Strategic RISK
Risk and corporate governance intelligence

- REPORT ON LATEST HONG KONG UNREST
- APAC RISK PIONEER STEVE TUNSTALL TALKS TECHNOLOGY AND TRUST
- FUTURE OF BUSINESS: GOING GLOBAL
- A BLUEPRINT FOR THE NEXT GENERATION
- CLIMATE CHANGE SURVEY SPECIAL: ARE BOARDS FINALLY TAKING IT SERIOUSLY?

EDITION [Q2] 2020 | **Issue 121**

OUR TIME TO SHINE

As businesses make tentative steps towards a post-COVID recovery, risk professionals have their attention like never before. How will you use your time in the spotlight?

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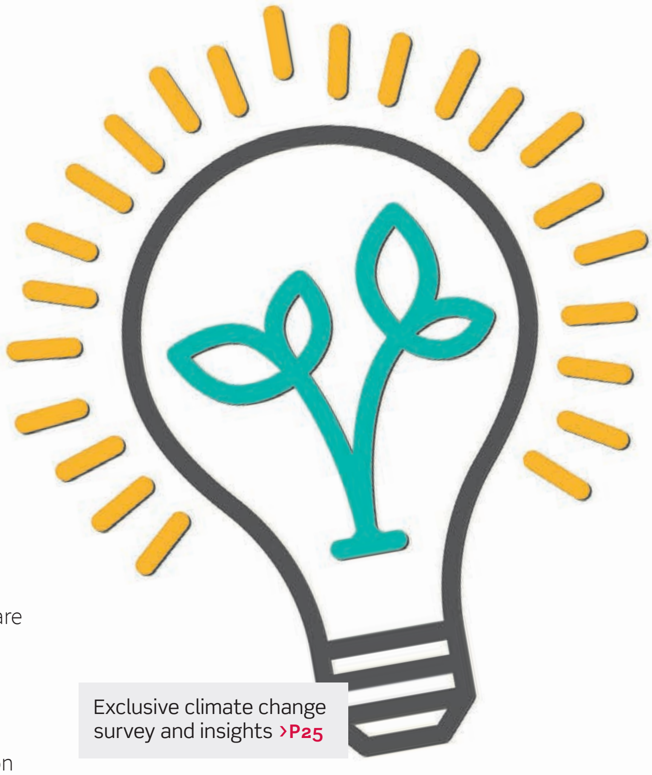

Exclusive climate change survey and insights >P25

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Be an agent for change

We're all used to being told to innovate to stay relevant. But as countries emerge from lockdown, the world is more altered than ever previously imagined. New risk realities will demand very new risk solutions. This is our moment.

The most pressing concerns as lockdown lifts are likely to be the operational challenges of navigating a recession, restarting facilities and supporting staff as they return to work. But strategically, big macro challenges such as climate change, the speed of technological change and changing consumer behaviour have not gone away.

As our own research indicates (see our extensive Climate Change report and survey, page 25), businesses are making important strides when it comes to climate change, with nearly three-quarters of boards engaged with the physical and transition risks it presents. But there is a long road ahead, accompanied by a fear the current crisis could divert attention and resources away from adapting business models and building greater resilience to natural perils.

And yet, in a post-COVID world, some businesses may actually be further on track with decarbonisation than they might have imagined. As lockdown comes to an end, companies may question the need for vast office spaces after a successful adjustment to remote working. They may look to replace all but the most essential business travel with video conferencing, now everyone has (finally) got to grips with the technology, of course.

It is a further leap into an intangible world; a world where business disruption does not hinge upon property damage, and where traditional insurance products must clearly innovate to reflect new risk realities.

This Q2 edition of *StrategicRISK* explores how the crisis has exposed the limitations of business interruption. How it is not responding to a whole gamut of disruptive sources, whether this arises within the supply chain, IT systems or through a loss of attraction.

Words like 'nimble' and 'agile' are often flung about when discussing necessary attributes for innovation. But these truly are traits companies must have if they are to survive in the new economy. Post COVID crisis, some traditional business models are already appearing irrelevant. The future of industries such as shale gas and oil sands extraction hangs in the balance, with predictions the price of crude oil may never recover.

Risk management reports frequently highlight the cautionary tales of companies that failed to anticipate change – Kodak's missed opportunity to embrace digital photography or Blockbuster's inability to counter the threat of video streaming. History is littered with the remnants of brands that failed to see around corners, or ploughed on regardless, like giant oil tankers unable – or unwilling – to change their course.

