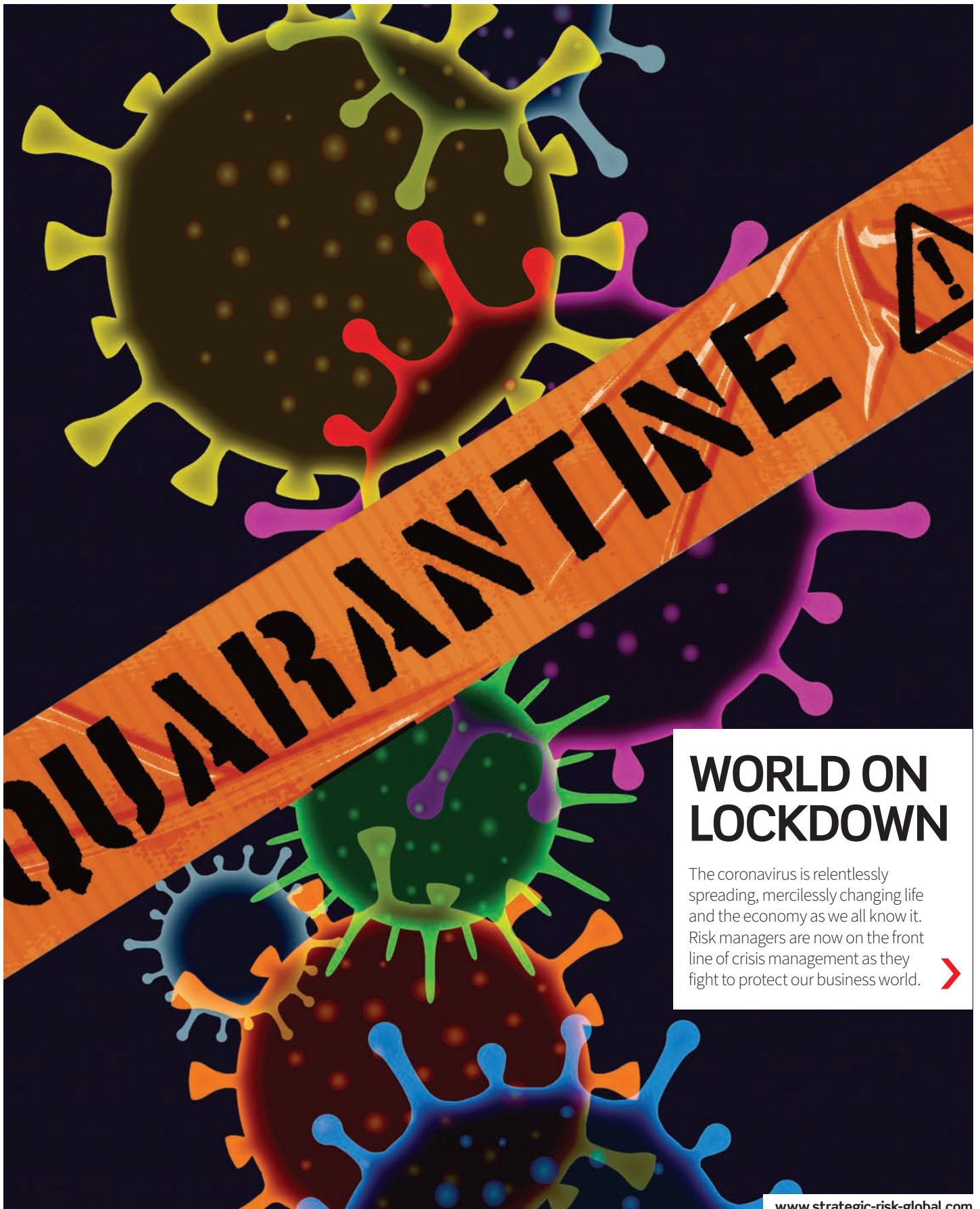
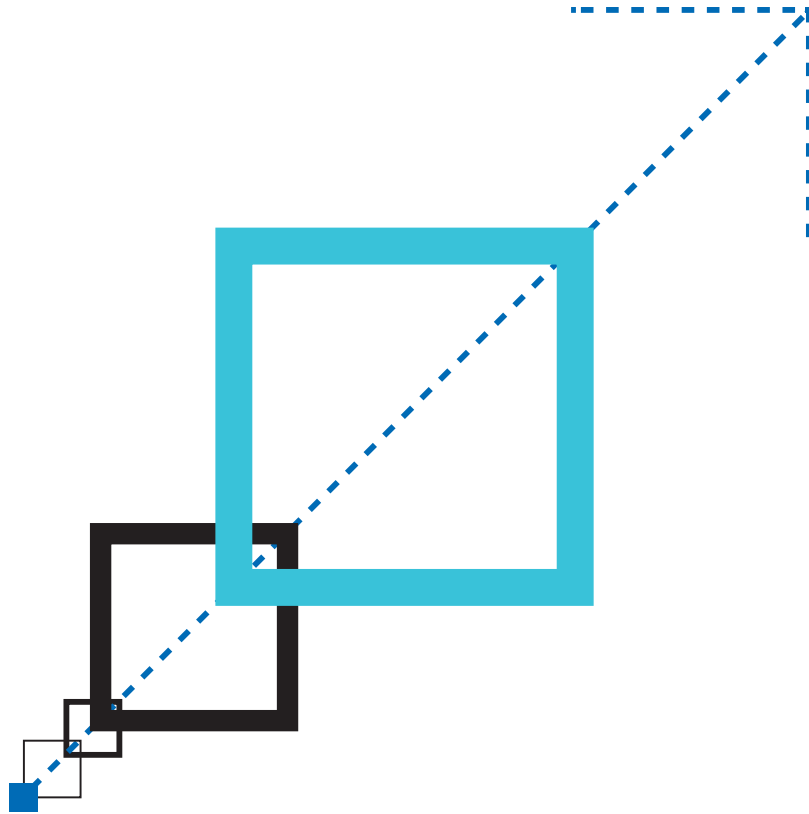


- > AUSTRALIA'S COVID-19 RESPONSE
- > THEN THERE WERE TWO: WHAT THE AON/ WTW MERGER MEANS FOR CUSTOMERS
- > AIRMIC'S FEMALE STARS TALK DIVERSITY
- > SPECIAL REPORT: HOW ENHANCED DUE DILIGENCE OFFERS THE INTEL YOU NEED
- > IN-DEPTH GLOBAL PANDEMIC COVERAGE



WORLD ON LOCKDOWN

The coronavirus is relentlessly spreading, mercilessly changing life and the economy as we all know it. Risk managers are now on the front line of crisis management as they fight to protect our business world. >



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Companies must be proactive in monitoring the environmental, social and governance strategies of every link in their supply chain.

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All we can do is be human

Our risk matrices are in disarray. Businesses can only take it one day at a time. And just as these immense risks were unknown, so too is the solution. There's only one rule that I know of... you've got to be kind.



EMAIL > lauren.gow@nqsm.com

I write this leader from quarantine. My household has been in lockdown since I developed symptoms of COVID-19. Do I actually have the dreaded disease? Who knows. The UK has almost run out of testing kits and is only testing the most severe cases now, of which I am not one.

When I sat down to plan this issue in January, the World Economic Forum Global Risks Report had just been released. The top short-term risks expected to increase in 2020 included economic confrontations, domestic political polarisation, extreme heatwaves, destruction of natural ecosystems and infrastructure cyber attacks. This issue was going to be built around these themes. How little we knew.

Of course, that plan soon went out the window, as have every single other person's plans for 2020.

We are now facing unprecedented alterations and upheaval to our lives as we knew them. Schools have shut across the world, sending millions of children home to learn (or try to). In turn, millions of organisations have instructed their employees to work from home for the first time. Millions more have already been laid off and face an uncertain future as businesses were quickly forced to take drastic measures against this extreme disruption.

IT infrastructure is being tested beyond its usual capabilities. Families have become co-workers.

The risk matrices are off the charts.

It is clear no one really knows how to handle this situation, so guesses are being made. Forward-looking risk management plans either don't seem to have scenario tested this particular

situation or the plans just weren't up to scratch.

Governments are scrambling. We have leaders condemning each other's actions, pitting leader against leader at a time when we need strength in numbers (albeit at a safe distance of one metre at all times, you understand).

I wish I knew what to tell you, readers – to be able to offer guidance and advice from those who have fought this battle before and won. But who would that be? I have no idea who this person or people are, however much I wish I did.

For now, all we can do as individuals and businesses is take one day at a time. We need to trust and heed the advice of governments, even if we aren't sure they are correct. Hindsight will be 20/20 on this particular crisis.

One thing you can do at this time of need is remember you are human, as am I and all of those around you. Now is not the time to force people into offices or into situations where they feel they must choose profits over people.

Give people space and boundaries. Allow employees to set their own hours and try to understand everyone is facing a different situation at home. Many parents are now your employee and their children's teacher. Many others are now carers for sick and dying relatives. And many more, tragically, could be planning funerals.

Space is what we all need more than ever before, though sadly I think we could all do with a great big group hug.

These are extraordinary times and your response to it will be remembered. Just make sure you are remembered for the right reasons. **SR**

"IT IS CLEAR FORWARD-LOOKING RISK MANAGEMENT PLANS EITHER DON'T SEEM TO HAVE SCENARIO TESTED THIS PARTICULAR SITUATION OR THE PLANS JUST WEREN'T UP TO SCRATCH."

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Coronavirus: Australia government steps up

Government stimulus packages could help stave off a severe economic downturn in the country as a result of the pandemic sweeping the globe. A KPMG report takes a closer look.

Australian GDP would be at least 0.9% lower in 2020 because of the COVID-19 pandemic, estimates KPMG modelling in a report published in March.

However, the fiscal stimulus package announced on 12 March will soften the blow and help underpin business and consumer confidence. This is vital, as a lack of confidence and increased uncertainty have the potential to turn this health crisis into a full-blown economic crisis if panic hits financial and other markets and credit dries up.

The report estimates that 36 million work days could be lost, with an estimated 1.5% hit to productivity in Australia. This is through workers withdrawing from the labour force through illness and having to care for others.

It is important to recognise that this modelling is not a forecast but an analysis of what would happen to the economy due to several 'shocks' caused by coronavirus, all other factors being equal. Some of the loss of economic activity in the near term due to the pandemic will be temporary as business and consumers delay investment and spending decisions.

KPMG believes that the government stimulus package was comprehensive, well-targeted and represented a circuit-breaker to ensure that Australia does not descend into a more acute and protracted economic downturn as a result of businesses and households losing confidence. The firm estimates that, assuming it is implemented in an optimal and efficient manner, it could add slightly over \$20bn to GDP in the next two years.

