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airmic daily

Airmic calls for insurance law reform

It is time the insurance industry reformed a 100-year-old law that allows insurers to refute claims based on potentially innocent non-disclosure, Airmic chief executive John Hurrell has claimed.

A majority of Airmic members report that they have had a claim rejected in the past 12 months on the grounds of non-disclosure. Only half of them have said the claim was eventually settled satisfactorily.

Airmic is spearheading an initiative to change the Marine Insurance Act of 1906, which requires consumers to volunteer information about anything that a "prudent insurer" would consider relevant. Failure to do so allows the insurer to treat the insurance contract as if it has never existed and to refuse all claims under the policy.

Airmic members argue that it is simply not possible for a complex organisation to declare everything an insurer might deem to be material at a later stage. It can take up to six months of every year to prepare the disclosure information insurers legally require.

The way the law is framed is "unacceptable", Hurrell said. "We've had preliminary discussions with a number of insurers and I think most of them accept that the dice are loaded too heavily in their favour."

They say, however, that market practice dictates that they treat customers fairly.

"What we're trying to do is get an agreement from our partner market on prenuptial clauses that will define materiality as far as can be, define the circumstances when the insurer can avoid the policy, and define certain other elements of both parties' rights in terms of disclosure, so there will be clarity at inception.

"If the law reform cavalry is not about to charge over the hill, then we need to take the issue quite seriously ourselves," Hurrell said. *Full story, page 18*

Alan Fleming, Airmic executive, attends his 15th conference

Step up

Risk managers have a golden opportunity to step up into a strategic board advisory role. But they are under threat of losing out to internal auditors and other finance professionals. Alex Hindson, deputy chairman of the IRM, explains how they should fight back.

Full story, page 16

OFFICIAL AIRMIC DAILY

Chief gives teamwork tips

James: no 'monopoly on wisdom'

Risk managers should not "expect all wisdom to flow downwards" when they communicate with the board; they should be prepared to present ideas and solutions of their own. This is the message from Julian James, chief executive of Lockton, who spoke to *StrategicRISK* ahead of presenting this afternoon's Airmic workshop.

James said he preferred the risks to be explained to him. "I like to understand what is important to me. Am I being asked to make a decision about something? Am I there to give information about whether this fits into the risk appetite of the company? Why am I being told this information?" he said.

"I might think we are very sensible to move our London office to another location. If the location is next to a major artery that could get closed through a terrorist incident, I would like someone to point that out for me.

"Chief executives do not have a monopoly on wisdom, and normally we're the last people to think about some of these things on a day-to-day basis. So I'm looking for somebody to see the world through a slightly different perspective and come up with a point of view. They should not expect all the wisdom to flow downwards. I expect the wisdom to flow upwards," James said.

James will be joined by Lockton partner Andrew Cornish, as well as Julia Graham, chief risk officer with international law firm DLA Piper. Their aim is to equip risk managers with a practical toolkit to help them manage upwards. Attendees will learn from mistakes and successes of communicating risk and insurance issues with the chief executive and board.

Style of communication is a vital issue for risk managers, Cornish said. "Sometimes these things get mired or lost in the way they are communicated … It is about the clarity of the communication as much as about what the message is," he explained.

James and Cornish advised risk managers to be concise and open when delivering bad news, and to present options that senior management can consider. Do not, they said, try to cover your own back or be frightened to deliver bad news.

"Always look at the issue through the eyes of the board and investors, rather than through your own self-interest," James said.

The workshop, 'The CEO's dilemma: does risk management make any difference?', is held today between 2.45pm and 4pm.

Credit still constrained but solutions available

There is still a lack of capacity in certain sections of the trade credit insurance market, as well as ill-feeling towards insurers that withdrew cover at the height of the credit crisis.

So said Andrew Perry, trade credit and political risks specialist at insurance broker Miller. In some cases, this is restricting the amount of trade that businesses can conduct and hampering the recovery, he said.

Perry is hosting a workshop this afternoon to present the current state of affairs in the trade credit marketplace. "There is a lack of understanding in the market about what's available, either to help cash-flow or trade," said Perry.

"The idea of the workshop is to give risk managers information about how they can get round blockages in their trade credit supply chains."

Some companies may have become over-reliant on trade credit insurance in order to do business, he continued. And these firms may have run into problems when credit insurers withdrew cover and pulled the rug from beneath their feet at the height of the credit crisis.

But companies can explore other avenues to ease their credit problems, which have not gone away, Perry urged. "The market has changed. Those insurers [that withdrew credit protection] have realised in part that perhaps they made a knee-jerk reaction. They are trying to address the situation now. You are seeing some of the credit insurers being competitive now to get their market share back."

"Is it right to go back?" Perry asked. "If you do go back, you need to be cognisant about what can happen to that product."

Many businesses suffered financial problems as a result of trade credit insurers withdrawing cover at the height of the financial crisis

He plans to outline in his workshop how risk managers can structure their insurance programmes to get round some of these issues. Alternatives include excess of loss structures, buying single risk cover or looking at what help banks can provide, Perry said.

"Excess of loss policies are only applicable to certain types of companies that have good credit control facilities and are able to review their own buyers and make a sound financial decision.

"A lot of medium-sized companies don't have that capability, and they are reliant on trade credit insurers to do the analysis for them," he added. There is, however, a lot more interest in excess of loss cover today, Perry said.

Although many risk managers do not deal directly with trade credit insurance issues, they should have an understanding of what is going on, he added. They should link up with their finance and credit control departments and their sales teams to try and find a long-term solution for their company.

The workshop, 'Trade credit: equipping risk managers', takes place between 2.45pm and 4pm today.

Airmic study explains risk architecture

A newly released Airmic report provides an insight into the different types of risk architecture present in UK companies.

The phrase 'risk architecture' describes the framework that supports risk management activities within a company. It covers the roles, responsibilities, organisation and arrangements for implementing risk management.

The risk architecture of a company should be clearly defined and relevant to the risk profile of the company, according to Airmic's research. But it is for individual companies to decide the most appropriate role for the risk manager, depending on the size, nature and complexity of the organisation.

Airmic's technical director and author of the report, Paul Hopkin, wrote: "This research was undertaken to discover the variations within the roles and responsibilities of risk managers and how these are changing.

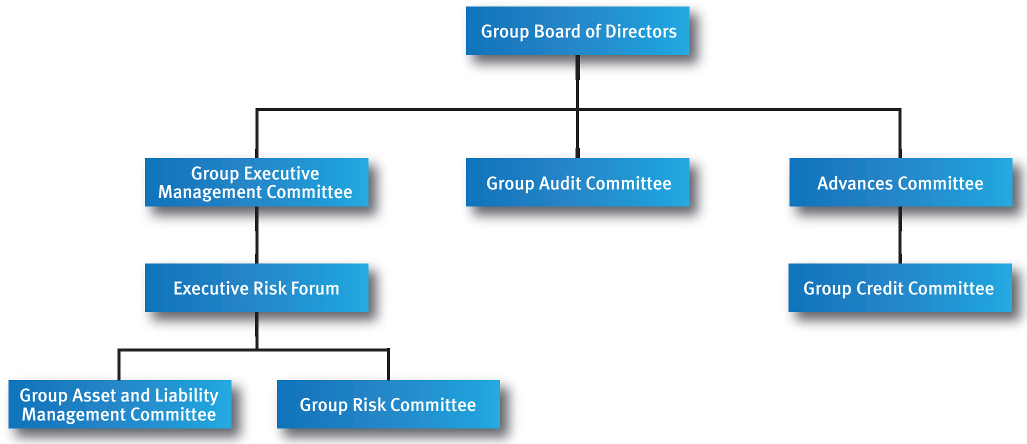
"These differences are often related to the company, the business sector, and whether it is listed on a stock exchange. The research also investigated other aspects of the risk management organisation and arrangements in Airmic member companies. "

The main finding of the research is that the design of the risk architecture is related to the size, nature and complexity of the company, and that there is always scope for risk managers to make a bigger contribution.

Alignment of risk management activities is the key to successfully embedding those activities, said the report. "It is important that risk management is aligned with other management activities and, in particular, that separate management information streams are not created to manage risk-based information."

Hopkin also found that although risk managers have a wide remit, many functions often do not engage with the risk manager, especially treasury and pensions.

Typical risk architecture



US view on cutting workplace injuries


iSrockPhoto/sculpies

Workplace accidents cripple productivity, according to Terry Fleming, vice-president of the US Risk and Insurance Management Society (RIMS).

Ahead of a workshop at today's conference, Fleming told *StrategicRISK* how he deals with the issue. He said his workshop would explain how data can be used to hold operational managers accountable for reducing or preventing accidents in the workplace.

