StrategicRISK

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RISK innovation

Showcasing risk management maturity around Europe

The Netherlands has long lived with risk – now it is embracing it in the boardroom

Built on risk

A highly developed market facing new challenges

National stereotypes aside, the fact that one of the great national myths of the Netherlands is the story of the boy who kept his finger in the dyke and so saved hundreds of people from drowning is surely a sign of a society that understands the importance of risk awareness.

In a way, the Netherlands is a country-sized tribute to human ingenuity: the ability of people to manipulate their environment to manage risk. Dutch achievements in land reclamation and coastal defence engineering have been matched by centuries of innovation in agriculture, industry and commerce, including financial services. Risk management requirements and practice in the Netherlands are now as sophisticated as those seen anywhere in the world.

The country's insurance market is highly developed, but companies and other organisations in the Netherlands face a series of ever-changing risk challenges. These might include the expansion of Dutch companies into foreign countries, brand and reputation risks, cyber risks and other risks related to the adoption of new technologies.

This report examines how effectively insurers, brokers and risk managers are addressing the issues that most preoccupy the thoughts of Dutch risk managers, and considers the benefits enjoyed by organisations that have implemented advanced risk management and made it a high-profile function within their organisation.

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PLANNING FOR RISK
SHOULD BE SECOND NATURE

While the Dutch are no strangers to managing risk, well-run companies are now moving to instil it as part of their corporate business culture

Risk management is as well developed in the Netherlands as in any other country in Europe. But it is also, says telecommunications company Vimpelcom's insurance and risk manager Peter den Dekker, something that all well-run Dutch companies should be doing as a matter of course.

"For me the only change in risk management is that we are now trying to formalise it, because there are external demands from shareholders to review what you do with the company," he says.

Even so, den Dekker believes that there has been a notable change in recent years as risk management has evolved. "The insurance manager, as it was called in the old days, has evolved from buying a policy or providing solutions for certain M&A transactions after they are completed, for example, to someone at the forefront of the company managing a lot of the financial transactions, making sure everyone's aware of where we are, making sure risks are identified, managed and financed in the right way," he says.

"That is the biggest change that most insurance and risk managers have gone through in the last 20 years or so. That is also thanks to risk management education and industry associations like Airmic in the UK, and Europe's Ferma. They try to bring the profession up to a higher standard, and I think we're doing a good job."

Key points

Change
The Dutch risk manager's role has evolved over the past 20 years

Importance
Risk managers today are at the forefront of Dutch companies' business

Flood
Flood risk is not a major preoccupation for Dutch risk managers

Waste management specialist Van Gansewinkel Groep's risk and insurance manager Doede de Waij agrees. "It's part of the finance process, part of the operational process," he says. "It's not so much that it's discussed more – I don't think that has changed over the years, people have always been aware of this – but maybe it's actually addressed more today. Entrepreneurship is about taking risks, but these days it's also a governance and compliance issue."

Insurers and underwriters certainly value the work of risk managers, says Willis Netherlands chief executive Niek Post. "They are managing capital and carrying out risk management in the right way," he says. "In the past the insurance manager was more or less on his own. Now he is an integrated part of the capital management of a global company. There are also a lot of new financial risks that have to be integrated into daily risk management. Insurance and risk managers now have to have a broader set of skills and knowledge."

The risks most likely to catch the attention of a risk manager working in the Netherlands today are similar to those being thought about across the continent: financial, operational, supply chain and also emerging risks such as cyber, and brand and reputation risks.

The casual observer might be forgiven for assuming that flood would be at the forefront of most Dutch risk managers' minds: the fact that so much of the country is below sea level is, after all, one of the things for which it is most famous. But Dutch attitudes are more complex than that, says den Dekker.

"As a Dutch person I am very proud that we have one of the best sea defence and water management systems in the world," he says. "In the Netherlands flooding is a big issue. For many companies with big factories close to the water, that is a concern. But we trust our risk management system and water management." However, it is difficult for Dutch companies to obtain insurance against flooding, so most risk managers will only ever consider it from a business continuity point of view, says de Waij.

Dutch risk managers also put a lot of time and thought into planning how best to manage and insure risks arising when companies extend operations into other countries. Things they have to consider include adapting to business practices in the new country, alongside the usual mix of risk exposures, including political risks and those related to the financial sector in that country.