CONDITIONS FOR SUCCESS

However, the report adds that there are two caveats to this – first, in order for the delivering support for business investment components of the stimulus package to be implemented and successful, small-to-medium businesses will need to invest slightly more than \$30bn in the Australian economy over the next two years. This is a significant ask; especially in an uncertain domestic and global business environment.

Second, the impacts of the pandemic are unfolding

in real time. If the pandemic turns out to be more acute and last longer than is currently anticipated, then the economic impacts may be significantly greater.

The aim of the stimulus package is to bring forward spending from the future. This will mean that from around late 2021/early 2022, the government will have to address the deficit by increasing taxes or reducing other expenditures, and businesses that have brought forward investments may not be able to do as much later on.

AUSTRALIAN SHOCKS

History shows us that influenza pandemics have a material effect on the functioning of the global

SECOND STIMULUS ROUND ANNOUNCED



Prime minister Scott Morrison (right) and treasurer Josh Frydenberg unveiled a second federal stimulus package on 22 March, bringing a further \$66.1bn worth of measures, including relief for retirees and a new wage for workers who lose their jobs.



economy, as individuals change their normal pattern of behaviour. Sickness and temporary or permanent withdrawal from the workforce, added to measures from the authorities like work and school closures, limitations on movement of travel by the public and quarantine procedures will all reduce labour productivity.

Some of this lost output will be temporary in nature as workers catch up and over-produce once the pandemic is over, but ultimately it is inevitable that some production will be permanently lost.

The analysis applies a series of shocks to the world economy, and a set of Australia-specific shocks, where exports, including tourism, higher education and commodities, are either temporarily or permanently delayed:

- Productivity loss associated with workers temporarily withdrawing from the labour market because they have contracted coronavirus and are too sick to work.
- Productivity loss associated with workers temporarily withdrawing from the labour market because they need to care for sick family members who have contracted coronavirus.
- A temporary increase in the user cost of capital reflecting investors demand for a higher risk premium during this period of uncertainty.
- Demand shocks causing a variation in capacity utilisation.
- Reduced anticipated consumption expenditure.
- Revenue associated with higher education fees and other education-related tourism expenditure by Chinese students will decline during calendar year 2020.

CALM AND CONSERVATIVE

In modelling these shocks, KPMG has made conservative assumptions in terms of consumer behaviour and on the basis that there is not a wholesale closing of schools, universities and aged care centres. If these assumptions turn out to be false then the economic impacts of coronavirus can be expected to be both larger and more prolonged than the scenario modelled.

KPMG recognises there are downside risks that may play out in terms of both the duration and reach of the pandemic, and the potential for panic to spread to financial markets, resulting in a reaction that then feeds back into the real economy.

Despite evidence of households engaging in stockpiling behaviour that appears irrational, and the recent heavy falls in financial markets, KPMG believes

BY THE NUMBERS: THE COVID-19 PANDEMIC IN AUSTRALIA

\$17.6bn

The first stimulus package, focusing on grants and tax breaks for business (12 March)

1.5%

loss in productivity estimated

\$105bn

in the Reserve Bank business loan facility (19 March)

\$30bn

What small/medium businesses will need to invest back into the economy in the next two years

\$66.1bn

added on 22 March, including relief for retirees and a new wage for workers who lose their jobs

2,252

confirmed coronavirus cases (24 March)

36m

work days could be lost

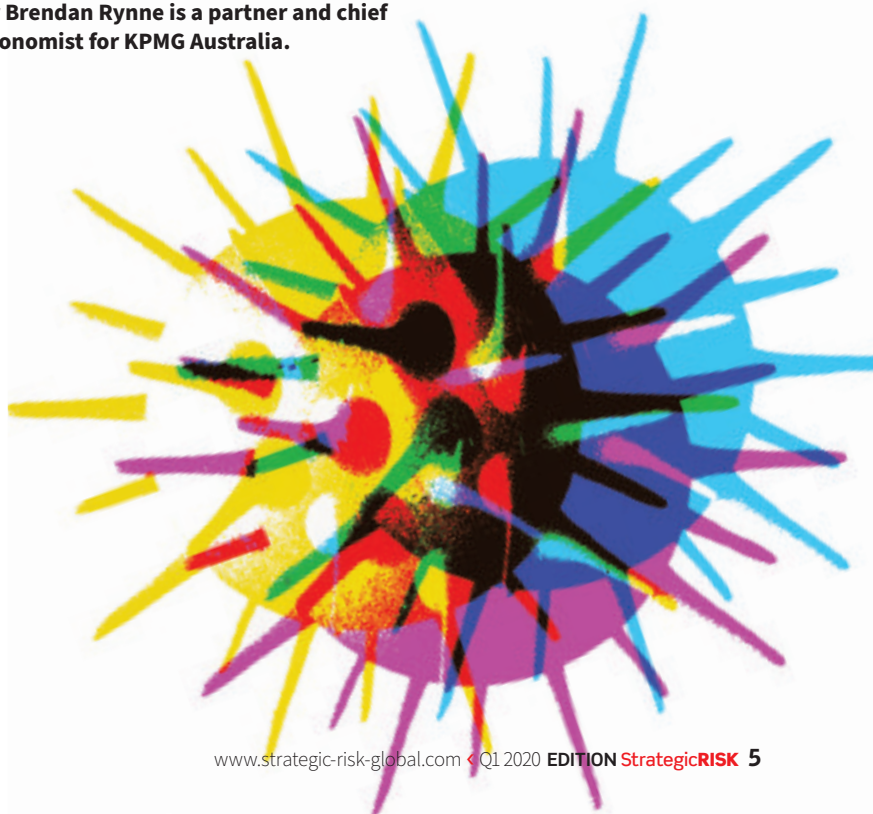
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The country's current death toll (24 March)

the probability of the pandemic resulting in a full-blown panic scenario remains low.

It anticipates governments have an opportunity to implement a range of policies that can assist with reducing uncertainty and minimise the chances of such a scenario materialising, as the Australian, US and UK governments have all now done. **SR**

Dr Brendan Rynne is a partner and chief economist for KPMG Australia.



Aon/WTW: No competition?

As the dust begins to settle on the news of the latest mega-merger, between Aon and Willis Towers Watson, we asked risk experts for their views on the deal and what the impact will be for customers.

EFFICIENCY OF INTEGRATION WILL BE KEY

PATRICK SMITH, DIRECTOR, ACUMEN ADVISORY

“This is obviously a major move for the two companies. Time will tell whether the combination will yield tangible benefits to the customers and, if so, how quickly. Clearly, for multinational organisations, the choice of broker with requisite reach is, yet again, contracted but, perhaps the potential issue that this might create is mitigated by the merged broker having increased leverage among its insurer partners.”

“The potential dovetail or overlap is yet to be seen and, of course, the efficiency with which the operations are integrated will be absolutely key to the continuity of customer-facing focus.”

CUSTOMERS WILL LOOK ELSEWHERE IF THEY HAVE TO

JOHN LUDLOW, CEO, AIRMIC

“Clearly there is going to be a reduction in choice in the broker market, which is disappointing for policyholders, and many of our members and the competition authority will have a strong view on this.”

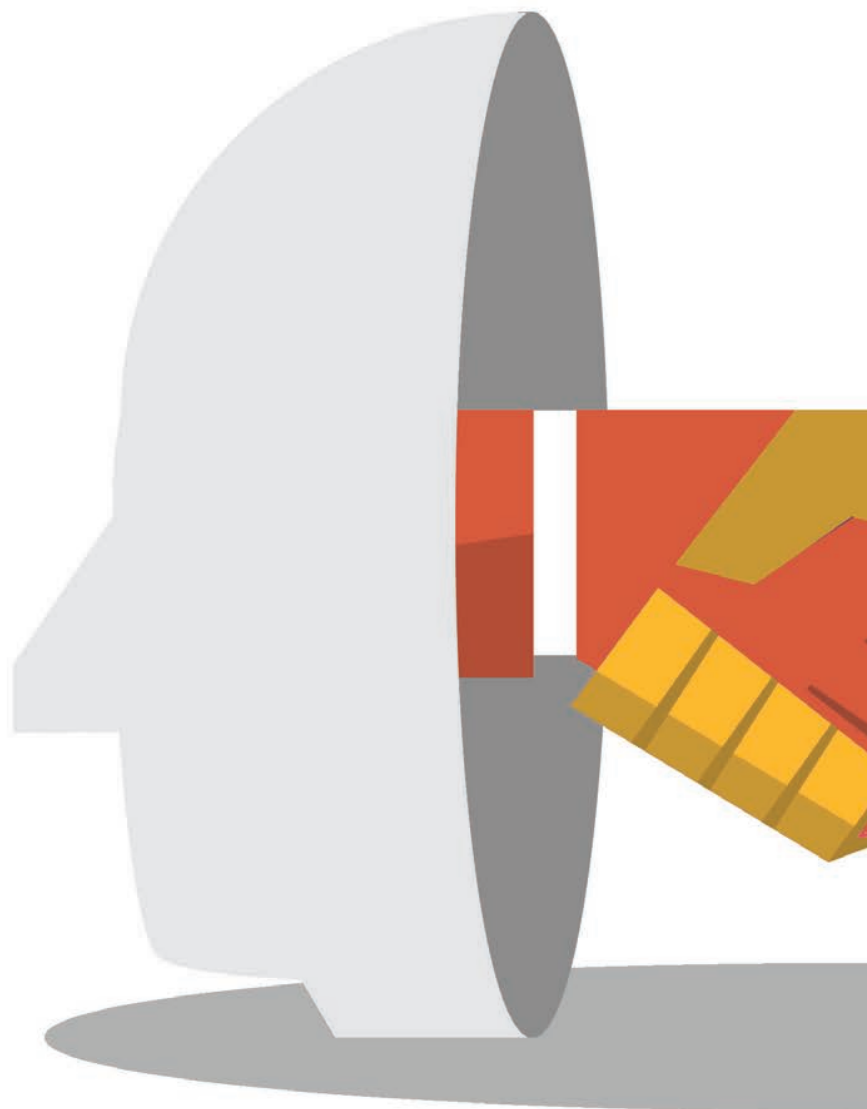
“It is not yet clear at all what value this merger will bring to our members, and they will challenge the newly created broker to demonstrate, not just in words but in actions too, how they are going to offer increased value in exchange for more limited choice.”

“If customer value fails to materialise, policyholders will undoubtedly find new ways of fulfilling their needs. We have already seen in our members’ response to the harsh market that when the market reduces its value and service, businesses are prepared to look at alternatives. Organisations have a much

better understanding of their risk than in the past and have more options available to them.”

“When handled well, there can be benefits to consolidation: for example, when Willis Group merged with Towers Watson, businesses gained wider access to specialist risk management practices, which was a real positive for our members. Given the current hardening market, there may also be some benefit to policyholders of having a large, strong broker.”

