newer players do not have the distribution network needed in this market. Risk managers today need a strong company with a worldwide network to issue paper and capacity," he said.

DOMINIQUE GUÉRIT
HDI-GERLING

"We are pragmatic and have been able to make the best use of our group financing to grow our market by 15% in 2010 and become accepted as a lead provider in the property market."

■ HDI-Gerling, the Hannover-based German insurance group that also includes Hanover Re and is part of the Talanx group of companies, is sometimes referred to as one of the aggressive new kids on the block by rivals, brokers and buyers.

This is not really entirely fair given that Talanx companies expect to report premium income of about €22bn in 2010, is the number two industrial insurer in Germany behind Allianz and the third biggest insurer overall and 11th biggest in Europe. Moreover the group has a long pedigree in industrial insurance as HDI-Gerling was created through the merger of the former HDI specialist mutual industrial liability insurance business, and Gerling Konzern in 2006 after Talanx acquired the Gerling group business.

The group also has had an operation in France for 10 years now and it is the second biggest industrial insurance operation after the German home market. But HDI has a long-term game plan and, while it has expanded its global reach rapidly in recent times, it does not tend to pile into markets with a 'gung ho, hang the cost' attitude.

Though competitors that have a longer history in the international industrial insurance marketplace and that may have recently lost business to the group, which reports a 15% growth in French business in 2010, may beg to differ at times.

Dominique Guérit, head of HDI-Gerling's business in France, said that it is perhaps in a different position to others in the market currently and can therefore maybe hold a different view.

"It is a tough market but we can still find a decent level to work within. There are cases when a client is not too happy with their current insurer and we are happy to find a solution in such cases. We are often able to do this because we are smaller and able to bring a better service and focus on the client. We are pragmatic and have been able to make the best use of our group financing to grow our market by 15% in 2010 and become accepted as a lead provider in the property market. In the liability market we have focused on industrial accounts and not financial firms as such. We remain strong in this sector. Rates are still low in liability and in some cases still going down and clearly we are seeing more growth in property than liability," he explained.

Jens Wohlthat, main board member for international industrial business at HDI-Gerling, said that he is 'entirely happy' with his French colleagues who he said have acquired lead mandates for global programmes. "Obviously we hope to build on this. Once you acquire such an account you have to keep it. This is a strong step and we are very happy to see this and give all the support from head office that we can," he said.

Mr Wohlthat explained the strategy further as the business seeks to grow its cross-border business in a tough underlying market. "It takes time for people to explain our way of delivering service. We may appear to be a relatively small operation on the ground that offers to deal with large pieces of business. You cannot do this overnight. You always have to have discipline on the price of risk transfer and we believe in multinational programmes we can compete on service. For the risk transfer element we can act as co-insurer or lead. The pricing is the way it is but if we are willing to take business on as a co-insurer we may as well act as the lead. Obviously pricing needs to increase again but no-one can predict when it will," he said.

Etienne de Varax, head of liability business at HDI-Gerling in France, said that one of the biggest challenges for customers and their insurers and the scope for innovation in 2011 is related to governance and the role of the risk manager when dealing with the board and, critically, the provision of proper information.

"One of our top risk managers said that his key role is to work on risk mapping for his presentation to the board and so the flow of information is key. We have to see how we can provide better information for the risk manager and they must try and give us better information to underwrite the business more effectively. In France we have now decided to work on D&O for corporate business. It makes sense to be involved in D&O because it helps develop a relationship with key individuals and groups. We started this line on January 1 and have already been able to gain access and have been well received," he said.

The realisation that to be a serious player in the cross-border market a carrier needs to be able to offer a wide range of specialty as well as standard coverages is one of the reasons why the group recently agreed terms to buy specialty Dutch insurer Nassau Property & Casualty, explained Mr Wohlthat.

JW: "We signed an agreement to acquire 100% of Nassau that is closing but not quite there yet and we aim to close the acquisition in the second quarter of this year, latest. The main part of the business is Dutch, therefore we would like to find a good way to bring together our existing Dutch industrial insurance business with Nassau where there is thankfully hardly any overlap. Nassau is a specialty insurer and so there is hardly any clash," he said.