> *'In the past the insurance manager was more or less on his own. Now he is an integrated part of the capital management'*
> **Niek Post** Willis

"It's also about the culture," den Dekker says. "You don't just go in without knowing the culture, the practices. Without that you are taking a very big risk. You have to make a proper risk profile of all these elements and then prepare them in your business case. You can then understand what the differences are, and once you know that you can deal with it. You can draw up however many contracts you want, but if practices and processes are different, it might not work, even if it does on paper."

De Waij says his company is in the process of expanding operations beyond the Netherlands and Belgium, where it is a market leader, into countries in eastern Europe. "Risks should be managed locally, so we do have local management taking care of the risk profiles," he says. But some elements, such as the management of compliance risks in different countries, in relation to an international insurance programme in particular, need to be centrally co-ordinated.

Looking beyond these specific examples, ultimately, says den Dekker, risk management is most effective when embedded within the culture of a company: "It should come from within the company itself, the will to do proper risk management and not because the outside world is demanding it from you through regulation or shareholders." It seems that an increasing number of Dutch companies, of every type and size, are benefitting from taking this approach.

THE TOP RISKS

1 Supply chain risks

The risks most likely to catch the attention of a risk manager working in the Netherlands today are those related to the supply chain, says Vimpelcom's Peter den Dekker.

"There has been much more of a focus on the supply chain in the last couple of years," he says. "With business interruption risks, as we saw last year in Japan [following the earthquake and tsunami], it's very difficult to know what part of your supply chain will affect your business. The supply chain is a serious issue for all risk managers."

2 Cyber, IT and the APT risk

But Dutch risk managers also face potentially significant emerging risks, including those related to technology and personnel. Cyber risks, from ever-more sophisticated IT security threats such as the multi-faceted advanced persistent threat (APT), are becoming more significant, as more companies and organisations become increasingly dependent on technology.

An APT can be particularly dangerous because it uses methods that bypass conventional IT security defences and exploit 'zero day' vulnerabilities (ones unknown to the manufacturers) in common software.

Such activity may only be detected months later. A high degree of active risk management is required to address this threat, as insurance capacity for cyber risks is not yet fully developed – a problem not only faced in the Netherlands.

3 Labour-shortage risks

Meanwhile, Van Gansewinkel's Doede de Waij believes labour-related risks will become more important. "Will we have enough staff in the future?" he asks. "Fifteen, 20 years from now, do we have enough staff to facilitate our processes? Everyone's getting older. Labour will be an issue." For his company and others, he says, the most important challenge will be how to keep individuals with a high level of technical expertise working for the company.

HOT TOPIC

BRAND AND REPUTATIONAL RISKS

In a world of instant communications, where every consumer or potential corporate customer is steeped in the language of branding, an organisation's reputation is of huge importance. In recent years more and more organisations, particularly in advanced economies like that of the Netherlands, have come to appreciate the dangers of a brand acquiring unpopular associations, whether through industrial accident, poor treatment of customers or staff, regulatory breaches (particularly in relation to environmental issues) and a host of other causes. In Aon's 2011 Global Risk Management Survey, brand reputation was in the top 10 of risks highlighted by respondents, alongside fundamental economic and operational concerns.

In a connected world where information can spread in a viral manner through social networks and official media outlets, it is more important than ever for organisations to keep some level of control over the communications that concern their brand.

For this reason, more companies are actively seeking to identify key risk issues that may either damage or enhance the organisation's reputation, including the ramifications of strategic, financial or operational activities; and also to evaluate insurance, online reputation management and crisis management solutions that could ensure they are able to safeguard their organisation's good name.

EXPERT VIEW

ALAIN WIJNANTS, CHIEF EXECUTIVE, ZURICH GLOBAL CORPORATE BENELUX

PUSHING THE BOUNDARIES

The Dutch have always wanted to have a global footprint. It's a small country but there are lots of large multinationals here. I believe the risk management profession in the Netherlands is very mature already.

There are about 140 risk and insurance managers in the Netherlands. And within the Amsterdam University there is a dedicated enterprise risk management (ERM) qualification. That shows just how seriously risk management is taken in the Netherlands.

The number one concern in the whole of Europe now is the economic slowdown. The trouble is that various governments have virtually exhausted their means to further stimulate recovery. So where's the growth going to come from? That's the main concern.

One problem that I expect to worsen in the future is business interruption in supply chains. Just look at how all those companies were affected in 2011, because of what happened in Japan and Thailand.