“But for this merger to be successful, the broad



spectrum of needs and wishes of policyholders must be at the heart of its strategy – they cannot be treated as the end point of a transaction. We look forward to seeing where the new sources of value will lie.”

”Looking at the broader market as a whole, brokers are already increasingly homogeneous in culture and constrained by regulation, both of which can lead to a reduction in service, creativity and diversity. As the big players consolidate, it leaves wide open the gap for new, more agile players to create a more diverse offering – this would be a welcome direction for the future of the market.”

ONLY THE SHAREHOLDERS WIN HERE

DANNY WONG, FOUNDER AND CEO, GOAT RISK SOLUTIONS

”When news broke that the Big 3 insurance brokers will become the Big 2, my reaction was obviously that a duopoly is not good for customers in terms of choice,

price or service quality. With less competition, don’t expect extra-mile service or innovation either.”

”During the integration phase, there will be disruption and change for existing clients. \$800m synergies have been announced so this will mean job losses and fewer roles for risk professionals. Unfortunately, the only upside I can see is for the shareholders.”

RISK MANAGERS LOOK FOR MORE THAN JUST CLOUT

JAN MUMENTHALER, REGIONAL INSURANCE LEAD, ASIA, INTERNATIONAL FINANCE CORPORATION

”For companies operating globally (like ours), a global footprint and understanding is critical. At the same time, we require a minimum number of competitors when we launch a RFP. With Aon/WTW, we will soon drop below the requirement, which will create a difficult situation from a procurement point of view. It may push us into considering direct buying for placements with limited value-add by the broker.”

”Another possibility may be a push into using regional or local brokers rather than resorting to a global broker procurement; such a move would come with multiple challenges.”

”The distance between the mega brokers and other brokers operating in markets that are of relevance to the World Bank becomes bigger and bigger. I sense that it will become more difficult to show ‘local flavour’ in the offering of these mega brokers.”

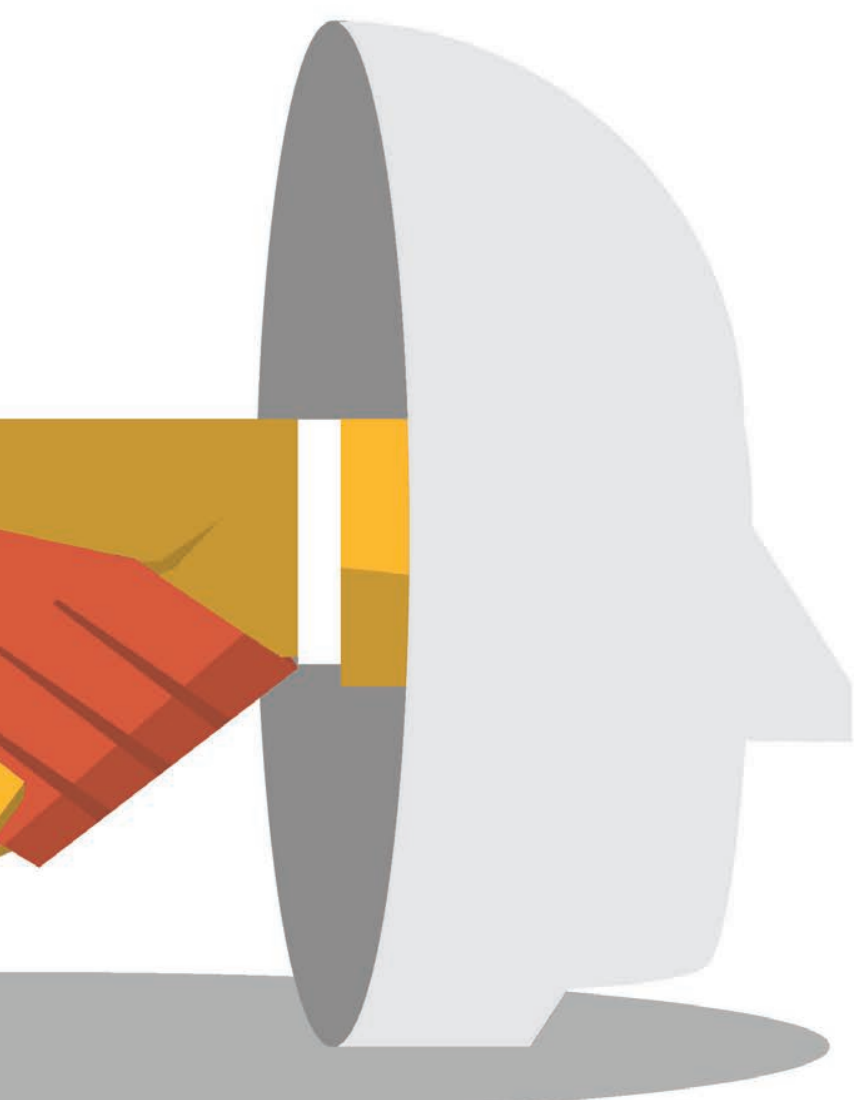
”It would appear that these mergers are not in the customers’ best interests. The ‘size matters’ argument has a certain value but honestly speaking I do not see a significant improvement in the new Marsh vs. the old Marsh. There appear to be limits in what clout is able to achieve.”

”I certainly did not sense any need for the Aon/WTW transaction. The firms had their own strengths and weaknesses and it was good to be able to have that choice.”

”The timing for the transaction is interesting given current challenges of a hard market – how does a bigger broker help in that situation? – and the added complication of COVID-19. There may be real logistical complications linked to the latter. This is obviously besides the highly volatile economic environment.”

”I feel that risk managers value insurance brokers for technical services beyond pure placement. I get the impression that the transaction income is highly driven by brokerage income and I would suspect that this will remain the focus of the new Aon.”

For risk managers who value the technical services (e.g., risk modelling, risk engineering, etc.), there may be a flight to smaller, specialized firms who may then also pick up the resulting insurance placement because of their intimate knowledge of the business.” **SR**



Insurance prices hit new high

Asia regional composite pricing rose the slowest from Q3 to Q4, hitting under 6%, while Australia and New Zealand saw continued double-digit increases.

Property insurance pricing in Australia and New Zealand increased 18% in the fourth quarter of last year, the eighth consecutive quarter of year-over-year double-digit increases.

Double-digit increases were reported for CAT and non-CAT risks, in both Australia and New Zealand. Pricing was up 10% to 20% for many clients; in some cases even higher. Like prior quarters, increases were observed across many industries (including real estate, mining and downstream energy) as a result of reduced capacity and appetite from major insurers.

Global commercial insurance pricing increased for the ninth consecutive quarter in Q4, according to Marsh's quarterly Global Insurance Market Index, a proprietary measure of global commercial insurance premium pricing change at renewal, representing the world's major insurance markets and comprising nearly 90% of Marsh's premium.

- Average commercial insurance pricing increased 11% in Q4 of 2019, the largest increase since the

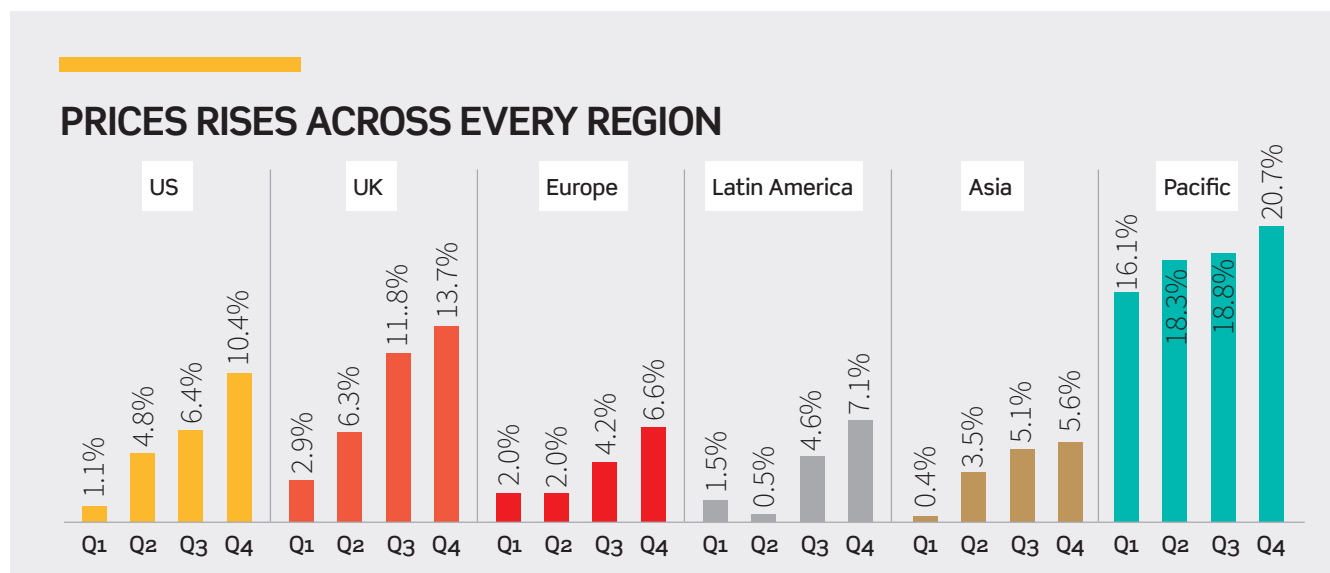
survey began in 2012, and the ninth consecutive quarter of average price increases.

- Globally, on average, pricing for property risks increased 13%; financial and professional lines rose nearly 18%; and casualty increased 3%.
- Composite pricing in the fourth quarter increased in all geographic regions for the fifth consecutive quarter, largely driven by rates in directors and officers (D&O) coverage and property.
- All global regions reported average pricing increases of 5% or higher for the first time since the index began.
- The Pacific region had the largest composite pricing increase in the index (20.7%), a quarterly trend that has continued for three years. Pacific composite pricing was driven by increases in D&O rates, as well as increases in property.
- Casualty pricing rose 6%, a trend of mid-single digit increases that has continued for three years. Competition in the casualty market increased, but pricing continued to rise at a fairly consistent rate.
- Pricing for all sub-products for both Australia and New Zealand was either stable or increased in the low-to-high single digits. Financial and professional liability pricing again rose more than 25% in the quarter, marking 10 straight quarters of double-digit increases.

HAYNES REPORT SEES D&O PRICE RISE

The largest increases are being experienced on side C exposed listed company D&O, where increases of 100% or more have become common. Financial services professional indemnity (PI) has experienced increases of a similar magnitude.