Fleming, who is also director of the division of risk management for Montgomery County, Maryland, USA, explained: "We measure what departments are doing on prevention activities, as well as how they benchmark against other like entities. We use that data as a foundation to help them modify or change their behaviours to prevent losses from occurring."

Data is presented in easy-to-read dashboard reports, broken down by operational unit. This format allows managers to compare different units at a glance, helps gain the attention of senior executives and promotes accountability of management in a transparent process, said Fleming. "It is effective and it does work," he said.

Attendees at the session will gain a better understanding of how a similar programme can be applied in their organisations. "I think these issues do apply to the private sector as well, and I'll be able to demonstrate that," said Fleming.

He noted that the costs of a workplace injury are about a tenth as much as the overall costs to the organisation of losing an employee. "There are costs associated with retraining new staff and the loss of historical knowledge on the job.

"Generally in the government, the attitude is that injuries are the cost of doing business. So they look at it as part of the job. We're using data to show that it doesn't have to be like that. We can prevent a lot of these injuries from occurring. And it puts accountability for dealing with that, not on the risk management department, but in the operating departments where the injuries are occurring," he said.

"The issue is human suffering. We have employees who are killed or who have lifetime injuries caused by work, and these can be avoided. And that will increase productivity."

The workshop, 'Work data driven accountability: what gets measured gets managed', is from 11.45am to 1pm today.

Drywall tops risk exposure focus

What emerging risks could lead to product liability exposures in the coming years? This is an issue that Avtar Barhey and Jon Elvidge of XL Insurance plan to tackle in a workshop today.

Ahead of the session, Elvidge said: "We'll be talking about the control of product liability exposures for manufacturing companies. That's going to involve looking at current trends, things that can go wrong, and some of the issues risk managers should be looking at."

The focal point will be the threats on the five- to 10-year horizon that companies should consider preparing for, such as nanotechnology and global warming litigation.

Barhey cites a health and safety issue involving construction material made in China as a topical exposure at the moment.

The importing of drywall, or plasterboard, by the USA from China took off following a construction boom after Hurricane Katrina in 2005, when the domestic supply could not cope.

"That's when problems with monitoring the quality of the product were introduced," Barhey said. "Homeowners started to report problems a few years later." These included the internal blackening of pipes and metallic elements of home appliances,


iSrockPhoto/Ben Junda

Chinese-made plasterboard, used to rebuild after Hurricane Katrina, has led to one of the biggest US product liability lawsuits

such as air conditioning units. "It has got the potential to be one of the largest product liability lawsuits in US history," Barhey commented.

"But it also highlights the issue around sourcing products from low-cost countries. The issue here was that the original source material was contaminated and quality checks that you would normally carry out on materials were put to one side."

The workshop, 'Exposure trends: taking the risks out of your liabilities', takes place today between 2.45pm and 4pm.

Lessons in leadership

Risk managers now have more chance than ever to move up to the board – and *StrategicRISK* has launched a campaign to help them to get there. As **Nathan Skinner** writes, it's all about acquiring the right skills ...

Armed with the right skills, risk managers can take advantage of the current emphasis on risk management and corporate governance. But to equip themselves with these skills is a challenge – and is one that *StrategicRISK* is backing with an editorial campaign.

For starters, and on behalf of Airmic, we have conducted a series of interviews with high-achieving risk managers to understand the tricks of their career success. You can find the full report in our *Lessons in Leadership* special supplement. Make sure to pick up your copy.

But a brief summary of some of the key findings shows that to take advantage of the increased focus on their role, risk managers will need to do a number of things well.

You may need, for example, to improve your business knowledge and commercial acumen, communicate better with your board and overcome the political problems that you might face as a result of your role as the 'conscience' of the business.

And you must be regarded as enablers rather than obstacles to business. Experience in the financial sector shows that risk managers seen simply as troublemakers may be on a collision course with their senior managers. See our interview in tomorrow's daily with HBOS whistleblower Paul Moore to learn a little more about this.

Talk the same language

If you want to be seen as business-enabling, risk managers need to talk the same language as the business, which might mean that you need some financial training. It's also important that you integrate yourself into the business rather than function in a compliance role, brought into projects to sign them off at the last minute.

So if you want to become more involved in the business, you must bring solutions not just problems. And if you are presenting risks to the board, it is best not to merely bring the risks or problems to their attention and then abdicate responsibility for managing them.

One approach is to present risks but, at the same time, to offer guidance on how to deal with those issues. They could be recommendations or better innovative solutions to the problems. Risk managers that have been able to do this well have tended to advance more quickly. Delivering solutions to the business is really what helps risk management fly.

Don't get bogged down

The second key point is to communicate properly with the board. Several group risk managers explain that this needs to be done quickly and succinctly. Don't get bogged down in the intricacies of an insurance contract, for example.

> **You may be called on to deliver a report to the board during a crisis, such as a major loss. Moments like this can be career-defining**

The board's time is precious, so if you have the opportunity to speak in front of them, make sure that you use that time wisely. It could be that you are called on to deliver a report to the board during a crisis, such as a major loss. Moments like this can be career-defining; use them as an opportunity to demonstrate the skills that you have and the value that you bring to the role.

Do not be too adversarial. At some stage in your career, you will hold an opinion that is directly at odds with other parts of the business. A general example is when a business unit is looking to steam ahead with an investment or new product line, but the risk manager is much more cautious because he or she is aware of the huge risks associated with the undertaking.

You are not alone if you are faced with this situation. Sometimes you may feel compelled to bypass executive management and go directly to a non-executive, such as the chair of the audit committee, with your concerns.

Be measured. Try not to compete with the business development department. Rather, present your case with the right level of research and analysis – if you can back it up with data to demonstrate what you're saying, even better. Overall, try to make sure that senior management is aware of the potential risks as well as the rewards.

Put your view across

The idea is not to slam on the brakes aggressively, but to remind the business that the brakes are there in case they're needed.

It may be that the risk manager is still over-ruled, but it's better that you've put your view across and it's been documented and you've done so without belittling or berating other parts of the business.

Ultimately, whether or not the organisation is willing to listen to the voice of caution depends on its culture and the tone at the top. ■

Global programmes,

Big multinational companies have an onerous task on their hands, ensuring all offices in all jurisdictions are fully insured. Global programmes can provide the most cost-effective means of maintaining coverage, but can they overcome the obstacles of individual country restrictions

The provision of insurance for large multinational companies is complex. Global insurance programmes that are purchased in a company's home market but which seek to protect it in all of the countries in which it operates have been around for a while. But what's changed over recent years is the regulatory scrutiny that local insurance and tax regulators are bringing to bear on multinationals and their insurers. There is also a drive by multinationals to be good corporate citizens themselves.

Global insurance programmes are a popular way for companies to cover all of their assets, liabilities and people worldwide. They are popular because they streamline administration, provide greater consistency of coverage across the globe and comply with local regulatory requirements. ACE European Group's director of casualty and major risks, Phil Sharpe, explains: "Global programmes satisfy the client's need to ensure they are compliant globally from an insurance documentary and tax perspective. For a multinational to buy individual policies globally is just not cost effective. Under a global programme, you get the benefit of the law of large numbers at the same time as satisfying local legislative requirements."

However, some people claim global programmes are expensive and buying insurance locally, in each territory, can actually be cheaper.

ACE European Group's director of operation, major risks and affinity, Clive Hassett, disagrees. "If you're buying a programme centrally, there's one underwriter dealing with the client," he says, "and as it's a centralised discussion, you'd imagine that would be cheaper than the conversation taking place 60 times with 60 different underwriters, who are going to be looking at things on a one-off basis. If you take the big view, you get a broader assessment of the risk."

Another major cost factor is servicing the programme and putting policies in place. It's here that Hassett insists the services of a global insurer provide value for money. "If you buy a global programme through a global insurer like ACE, in each of those local countries you are dealing with a fully resourced ACE subsidiary company that is a licensed insurer in whatever territory it is in. It is providing a full underwriting service, a full claims service and a full engineering service if required. So we would say that is a very good service, and it has a price attached to it."

Sticking to the rules

A major concern for risk managers when they purchase global insurance programmes is ensuring that it is compliant with local laws in all of the territories in which they operate. Each jurisdiction has its own set of rules. Many countries do not allow companies operating within their borders to purchase coverage from insurers that are not legally established there.