By demonstrating its value during the pandemic, the risk management profession is in a strong position to lead the way forward, to scan the horizon and communicate the risks and opportunities the future holds. There is a good argument that now is the time for risk managers to be more broadly elevated to the c-suite, as chief risk officers, ensuring risk remains at the heart of all senior decision making.

As Laura Langone, president of RIMS and head of insurance operations at Airbnb, says in the Viewpoints section of this edition (page 6): "Now more than ever, risk professionals must continue to be strong communicators, problem solvers and strategic thinkers. They must step out of their comfort zones, challenge norms and not settle for reporting to corporate boards but rather aspire to serve on them."

Time to step out and step into that spotlight. **SR**

"WORDS LIKE 'NIMBLE' AND 'AGILE' ARE OFTEN FLUNG ABOUT WHEN DISCUSSING NECESSARY ATTRIBUTES FOR INNOVATION. BUT THESE TRULY ARE TRAITS YOU MUST HAVE TO SURVIVE IN THE NEW ECONOMY."

Hong Kong: renewed tension

Amid the latest protests, risk and insurance experts are weighing up the impact of proposed national security legislation. Many believe the changes provoking such political unrest will actually mean stability for businesses.

Protests have once again erupted in Hong Kong after China announced it would impose a national security law on the city, leading to fears the former British colony would lose its unique freedoms.

Political tension in Hong Kong continues to rise, as anti-China protesters clash with police throughout the city. China has vowed to push through its security laws, which would make secession, subversion, terrorism and interference by foreign forces a criminal act.

Protesters fear the laws would overhaul Hong Kong's long-held 'one country, two systems' principle and undermine the region's autonomy. The latest demonstrations follow huge protests throughout last year, when citizens campaigned against planned extradition laws and demanded democratic reforms. Protesters argue citizens will lose democratic freedoms, such as the ability to freely criticise the Chinese government, if the laws are passed.

But while the laws have been condemned by the US, UK, Australia and New Zealand, businesses in the city are optimistic the centre will continue to thrive. Banking giants HSBC and Standard Chartered support the new laws. The Hong Kong Association of Banks has also backed them, believing the legislation will contribute to a more stable business environment. Other corporations are wary; Japanese bank Nomura, for example, is "seriously" examining its future in Hong Kong.

"RISK MANAGERS MUST PAY CLOSE ATTENTION TO THE DETAILS OF THE PROPOSED LAW, IN ORDER TO EVALUATE THE IMPACTS OBJECTIVELY."

Chief risk officer, Hang Seng Bank
Andrew Chow

LASTING SECURITY?

The Hong Kong Federation of Insurers believes: "In essence, the proposal will not bring changes to the fundamentals of our insurance sector." It says existing laws will protect Hong Kong's insurance market and the free flow of capital, and that the territory's insurance market would remain robust and governed by strong regulation.

Andrew Chow, chief risk officer of Hong Kong-based financial services group Hang Seng Bank, believes the business sector broadly supports the new laws.

"Businesses in Hong Kong generally believe that establishing and improving the legal system and enforcement mechanisms to safeguard national security at the state level is a move that, in the long run, brings lasting prosperity and stability to the business environment in Hong Kong," he says.

He continues: "According to a survey recently conducted by the Hong Kong General Chamber of Commerce, the majority of respondents believe the law will either have a positive impact or no impact at all on their businesses over the long term. Leading financial institutions and conglomerates in Hong Kong have voiced support for the legislation."

Some businesses in Hong Kong have, however, expressed concern about the global reaction to the security laws and possible foreign sanctions. Unwittingly violating the law was less of a concern for most companies. "Risk managers must pay close attention to the details of the proposed law and the implementation mechanism in order to evaluate the impacts objectively," adds Chow.

While corporates have played down the impact of the security laws, some businesses fear violent protests will cause unrest in the short term.

Richard Floyd, global head of terrorism and political violence at Willis Towers Watson, says organisations should carefully review their insurance coverage at times of civil unrest.

"In our opinion, the most important aspect at this point in time, specific to the application of risk transfer, is the necessity to review, challenge and implement insurance cover that can adequately address the spectrum of perils that continue to evolve in many parts of the world," he says.

"Companies with assets and operations around the world that may be impacted by isolated or widespread unrest should be looking to remove the ambiguity from their risk transfer framework and not merely assume their existing policies will respond in the event of a loss."

"This approach may include the procurement of full political violence programmes, enhancing contract language within existing policies, or structuring tailored solutions that meet with their own unique exposures," he adds.

NO NEED TO PANIC

Looking to the future, experienced risk professionals believe there are positives to take from developments in Hong Kong. Steve Tunstall, an independent risk analyst and former head of corporate risk management at Hong Kong airline Cathay Pacific, says the security laws could make the outlook more stable for the region.