In the D&O market, the driver for price change continues to be securities class action claims. Financial services PI pricing continues to be impacted by claims arising from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The claims environment has led to a number of major insurers in the local market retreating, with others taking firmer positions on price, capacity and retentions. A large volume of Australian business continues to be placed into the London market. **SR**





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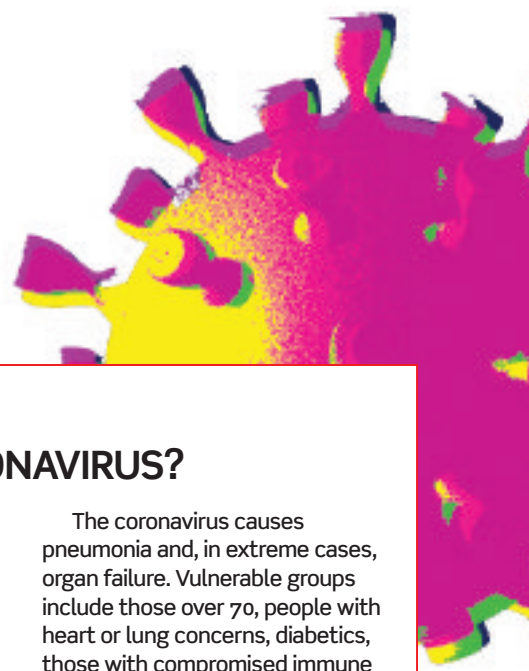
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Gone viral

The coronavirus is shutting down the world, making recession appear inevitable and health risks a continuing, mammoth concern. Risk managers are in crisis mode.



Shanghai is usually thriving following Chinese New Year, but last month it was deathly quiet. The city's 24 million inhabitants were nowhere to be seen as the business district in one of the world's busiest cities ground to a halt. Workers were advised to stay away from the office, avoid contact with colleagues, and put a halt to their operations, as the city was put on lockdown.

Coronavirus is believed to have originated in Hubei province, China, but has rapidly escalated across the world. After Chinese authorities put the nation on lockdown, the epicentre of the pandemic has shifted to Europe. Italy now has the largest number of cases, with numbers rising across Europe and as far as New Zealand and Samoa.

March now marks the third month of the coronavirus outbreak. The respiratory virus is now a global pandemic. At time of press, it has killed close to 19,000 people around the world. And the death toll will continue to rise. The total number of coronavirus cases has risen to over 400,000 people, hitting 25 countries, including the UK, US, Vietnam, South Korea and Australia.

Coronavirus has a death rate of close to roughly 1%, but is expected to be the worst global flu pandemic since the 1918 'Spanish flu', which killed 40 million people.

It is now the turn of Italy, Spain and Germany to go into lockdown. Governments around the world have advised workers to avoid unnecessary travel as they try to keep a lid on the pandemic. Millions of people are self-isolating in their homes to avoid being hit by the bug or passing it to others, while countries have shut their borders from India to the EU. Flights have been cancelled as demand dries up.

BUSINESS BREAKDOWN

The rapid spread of the virus has already caused huge interruption for global businesses. Key global markets, from the US to Australia and Vietnam, are braced for the economic impact of reduced travel and trade; many, many workers are unable to travel to their place of work. In the first wave of the crisis, companies feared lower demand from China. In the second wave, they fear for domestic demand and the impact on all international trade and supply chains.

Nations across the globe face severe business interruption, supply chain issues, as well as devastating health impacts. The crisis has caused the stock market to crash, with many global indices posting their biggest one-day falls since 1987. The events are widely expected to trigger another Global Financial Crisis. According to S&P, an Asia-Pacific recession "is now guaranteed", following an "enormous first-quarter shock in China", and shutdowns around the world ever since.

The urgent health risk has become a reality for global risk managers. Many will have moved from the

WHAT IS THE CORONAVIRUS?

The coronavirus originated from animals, and is believed to be linked to a 'wet' meat market in Wuhan, China. Like Ebola and Mers, the coronavirus originated in animal hosts. Sars and Mers are also coronaviruses that come from animals.

The region of Hubei was the initial epicentre of the outbreak, with millions of people effectively under quarantine in the area.

However, by mid March, Europe – and Italy in particular – became the most affected zone.

While the coronavirus has a lower mortality rate than Mers, which killed 35% of victims, this outbreak's rapid spread has caused panic around the world.

The virus is believed to be airborne and is transmitted from person to person. According to official estimates, there are over 400,000 cases so far (as of 24 March).

The coronavirus causes pneumonia and, in extreme cases, organ failure. Vulnerable groups include those over 70, people with heart or lung concerns, diabetics, those with compromised immune systems and pregnant women.

The outbreak was given pandemic status by global authorities in early March. A pandemic is a "worldwide spread of the disease".

The virus is expected to cause a sharp global recession, as businesses close their doors and demand falls. Governments are responding with fiscal stimulus aimed at sustaining economic growth.

The UK government has announced a £350bn aid package for businesses while the US government is expected to provide more than \$1trn in support as businesses struggle under the weight of the crisis.

**"IT IS THE
"RESPONSIBILITY OF
ALL TO DO AS MUCH
AS POSSIBLE TO
LIMIT THE SPREAD
OF THE VIRUS [AND]
TAKE A WELL-
CONSIDERED VIEW
REGARDING THE
IMPLEMENTATION
OF APPROPRIATE
TRAVEL
MEASURES."**

Group medical director,
International SOS
Dr Neil Nerwich

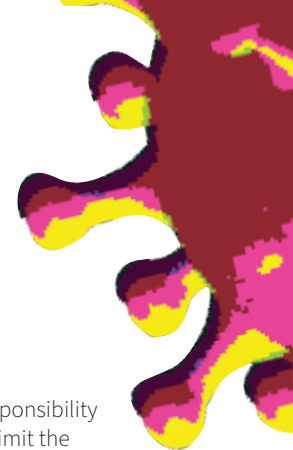
prevention stage to full crisis management. Health risks, and the immediate safety of employees, are the top concern as the death toll continues to rise.

Travel risk company International SOS advises businesses to defer all non-essential international travel due to the virus. It is the first time in the organisation's history they have issued this advice.

Mick Sharp, chief operating officer of security services at International SOS, says the "unprecedented" advice followed the World Health Organisation's declaration of the outbreak as a pandemic, "and comes amidst a rapidly evolving situation where a rapidly expanding number of countries have imposed public health measures to reduce the spread of the virus, including border closures and restrictions on international travel".

He adds: "The sum of these measures means that travellers and mobile workers are more likely to be disrupted in their travel, and face restrictions on their ability to work productively. The impact on the global economy and the potential for second-order security issues in the short, medium and longer terms also needs to be considered."

Dr Neil Nerwich, group medical director at



21 March: An unusually quiet Westminster Bridge in central London.



A deserted street in Shanghai on 6 February, 2020. At time of press, China deaths hit 3,281, with 81,218 confirmed total cases.



21 March: The Chinese government donated 100,000 COVID-19 test kits, 10,000 personal protective equipment, 100,000 surgical masks and 10,000 N95 masks to the Philippines.

International SOS, says it is the “responsibility of all to do as much as possible to limit the spread of the virus”, and for organisations “to take a well-considered view regarding the implementation of appropriate travel measures to protect their employees”.

Sharp says International SOS does “not anticipate substantive change in our advice in the near term given the dynamic nature of the medical threat and extent and fluidity of government restrictions”.

STRINGENT MEASURES

Risk managers across the Asia-Pacific region are working through their response to the coronavirus as the crisis continues.

Victoria Tan, head of group risk management at Ayala Corporation, one of the largest conglomerates in the Philippines, says her company took immediate action to focus on health risks when the news hit, providing “hand sanitizer, face masks and thermal scanners” in its buildings, at the early stages of the outbreak.

She says: “Through our partner, International SOS, we get updates on what’s going on within the region and what precautionary measures we should have in place. We then cascade it to our employees through various means – emails, posters, text blasts and chat groups. We update it as necessary.”

On 18 March, the Philippines introduced quarantine measures and sweeping travel restrictions, as infections rose from six to 187 over 10 days.

As a result, Tan says the company has changed course: “We are working from home and not allowed to go out. Our government has enforced enhanced community quarantine because of local transmission. So most of us are working from home. Communications are updated to guide our employees.”

Tan warns “third world countries such as the Philippines” are “highly vulnerable” as they lack reliable healthcare infrastructure, and a large population lives in close proximity.

She fears the outbreak will impact the productivity levels and the regional economy, and cause risk managers to review their insurance coverage.

“Definitely this will have an impact on the economy as some companies may not be able to operate due to lack of manpower. At this time, maybe insurance managers are thinking about non-damage BI.”

FUTURE UNKNOWN

Experts say the timescale of the pandemic is unknown, spelling danger for risk teams trying to predict what happens next.

China appears to be over the worst of its first outbreak, but risk experts say companies should reflect on a new era for businesses in the region.

Kent Kedl, a China-based partner at Control Risks, says the Chinese government’s response was “faster and more transparent” than previous outbreaks, giving



some comfort to organisations in the country.

“Compared to the past, the response has been faster. But, first of all, the epidemiology is unknown. Wuhan is a very rural area, and the rates could be higher,” he said, speaking during Shanghai’s lockdown in February.

“It’s frustrating for companies because we don’t know how bad it is and how long it could go,” Kedl adds. “Regions with millions of people have been cordoned off, and it is the strongest reaction there has ever been for a potential pandemic.”

Shanghai slowly began to reopen in the week of 16 March. Shops and restaurants have opened their doors again, but the city, like many others, is practicing “social distancing” – keeping people apart wherever possible to avoid a further spread.

Kedl expects a “global, financial” impact from the virus, with western economies more exposed to China risks than they were decades ago. As the virus sweeps around the world, the vulnerability of global supply chains and trade is likely to be exposed.

“We’ve seen hints of the [global impact] from the trade wars in recent years,” Kedl notes. “China is the epicentre for a lot of business. We’re talking about a huge impact, but the impact is unknown.”

GLOBAL KNOCK-ON EFFECTS

The focus has now shifted to the rest of the world. Export markets, tourism and economic activity are poised to take a hit across the Asia-Pacific region as other countries struggle to tackle the pandemic.

“There will be a negative impact for companies across the Asia-Pacific region dependent on China for supply or exports. China has already suggested it is going to have a pretty significant impact on GDP,” Kedl says.

Kedl adds that global companies will face challenges at a human level, as well as business interruption.

“Sending your kids to school, working out where you can go, it is an incredibly distracting time. You have to be focused and aware, and keep an eye on your business. Anything that distracts you from that, like a trade war, or this, is going to have a negative impact.”

What can risk managers really do to mitigate the effects of the outbreak?

Kedl says organisations around the world should consider employee health as a top priority. “I think the first concern for all companies is the health and safety of people. When can they get back to normal operations? Those are the primary concerns.”

He says the virus outbreak may prompt companies to review their approach to risk in China, with many



Authorities temporarily closed Bondi Beach on 21 March, after huge crowds flocked to the iconic surfing spot despite government orders not to congregate.

companies using a risk playbook from before Xi Jinping’s leadership.