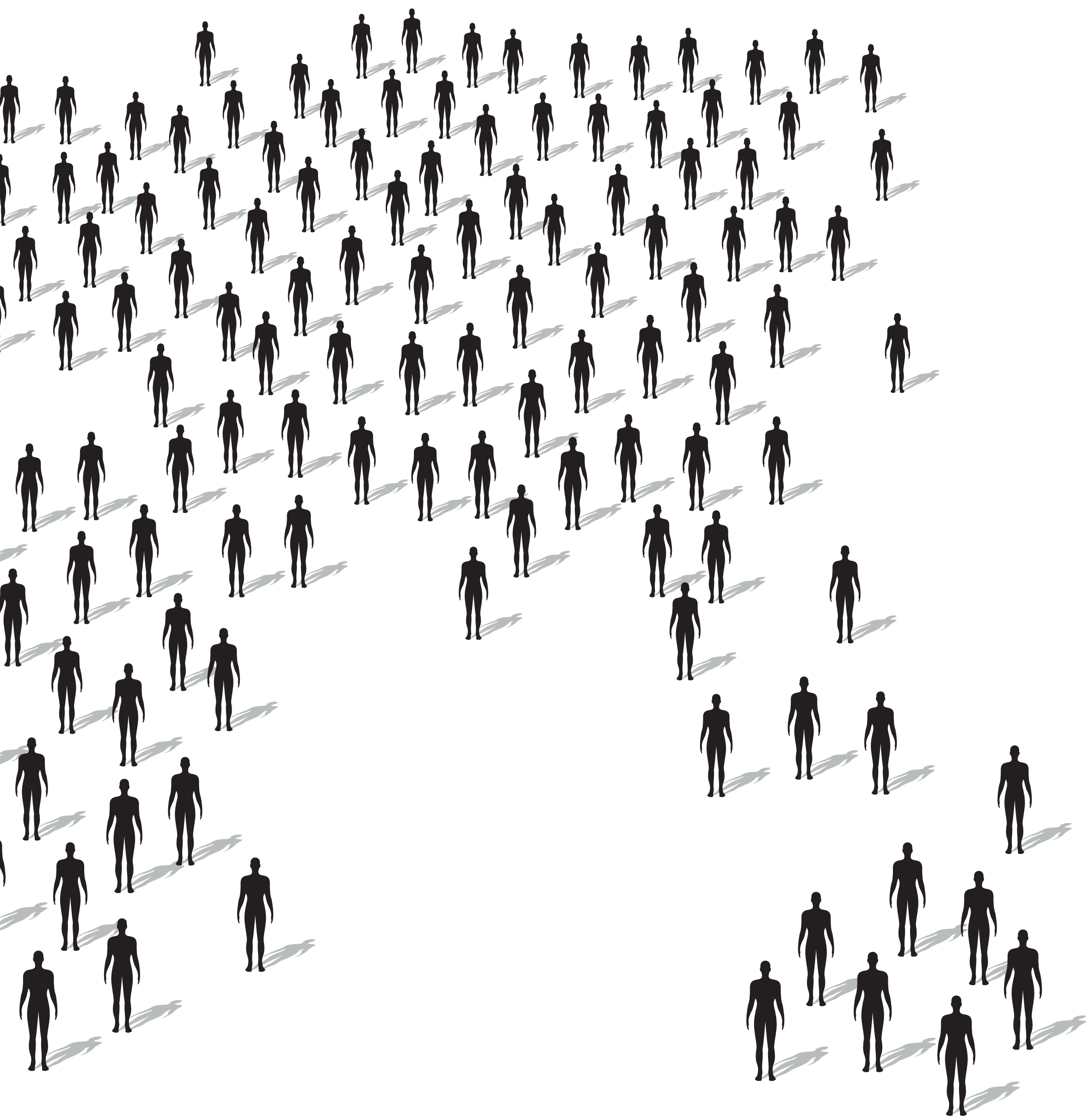
To overcome this obstacle, global insurance companies have developed a network of offices overseas where they are admitted to write insurance, and partnered with indigenous insurers where they are not. ACE's global network consists of 53 owned offices in the major commercial and financial centres, supplemented by over 100 partner insurers in the countries where it is not licensed to do direct business.

For example, ACE is licensed in Hong Kong and Macau, but it is not licensed to write direct insurance for property and casualty on the mainland. For these transactions, ACE uses a strategic partner, Huatai Insurance Company of China. ACE can act as a reinsurer across the whole of China, including the mainland.

A newly launched client portal, called Worldview, enables risk managers to get real-time snapshots of their global programme direct on their computer.

Hassett explains: "Risk manager will have a tool that enables them to drill down to every single policy in every country. They will be able to look at the actual documents that the subsidiary has been issued in, say, South Africa or New Zealand or wherever it is. And see what date the policy was issued. All of that is managed against our service standards, which

very local services



we establish and agree with our clients, and the system tracks that."

Sharpe adds: "We're putting our service standards in the shop window for everyone to see."

Offering stability

Differing legal frameworks overseas introduce challenges for the provision of global insurance, particularly with complex lines like directors' and officers' insurance (D&O).

D&O insurance has to address and work within the legal framework in each individual country. "You can't just pick up a D&O policy in the UK and send that over to South Korea, translate into South Korean and that will be your D&O policy there," he says. "You've clearly got to make it tie in with all the local laws and regulations. It helps if you have fully functioning insurance companies with legal and compliance resources in those countries, so they can pull these things together."

Working with smaller local insurers is sometimes a concern for risk managers, particularly when their financial rating is perceived as insufficient to support the multinational's insurance needs. Sharpe says that ACE's network of global insurance partners have their financials reviewed annually to make sure they are stable and will be around to service the programme.

There are also challenges when it comes to taxation. Sometimes it is unclear where insurance premium tax must be paid. And in the current climate, with public expenditure coming under tougher scrutiny, revenue departments are looking for additional streams of income. One risk is that fines may result from unlicensed or unauthorised insurance; another is that tax authorities clamp down on claims payments.

"There are always a number of jurisdictions taking some sort of steps, be that on insurance regulation or tax. But because ACE has local functioning insurance companies, not just brass plates on doors, who operate and write business in their indigenous market, they are bang up to date and they know the latest issues in terms of compliance and tax. They'll make sure that those rules are followed," he says.

Neat and tidy

Companies can sometimes encounter problems when it comes to indemnifying a local subsidiary with a master policy purchased at group level. In a legal sense, if a loss occurs in a foreign jurisdiction, there may be no automatic insurable interest at a parent level to justify indemnification. In the past, the claim may have been covered under the master policy and the insurer would have paid the subsidiary. This has caused problems in the past, particularly if the insurer is not admitted to write insurance in the country concerned.

> **'You can't just pick up a D&O policy in the UK and send it over to South Korea. You've got to make it tie in with all the local laws and regulations'**
> Clive Hassett, ACE

Hassett explains how new global programmes have "tidied the issue up" and created a legal framework to enable the parent company to receive the indemnification. But, he says, it's up to the multinational to decide how they pass money on to the subsidiary. "The key point is to recognise up front when you design the programme what limits you need locally," Sharpe adds.

Setting up global programmes remains complex and challenging. There may be no way of achieving 100% compliance, but there are new and innovative solutions to fit the needs of multinational companies. Risk managers interested in structuring a global programme shouldn't look for shortcuts. Time will need to be invested in sitting down with brokers and underwriters in each of the countries involved. At the end of the day, it's better to do it properly than cheaply. ■

Shots in the dark

No one seems to know how to combat the growing piracy off the Horn of Africa, writes **Andrew Leslie**

The world's media has grown bored of reporting the continuing stream of ship-jacking off the Horn of Africa. So it was something of a rare event when the BBC and others picked up a story from the region on 2 June. It reported a statement by NAVFOR (the EU naval force operating off Somalia) that a Libyan-owned, North Korean-flagged vessel, the *MV RIM* had been recaptured by its crew from the pirates who seized it in the Gulf of Aden on 3 February as it was sailing with a cargo of clay for Indian scrapyards.

But the media conspicuously failed to report the curious follow-up, that on 4 June the crew had abandoned the ship 'on the request of the master' and were being taken to port by a NAVFOR warship. It is also curious that the pirates apparently had demanded a $3m (£2.5m) ransom for a rust-bucket with a cargo of clay, and that two rival groups appear to have come to blows over the ship – giving the kidnapped crew the chance to take action. Was the 'clay' guns for Yemen? Uranium ore for Iran? Who knows?

The mystery of the *MV RIM* is, however, just a tiny pustule in the running sore of the threat to international shipping in the Indian Ocean. According to the International Maritime Bureau's (IMB) piracy reporting centre, there were six attacks on shipping in and around the Gulf of Aden in the eight days between 30 May and 7 June. One was successful.

British couple still held

As of 3 June, at least 22 foreign vessels were held against their will in Somalia, while an estimated 412 seafarers – including the elderly British couple Paul and Rachel Chandler – were being held to ransom. In the pithy words of business website australia.to: "Except for improved defensive measures on merchant ships, none of the other responses – like the deployment of navies, killing or arresting Somalis as well as destroying boats and weapons, talks with proxy-leaders, training of so-called governmental forces, etc – have had the slightest positive impact to improve the security of maritime traffic in innocent passage, and none of these measures has curbed Somalia-based piracy around the Horn of Africa."