"If anything I feel these laws are likely to bring a bit more of a sense of stability back to Hong Kong," he says. "Unless your business has been in the direct firing line of the protesters, I don't believe the impact has reached unmanageable proportions for most. While not 'business as usual', more legal stability around these issues is likely overall a good thing in the long term."

Tunstall sees "no need to change mitigation plans" for companies and international firms "who are committed to Hong Kong".

He believes risk managers need to clearly communicate the true level of risk and allay potential concerns: "For companies where their western headquartered management boards are getting nervous, it's a time for clear upward communication of the genuine impact on the ground." **SR**

Clampdown on class actions

It's welcome news for insurers as the Australian government tightens the screws on litigation funders in the face of a booming D&O class actions market.

A surge in US-style class action lawsuits has prompted Australian authorities to tighten regulatory scrutiny of litigation funders. Litigation funders were behind over 70% of the 54 collective redress lawsuits filed in 2018–2019.

"In Australia, there has been a greater focus on consumer rights and, as a result, there's been an increase in class actions against directors and their liabilities in relation to profit, performance or outcomes," explains Gillian Davidson, senior partner at legal firm Sparke Helmore.

> **"THIS HAS TO BE SEEN AS A POSITIVE DEVELOPMENT FOR THE INCREASINGLY CHALLENGED D&O MARKET."**
>
> Director, financial services group, Aon
> **Eden Fletcher**

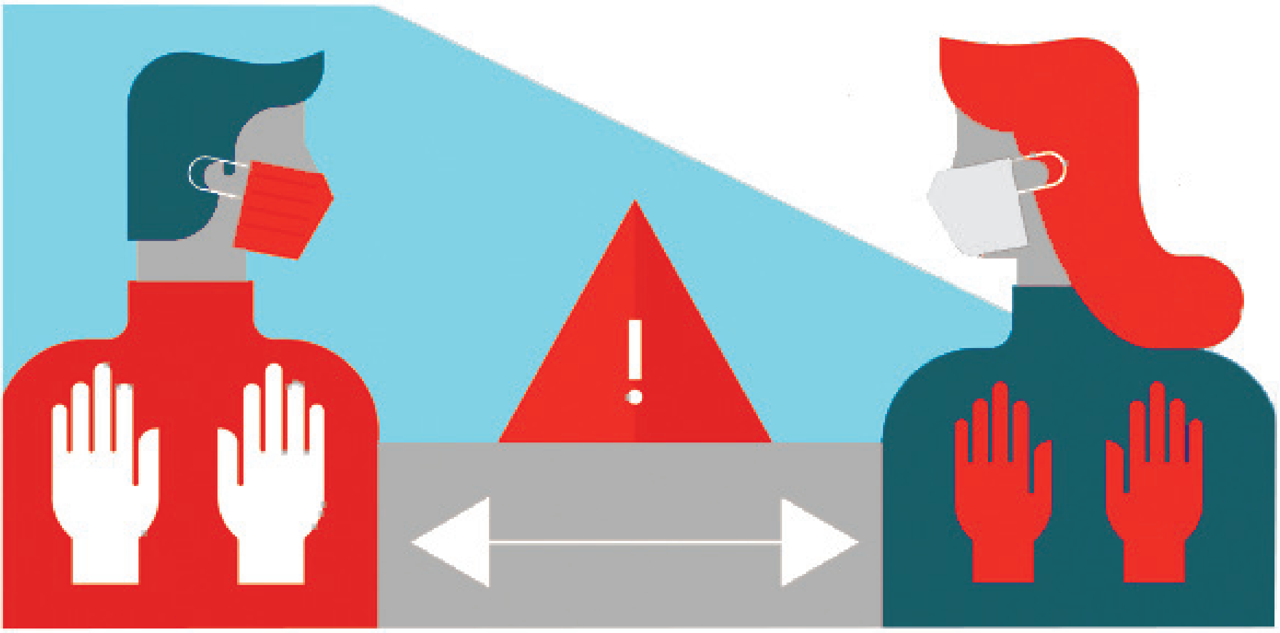
The move has positive implications for directors and officers and their insurers, with Australia currently viewed as the most difficult market to underwrite D&O insurance. Rising claims have sparked a contraction in market capacity, and a significant increase in pricing. Side C coverage, which offers a company protection against securities claims, is particularly difficult to place.