“China is a different place now than 10–20 years ago. Companies that have been there for that long have been lulled into a false sense of confidence that they know China, and they know how to manage risk more broadly.”

“Companies are much more dependent on China now. No foreign company had the footprint here that they have now. So your whole assessment of risk, and risk management approach, needs to be quite different.”

“When something like this happens, yes you can compare it to Sars, but the impact on your business is going to be several orders of magnitude greater. Therefore, the way you manage risk needs to be totally different.”

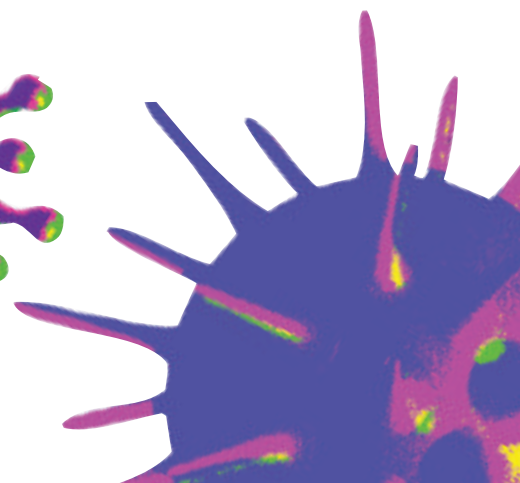
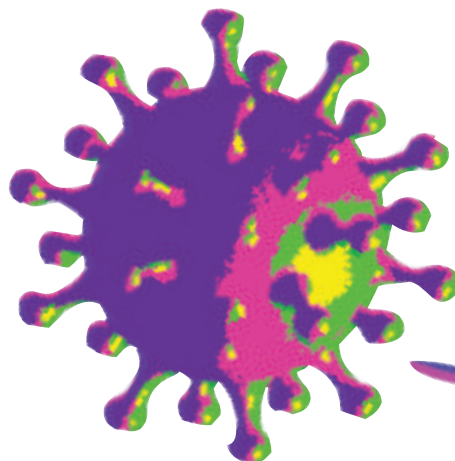
Kedl called on global companies to regularly update their risk maps to avoid being caught out by unexpected health events.

“There’s risk assessment, risk management and crisis management,” he says. “Those are the three steps. If you haven’t updated your risk maps over the past two or three years, it is probably out of date right now.”

“A health and safety crisis is always near the top, including regulatory enforcement. If you haven’t done the first two steps, you’re left with crisis management. If you haven’t practised ahead of time, it is difficult to do it with bullets flying.” **SR**

“WHEN SOMETHING LIKE THIS HAPPENS, YOU CAN COMPARE IT TO SARS, BUT THE IMPACT ON YOUR BUSINESS IS GOING TO BE SEVERAL ORDERS OF MAGNITUDE GREATER. SO THE WAY YOU MANAGE RISK NEEDS TO BE TOTALLY DIFFERENT.”

Control Risks partner
Kent Kedl



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Deep impact

Global stock markets are plummeting, supply chains are stalled and now European cities are in lockdown. Under such intense disruption, what are the full business implications of this pandemic and what can crisis teams do?

On top of the devastating human cost, the coronavirus has also had a significant business impact across Europe, the UK and US. Stock markets have plummeted as investors fear that travel restrictions will prevent business activity. Supply chains have been upended and former US Federal Reserve chair Janet Yellen has said that business interruption could tip the US into a recession.

For risk managers, there are several key issues to consider. As well as staff becoming ill, other threats include reputational crises if business travellers become unwell, disrupted logistics, closure of factories or other business locations, decline in consumer spending and even the threat of longer-term economic depression.

With so many risks and concerns, it can be hard to see the best way forward, particularly when some

“BUSINESSES SHOULD REVIEW THEIR BUSINESS CONTINUITY PLANS AND CHECK WHETHER THEY INCLUDE THE SORT OF RECOVERY OPTIONS THAT WILL BE NEEDED FOR THIS TYPE OF CRISIS.”

Head of resilience advisory consulting, Marsh
James Crask





18 March: Wall Street stocks plunged again as economists warn of a deep recession. The Dow Jones Industrial Average tumbled 6.3%, or more than 1,300 points.



State governments in Germany have severely tightened restrictions on movement. Bags with clothes and food are placed in a Berlin park for the homeless (21 March).

“THE VIRUS COULD TOPPLE CHINA’S DOMINANT MANUFACTURING POSITION AND COMPANIES WILL NEED TO DIVERSIFY THEIR SUPPLY CHAINS.”

President, Stenn Group
Dr Kerstin Braun

may be in direct conflict with others. For instance, how do you balance the risks of low productivity with the danger of failing to quarantine staff.

Paul Denton, a consultant at SRMC, LLC, says: “As far as risks to a business enterprise from coronavirus or any other community health issue, one would have to look at the nature of the business. Is there international travel involved? If so, from what countries? Is there mass gathering of people? Is the business facility open to the public or is it restricted to employees? Are communicable disease, community or cleaning protocols a concern? Is the facility outdoors or in an enclosed space, such as an office building, school or church?”

“The first critical step in my view is preparedness. Well-prepared managers will already have business continuity plans that include policies and procedures for a pandemic. The logical step is to think broadly and apply the plan for any sickness, disease or illness.

The foremost priority is the safety and well-being of people: staff, customers and visitors.”

JUST STAY HOME?

By far the greatest risk with coronavirus is its impact on people. Staff may fall ill, become anxious or fail to show up to work due to safety concerns, caring for sick family members or travel restrictions. Governments are continually changing quarantine and self-isolation guidelines and businesses need to keep track of these.

In many European countries, there is a legal expectation that workplaces will take reasonable steps to safeguard their staff. For office-based workers, working from home is an obvious precaution that can help keep employees safe and stop the spread of the virus.

Martha McKinley, employment law solicitor and senior associate at Stephenson Solicitors LLP, says: “If home working is an option then this should be considered.”

James Crask, head of resilience advisory consulting at Marsh, adds: “Businesses should review their business continuity plans and check whether they include the sort of recovery options that will be needed for this type of crisis. For some businesses, it may mean more home working, increased teleconferencing and split site working for critical teams. Businesses should ask themselves: ‘Do our systems and processes allow for this change in working practices?’”

Of course, not all companies can introduce or extend home working. Care workers, for instance, rely on face-to-face contact to fulfil their roles. Manufacturing plants require workers on the ground to run machinery.

McKinley says: “In some industries there will be a ‘lay off’ clause within an employment contract, which is a provision designed to deal with a situation in which an employer cannot provide an employee with work – for example, a factory being forced to close.”

“These clauses are designed to deal with temporary situations and can support employees while they are ‘laid off’ without pay. However, if a contract does not contain this arrangement, and there is no corresponding union agreement, then an employer will still have to pay staff even if a business cannot provide work.”

There may in fact be unexpected benefits to closing down operations. For example, when coronavirus began to spread further across China and into other countries, a number of airlines chose to suspend flights to China.

Ronn Torossian, CEO of 5W Public Relations and a crisis expert veteran, says: “While this was surely a tough call for airlines to make, it’s a very good public facing move. This shows the public that the airlines are willing to put the common good over profits, and in an industry that generally is not beloved by the public, any good will helps.”

TRAVEL SHUTDOWN

European businesses have been feeling the effects of the international travel restrictions on their business travellers. Organisations have also had to think about

PLANNING YOUR CORONAVIRUS BUSINESS STRATEGY

Dr Keith Smith, RiskCovered Ltd, shares his thoughts on some of the practical steps that risk managers can take to make sure they are prepared for the spread of coronavirus, ensuring their business continuity plans are robust enough to deal with this crisis.

1 It is key to secure sources of valid information when knowledge is weak. Go to the WHO website, NHS – places where the source has credibility and are regularly updated.

2 Contextualise the information as it relates to your organisation. Not all information is relevant for all businesses. Look for upsides, do not just see downside threats.

3 Recognise there are two groups to consider here – customers and the people who work in your business. Strategies are required for both groups.

4 Create scenarios to pull the information you have and collect it into stories that people can follow and make rational judgements from. Risk managers should consider building at least three scenarios, but may use more to explore optional response strategies.

First scenario is that the situation gets a little worse, but tails off over the next six weeks. Collect information on such a scenario and work out decision points and responses.

Second scenario is that the situation gets a lot worse in Europe, but is not an extreme scenario. Must be plausible and based on facts that can be established, such as connections with already infected locations. So if there are major trade links between the region in Italy and say the motor trade around Stuttgart, then the scenario may

consider the situation where Stuttgart gets infected.

Third scenario is still a plausible scenario, but an extreme situation where things generally don't go well. Early vaccines are not as effective as hoped, people do not self isolate, new transmission channels are found, etc.

For each scenario, collect information and identify key risk indicators and things which would require a change in response. Things that can give early warning on how the situation may unfold. Scenarios are good communication tools for risk managers and good for building structure around situations like this.

5 Use crisis management technics. Communicate frequently and ensure there is one version of the truth.

6 Implement simple low-cost procedures that reassure people in your business. Do not let the soap run out! Implement working at home if possible. Reduce travel by using webex type systems, etc. Make cleaning obvious and visible.

7 Update plans regularly. A big decision-making trap is to stick with a decision long after it has ceased to be the right decision.

8 Think about the post-crisis world. What could have changed permanently?

local travel disruption for domestic workers.

Charline Gelin, director of security solutions at International SOS, says: "Wherever [the virus] appears, organisations may find that their employees are at risk of disruption. It is critical that organisations and their people have a heightened awareness of the developing situation, with access to information and flexibility to change plans."

To protect workforces, International SOS is advising organisations to take at least the following actions:

- Educate employees on the symptoms and precautionary hygiene measures and ensure people have access to the most up-to-date information.
- Require employees to seek medical attention if they feel unwell and to not leave their homes.
- Stand up crisis management teams and review plans regularly.
- Review travel management plans, potential for travel disruption and risk of imposed quarantine.
- Review pandemic plans.
- Review protective equipment and cleaning protocols.
- Allow additional time for travel and flexibility in itineraries.



Deserted check-in counters at Rome's Fiumicino international airport on 17 March. Despite several lockdown measures, Italy's death toll was at 6,820 as of 24 March.



16 March: Empty shelves are seen at a supermarket in Moscow, Russia, amid the coronavirus outbreak.



Times Square is empty of pedestrians on 21 March, one day before the city will go on 'PAUSE' (Policies Assure Uniform Safety for Everyone) lockdown.

"IT IS CRITICAL ORGANISATIONS HAVE A HEIGHTENED AWARENESS OF THE DEVELOPING SITUATION, WITH ACCESS TO INFORMATION AND FLEXIBILITY TO CHANGE PLANS."