The fact that senior governmental figures are asking insurers to take a massive role in combating piracy shows that we have a problem

Commanders of the various naval forces in the area may differ in this assessment, pointing out that the number of attacks on shipping diminished during the first quarter of this year, but they are also aware that the presence of naval forces is leading to the pirates changing tactics – for instance, using mother ships to transport their skiffs to cover a much bigger area, so that even the Seychelle Islands, 1,500km off the African coast, are now in the frontline.


A suspected Somali pirate, captured by French forces in the Gulf of Aden, talks to journalists at the port town of Bosasso

The failure to make any sustained impact on Somalian piracy is leading to increasing risk. Those in the front line – ship owners, organisations with valuable cargos, and those who insure or reinsure them – are becoming increasingly frustrated. Back in January, the International Union of Marine Insurers (IUMI) secretary general Fritz Stabinger said: "If ransom demands are increasing, we have to take that into account with our underwriting. However, piracy is a global issue, not just one for insurers. It is not just a shipping problem; it is a global governmental issue that keeps being swept under the carpet."

IUMI president Deirdre Littlefield added: "The focus has not been on a global solution. It continues to get worse, as it is not being solved. The fact that senior governmental figures are asking insurers to take a massive role in combating piracy shows that we have a problem."

The IUMI, with other international bodies involved in shipping, in May issued 'Piracy – Enough is Enough', a petition that aims to forward 500,000 signatures worldwide in September. The petition calls for governments to:

- dedicate significant resources and concerted efforts to find real solutions to the growing piracy problem;
- take immediate steps to secure the release and safe return of kidnapped seafarers to their families; and
- work within the international community to secure a stable and peaceful future for Somalia and its people.

Laudable though these aims may be, the petition does not suggest what governments can do to achieve them.

No obvious solution

And here lies the problem at the heart of the Somalian piracy: there is no obvious solution to stopping it – or even of bringing individual pirates to justice. While there is big money to be made (and it is fairly clear that organised crime networks are the ultimate beneficiaries of the huge ransoms), and while instability continues to infest the Horn of Africa, everyone relying on imported goods can be expected to pay in one way or another, through increased premiums and the cost of sustaining naval task forces.

Ship owners also will cease relying on passive anti-piracy measures, such as fire hoses, and start considering more aggressive means of defence. The IMB Piracy Reporting Centre's report of an attack on a chemical tanker on 2 June says: "The security team on board the tanker fired warning shots in the air, resulting in the pirates aborting the attempted attack."

Less than a couple of hundred years ago, merchant vessels sailing the Barbary Coast or the pirate-infested waters around Borneo carried cannons as a matter of course. A return to such practices would be regrettable, but it must be on the cards. ■


BREAKING NEWS
Fire in Bristol warehouse
Fire in Bristol warehouse

The need for speed

John Bundy looks at the perennial issue of legal costs and how risk managers and the insurance sector as a whole can limit exposure to escalating legal fees

Much has already been debated about the Jackson recommendations on litigation costs, but whether the proposals will see the light of day remains to be seen. The last government demonstrated little appetite for change and our new coalition government currently has bigger fish to fry. With no firm actions in place, risk managers face the continued frustration of escalating legal costs.

It doesn't have to be this way. For a start, compliance with pre-action protocol deadlines can have a major impact on keeping costs under control.

Currently, when a letter of claim is issued, it can go from the insured to the broker to the insurer before it reaches the insurer's claims team or handlers, such as Garwyn, to respond. It only takes a few days' delay in this chain for the claim to arrive on our desk too late to stop the claimant taking action.

A claim that is acknowledged within 21 days of receipt, and a formal protocol compliant response sent within three months of the acknowledgement, will prevent the costs of either a pre-action disclosure application or worse, substantive proceedings. The need for speed is clear.

Lord Jackson also touched on claimant solicitors' hourly rates. Leigh Day & Co's £105m legal costs for a £30m claim has thrown this issue into the spotlight once again.

The guideline hourly rates set by the Ministry of Justice have risen annually since they were introduced. For example, the hourly rate for a senior solicitor handling a personal injury claim in central London has risen from £263 in 2003 to £317 in 2010. One wonders where it might stop.

Lord Jackson suggests the issue should be reviewed by a costs council. I agree with barrister Andrew Hogan, who said recently that hourly rates should and must be proportionate to the case. If the courts are serious about controlling costs, hourly rates must be firmly looked at.

Let's hope that in the absence of any apparent government support, the industry can urge the courts to adopt some change for the good. In the meantime, risk managers can do much to limit legal costs simply by ensuring any claims are actioned without delay.

John Bundy is the director of legal services for Garwyn Group

One of a kind treatment

Pierre Sonigo insists that captives deserve preferential treatment because of their unique role in insuring non-insurable risks and improving risk quality

In Cocoa Beach, Florida, where I now spend a lot of my time, the world-famous Ron Jon surf shop defines itself as 'one of a kind'. This motto could be cast on the front door of every captive insurer's European offices.

In the Solvency II legislation debate, many stakeholders challenge that captives deserve preferential treatment compared to other insurance and reinsurance companies. 'Unfair', say large insurers, trade representatives and a few control authorities arguing for a 'level playing field'. 'Totally justified', is the reply from captive domicile legislative bodies, captive managers and captive owners, generally represented by Eciroa and Federation of European Risk Management Associations (Ferma).

Captives are different from other insurers. The shareholder and the insured belong to the same economic entity. This substantially changes the requirement for security. The parent company has a moral obligation to recapitalise the captive, and insured subsidiaries have a moral obligation to accept rate increases to pay back the captive. A captive is mostly a funding mechanism to spread the cost of risk.

Risks written in a captive and shared with or reinsured in the traditional market are usually of better quality than standard risks. The risk manager has access to privileged group data and technical information. Claim information is available internally and calculation of technical reserves is more accurate. Captives are audited by both external and internal group auditors. And captives are not managed to provide short-term return.

One of the aims of Solvency II is to guarantee that 99.5 % of European insurance and reinsurance entities will not go bankrupt. This means that every year, there should not be more than one in every 200 companies in financial difficulty. For the past 30 years, this has not been the case for any of the 400 or so captives established in Europe.

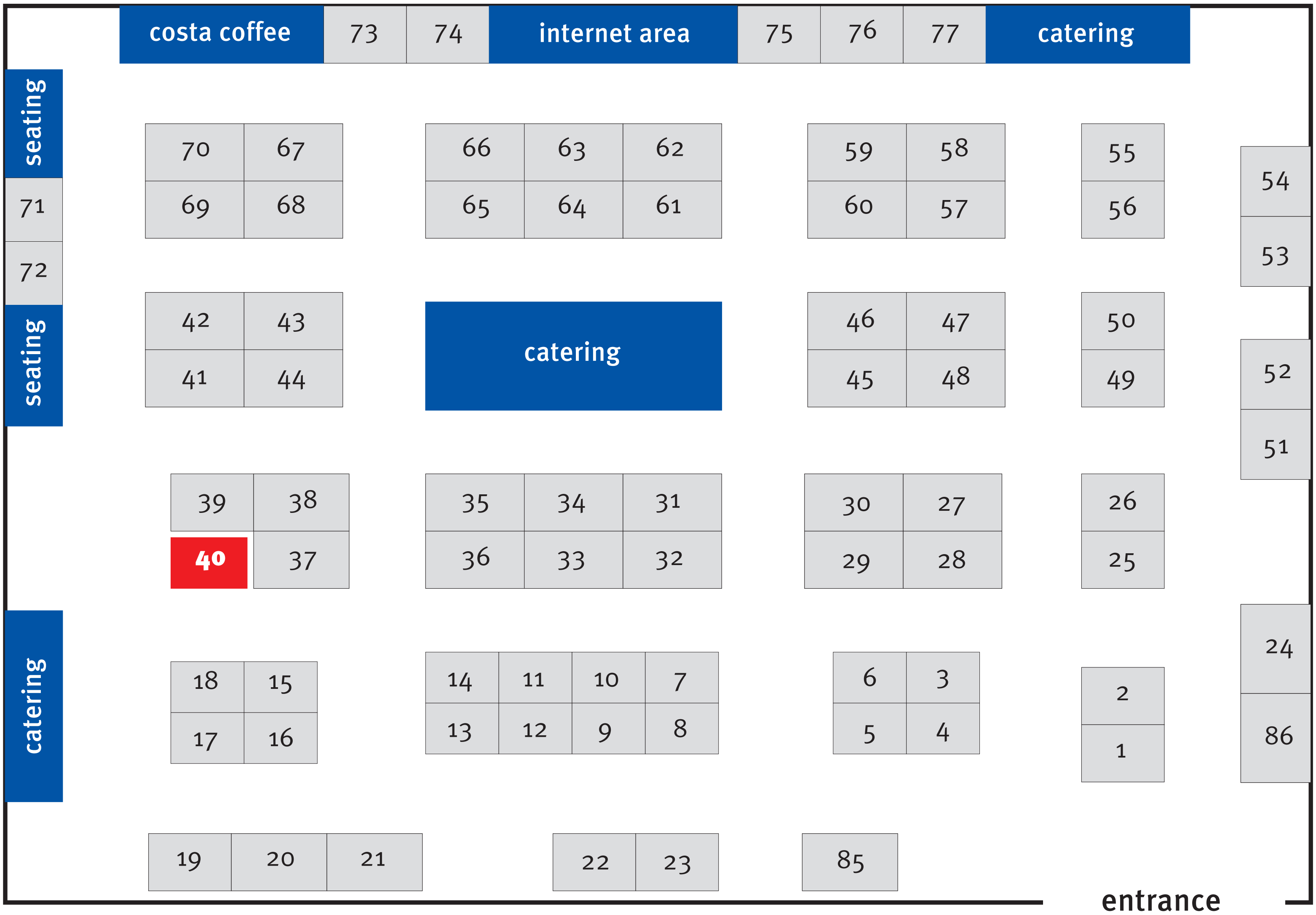
If captives were to apply the same formula as any other insurance undertaking to calculate their capital requirement, they would need so much additional funding that many of them will disappear or relocate. Risk managers would lose an important strategic tool.