Another issue is that businesses are increasingly conducting work internationally, and looking at my own industry for example, insurance regulatory laws don't take that into consideration.

More and more regulation is decided at a local level, in places like Latin America, Asia Pacific and the Middle East.

I think this understanding is at the heart of what Zurich offers to international companies. Zurich is in over 180 countries and we're growing that footprint, especially in the emerging markets. We try to serve our customers locally.

Zurich's Multinational Insurance Application is the most comprehensive database available for managing complex regulatory risks around the world. We are offering our large customers access to this, as well as brokers.

We can help customers with risk assessment to identify where the critical parts of the supply chain are for which they need to find alternatives. The alternative might not be insurance; it might be another supplier or something like that. It's about pushing the boundaries of traditional insurance.

'IT'LL NEVER HAPPEN': FIGHTING THE NON-BELIEVERS

Convincing senior managers within an organisation of the importance of risk awareness remains a challenge – especially when managing risk can bring business opportunities

Key points

Success
Communication is key to a risk manager's success

Positive approach
Risk management is being seen more as a business facilitator

Innovation
Good risk managers can help an organisation become more efficient

Although risk management has a much higher profile within many companies and organisations in the Netherlands than was once the case, some risk managers still sometimes feel a little under-appreciated.

As Vimpelcom insurance and risk manager Peter den Dekker complains: "Nobody sees what we are doing if nothing happens. That is why we have to communicate our message, to prevent people from saying: 'It never happened, so it will never happen'."

He says the primary challenge for any risk manager is to convince managers and operational staff of the importance of risk awareness, in day-to-day operations and as a complement to effective strategic planning. As he says: "Investing after a disaster is never a problem."

For this reason, he says, the extent to which a risk manager truly succeeds in their role depends to a great extent on how effectively they communicate their message within the organisation. "We need to make sure that we are seen as a facilitator to make things happen, rather than as a roadblock."

He believes changes in the way risk management is perceived within organisations has made this easier. "It's become more professional," he says. "It's becoming a framework by which companies can reach their objectives. It facilitates business deals. In the early days, it had a very negative side, it was all about downside risks.

"Now, it has evolved – the whole profession is a facilitator to create business deals, to make everyone aware of what can go wrong, but also to make them aware of the opportunities if it goes right. It's a more positive approach than in the late 1990s."

Van Gansewinkel Groep risk and insurance manager Doede de Waij stresses the value that a good risk manager can bring to an organisation by helping to improve processes or facilitate innovation. One important element of his job is to help his company optimise its processes, to make operations more efficient.

"By doing that you will improve your resilience as you try to shorten your supply chain," he says. "It's good from a cost point of view and because of what it means for resilience. That's one step.

"The other thing is innovation," he adds. "During an economic downturn is a time to look at how you can differentiate yourself, looking at the market and competitors. How can you create more value from waste? We isolate raw materials out of the waste and supply that back to the market. More and more we integrate with our customers, they ask us to deliver certain qualities of raw materials.

"Another example are our incineration plants, where we generate energy from burning waste. From all the waste we collect we are able to recycle about 70% back to raw materials and the rest goes into the incineration plants. That creates heat, which is used to generate electricity.

"We are also looking at how to get more energy out of that heat, so we are working with neighbouring companies to supply them with steam and to supply hot water for central heating in Rotterdam. If you do those kinds of investments there is a lot of technology involved: that creates construction risks and engineering risks."

> *'During an economic downturn is a time to look at how you can differentiate yourself, looking at the market and competitors'*
> **Doede de Waij**
> Van Gansewinkel Groep

Den Dekker points to the work risk managers do when supporting corporate transactions as an important aspect of their tasks today. "One of the most important roles we have now is in M&A,

The Netherlands' knowledge of sea defence has put it one step ahead in a world fearing a global rise in sea levels

answering the questions: what do you buy and how do you manage the contracts and the risks you bring on board?

"If nothing happens, people ask why did we go all this way? The thing is, in many cases things can go wrong and will go wrong. I've seen that with many acquisitions in the past where you still see the remains of things that you have not properly reviewed."

De Waij adds: "It's about supporting the business. It's more integrated, there's more talking with people, trying to anticipate as early as possible in that process and to help them to do things better and more efficiently.

"As long as you know what the risk, is there's no problem taking risk. Our task is to help the company avoid surprises, to give them feedback on their plans and give them a mirror, to try to quantify risks, financially or from an image or branding point of view. Then it's up to them to take that risk. If you don't know what the risk is, you can't manage it."