"There are also other countries in Europe where we do not have this kind of specialism so it was another good reason to acquire this business. We can use their knowledge and strength in these areas such as D&O,

ROUND-UP: Long-term service is a key differentiator

PI, financial lines and their existing reinsurance relationships for these lines and help build similar business around continental Europe where we operate as HDI-Gerling Industrial. We are happy with our brand and so are our customers and stakeholders. Customers have chosen our brand and want to work with us. The challenge now is to integrate Nassau and its brand but at the same time keep its independence and maintain the entrepreneurial way of doing business. We need to find the right balance and our challenge is to do this well. The aim is clearly not to limit the capability of the business but to enhance it so that they can benefit from our strength and spread across Europe," continued Mr Wohlthat.

PAOLO RIBOTTA

ZURICH

"There are areas where prices have dropped over the last 10 years below this level and are so far off that unless you are a magician you cannot make money...The supply chain is clearly pushing the boundaries of what was traditionally insurable and what was considered uninsurable. There does not have to be an accident or damage. We have to go out and see our markets, customers and brokers really to discuss and understand these changes so that we can innovate and help them manage the change."

■ Paolo Ribotta, CEO of Zurich France, said that you have to be an underwriter blessed with magical powers to make money in some lines in this current market and the only way ahead for the serious international insurer is to help customers strive to cope with the complex emerging risks in the new knowledge-based economy.

"There are areas where prices have dropped over the last 10 years below this level and are so far off that unless you are a magician you cannot make money. We should all have roughly the same technical price. Some business has become too commoditised and this affects the price and is quite normal but when prices are 50% off the required premium it is not magic and you can't provide an equilibrium," said Mr Ribotta about the current state of the market.

Mr Robotta took the opportunity to remind the market that insurers like Zurich are not NGOs but have a duty to provide a return to shareholders. This is made all the more difficult when such long-term players have to compete with newer short-term entrants, he said, echoing the words of Mr Van Santen at AGCS.

"The need for a technical price is even more important in highly technical lines such as engineering because you need a level to ensure a healthy level of profit and you have to ask what is bringing new capacity to such markets. When you look at the capital markets and they may decide to invest 5% in the insurance market, it may look like it is a gamble because in such lines you can lose everything if the pricing is not right. Are such lines volatile? Yes very much. There is an increased frequency in natural catastrophe events and new developments and you have to take a longer-term perspective as an insurer," he said.

For this reason Mr Ribotta is not sure why there is so much capital currently in this market particularly given that there is ever more focused regulatory pressure and demanding clients. He urged caution to customers in their choice of carriers and to think about how they would justify that decision with board members.

"Above all you need a transparent relationship with your clients and brokers. You can publicly see all the data and information concerning it with Zurich and if you want to do a good job in this market that is what you need. It is a free market but in any decision an informed decision is a good decision and risk managers need to be confident that they can tell their senior managers that they have made an informed decision," he said.

One of the key recent trends spotted by Zurich in this market is the tendency of customers to outsource risk management and servicing of that risk management to brokers and insurers because they understand customer goals and have processes and tools in place to carry out the service. Zurich is ready to offer such a service, particularly in the area of complex international covers, he said.

"We have invested in this area for some time. A big question currently is whether insurers are really able to offer global programmes and if processes are seamless and swift. How long does it take to issue a policy, what are the costs in the chain and are there any duplications? This is not adding value necessarily because it should be embedded in the service and enables the chain to work more efficiently for all involved and avoids replication in the chain," said Mr Ribotta.

The Zurich France CEO also said that another clear trend among European customers is the shift from a more capital intensive to knowledge-based industry. This means a shift from industrial sites to services and in turn this means that there is an increased need for liability-type covers, and not just public liability but also employers' professional liability, professional indemnity and D&O, he continued.

The third big trend identified by Mr Ribotta that demands a response from the insurers is changes to corporate risk profiles that are being fuelled because a lot of companies have reviewed the way they create profit in the first place, where they are doing business, what processes are being used and how the production process is carried out and by whom.

"Look at Boeing for example. It used to manufacture everything but if you look at the new Boeing 787 it is a concept and intellectual property of the company but they use a big bench to assemble it. This kind of shift creates new risks that need to be mapped and understood. Related to this shift there is also the need to reduce costs and there is always a price (which is the increase in risk) attached to the cost reduction which in themselves represent increased costs," he explained.

"Our role as insurer is to flag these trends and help the risk manager address such issues even before coming up with the insurance solutions. Secondly we must also to some extent deliver innovation. The supply chain is clearly pushing the boundaries of what was traditionally insurable and what was considered uninsurable. There does not have to be an accident or damage. We have to go out and see our markets, customers and brokers really to discuss and understand these changes so that we can innovate and help them manage the change," he said.