Captives deserve special treatment under Solvency II and should each be considered 'one of a kind'.

Pierre Sonigo is secretary-general of Ferma. This comment piece first appeared in CaptiveRISK, a new quarterly magazine for captive owners from StrategicRISK

View from the floor

A look around the conference at some of the exhibition stands



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BT Claims 53
Barlow Lyde & Gilbert 15
Berrymans Lace Mawer 26
Bluefin 54
Bond Pearce 41
Chartered Institute of
Loss Adjusters 79
Chartis Insurance UK Ltd 7/8/9/10
Chubb Insurance Company
of Europe SE 52
Crawford & Company 45/46
Cunningham Lindsey 70
DNV 73/74
Datarise Ltd 51
Echelon Claims Consultants 57
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Figtree 50
Fire Protection Association 72
FM Global 63/64
GAB Robins UK Ltd 75
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Global Risk Consultants Ltd 76
Guernsey Finance 16
HCC Global 69
HDI-Gerling Industrial Insurance
Co – UK branch 19
HSB Engineering 49
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Heritage Insurance Management Ltd ..24
Hill Dickinson LLP 86
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Isle of Man Finance 55
JPIC Ltd 18
Jardine Lloyd Thompson 65/66
Lloyd's of London 48
Lockton 61/62
Mapfre Empresas 39
Marsh 33/34/35/36
Miller Insurance
Services Ltd 22/23
QBE European Operations 20/21
RSA 3/4/5
Risk Expo 81
Rushton International 56
StrategicRISK 40
Tokio Marine Europe
Insurance Ltd 58
vrs VeriClaim UK Ltd 71
Cardinus Risk Management 12
Validus IVC Ltd 77
Willis 1/2
XL Insurance 37/38
Zurich 59/60

Aon
At stand 31/32, Aon will be showcasing a range of its solutions. Steve Cloutman and the eSolutions team will demonstrate Aon's risk management information system, Aon RiskConsole, and the latest module providing live insurer ratings to risk managers. Steve Redgwell, Aon's chief broking officer, will demonstrate the firm's Global Risk Insight Platform (GRIP), tracking insurance premiums placed in real time by geography, sector and class. Aon's 2010 Terrorism Threat Map will also be on display, along with the new iPhone App, WorldAware. You'll also be able to enter a draw to win tickets to a Manchester United game at Old Trafford.

AXA Corporate Solutions
AXA Corporate Solutions is showcasing an international team that provides local and global expertise to provide pragmatic solutions. Chief executive Philippe Rocard is leading the conference team, supported by UK chief executive Emmanuel Nivet and other senior members of the UK branch. To add a Continental touch, delegates can enjoy a glass of wine from one of AXA's own vineyards – and there's a chance to win a 20-year-old bottle of AXA port.

Nivet believes the conference provides a great opportunity for AXA Corporate Solutions to reinforce its commitment to the UK market. "One of the values on which we base our strategy is availability. It is therefore vital we take a leading role in events such as the Airmic Conference. Not only does it provide us with the opportunity to make our expertise readily available but it also gives us the ideal opportunity to listen to the risk management community." Visit AXA at stand 67/68.

BT Claims
Claims management specialist BT Claims is making its debut at Airmic this year, and featuring motor as its first offering. Managing director Terry Pullen and operations director Melloney Memmott will welcome delegates to stand 53, where you can also put your business card in a raffle to win a hamper of treats.

Cardinus Risk Management
Cardinus, a specialist in all fields of risk management, has a complete range of assessment and training programmes to help reduce the risk of accident, injury and related costs. At stand 12, it will be offering a range of health and safety white papers written by in-house consultants, and demonstrating survey and software solutions. There's also an opportunity to win a place on a safety leadership course.

Chubb
'Innovation' is the theme of Chubb's stand, where social media technology has been harnessed to allow brokers and clients with access to Chubb expertise to collaborate and exchange views and ideas. This initiative will run at the conference via Apple Macs at stand 52 and also by remote access for a period before, during and after the conference. Chubb will also be giving away iTune Apps gift cards to those who submit new idea to their stand, and will be hosting a drinks reception today at the WyVern Bar in the Midland Hotel.

Cunningham Lindsey
To support Cunningham Lindsey's theme, 'Influencing outcomes', a fruit machine is being featured on its stand to allow delegates to see what outcomes they can influence. A workshop will focus on two aspects of claims management and their application to managing risk: learning from claims to prevent further incidents; and mitigating business impact. They will be giving away a Red Letter Day on stand 70.

HDI-Gerling
'Life is risky' is the theme of HDI-Gerling's stand – and as the team points out: "No more is this true than in today's volatile business world". Since the conference coincides with the World Cup, HDI has chosen to link its theme to football. On stand 19 there will be a prize draw for a signed football shirt from legendary England and Tottenham goal scorer Jimmy Greaves.

HSB Engineering Insurance
HSB Engineering Insurance is a specialist provider of engineering insurance and inspection services. Exhibiting at the Airmic conference for the first time this year, it will be promoting its portfolio of engineering insurance and inspection products at stand 49.

Heritage Insurance Management
Guernsey-based Heritage Insurance Management advises in the creation and management of captives, protected cell companies, and other alternative risk transfer mechanisms. Risk managers with an interest in furthering their understanding of the merits of offshore domiciles are invited to stand 24 to speak to the experts. You can also put your knowledge of Guernsey to the test and win an Apple iPad.

Lloyd's of London
The theme at the Lloyd's stand (48) is helping risk managers manage their global specialist risks. The stand is showcasing Lloyd's new online RiskMap, which offers a real-time view of risk-related global events. Aimed at risk managers and insurance professionals, the interactive tool provides information, insight and related Lloyd's resources to those who work in risk.

Miller
Miller's theme at this year's event is 'A question of choice'. Visitors to the firm's stand (22/23) will be able to test their skills in matching images to risk areas, using the latest touch-screen technology, for a chance to win a £250 charity voucher. The winner will be the delegate who completes the quiz correctly in the fastest time. Miller trade credit specialist Andrew Perry will also be running a round-table discussion today from 2.45pm to 4.00pm.

QBE
In light of its recent partnerships with the Guinness Premiership and England Rugby, QBE's stand will be rugby themed. QBE, a specialist business insurer operating in 47 countries, invites visitors to stand 20/21, where one of rugby's finest, Ben Cohen, will be on hand to meet and greet visitors. Visitors will also be given the opportunity to win signed Guinness Premiership shirts and lots of other rugby-themed goodies.

XL Insurance
XL Insurance is focusing on helping risk managers make the right choices while juggling the conflicting pressures of today's business environment. The team will be presenting its new claims defensibility product, which is designed to support companies to proactively manage and mitigate the impact of claims on their operations. Its stand (37/38) will feature client relationship managers, risk engineers, claims managers and underwriters from property, casualty and product recall. Risk managers will also be given the chance to take part in a strength contest to win a stress-busting spa day.

Zurich
The main theme of Zurich's stand (59/60) will be its international programme capability. The firm will be demonstrating a range of metrics and data. Zurich is also holding an interactive quiz, in which participants must rank the order of importance of product safety issues at five different stages in the product development process. In addition, the insurer is hosting a risk financing workshop for conference delegates.