And that applies to the commercial opportunities that good risk management can help to create as much as it does to the downside. It's becoming a discipline that adds value, rather than irritation, at both boardroom and operational levels of the business.

HOT TOPIC

KEEPING PACE WITH GREEN INNOVATION

While most Dutch people seem to feel well protected against flood risks, despite living in such a low-lying country, to an external observer it seems perfectly logical that the Netherlands should have been among the first countries in the world to adopt environmentally sustainable working practices into the mainstream. After all, one of the first dangers that environmentalists suggest will be associated with climate change is a rise in sea levels.

Aon Risk Solutions managing director, innovation Peter Hartman is concerned that, in some respects, the insurance industry has not kept pace with some of the technical innovations being developed by the country's greenest technology and engineering companies. For example, he says, few insurers seem to have really risen to the challenge of developing solutions to serve companies investing in renewable energy technology.

"We are very innovative in the insurance world, but insurance companies are not always picking up on these new risks as quickly as some newer companies are thinking about new ways of finding energy," he says. "So I feel there is a task for us as brokers and underwriters, putting more time and money into those risks. There is development, but I think we can go forward faster."

It does seem likely that risks and opportunities related to climate change will become an ever-more important theme for risk managers in the Netherlands in the years ahead.

Peter den Dekker

UP THE LADDER
THE KEYS TO A SUCCESSFUL RISK MANAGEMENT CAREER

A NATURAL EVOLUTION

Peter den Dekker is only a few months into his new role at Vimpelcom. Between 1981 and 1998, he worked as an underwriter and broker, mainly in international industrial insurance.

He began his first risk management role in 1999, with business-to-business distribution specialist Hagemeyer. In 2005 he moved to the offshore oil and gas services company Stork and has also worked with Fokker Aerospace and Marel Food Systems, before starting work at Vimpelcom in 2011. He has also served as chairman of the Dutch risk and insurance managers' association (NARIM) and president of Ferma, of which he remains a board member.

He says the move into risk management came naturally. "I'd always worked on the larger industrial risks as an underwriter or a broker and been confronted with the fact that companies were looking to finance their risks. I needed to know how they managed their risks so I could assess what sort of price and conditions to ask for and what I needed to reinsure. It became more and more a risk management role.

"I learned a lot from that background and I can use that in my current job, knowing what the market demands, what our clients' appetite is and how risks are managed."

He believes sometimes the most difficult tasks are those facing risk managers in organisations where risk seems, on a superficial level, far less of an issue than in other sectors. He says that raising awareness of risk issues at Hagemeyer, for example, was much more difficult than when working in offshore oil and gas.

"That was a very big challenge, to get risk awareness into the mindset of people, if they do not handle stuff that might explode. It was much tougher than in oil and gas or aerospace."

"In the early days, risk management was all about downside risks. Now it's becoming a framework by which companies can reach their objectives"

KEY BENEFITS

Good practice in risk management can provide organisations with important financial and commercial gains in many different ways.

1. Peter den Dekker recalls when a proactive investigation of facilities owned by a firm the company he was working for was in the process of acquiring revealed some serious shortcomings in the second company's stock management processes.

2. The in-office diligence processes were supplemented by an investigation of the target company's facilities on the ground.

3. "At the end of the day, we did the transaction and we knew exactly what we needed to invest, not only in physical improvements, but also in improved procedures and stock takes," says den Dekker.

4. "Nothing came as a surprise. We were able to negotiate in the purchase price part of the investments that we needed to make." He believes a good risk manager should be able to provide this kind of visibility of risks at board level.

LIVING WITH RISK

Despite a quarter of the Netherlands being below sea level, local companies find it hard to get flood cover, in an insurance market that is older than Lloyd's

For a country that is so vulnerable to inundation, the Dutch insurance market has a surprising attitude to flood cover.

About a quarter of the country and the homes of about a fifth of the population lie below sea level. But the Netherlands is world leader in coastal defence engineering and most Dutch people are sure they will be protected from the sea by a complex network of coastal defences.

That may be why Dutch companies find it extremely difficult to insure flood risks, while global companies, conversely, usually find it much easier to insure their assets in the Netherlands against flooding.

Willis Netherlands chief executive Niek Post says: "With the local insurers here, you can't cover the risk of flood. But if you are a global company and you have a programme with global providers you can cover it. The government does offer a small guarantee [of compensation], but it's very low."