"The volume and severity of class actions in Australia has increased very significantly," says Beth Thurston, head of management liability, UK & Ireland, at Marsh JLT Specialty. "This has been driven by the use and availability of litigation funding in Australia and the way the class action procedure is set in Australia, where you are automatically deemed to be a member of the class unless you opt out. This makes it very easy for class action litigation to be started."

"In Australia there is very limited availability of Side C cover and over the last two to three years we've seen a significant volume of insureds coming into London to secure that cover in the London market."

Insurance broker Aon welcomed the government's announcement. "This has to be seen as a positive development for the increasingly challenged D&O market," says Eden Fletcher, a director in the financial services group at Aon.

"In the short-term, it provides assurances to insurers around the potential for a spike in claims related to COVID-19. More importantly, in the mid to long term, it opens the door for further discussions about future law reform to Australia's continuous disclosure regime." **SR**



This is our shot

Experts saw COVID-19 coming, but conventional risk thinking made it easy to ignore. Now, while our industry truly has the board's attention, we must evaluate the lessons to take into the future.

The COVID-19 pandemic has been a test of government, society and organisations' crisis management response and has elevated the role of risk management like nothing before it. Risk managers now have an opportunity to build on this awareness, increasing their board-level visibility and strategic role. *StrategicRISK* asked some of risk's leading voices how the crisis will shape risk management going forward.

"RISK MANAGERS HAVE AN OPPORTUNITY TO DEVELOP THEIR TRUE POTENTIAL."

DIRK WEGENER, PRESIDENT OF FERMA

"Before the pandemic, FERMA chose as its theme for the year: 'Aim for the Future: Entering a New Dimension of Risk'. We were inspired by the profound changes that we were already experiencing with risks of unknown magnitude and impact: cyber risks, climate change, and economic and political instability. Since COVID-19, we have reaffirmed this slogan as all the more relevant.

In the *2020 European Risk Manager Survey*, conducted before the pandemic, cyber risks were ever more dominant, and economic instability was an issue. Risk managers were also concerned about sustainability and the consequences of climate change.

Today, we are seeing an acceleration of digital transformation with increased cyber attacks and further systemic digital risks; increased demand for sustainability in line with the European Commission Green Deal; awareness of systemic risks and the need for a solution to the severe shortage of non-damage business interruption insurance.

Translating strategic risks into financial terms, quantifying emerging risks and communicating about risk with the CFO and CEO in their language are essential skills for the risk manager in the post-COVID-19 world.

There is a lot of work to do to restore business and to build sustainable enterprises for the future. We can see an opportunity, perhaps as never before, for risk managers to develop their true potential as the co-pilot on risk for senior management and the board."

JULIA GRAHAM, AIRMIC DEPUTY CEO AND TECHNICAL DIRECTOR

"Contrary to what some commentators believe, the COVID-19 pandemic is not a Black Swan event. A global pandemic was not only predictable, it was predicted: scientists and experts have warned for decades that a global pandemic involving a highly infectious respiratory disease virus was a plausible scenario.

This matters because it affects how we judge the world's response, and therefore what lessons we learn for the next phase of the pandemic. The pandemic is a high-impact, low-probability emerging risk. These

"A GLOBAL PANDEMIC WAS NOT ONLY PREDICTABLE, IT WAS PREDICTED."

Julia Graham, AIRMIC

risks do make it onto a risk register but often fade into the background when risk severity is considered as a combination of impact and probability. They are often hard to detect, difficult to assess and easy to ignore.

Managing emerging risks cannot be a strategic afterthought. We knew this before the pandemic, but COVID-19 hammered the message home with brutal effect. As the World Economic Forum's COVID-19 Risks Outlook report, published in May, makes clear, it is now vital to anticipate the emerging risks generated by the repercussions from the pandemic. In other words, we are only at the beginning.

The risk management techniques many risk professionals use may not be effective for managing these types of emerging risks. First, risk assessments and heat maps used for more conventional risks should be complemented by structured, creative discussions across business units that bring different and collaborative risk perspectives on a topic. This can help organisations to better identify emerging risks and understand potential risk trajectories and velocity, as well as knock-on effects.

Second, the frequency of risk assessment should be a function of how fast risks are emerging and the level of their materiality rather than determined by traditional institutional administrative cycles. A time lag can open up when the external and internal context moves faster than the organisation, creating a gap between the reality and the perception of risk.

Third, organisations should focus more on the interconnections between risks. This requires an integrated enterprise-wide risk management framework in order to align risk-based decisions with corporate purpose and culture. Too often, risk is managed in business silos, leading to senior leaders playing down emerging risks until they are on the risk register.