Daniel Hofmann, chief economist at Zurich, agreed that supply chain and reputational risks are key challenges looking forward and will force the pace of innovation.

"Reputational risk is one area that needs to be prepared for and the changing supply chain enhances this risk. You have to ask how do you deal with the unknown, unknowns and try to reduce it to the known, unknowns and then issue standard operating procedures that can lead to tangibles with which risk managers can actually work. We still sell standard policies because people still need them. But we already have moves by the credit rating agencies to rate corporations now based upon their enterprise risk management capabilities which is a significant step," he said.

GUY LALLOUR

XL

"The natural catastrophe element of the property business will probably be the catalyst for change as we are seeing sharp increases in exposures, especially in the US, and they can account for 30–60% of the technical premium. If the San Francisco earthquake of 1906 were to occur today then you would probably be looking at losses of $300–400bn."

■ Guy Lallour, country manager for XL, was more direct than most about the need for insurers to ensure they stand out from the crowd by providing superior service in such a competitive market.

"There is still an abundance of capacity in the market; therefore you have to differentiate yourself with a long-term service to clients. We cannot compete in a market like this on price alone, it has to be about the long-term commitment. You have to do this by loss prevention services, continuity of underwriting policy and bringing the group-wide expertise to the clients," he said.

As an example he said XL has developed new environmental coverage, brought specialist construction expertise to France and is busy developing its professional lines business in primary lines, an import from its big US business. He said that the group is investing in such areas by hiring new people and now also has local cyber liability expertise. But it's not easy.

"There are areas where frankly we have had to sacrifice a little quantity to maintain the quality of the portfolio and the property market typifies that," he said.

Mr Lallour sees a spark for market change in natural catastrophe exposures which he said are rising fast in some areas.

"We have acquired major lead positions for clients who need a more specialist service such as loss control, expertise in natural catastrophes. The natural catastrophe element of the property business will probably be the catalyst for change as we are seeing sharp increases in exposures, especially in the US, and they can account for 30–60% of the technical premium. If

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ROUND-UP: Specialism: Focus is key to meeting new competition

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the San Francisco earthquake of 1906 were to occur today then you would probably be looking at losses of $300–400bn. Experts have worked out that an earthquake in Beijing could cost over $100bn. About 40–50% of this risk is insured in the US but in China it is probably no more than 5–10%. Will this be the case in five to 10 years, nobody knows? Our industry needs to set aside money for this and it is currently not always being done," he said, adding that the same situation occurs in France too.

And of course a sustained highly competitive market can store up big problems for liability insurers, especially when investment income is down and litigation up. "Equally in liability we have to take a long-term view as insurers, you have to have premiums that are in line with long-term exposures that pay the claims in future. We see more long-term exposures for industrial companies. Clearly in Europe the claims inflation is close to 10% based on increasing cost, exposure and litigation and the like. Since 2006 all the insurers have seen investment income lower drastically, it has probably shifted by 15%. In liability we receive money today and have to repay the client in three to four years' time when the claims are settled and if the premiums are down now to a too low level what should we do?" he said.

Mr Lallour said that for the serious long-term insurer in the large corporate and cross-border business the key is concentrate on a technical approach and focus on those customers who have all the tools to carry out sound risk management. The same goes for insurers, he said. "Solvency II demands that we have disciplined teams that are focused on sound risk management. This is very important because it reduces our own risks in the short-term and provides long-term stability. You need to manage your portfolio correctly for years to come," explained Mr Lallour.

For Mr Lallour specialism is also key in such a phase of the cycle when fresh capacity is abundant. "Specialism is important because it can overcome the price instability problem. I really worry about the pricing inadequacy because it does not represent the real cost of risk particularly in property but also to a lesser degree in liability. For this reason for us specialist lines such as professional lines and D&O are a focus," he said.

Mr Lallour agreed with his peers at Zurich that economic change is a key challenge for customers and insurers because the industrial process is increasingly broken down into segments. "Today you have different suppliers who provide the products, the components and know-how giving more possibility for errors and omissions claims. It is no longer adequate to provide your best effort, whenever there is a claim there is a person at the centre of a claim who is responsible and deemed to be guilty. Media exposure is more important and we are moving fairly quickly to a common law position all over Europe therefore liability and D&O and EL and all sorts of exposures in France and the UK such as stress at work are becoming more significant. Cyber crime could cost $500 per client whenever a list is stolen and that can add up to a big number," he said.