Director of security solutions at International SOS, **Charline Gelin**

'JUST IN TIME' FALLS DOWN

Businesses are already seeing the negative effects of supply chain interruption and will only get worse as the outbreak continues to spread. The 'just in time' nature of many businesses' supply strategies mean many organisations have little in-built resilience to absorb such extreme delays or disruptions.

As one example, organisations that use personal protective equipment (PPE) are at significant risk. Any industry relying heavily on disposable workwear will be impacted.

Steve Green, a director at insurance broker Anthony Jones, says: "Where are businesses going to source PPE? Currently, all portside goods are being returned to factories, so there is nothing coming from China, which could last for months. As a result, there is zero stock available now globally on respiratory equipment, and supplies on coveralls are exhausted. Try sourcing hand sanitiser right now."

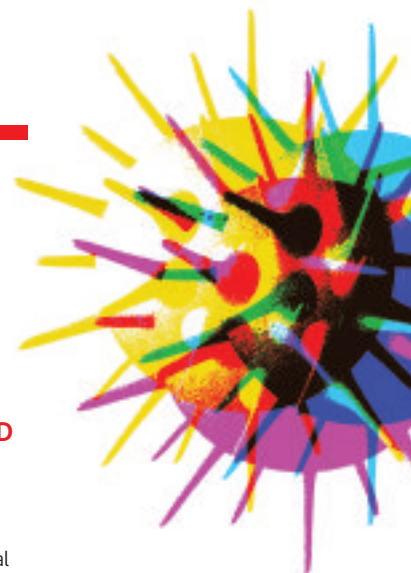
Stockpiling or panic buying by consumers is deeply exacerbating this situation. "Supply chains are slowing down in China as manufacturing is not at its full capacity," Green adds.

Of course, it's not just protective clothing that is causing supply chain issues. The impact on many organisations could be severe, particularly those in manufacturing and the automotive sector.

Dr Kerstin Braun, president of financial services company Stenn Group, says: "US imports are being held hostage at the ports when coming in via ship. Vessels need to wait 14 days until they are able to access the port and offload... The virus could topple China's dominant manufacturing position and companies will need to diversify their supply chains."

"Supply chains are slowing down in China as manufacturing is not at its full capacity. Factories are opening back up but with only about 50% of the workforce. Given the automotive industry is already struggling to adapt to the changing demands for cars, it is likely the automotive industry could be soon harden."

Crask adds to this: "Organisations should be contacting their key suppliers to understand their plans and expectations for how they might be disrupted. It's also critical that they ask about their supplier's key suppliers." **SR**



Holding up half the sky

When it comes to gender diversity, Airmic isn't reaching. Women hold substantial numbers, and influence, throughout the organisation. We asked these big hitters why the risk and insurance world needs diversity in all forms.

TRACEY SKINNER AIRMIC DEPUTY CHAIRMAN AND GROUP INSURANCE DIRECTOR AT BT GROUP

What advice would you give your younger self about working in the risk and insurance industry?

The industry contains a wide number and range of roles. Try to move around in your early years to experience as many as you can before settling on something you feel most passionate about.

Why is diversity important in risk and insurance?

Our customers are becoming increasingly diverse and a diverse team can really understand what they want, and deliver it.

What will the industry look like in 20 years?

It will be more efficient, slicker and diverse industry, focusing on innovation.

“OUR CUSTOMERS ARE BECOMING INCREASINGLY DIVERSE AND A DIVERSE TEAM CAN UNDERSTAND WHAT THEY WANT, AND DELIVER IT.”

Tracey Skinner, BT Group

“DIVERSITY ALLOWS US TO MINIMISE OR REDUCE THE RISK OF UNCONSCIOUS BIAS.”

Alison Hill, Amazon

ALISON HILL AIRMIC BOARD MEMBER AND HEAD OF EMEA TRANSPORTATION RISK AND COMPLIANCE AT AMAZON

What advice would you give your younger self about working in the risk and insurance industry?

I would encourage myself to do plenty of research and tap into my network. What sorts of roles are there, what does risk mean and does it differ depending on the industry? What are different groups talking about and does it interest me?

Why is diversity important in risk and insurance?

Diversity allows us to minimise or reduce the risk of unconscious bias. This is important in order to consider risks and mitigation in broader and deeper ways, and to develop a range of insurance products that will appeal to wider or a different audience.

What will the industry look like in 20 years?

Wow – I think predicting the next two years is a challenge as things are changing so quickly. Data will remain a vital asset and, as consumers we would expect, more automation, more speed, less effort. There is likely to be further consolidation, removal of industry boundaries and the potential to buy most things from a smaller group of organisations – unless governments get tough! Whether borders drop or raise, and whether we get tied up in knots with regulations remains to be seen!

LYNDA LUCAS AIRMIC BOARD MEMBER AND FORMER CHAIRMAN. DIRECTOR OF INTERNATIONAL RISK MANAGEMENT, GLOBAL CORPORATE FINANCE, AT FUJITSU

Why is diversity important in risk and insurance?

Clearly diversity is important in risk and insurance because the more diverse input you get about something, the more robust your output will be and in our line of business that equates to

“WHEN I STARTED WORK, I HONESTLY THOUGHT THAT EQUALITY WOULD HAVE HAPPENED BY NOW.”

Lynda Lucas, Fujitsu

superior resilience.

When I started work, I honestly thought that equality and diversity would have happened by now and it's really depressing that we still find ourselves having to talk about it. I

am thankful that I thought I could do anything and grateful that for the most part I have worked with colleagues who weren't overtly discriminatory.

A great piece of advice I received was to look for the men who are ambitious for their daughters. They should be the ones who treat women in the workplace in the same way that they would like their daughters to be treated. I can think of a number of times when I was surprised to receive support from colleagues where I think that was likely to have been the key factor.

“DIVERSITY HAS BEEN PROVEN TO DRIVE BUSINESSES FORWARD ACROSS EVERY SINGLE SECTOR.”

Kate Wallin, Marriott Hotels International

KATE WALLIN AIRMIC BOARD MEMBER AND DIRECTOR OF RISK MANAGEMENT, EUROPE, AT MARRIOTT HOTELS INTERNATIONAL

What advice would you give your younger self about working in the risk and insurance industry?

Be curious. Show interest and ask questions about the business in which you operate. Ask questions and probe others. Try to understand the key challenges that each area of the business faces... insurable or not!

Why is diversity important in risk and insurance?

Diversity is important in all business, across all industries... not just insurance. Diversity promotes innovation, professionalism and has been proven to drive businesses forward across every single sector. We live in a diverse society and business – including risk and insurance – needs to reflect and embrace this.

What will the industry look like in 20 years?

I'd like to see more talent proactively pursuing a risk and insurance profession at an earlier stage in their career and with more focus. This will raise the bar across the industry.

CATHERINE OROBATOR

AN AIRMIC fastTRACKER AND INSURANCE OFFICER AT UNIVERSITY OF EAST LONDON

What advice would you give your younger self about working in the risk and insurance industry?

There is just so much to love about the industry. The opportunities for both personal and professional growth are so far reaching. Think cyber security, medical marijuana or Internet of Things, as well as traditional covers taking a revamped application. These call for innovative ways of doing business and thus creating new and exciting opportunities for the innovative mind or awakening the sleeping innovative minds.

This industry allows you to make a real difference: Do you think about making the world better? You have the opportunity to help people, particularly in times of need. You can use your skills to benefit a cause in a real and positive way as insurance provides a force to restore and protect people and communities.

The many development opportunities are also a huge positive. With change happening at such a fast pace comes the necessity to keep on top of new developments. There are many free or affordable trainings on a broad range of topics and formats to cater for everyone – breakfast briefings, webinars, bite-size academies, the list goes on. There is a lot of scope for the creative and curious mind. Opportunities

abound to develop one's abilities and intelligence.

For one relatively new to the industry, the friendly collaboration, the openness to share knowledge, to consciously build symbiotic relationships and synergies is simply amazing and takes the job from cut-throat competition to one of mutual partnerships.

Why is diversity important in risk and insurance?

Diversity has within it the great option of building synergies, where the sum of the whole is much greater than the individual parts. Diversity brings with it a greater richness of conversations, ideas and debates, opening up a broader perspective. Consequently, with an industry handling a diverse range of exposures and perils, tapping into the fullness of what diversity has to offer is a good business imperative. It could be argued that diversity is a risk management technique.

The risk industry cuts across all people, every sector of the community, all sectors of business, and has a

“THIS INDUSTRY’S FRIENDLY COLLABORATION ... TO CONSCIOUSLY BUILD SYMBIOTIC RELATIONSHIPS AND SYNERGIES IS AMAZING.”

Catherine Orobator, University of East London

worldwide presence. So it's vital for risk and insurance to have diversity within its DNA and its overarching ethos. This will allow the industry to seek solutions from all sources and thus make the risk and insurance industry truly rich in the broadest of terms.

What will the industry look like in 20 years?

There will be greater cultural awareness to enable risk and insurance to reach its potential, tapping into diversity in the fullest possible way. It will be an industry where technology incorporates the human touch; data analytics is authentically meaningful and incorporates the human factor; and skills and capabilities are constantly updated, bringing in new and innovative ways of learning.

CLAIRE COMBES CHAIR OF AIRMIC'S RISK MANAGEMENT STEERING GROUP AND RISK, AUDIT AND INSURANCE PROFESSIONAL AT HEARTWOOD RISK SERVICES

What advice would you give your younger self about working in the risk and insurance industry?

The breadth of the risk and insurance profession is amazing. Take every chance to explore new opportunities and try new things. Every time you learn something new, it makes you a stronger risk manager. In my career, I have worked in so many parts of the profession and gained so much knowledge and experience, so that I will always have an idea on how to tackle a new risk, even if I have never seen it before.



“I HAVE WORKED WITH TEAMS OF DIFFERENT AGES, BACKGROUNDS, SEXES AND EXPERIENCES AND THERE IS NO RISK WE CANNOT TACKLE BY WORKING TOGETHER.”

Claire Combes, Heartwood Risk Services

Why is diversity important in risk and insurance?

Anyone who knows me knows how passionate I am about the benefits of diversity of thinking. I have worked with teams of different ages, different backgrounds, different sexes and different experiences and there is no risk or issue we cannot tackle by working together.

The risk management profession is diverse in itself; the world is full of different risks and there are so many individuals whose roles contribute to managing those risks. There is a natural opportunity to learn from each other's experiences and apply them to your own role. I am excited about how this diversity will enable us to tackle future risk of which we are not yet aware.

What will the industry look like in 20 years?

I have seen some real shifts in what the profession has to offer over recent years and I see so much opportunity in the future. Personally, I have been encouraging cross-functional sharing of data to create insight, which is really valuable, and I see this being the norm going forward. For example, insurers and brokers providing information on causes of risks and claims more widely, so that everyone learns and can tackle risks proactively. I believe we will become even better at capitalising on the breadth of risk management and sharing lessons across different types of risk managers and industries to improve our understanding of risks.