Chairman's interview: Paul Howard

Airmic's chairman talks to *StrategicRISK* as the UK's risk and insurance management association meets for its annual conference

Why did you choose Manchester for this year's conference?
We try to alternate around the country. Last year we held the conference in Bournemouth, so we thought we should have something more northerly this year. It's good to keep things moving. We were in Manchester four or five years ago.

We always try to interact with our members and have had some record turnouts at breakfast seminars and meetings. So we've extended the way people can attend those meetings. In the special interest groups there's more dial-in facilities and lots of our breakfast seminars are recorded and then available for download. We also had the first Airmic TV with Richard Ward this year. I think we're touching a fair bit of the membership.

Has the role of the risk manager broadened over the past 10 years?
Yes. It's a fascinating time to be looking at risk. It's the classic risk conundrum. We are operating in an age of both threats and uncertainties. What we are trying to do is equip our members with a broad range of skills so that they are prepared to take on these challenges.

We regularly question our members about the issues they want to hear about. One of the things we try to do is to mould our meetings around the topics they raise.

I got involved in Airmic because it was a great opportunity to talk to my peers and bounce ideas off of them. Now, in the environment we are in, that's really brought to the fore.

What are you most looking forward to at the conference?
I'm sure that we will provide something for everyone! There'll be great value by having 600 people together and talking about the things that are happening. But it's the conversations inside and outside the sessions that provide some of the best opportunities. It's quite rare to get the community together … it's a superb opportunity.

What's the one thing that you want to talk to your colleagues about most?
The present heightened uncertainty. My own organisation, food retail, is insulated from some of the huge swings in the economy, but a lot of our counterparties are in challenging times. They are our partners in delivering to our customers. The conference is a great opportunity to catch up and find out what the key issues are in their organisations.

How will the new coalition government affect the business and risk landscape?
Business exists around the overarching economic and political environment. We've just come out of several years of Labour government, during which business actually has done very well. The best companies are those that can adapt quickly to changing circumstances; those that are flexible and look to be creative will thrive.

My company is interacting with other markets that have their own specific issues – as will our key suppliers and partners. The classic risk management dictum of 'no surprises' is becoming more and more difficult. I think things such as scenario planning have become challenging because we've seen that the impossible is possible. That's where the organisations with the broadest thinking and decision-making have been able to adapt the best.

What Airmic initiatives are you most proud of?
Member engagement would be my main thing. I'm also proud of the engagement and links with other organisations such as the CBI and ICSA, the continuing discussions and thought leadership events, and the annual lecture. That's one of the things we can provide people with to help them influence outcomes in their organisation and heighten the importance of the risk manager. My theme of influencing outcomes is a natural progression from Julia Graham's [the previous chairman] theme of promoting the risk manager.

What do you think risk managers can learn from the challenges that Paul Moore, your keynote speaker, encountered?
It's important to learn lessons from wherever you can. Organisations can look at what happens elsewhere and then guard against those things happening in their own organisation. I'm sure there are some things that Paul Moore will say that members will think: 'Actually elements of that could have happened in any organisation'.

'We've seen that the impossible is possible. That's where the organisations with the broadest thinking and decision-making have been able to adapt the best'

I've always looked on the risk manager's role as being something like an internal consultant. But it will vary between organisations. You are part of a team and it's important that you've got the ability to contribute to that team. If we are equipping our risk managers with a variety of tools so that they can interact with the key stakeholders, then we're lessening the opportunity for the adverse events to happen.

What's the biggest challenge facing the profession?
At present, there is such a rich agenda in the risk management field; that's the exciting thing about the role … the sheer variety of challenges that you're facing.

Who will win the World Cup?
Brazil is always in there. Spain has got to be in with a chance and Germany is always there or thereabout. England? But then I'm a Leyton Orient fan, so what would I know…? ■


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Keep your eyes on the prize

Risk managers have a golden opportunity to step up into a strategic board advisory role – if internal auditors and other finance professionals don't get there first. But there are ways to fight back, as Alex Hindson, deputy chairman of the IRM, tells **Nathan Skinner**

Alex Hindson, deputy chairman, IRM

Risk managers need to up their skills and professionalism, or they could lost out to audit or other finance professionals, warns Alex Hindson, an experienced risk manager and deputy chairman of the Institute of Risk Management (IRM).

"Risk managers who are focused on insurance-buying and health and safety are biting the dust, because the risk agenda is being picked up by heads of audit," he tells *StrategicRISK*. "Risk managers need to be technically confident and qualified, but they also need to have some of those soft skills in terms of influencing stakeholders and communication. That's where internal auditors may have stolen a march in some companies."

The situation has been crystallised by the increased requirement for board-level risk management advisers in the wake of the financial crisis, he says. "In financial services firms, the role has grown and the focus has grown. It is very serious. A lot of organisations are putting in place chief risk officers (CROs) and heads of risk that have a close reporting line to the chief executive."

If traditional risk managers want to step up into that privileged position, they need to ensure that they have the necessary skills in place.

Hindson backs himself by drawing attention to the significant number of internal auditors pursuing IRM qualifications. "They're the biggest group of people taking the IRM Certificate in Risk Management," he says. "That tells you something. It might be because they are positioning themselves to take that risk role. How many risk managers have audit as their second qualification? How many risk managers are accountants? If you want that head of audit and risk role, you have to invest in having the audit skills."

He thinks there is a "three to five-year" window for risk managers to benefit professionally from the increased emphasis that their job now has. "If we miss that opportunity, we will lose out to people who have an audit and finance background."

So what's expected of this new risk profession? Hindson thinks it is about financial awareness and the governance of risk. "It means stepping beyond just doing risk assessments and thinking about the structure of the risk management frameworks and policy," he says. "You only have to look at the new governance codes that mention risk appetite. That's an opportunity for the risk profession that we must grab hold of.

"We're being given it on a plate. The UK corporate governance code requires the board to determine the nature and extent of the significant risks it is willing to take. That means setting a risk appetite.

"It then has two routes; it can can go to its risk manager or it can go to one of the big four. And if the risk manager is not well positioned, it will go elsewhere. So it's a real opportunity."

Risk appetite, which means the total value of corporate resources that the board is willing to put

'It is in each person's hands. Risk managers with an ERM background have more of a fighting chance' Alex Hindson, IRM

at risk, is a new concept outside the financial sector. But it is a concept that risk managers need to come to terms with and understand, says Hindson.

This new breed of risk manager needs to speak the same language as the business he or she works in. "If you use jargon and make it hard for people, they will go elsewhere. The key is to be relevant, to listen and to adapt," he says. "We as a profession can get wrapped up in technical risk language or insurance issues. But that's not what the business is worrying about."

Risk managers instead should concern themselves with strategic issues and how they can help the board achieve its commercial goals. It could mean looking at a potential acquisition and identifying the risks that should be factored in and putting in a process to manage them, says Hindson. It is those "big ticket decisions" that strategic risk managers should concern themselves with.

Risk managers also should be interested in how the rating agencies evaluate enterprise risk management programmes (ERM). If they can position their company to achieve a rating upgrade through a positive assessment of the ERM programme, they can achieve overnight success.

"What we've realised at the IRM is the only way you're going to be treated like a professional is to act like one," Hindson says. "It is in each person's hands. If a lot of auditors are taking risk qualifications and not many risk professionals are branching out to have broader skills – either soft skills or credibility in terms of financial skills – then your traditional insurance buyer will lose out to an auditor every time. Risk managers with an ERM background have more of a fighting chance. But that's not to say someone with an insurance background can't take on risk or audit skills.

"It is personal risk management. To manage the risk, you have to recognise the threat and put a contingency plan in place. Risk managers who don't adapt will get swallowed up by auditors." ■


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Something to declare

Over a third of Airmic members have had a claim rejected in the last year due to non-disclosure. But are these rules weighted too heavily in the insurers' favour? Chief executive John Hurrell talks to **Nathan Skinner** about his bid for reform

Isn't it about time the insurance industry set aside the 100-year-old law that allows insurers to refute claims based on potentially innocent non-disclosure? John Hurrell, chief executive of Airmic, the UK insurance buyers' association, and a majority of his members certainly believe so.

Hurrell is spearheading an Airmic initiative to change the Marine Insurance Act of 1906, which imposes an obligation on buyers to anticipate what a "prudent insurer" deems "material" underwriting information. Insurers that can show there has been a breach in that duty, even inadvertently, can avoid the claim or even the policy itself.

"[Innocent non-disclosure] is a really important issue for our members. We'd underestimated how big an issue it was until we surveyed our members in March," says Hurrell, speaking to *StrategicRISK* ahead of the UK association's annual get-together in Manchester. In the March survey, over a third of Airmic members reported that they'd had a claim rejected in the last 12 months on the grounds of non-disclosure. Of that third, only a half of the risk managers said the claim was eventually settled satisfactorily.