Another line of business that is growing is marine, aviation and transport, said Mr Lallour.

He explained that, over the long term, commercial transport grows twice as much as gross national product as more goods are moved around as a result of the changing, global nature of the production process.

He sees this as a definite area for growth and also explains the rise in interest for business interruption and loss prevention in global programmes. "Look at an auto manufacturer, 25 years ago, they produced the whole product, now they buy the components from others and assemble it. It is a very different ball game. Property damage remains important but it is giving way to business interruption and all the attached liabilities. This is why loss prevention is becoming so much more important as a way to control the supply chain and make sure the business is not interrupted. Loss prevention is therefore becoming more important for global programmes," he said.

And, for Mr Lallour, this changing nature of business presents exciting challenges for risk managers and global insurers alike as they grapple with the new environment and seek solutions. "Some 25 years ago we saw the rise of the concept of the manufacture output policy, as people tried to work out what cover was required when the product left the factory. Now we think about the liability elements. We have to reach an agreement on the share of this liability and how to split the rest of it. This is what is so fascinating about the business of insurance. We are of course not capable of matching our clients' knowledge of their own business but we do get close to a large number of companies in a variety of sectors and so we are in a very privileged position to develop solutions," he said.

KELLY LYLES
CHARTIS

"The ice is not hard enough to skate on yet but it should be hardening in the next renewal at 2011 year end."

■ Chartis is also focused on specialisms to ensure profitable growth can continue in the tough market, according to Kelly Lyles, general manager France.

She told *Commercial Risk Europe* that the group has some strong niches such as financial lines, casualty-liability and energy that makes it stand out from the crowd plus some 'interesting' coverages that are offered in a different way such as through loyalty programmes. Chartis also writes a good deal of accident and health business which is not so common in this market. And it has recently launched two new divisions for aviation and construction which she said are doing very well, especially aviation.

Ms Lyles said that it is difficult to be too general about the state of the market and its strategic response because it adopts such a client-specific approach. She did say, however, that Chartis was ready to 'correct' those accounts that needed it.

"We approached the brokers and clients well ahead of renewal with a view to being open and transparent on our strategy. There was definitely business that we walked away from, but we ended the year better off than we expected, and fewer accounts than we thought did not renew. Last July we found the market very competitive, and so for the January renewals we worked to find creative solutions for those clients who were going to find the renewal tough," she said.

Ms Lyles said that in some cases where they did think they would have to walk away from some accounts, they were able to keep most of them. This was often because the customer could not find the reductions in price they had sought on equivalent terms, she said.

"Motor business did harden and it usually is the first line to move, so this was a reassuring sign. General liability is generally hardening and there are positive signs on rates even in property. The ice is not hard enough to skate on yet but it should be hardening in the next renewal at 2011 year end," said Ms Lyles.

For Chartis the key expanding lines of business are aviation, construction and also mid-market, said Ms Lyles. "SME business and consumer areas generally are larger growth areas. Definitely smaller multinationals are a growth area too as a lot of these kinds of companies are setting up operations overseas now and need local coverage," she added.

Global programmes are also a focus for Chartis. "One of our unique selling points is our owned network which is broader than anyone else's. We realise that there is still room for improvement and we are working on that every day," she said.

Ms Lyles said that Solvency II was not really a big topic of discussion with customers currently but Environmental Impairment Liability is. "EIL has been mentioned several times. In some respects you can call it the new D&O because this market is probably at the point where D&O was 20 years ago. Legislation has arrived that gives directors new responsibilities, so a lot of companies are starting to look at it and we are starting to quote for the business," she said.

Ms Lyles said that product liability is another regular topic of discussion for example in sectors such as the motor industry as suppliers have problems, and customers want coverage for the whole chain.

Identity theft is another big issue and, of course, capacity for trade credit continues to be a topic around the table with French risk managers.

"This has improved in France which is quite a traditional market. Most of the French market buys ground-up coverage, but we have a different approach which is excess of loss-based. Our approach helps clients manage their own credit risk via the captive or just the balance sheet.

"We think that our Global Limits Manager policy, which we successfully sell in the UK, will prove very attractive in the French market," she said, underlining again the need for the big insurers to follow demand with innovative responses in such a soft general market.

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