I'm excited by the passion of the youth in our profession, who I believe will create new ways to view and solve risks of the future. I think risk managers will also start to focus on the commercial opportunities of appropriately managing risks (including increased exposure to risks that generate value).

I believe that Airmic has a key role to play in shaping this future and also facilitating the sharing of insight across professionals to maximise the opportunities.

FIONA DAVIDGE AIRMIC BOARD MEMBER AND ENTERPRISE RISK MANAGER AT WELLCOME TRUST

What advice would you give your younger self about working in the risk and insurance industry?

I think my younger self, who was working in a vastly different sector, actually had the best start – a diverse background has given me experience that is so valuable

to my risk role now. So stay flexible and be curious about the world. Don't get fixed on one track.

Why is diversity important in risk and insurance?

Diversity of thinking is what is important – not just male/female but socially and commercially. People and organisations have blind spots and need to employ and then encourage diversity of thinking and support people to speak out. There may be that one junior person in the team who has a good thought, sees a risk in a certain way, and who should be encouraged to speak up.

Risk and insurance is changing as the business world becomes less based on tangible assets. Employ people from differing backgrounds – look for skill set rather than matching background. Why does someone have to work in insurance all their life to get the senior roles?

“PEOPLE AND ORGANISATIONS HAVE BLIND SPOTS AND NEED TO ENCOURAGE DIVERSITY OF THINKING AND SUPPORT PEOPLE TO SPEAK OUT.”

Fiona Davidge, Wellcome Trust

What will the industry look like in 20 years?

I would hope to see fewer insurance classes as business processes are increasingly inter-related – e.g., buildings are controlled by IT so cyber and property insurance needs to overlap. Businesses are looking for holistic cover and do not want to have to pick and choose and be subject to gaps in cover.

Insurance needs to be based on business output rather than assets, especially as, for many businesses, output is not in tangible goods. I think the industry will have fewer players and classes of insurance – threats will come more from outside than inside an organisation and so will not be so much under their control. **SR**



Who are you dealing with?

Supply chains may be complex and suppliers remote, but you must know their ESG strategies well. Because in the eyes of your stakeholders, the regulators and the world at large, their failings are yours, too.

When thinking about your organisation's supply chain, there's a plethora of different risks for a modern business to consider. Are your company's suppliers reliable, financially robust and operationally sound? Are they exposed to greater risks in developing and unregulated markets?

Global company supply chains are becoming increasingly complex as the business world moves across borders and boundaries. Multinationals can have tens of thousands of suppliers and may work with other outsourcers and contractors, making them even tougher to track.

And while financial and operational supply chain risks are important to any company, environmental, social and governance (ESG) risks with suppliers can also have a severe impact.

In recent years, food companies have been censured for using fraudulent suppliers, while some of the world's most glamorous fashion labels have been embroiled in ESG scandals over labour conditions and sweatshop safety. Such ESG risks in your supply chain can have a very immediate impact on your company. While your organisation may not be legally responsible for a supplier's ESG strategies, your company's

reputation and future can be directly affected by their actions.

As such, it is crucial to oversee your suppliers and their ESG approach.

COMPLIANCE GAPS COST

ESG risks in the supply chain can include a third party's approach to fair trade, ethics, whistleblowers or treatment of workers. As ESG becomes a bigger topic for shareholders and the public, companies need to ensure suppliers' policies are consistent with their own.

Global regulations, including the US Foreign Corrupt Practices Act, UK Bribery Act and the US Patriot Act, require organisations to maintain a thorough understanding of their supplier and third-party networks. The consequences of failure can include significant fines, regulatory enforcement, bans and reputational damage.

Despite such penalties, Refinitiv's research reveals gaps in compliance exist; according to a 2019 survey, over half of customer, supplier and partner relationships did not have a formal due diligence check at the





onboarding stage. Suppliers' environmental policies must also be up to a high standard. According to statistics from the UN and Interpol, environmental crime is the world's fourth-most costly crime, behind only drug trafficking, counterfeiting and human trafficking. Organised crime groups have exacerbated the problem.

Environmental crime can include the trafficking of natural resources, such as waste, forestry products, gold or minerals. Illegal activity is often focused on developing and unregulated markets, where supply chain information is hard to access. Other crimes include the treatment of end products or waste. Companies must be mindful of these heightened environmental risks, and the direct impact they can

have on your business if breaches emerge.

As a result of all this, investors are putting more pressure on companies to demonstrate their ESG credentials. Supply chains are becoming a more significant part of the conversation. And institutional investors and index funds have begun to screen out companies with ESG failings – a further reason to ensure your organisation has the best possible ESG practices across its supply chain.

The UN's Principles for Responsible Investment (UNPRI) underline what is expected of companies in 2020. "Businesses are increasingly expected to understand and manage their exposure to supply chain risks. Public awareness of supply chain issues continues to grow, with globally renowned companies increasingly under scrutiny to take action on major ESG issues among their suppliers."

"In many sectors, risks are often far greater in the supply chain than in the investee company's direct operations. For those with a good understanding of their supply chain, this is a great opportunity. For others, it is getting harder to hide."

Organisations must conduct a thorough review of their supply base in today's environment. Are suppliers' values aligned with your organisation's? Do they have robust ESG policies in place? Are they the type of firm you want to deal with?

Supply chains can play a key role in innovation and value creation. But as they lie outside of a company's core business, they can expose organisations to hidden risks. Human rights abuses, corruption, animal rights abuses and environmental crime in the supply chain can all lead back to your organisation.

Compliance with local regulation is unlikely to be enough to satisfy the expectations of stakeholders and the general public if things go wrong. As shareholders, consumers and customers expect more from global businesses, organisations need to ensure their supply base has strong ESG credentials.

THE FALLEN

In the past few decades, many high-profile multinational businesses have fallen foul of ESG issues in the supply chain, hitting profits, customer goodwill and production.

Toy company Mattel was forced to write down profits in 2007 due to charges and disruptions linked to the recall of potentially harmful toys. Mattel recalled roughly 21 million toys due to lead paint and other hazards posed by small magnets. The recalls resulted in a \$40m loss and led to significant disruption to its supply chain.

In 2011, Japanese carmakers and other manufacturers were forced to delay production after severe flooding in Thailand. The floods underlined the significant environmental risks facing global businesses and their supply chains. Companies including Honda and Toyota were forced to shift production to the US.

At the same time, computer makers, including Lenovo, were hit by supply shortages and suffered a substantial hit to profits.

In 2013, frozen food company Findus was forced to recall beef lasagne products after an environmental

"PUBLIC AWARENESS OF SUPPLY CHAIN ISSUES CONTINUES TO GROW, WITH COMPANIES INCREASINGLY UNDER SCRUTINY TO TAKE ACTION ON MAJOR ESG ISSUES."

The United Nations' Principles for Responsible Investment

agency found its products contained up to 100% horse meat. The scandal hit the Findus supply chain, exposed fraudulent practices of meat suppliers, and led to a significant fall in sales and profits.

Also in 2013, the collapse of a clothing factory in Dhaka, Bangladesh exposed some of the shocking supply chain conditions linked to some of Europe's most prominent retail brands. An eight-storey building used to produce luxury clothes for Versace, Gucci and Moncler, collapsed, killing 1,134 people.

The Dhaka factory collapse occurred after workers had raised concerns about conditions. The tragedy prompted mass outrage against fashion labels and supply chain ESG risk in unregulated countries.

In 2013, a group of retailers signed an accord on factory and building safety in Bangladesh. Still, according to ESG research company Vigeo Eiris, only 22% of footwear and clothing companies are signatories.

“SENDING A COMPLIANCE SURVEY TO A SUPPLIER IS NOT ENOUGH ANYMORE. YOU HAVE TO USE THE LATEST TOOLS TO SCRUTINISE YOUR SUPPLY CHAIN AND UNDERSTAND THE COMPLETE PICTURE.”

Regional performance director, risk, APAC, Refinitiv
Phillip Malcolm

GOOD BEHAVIOUR REAPS REWARDS

In fact, according to a 2019 Vigeo Eiris report, the specialised retail sector's ESG risk mitigation scores remain weak, and supply chain issues persist. The sector's average performance in terms of social standards in the supply chain remains limited, at 42/100, and “relatively unchanged over the past three years”.

While some sectors have a long way to go, forward-thinking businesses should engage with their supply chain on ESG matters. So what are the main benefits of good ESG risk management in the supply chain?

The UNPRI has issued guidance on the benefits of strong supply chain ESG risk management. It says companies must be able to respond more quickly to emerging regulation and legal obligations, such as the UK Modern Slavery Act, environmental laws in China, and EU Conflict Minerals Regulations.

The UNPRI also believes good ESG risk management in the supply chain can protect your organisation's social licence to operate, prevent the loss of governmental contracts, protect human rights, and avoid corruption and child labour.

In addition, the UNPRI says strong supply chain management will boost investor confidence. Clients, stakeholders, communities and regulators are likely to support measures to improve ESG supply chain management. The organisation adds that ESG supply chain management is a “significant opportunity” for companies to develop “long-term, trusting partnerships with their direct suppliers” and to “protect and enhance the relationship between their suppliers and customers”.

It believes strong risk management can reduce costs, lead to better financial risk management, reduce disruption, and lessen exposure to fines, litigation, increased insurance premiums and enhance continuity.

With so much at stake, how can risk teams monitor ESG risk and potential reputational risks in their international supply chain? Companies must conduct a full review of their supply chain, drawing on as much information as possible to understand the potential ESG risks. Accurate and complete data is needed to conduct appropriately targeted due diligence.

In emerging markets, companies can draw on interviews with trusted sources to build a picture of ESG risk. This can help in jurisdictions where press freedom limits the availability of information.

Fortunately, new tools have emerged in recent years to help companies review their supply chains. Companies can use Refinitiv's World-Check risk intelligence database to screen hundreds of suppliers and customers. The tool allows users to identify potential criminal activity from reputable public domain sources, and access over 4 million records.

If the database comes up with a hit, companies can order an enhanced due diligence (EDD) report. EDD reports combine in-depth public domain research with on-the-ground interviews in key jurisdictions, for a full understanding of potential problems.

EDD reports are powered by Refinitiv's global research teams and can help risk teams gather up-to-date, accurate intelligence on supply chain activity. From social and governance concerns to environmental practices, EDD reports can prove a valuable tool across a multinational company's supply chain.

KNOWLEDGE IS POWER

Using this technology, companies can begin to tackle ESG supply chain issues, prevent costly mistakes and ensure their reputation remains intact.

Refinitiv's EDD reports deliver targeted insights into supply chain relationships and can be tailored and customised. The reports focus on companies, key individuals and decision-makers, scrutinising backgrounds, track records, potential conflicts of interest, and political or criminal links. They also include a company's conduct and reputational history, as well as hidden liabilities. When necessary, additional information can be gathered from industry sources.