Waste management specialist Van Gansewinkel Groep's risk and insurance manager Doede de Waij finds it perplexing that some insurers seem more concerned about flood risks posed by the sea than by the major rivers that flow through the Netherlands, which flood regularly.

"It is better to be prepared [for flood] from a business continuity point of view," he says. "So we tend to spend a lot of time and money on business continuity, to see how we can find alternatives for our sites. That's how we manage the flood risks – not with insurance."

The Dutch insurance market is mature and highly developed. Telecommunications provider Vimpelcom's insurance and risk manager, Peter den Dekker, says: "Although the Netherlands is a small country, I guess the insurance market is about 40 or 50 years older than Lloyd's. We know that the English love their traditions. Lloyd's survived and our original insurance exchange did not, but ours is a very mature insurance market."

It has also always been a broker-led market, which has helped foster innovation, and it is an open market, with all the world's major insurers represented. Aon Risk Solutions managing director, innovation Peter Hartman says: "We have a lot of capacity, looking at marine and property and the other traditional lines of business, and there is new capacity coming in. We have also had a slow, soft market for the past 10 years."

As the work of risk managers has become more multi-dimensional, they have come to work more closely with insurers. De Waij says: "We spend a lot of time trying to show insurers what we do and how we manage risks. So we have no problems finding the cover we need, but we do spend a lot of time involving them in the process, which probably helps."

Despite the lack of flood cover at home, there is less concern over the ability of Dutch insurers to support companies from the Netherlands that are expanding overseas. Den Dekker says: "The international insurance market has always supported solutions for large multinational companies. We've had a lot of changes in the market players – we've fewer companies – but there's more capacity here for underwriters. If we need special solutions, we also have easy access to Lloyd's and other markets."

Hartman also thinks the situation is healthy, in part thanks to the large number of international underwriters working in the Netherlands. "If you look at liability programmes for companies opening up new business possibilities abroad, we see new capacity and solutions that fit their needs," he says.

"If you look at property programmes and liability programmes and D&O [directors' and officers' liability insurance] – which also applies worldwide, so you need an insurance company that can cover all those worldwide risks – we have insurers willing to provide coverage in those countries where clients have their businesses."

> *'We tend to spend a lot of time and money on business continuity, to see how we can find alternatives for our sites'*
>
> **Doede de Waij**
> Van Gansewinkel Groep

De Waij is satisfied with existing provisions for his company's overseas expansion, which is focusing on countries in eastern Europe. "There's enough capacity," he says. "I don't see any signs of hardening markets or insurers asking for additional conditions. In eastern Europe most of it is local insurance – but delivered by the same insurance companies we have here.

"I just did a renewal for all our property and that went very smoothly. I had six or seven companies lining up to do business with us, so I had the luxury of being able to pick and choose."

The one area of the market where there is less satisfaction with the available capacity is around emerging risks, such as cyber risk. "With cyber crime and cyber liability, we have to make quick changes," Post says. "Insurers are bringing in new products. In the Dutch market it's just starting." He says that a solution was recently introduced for smaller companies – but for larger companies capacity is still usually tailor-made. "Things are changing: brokers have people looking more closely at cyber risks, but there are gaps," he adds.

Hartman sees brand and reputation risks as another area not yet adequately covered by insurers. "We do a global survey among mid-size and large companies asking which risks keep them awake at night and reputation risk is one of them," he says. "That is an area where we have few solutions in risk management or insurance. These are areas where we »

Key points

Open market
A mature, open, broker-led market with all major insurers represented

Multi-dimensional
There is a lot of capacity, with new capacity entering the market

Solvency II
The effect of the EU's Solvency II legislation is a major concern

» feel we as brokers and underwriters can be more innovative to find solutions that fit the needs of clients. Mid-size and large companies have all had risk management programmes within their companies.

"All companies are aware of the main risks and of risks around cyber and security and what they could mean in terms of financial consequences and reputational damage."

But the other issue that some fear may pose a problem for the Dutch insurance market – and may restrict its ability to cater for insurance requirements related to emerging risks – is the EU's Solvency II Directive, which is due to come into effect in January 2014. The most important consequence of the directive will be to codify the amount of capital EU insurance companies must hold to reduce their own insolvency risks.