The Airmic research coincided with consultant Mactavish's project highlighting the problems insurance buyers face due to disclosure. Mactavish says there has been an unprecedented move in changing operating models in the wake of the economic crisis, but many of the firms quizzed thought that they had not fully disclosed those changes to their insurers.

David Hertzell of the Law Commission sparked interest in insurance law reform back in December when he published a report for the UK government that recommended clarification of the 1906 law. The report included draft legislation designed to replace the Marine Insurance Act, which was designed to protect merchant ship owners rather than modern-day businesses.

"We went back to David Hertzell and checked what his view was about law reform for commercial business," Hurrell explains. "He said it is a long way off. When he first raised the issue, there was a lot of push back from the ABI on the grounds that the law wasn't broken, so why fix it?

"But that's not what our members are telling us and that's not what the reality would appear to be. If the law reform cavalry is not about to charge over the hill, then we need to take the issue up ourselves."

'If the law reform cavalry is not about to charge over the hill, then we need to take the issue up ourselves'
John Hurrell, AIRMIC

Too much information

The legal framework, which requires policyholders to give information to insurers before they buy a policy, places an impossible burden on the buyer, he says. The current law requires consumers to volunteer information about anything that a "prudent insurer" would consider relevant. Failure to do so allows the insurer to treat the insurance contract as if it has never existed and refuse all claims under the policy.

Under the Marine Insurance Act, in the event of non-disclosure of any "material information" – as defined by the insurer not the insured – the carrier can avoid the policy in its entirety from inception.

Airmic members argue that it is just not possible for a complex organisation to ensure that they declare everything that an insurer might deem to be material at some later stage. Many large multinational businesses today have operations in 15 or more countries, with upwards of 10 operating divisions.

The problem for insurance buyers, Hurrell says, is that it can take between three and six months of every year to prepare the disclosure information that their insurers legally require. So the one thing these risk managers are absolutely certain of is that the day they submit their underwriting information to the insurer, it is out of date or may be incorrect in some way, he adds.

"The punishment does not meet the crime," he says. If a piece of information that an insurer later relies on to refute the claim had been disclosed at the time of underwriting, it wouldn't, in most cases, have caused them to refuse to write the risk. It would have meant more premium or a higher deductible. "The way the law is framed means the underwriter can retrospectively underwrite the risk after the policy has been in force, or when the claim comes in, which is unacceptable."

The UK has the most customer-hostile disclosure legislation in any major western country, Hurrell says, and it risks undermining confidence in UK insurance. If buyers have a choice, they may get a much better deal under US or EU conditions, so in one sense the rules are anti-competitive for the UK market. "The only reason most buyers are happy to go into the London market despite this is that they don't really understand the implications of the Insurance Act 1906," Hurrell explains.

The association hopes that, by making a song and dance about the problem, it will put pressure on the market to reform itself.

Playing fair

There have been some positive noises from the insurance market. But inevitably an issue that has been rumbling on for over 100 years will not be resolved overnight. "We've had preliminary discussions with a number of insurers and I think most of them accept that the dice are loaded too heavily in their favour," Hurrell says. "They say that market practice dictates that they should behave reasonably. But that doesn't give our members the comfort that they require when they buy a policy.

"What we're trying to do is get an agreement from our partner market on prenuptial clauses, which will define materiality as far as possible, define the circumstances whereby the insurer can avoid the policy, and define certain other elements of both parties' rights in terms of disclosure, so there will be clarity at inception." The association will be sending advice to its members on many of these issues later in the year.

"We are all agreed on what needs to be done, but we won't have a piece of paper to wave around at the conference," Hurrell says. "My instinct is what will happen is what has happened on previous initiatives: we get a handshake and lots of support at the time of the conference, with a view to hopefully by the time of our annual dinner in December having something a bit more concrete."

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Risk managers give verdict

Insurers and brokers were put under scrutiny, as this year's *StrategicRISK* UK corporate insurance buyer survey scored levels of service. So who took the top spot and who are the movers and losers since last year?

The 2010 survey results are in and UK risk managers have delivered their verdict on the service they receive from their brokers and insurers. Last year's leader, Heath Lambert, retains the overall top slot among the brokers, joined by FM Global for the insurers. But many other players have improved their positions on individual service dimensions, resulting in significant movement in the overall rankings, including some new entrants to what has now become the 'Insurer top 15'. (See boxes, right, for overall rankings.)

The survey asked respondents to rate the service they receive and to provide as much comment, both supportive and critical, as they felt able. Brokers were rated on responsiveness, ability to understand changing business needs, practical leverage with insurers, and level of risk expertise. Insurers were rated on ease of access to decision-makers, timely and accurate documentation, value for money given quality of cover, speed of claims settlement and fairness of claims settlement.

Eighty UK risk managers from the private and public sectors responded to the survey. Additional questions probed issues such as the transparency of brokers' remuneration by insurers, how brokers had managed their customers' changing risk profiles in challenging times, and which aspects of claims management service were most valued by risk managers.

Comparing this year's scores with those from 2009, the results show that HSBC Insurance Brokers, since acquired by Marsh, made the greatest overall improvements to its services, while Swiss Re led the insurers' group, closely followed by FM Global. Conversely, XL Insurance lost the most ground among insurers and Willis among the brokers, with Heath Lambert taking a surprise second-to-last slot in this comparison.

At the top

Between the insurers, FM Global's ratings for all service dimensions, except claims, outrank the rest of the field. But the small rating sample for the company indicates that it has only a minor market presence among this group of respondents. Nevertheless, those who use FM Global's services give excellent ratings and positive feedback. "Proactive, excellent resources and works closely with the insured," is a typical comment. The only cloud is that it does not lead in either of the claims service categories; Chubb is the clear leader in both, leaving FM Global second for speed and sixth for fairness of settlement.

Heath Lambert retains its grip on the top broker slot by performing especially well on the level of risk expertise, where it outranks all its competitors apart from Jardine Lloyd Thompson, which comes in a close second. "Heath Lambert has provided a tailored approach to our needs" and "much more professional" are typical comments. But it cannot rest on its laurels. Comparisons with 2009 scores show that other brokers are perceived to have made more progress in improving service. Heath Lambert has lost ground in all categories except level of risk expertise.

Let's be clear

One of the more significant findings is that 45% of respondents use only one broker, indicating that many risk managers cannot compare and contrast service levels between companies. Aon appears to benefit most from this inertia: it is in one of the bottom three places across all service dimensions and receives the highest number of negative comments, yet still retains the strongest market presence based on the number of ratings.

The company is no doubt helped by some strong advocates, who praise specific parts of Aon's business such as its enterprise risk management offerings.

Broker remuneration by insurers is less than fully transparent for about 44% of respondents. No broker is able to claim that its remuneration by insurers is fully transparent to its entire customer base. "Be clearer on transparency of contingent revenues and help identify real costs of service provision," requests one risk manager.

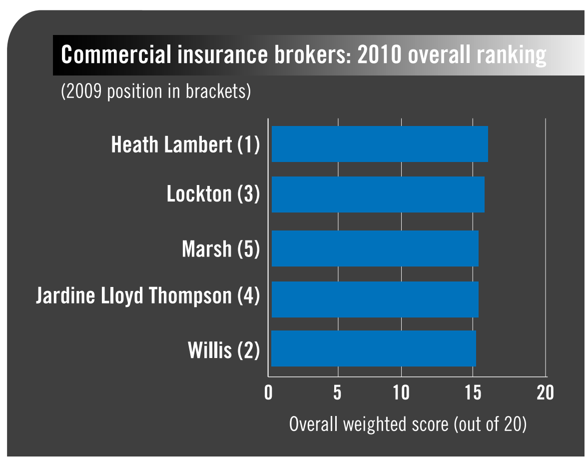
When it comes to claims management service, most risk managers see help with the actual loss as the most important service that the insurer can deliver, while pre-loss services are deemed to be of secondary importance. Although ranked in third place, it is nevertheless interesting to note that one-third of respondents see value in post-claims services, ranking it of primary or secondary importance.