Refinitiv has one of the largest in-house EDD analyst teams, and its global network offers on-the-ground intelligence in different environments and regional customs. The company only uses ethical and non-intrusive research methods.

Refinitiv's regional performance director, risk, APAC, Phillip Malcolm says: “In the past, firms didn't look at their supply chains from an ESG point of view – it was all about continuity of supply and that was it, as long as business went on. But the world has changed. There is scrutiny on supply chains, scrutiny on who you deal with, from government and NGOs as well as your customers and investors.”

“Investors and stakeholders want to know you're dealing with the right people, whose values align with theirs. Sending a compliance survey to a supplier is not enough anymore. You have to use technology and the latest tools to scrutinise your supply chain and understand the complete picture, that your suppliers are on the right side of the law, have sound ESG values and practices and won't expose your firm to unexpected risks.”

As global companies look to tackle ESG risk in their supply chains, due diligence is critical. A detailed understanding of a third party's risk profile is necessary to avoid falling foul of regulators and causing long-lasting reputational damage to your organisation. **SR**

Don't get sunk by sanctions

As governments update sanction lists, and regulators are quick to hand out fines, how do you protect your organisation from non-compliance? You need the right intel, and for that you need an expert.

Sanctions can impact an organisation in many ways. Goods could be transported on a sanctioned vessel or through a sanctioned port, or payments may have been processed through or to a sanctioned entity. The repercussions of breaching sanctions are severe and can lead to supply chain disruption, falling sales and reputational damage.

US regulators, including the US Treasury's Office of Foreign Assets Control (OFAC), are notably aggressive in pursuit of those who breach sanctions. Last year alone, OFAC fined Standard Chartered \$657m, Unicredit \$611m and British Arab Commercial Bank \$4m. Banks from Canada, Japan and the United Arab Emirates have all been hit with fines over the past decade.

Last year alone, 18 non-banking organisations were hit with civil penalties of \$16.5m for breaching various sanction regimes. Organisations in travel, oil services, insurance and manufacturing, automotive, health and leisure sectors were all affected.

Meanwhile, the 50% rule from the OFAC has become more complex in the last few years. This states that any entity owned in the aggregate, directly or indirectly, at 50% or more by one or more blocked persons is also considered to be a blocked person. Ownership can be direct, indirect or in the aggregate.

CONFUSION FUELS FEAR

Developments concerning the US 50% rule have left businesses concerned about sanctions compliance. Many need watertight assurance they have not missed a risk related to transacting with any entity. Amid a difficult environment, companies and risk teams should screen for sanctioned entities using comprehensive, up-to-date software, and conduct enhanced due diligence (EDD) on entities flagged as high risk.

Amid turbulent political times and trade wars between superpowers, sanctions are changing quickly. And sanctions are becoming more prevalent, being used as tools to accomplish foreign policy or respond to political change. There are 65 bodies issuing sanctions across the globe, with 700 lists. It is a colossal task for risk managers to keep up with.

And this is against the backdrop of 'know your customer' (KYC) procedures within financial institutions. Financial Institutions have a regulatory obligation and responsibility to keep sanctioned

individuals and financial crime out of their systems, and must perform stringent checks of new customers during the onboarding process. Organisations must conduct sanctions screening and PEP (politically exposed person) screening to adhere to KYC requirements.

FAILURE MEANS FINES

Failure to conduct sanctions and PEP screening can spell serious danger for an organisation. Non-compliance can lead to severe fines. In November 2018, French banking giant Société Générale was



forced to pay \$1.4bn to settle investigations into its handling of dollar transactions in violation of US sanctions against Cuba and other countries.

Last April, Standard Chartered was forced to pay \$1.1bn over allegations of poor money laundering controls and breaching sanctions against countries including Iran. The US Treasury said Standard Chartered processed transactions worth \$438m between 2009 and 2014. Most of the transactions involved Iran-linked accounts from its Dubai branch routing payments through, or to, its New York office or other Standard Chartered banks in the US.

Last year, the number of fines issued by US regulators for sanctions breaches reached a decade high. OFAC was previously viewed as a banking enforcement agency but has shown increasing willingness to enforce on non-banks, too.

And no enforcement is too small or obscure. One company, Cosmetic Inc, was fined \$1m last January for allegedly importing false eyelash kits from China-based suppliers that had sourced materials from North Korea.

The volume of sanctions is becoming a serious challenge, and organisations are grappling with the issue daily. In a difficult environment, how can corporates keep up with the changes?

SCREENING SOLUTION

First, companies need a world-class sanctions screening solution. Companies and risk teams need

“FOR COMPANIES THAT HAVEN’T LOOKED AT THEIR SANCTIONS EXPOSURE, THEY NEED TO DO SO ASAP. THEY NEED TO ENGAGE PROFESSIONAL HELP. IT IS NOT SOMETHING THEY CAN DO ON THEIR OWN.”

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access to up-to-date and comprehensive information. Yet tools on their own are not enough.

Organisations need to know where their risk lies. As governments become more willing to use sanctions, risk teams must stay abreast of sanctions developments in different jurisdictions. Regular dialogue with your government on the current landscape is recommended.

Sanctions can make it difficult for organisations to plan and maintain international relationships and supply chains. And this is not just a problem for multinationals – the complexity of the international sanctions landscape also affects smaller institutions. Organisations can benefit from having a sanctions compliance team in place. According to a recent poll conducted by Refinitiv, 71% of organisations have a sanctions compliance team.

Organisations should not assume that compliance with their local regulator is enough. They must review all cross-border payments to ensure they do not fall foul of international sanctions. Companies must use thorough screening tools to review partners, customers and third parties before they engage in business.

GET TARGETED INTEL

EDD is a vital part of the solution. An EDD report can deliver detailed and targeted information on any entity or individual anywhere in the world. Risk teams can use this intelligence to make informed decisions about who to work with and where.

Third-party sanctions specialists can also help risk teams work through this challenging environment. Specialist advisers can help companies implement the right controls to ensure compliance and reduce risk through the customer onboarding, screening and monitoring phases.

Refinitiv’s regional performance director, risk, APAC, Phillip Malcolm says: “Regulators have global reach and can impose substantial fines for sanctions breaches. It may be because you’ve transported your goods on a sanctioned vessel or aircraft, or transited through a sanctioned port, or the ultimate owners of one of the companies you deal with is a sanctioned individual. It’s a very complex area. Companies need to place a lot more scrutiny on this than they have done in the past.”

“For companies that haven’t looked at their sanctions exposure, they need to do so ASAP,” Malcolm adds. “They also may need to engage professional help. In many cases it is not something they can do on their own. Firms should seriously consider engaging a sanctions expert to come in and understand their business, look at the risk tolerance and design and implement a formal programme to minimise sanctions risk.”

Risk teams can use information and data to their advantage as they attempt to monitor sanctions risk. Screening tools can help to ensure a nimble and immediate response to a changing sanctions landscape and empower organisations to avoid breaches.

Access to comprehensive and trusted data and thorough due diligence can be the difference between failure and success. **SR**



Financial crime: Are you being used?



72%

of organisations have seen financial crime in their operations in the past year (Refinitiv survey, 2019)

With a mere 1% detection rate, all multinationals are at risk of being tarnished by illicit funds. Emerging tech could be the answer but learning how to harness it is half the battle.

Companies around the world are at risk of being used to launder money and the proceeds of financial crime, or being indirectly associated with corrupt business practices. Multinational organisations face significant risks if customer and partner relationships are not adequately screened.

According to UN estimates, only 1% of criminal funds in the global financial system every year are detected and dealt with by law enforcement agencies. With such a low rate, companies are left with a tough task to unearth financial crime and find its perpetrators.

Financial crime has a broad definition that includes cash from money laundering, bribery, tax evasion, fraud, modern slavery, drug trafficking and prostitution. Financial crime can also include the proceeds from terrorism flowing through the financial system. But it is difficult to detect and more difficult to eradicate.

In March 2019, Refinitiv conducted a survey of more than 3,000 managers with compliance-related roles at global organisations. The study found 72% of organisations had seen financial crime in their operations over the preceding 12 months. The surprising figure underlined the true scale of financial crime — and the helplessness of organisations trying to tackle it.

The prevalence of financial crime comes as regulatory demands increase around the world. Organisations are faced with the difficult job of conducting due diligence on each entity and individual they do business with. In the past, this may have been impossible, but new technology offers a glimmer of hope in the ongoing fight.

IN COMES THE TECH

Across Europe, America, Africa, the Middle East and the Asia-Pacific region, KYC and third-party risk screening has become more important as regulators look to eradicate financial crime. New technology is emerging to help banks, financial institutions and other organisations monitor and disclose risk and meet KYC, anti-money laundering and counter-terrorist financing legislation,

among other jurisdictional regulatory demands.

AI, blockchain, machine learning, cloud computing, robotics and the Internet of Things can all be harnessed by organisations to fight financial crime. Emerging technology can help organisations navigate KYC and other onboarding processes, spot criminal activity, and prevent the flow of illicit funds at the source.

According to Refinitiv's recent survey, 73% of respondents said they struggled to harness the technology currently available to them. About 97% believed technology could help them get a grip on financial crime prevention. Furthermore, 94% said technology used to detect financial crime enhances customer engagement.

The findings come as organisations pledge to spend more on tackling financial crime. More than 51% of respondents to Refinitiv's survey said they would increase their budget over the next 12 months. Meanwhile, 82% said they were under pressure to be more innovative.

Data and information can be a valuable tool in the efforts against financial crime. Global due diligence tools offer a crucial source of relevant information to check customers, partners and relationships.



73%

of organisations struggle to use new technology to fight financial crime (Refinitiv survey, 2019)



50,000

new records are added to the World-Check risk intelligence database every month

PARTNERS IN CRIME-FIGHTING

Refinitiv's World-Check risk intelligence database can help organisations meet regulatory obligations, make informed decisions and prevent the spread of financial crime. Using up-to-date information and data, the database simplifies customer onboarding, and provides the tools needed to fulfil diligence obligations.

World-Check allows users to search for key information, delivers reliable data and leans on hundreds of specialist global researchers. The tool adheres to strict research guidelines and collates information from reliable sources. The data is easily absorbed into organisations' workflow screening platforms, cloud-based or third-party solutions.

Through the marriage of tech and human expertise, organisations may have a better chance of fighting financial crime. Each day, hundreds of researchers gather information on individuals and entities deemed to warrant enhanced scrutiny. World-Check covers 240 countries, 65 languages, more than 100,000 sources, and adds 50,000 new records each month.

As financial crime continues to lurk in the shadows, risk teams will be able to use data, information, and emerging technology to shed some light. Using technology to your advantage could be the difference between detection and a financial crime disaster. **SR**

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