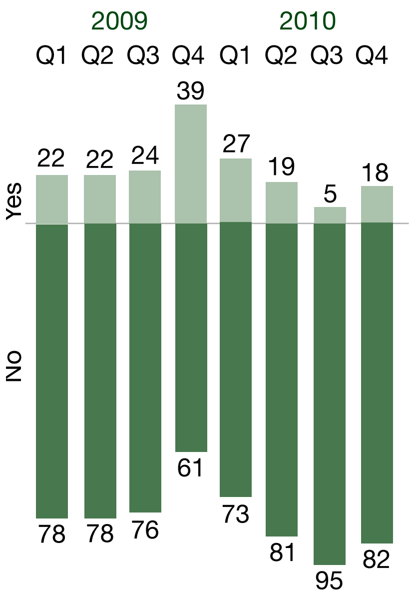
Den Dekker says: "Every country in Europe is concerned about what will happen to capacity once Solvency II is implemented. Every insurance and risk manager in Europe should be aware that if we have Solvency II, for large companies with long-tail liability risks and catastrophe exposures you will see less capacity available and you'll see some price hikes in the next year or so."

He is particularly concerned about the impact the directive might have on insurers' capacity to cover emerging risks. "For new types of risks, such as cyber risks, suddenly insurers have no history, no statistics, to fall back upon," he says.

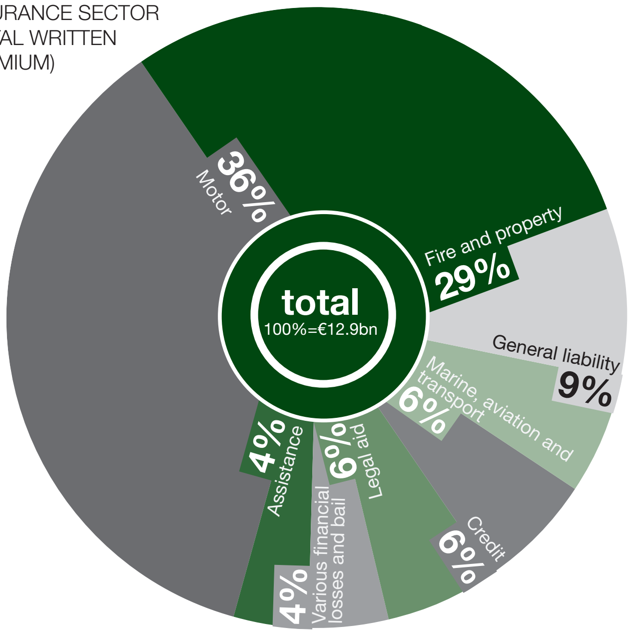
"That is a restriction in Solvency II. How expensive is the capital they need to allocate to that going to be? That is really a struggle. It might even slow down the solutions for emerging risks in future."

IS NOW A GOOD TIME TO BE TAKING GREATER BALANCE SHEET-RELATED RISKS?

Percentage of chief financial officers responding 'yes' or 'no' to this question



DUTCH NON-LIFE INSURANCE SECTOR (TOTAL WRITTEN PREMIUM)



BROKER'S VIEW

NIEK POST, WILLIS NETHERLANDS CHIEF EXEC

EVOLVING THE PROPOSITION

The most significant difference about the Dutch insurance market in recent years is the way it has evolved the proposition it now puts before its customers, says Niek Post. "It's become more about advice – in the past it was more about selling," he says.

"Also they are moving from selling products to providing solutions. Insurers and products have changed – you have to bring value to the table. Now you advise on a solution. Risk and insurance managers want to be able to pick and choose the products they will use."

The greatest advantages of the Dutch insurance market, he believes, are its maturity and the ease of access to capacity from all the major global insurers. "It's a very open market, we have all the global companies to work with and they can deliver all kinds of solutions and advice," he says. "So it's not a problem to find good solutions for all the traditional risks, with the exception of flood risks."

However, insurance for emerging risks such as cyber, brand reputation or the use of new technologies such as renewable energy generation is not yet always as readily available as would be ideal, he says. But alongside the challenges presented by emerging risks, Post believes the current preoccupation for many Dutch companies, their brokers and their insurers is how best to secure and insure the workings of ever-more complex global supply chains.

"If you look at what happened in Japan last year you can see more and more that it's hard to look at what risks you're running," he says. "If something happens in the supply chain it may not be immediately clear what it means for the company.

"That's still a worry for a lot of insurance and risk managers. A small single supplier can bring a big risk onto your company. Insurers are moving to bring in solutions to cover that, but it's hard to have a 100% solution at the moment."