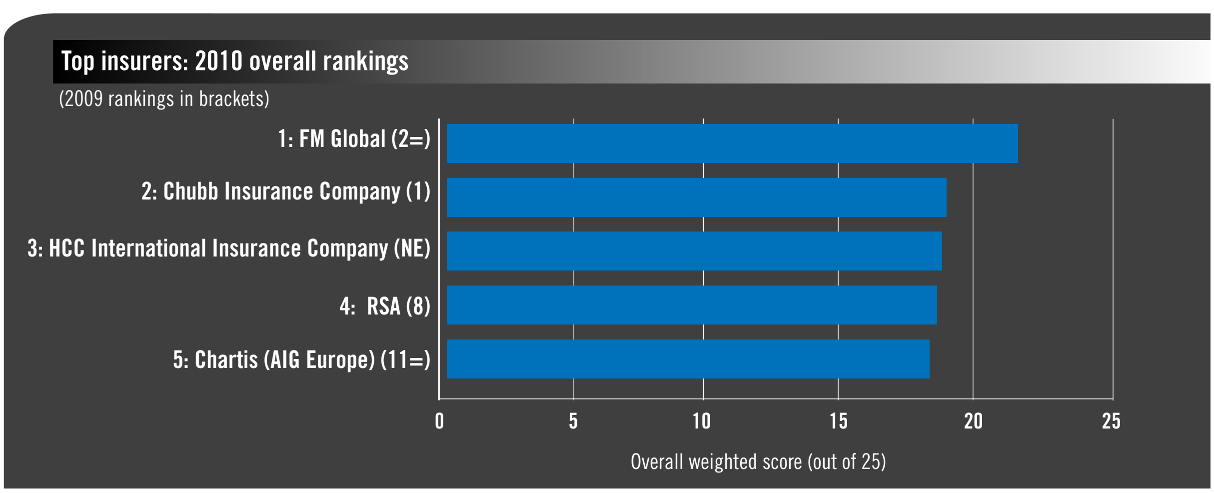
Three-quarters of risk managers claim they have had discussions with their broker about how their risk profiles have changed as a result of the prevailing economic conditions.

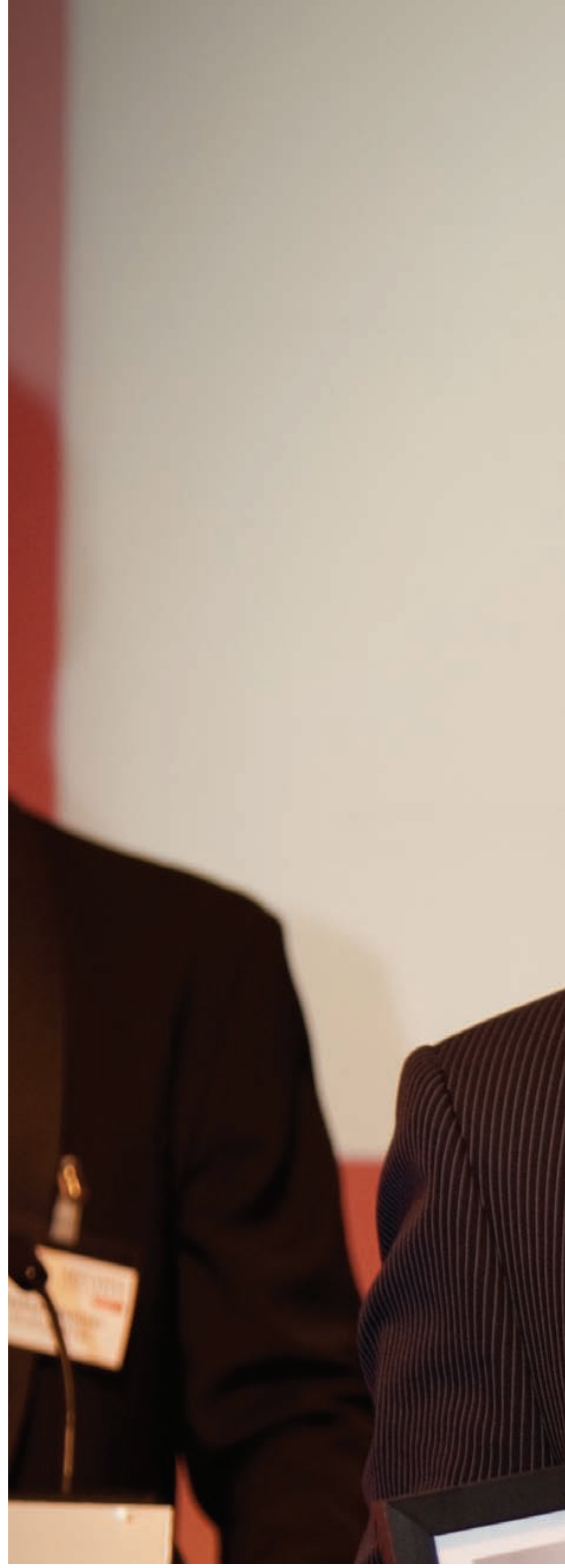
Many of the comments indicate that any changes are seen and accounted for as a normal part of business. But a minority of respondents see the situation in more dramatic terms, perhaps best summed up by one risk manager who says: "This is the biggest challenge facing the tripartite [client, broker, insurer] but it is being driven by me, not the broker nor, just as worryingly, the insurer."

Public sector respondents see this issue in a different light. As one public sector risk manager comments: "As a public sector body, changes to our risk profile for insurance purposes have not been significant." ■

Respondents to the survey will shortly be receiving their full copy of the survey results. Other readers interested in the survey should contact the group sales director, Tom Sinclair: tom.sinclair@nqsm.com







Best in class

Arnout van der Veer, *StrategicRISK*'s European Risk Manager of the Year, is a rare breed: a chief risk officer outside the financial services industry. **Nathan Skinner** catches up with him to talk about his win – and his experience of implementing risk management in a global organisation

For the first seven of his 10 years at Reed Elsevier , Arnout van der Veer worked in internal audit. But since his switch to chief risk officer, he has managed to embed a risk management culture into product development at the company and to implement a decentralised approach supported by a network of "risk champions".

"I started the process a couple of years ago," he says. "It is difficult to measure, but we have had improved results on acquisitions and internal investment programmes. Things do go wrong – that's the reality of a big organisation – and whether that improved success rate is due to my involvement or just better business management, that's a difficult call. In reality, it's a combination of the two."

Working with Reed Elsevier, a global publisher and information provider, van der Veer has the advantage of a clear risk management vision and mandate from the top. "That's a key condition," he says. "I really advise companies that if they are not committed to risk management and they are not willing to invest in it, don't do it. If you do it half-heartedly, it won't work.

"For the risk managers themselves, they need to have the ability to influence people and to make them act differently. They need a good understanding of the company and good strategic and analytical skills, as well as experience and seniority."

He says that the decision to set up the risk management department at Reed Elsevier was taken because of a major change in its risk profile. "The company had moved away from being a traditional print company to being more of an internet-based data company. In a decentralised organisation where risk management was not a central function, the company needed a more holistic and co-ordinated perspective to ensure that we didn't have gaps and overlaps."

He commends Reed Elsevier for its "forward-thinking" approach: "It was a very pragmatic decision. The chief executive, chief financial officer and the board started to ask more questions about risk, partly because they learnt from the failures of other companies. Partly it was the financial crisis, new regulations like Sarbanes Oxley and an understanding that we were a much more complex organisation than was originally thought."

Winning *StrategicRISK*'s European Risk Manager of the Year award, he says, was good for his personal credibility within the organisation but also provided recognition that

To read Arnout's full profile, pick up your copy of the *Lessons in Leadership* report

'If companies are not committed to risk management and are not willing to invest in it, then just don't do it. If you do it half-heartedly, it won't work'

'The award is really important. It confirms that we are a well-managed company; that we have proper governance in place. It also helps in our discussion with rating agencies. It does many good things'
Arnout van der Veer, Reed Elsevier

what he was doing made sense. "The award is really important. It confirms that we are a well-managed company and that we have proper governance in place. It also helps in our discussion with rating agencies. They ask about our risk management systems; the award helps in terms of emphasising and reinforcing that. It does many good things."

Van der Veer has deployed other measures to prove the value of the firm's risk management initiatives. One effort has involved tracking the financial success of Reed Elsevier's various business units and linking that with their risk management culture. He believes there is a clear correlation, and says businesses with less healthy risk management systems have, over the long term, performed less well than those that have a more "healthy" approach. "I'm convinced there is that correlation, at least in our domain. For others it may be difficult to measure."

At present he is working with Reed Elsevier's media department to try to understand what the company's reputation is and where there may be opportunities to leverage it in certain markets. He thinks a good corporate reputation gives his company the opportunity to recruit more talented employees and attract more customers.

Presenting to the board is "very challenging", he says, as understanding their expectations can be difficult. "And if you do know them, they can change very quickly. Do you always have an opportunity to ask what they expect? No, probably not. You don't want to be asking them questions anyway; you want to have sensible messages." He has found the best way to engage with the board is to align his messages with the company's strategic direction and to explain things in simple terms, not in risk management jargon. "Your relative seniority is important to gain the trust of the board and your credibility is important as well," he says.

Van der Veer, who is understood to be one of only a handful of officially-titled chief risk officers working outside the financial services industry in the UK, thinks his type of role is bound to develop. "More companies will start to recognise us," he says. "There is increased emphasis and understanding of what risk management is. It will take time, but it is an unstoppable trend. I think best-in-class companies are on that journey already." ■