Out of any crisis comes new risks and new opportunities. More than ever, risk professionals must focus on strategic ambitions and commercial priorities, understand business dynamics, and partner the business as 'time keepers' helping to synchronise business reactions with external realities."

FRANCK BARON, CHAIRMAN OF PARIMA

"For the first time, a total crisis has just hit the world as a whole. The coronavirus crisis is as much due to the danger of the disease as to the organised degradation of global health systems. It reminds us that we don't pay firemen just for going into the fire, we want them to be on standby while waiting for the siren to go off.

COVID-19 has its origin in an increasing interpenetration of the human and animal worlds, which is favourable to the circulation of viruses. This transformation is itself the result of the collapse of ecosystems, which leads animals carrying communicable diseases to settle close to human settlements. An alternative economic logic will therefore have to restore and respect environmental balances.

The coronavirus illustrates the human cost of neglect in the face of a perfectly identified danger. Fatality cannot conceal the obvious: prevention is better than cure and our environmental debt is increasing. The deepest recession in a hundred years is highlighting the prime importance of sustainability. It is more than a buzzword and should be the cornerstone of every business.

There are two fundamental differences between COVID-19 and climate change. The self-regulation of epidemics by the acquisition of collective immunity does not make the COVID-19 an existential threat to humanity. With a case-fatality rate probably less than 1% – much lower than other infections – the virus does not threaten the world's population with extinction.

On the contrary, inaction on climate change will take us out of the systemic regulatory mechanisms, leading to major and irreversible damage. We can expect a succession of shocks – heat waves, droughts, floods, cyclones, emerging diseases. The management of each will be similar to that of a health crisis like COVID-19, but their repetition will bring us into a universe where respites will become insufficient for bouncing back.

Risk management has been too focused on process and compliance at the expense of risk agility and business reality. Risk professionals' profile must be based on their ability to support entrepreneurial thinking with organisational resilience (including low-frequency/high-severity risk scenarios), enhanced risk agility and support to concrete risk strategy actions (business continuity planning, disaster recovery, crisis management).

"THIS CRISIS SHOWS THE HUMAN COST OF NEGLECT IN THE FACE OF AN IDENTIFIED DANGER."

Franck Baron, PARIMA

There must be a full reset of the risk governance for c-suite, executive committees and boards. Strategic risk management and a holistic scanning of risks must be a fundamental pillar to their operational and strategic thinking as well as to their decision making.

By the same token, business decision making should be coupled with risk management. What is going to happen to companies who went for highly leveraged and debt-funded acquisitions in 2019? What is going to happen to organisations that rely on one country or region for their entire supply chain?

This is a wake-up call to start building the resilient organisations of the future. Organisations that survive the pandemic can rebuild their businesses on stronger foundations."

"OUTDATED PROCESSES CAN CONTRIBUTE TO THE COLLAPSE OF A BUSINESS."

LAURA LANGONE, PRESIDENT OF RIMS

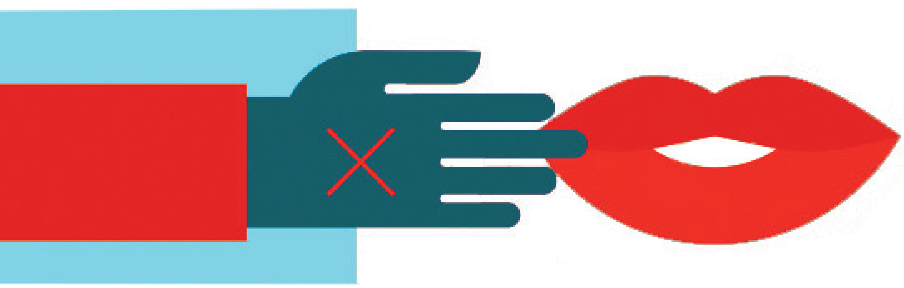
"A crisis can be a defining moment for an organisation. Whatever the nature of the crisis, whether it is economic, a natural disaster, regulatory changes, social issues, political uncertainty or, as in the case of COVID-19, a global pandemic, businesses that are prepared are more likely to emerge stronger.

Throughout the pandemic, the global risk management community has been thrust into the forefront. They are facing and managing extraordinarily dynamic risks. They are being counted on to quickly adapt new strategies and to help develop and implement innovative processes, all while keeping employees and customers informed and safe.

Board directors and business leaders are recognising the role risk management plays in fortifying organisational resilience and survival. There is little question that the risk professional role has been elevated. The biggest question for risk professionals post-COVID is: "Where do I go from here?" The pandemic has paved the way for risk professionals to take important steps to further demonstrate their value and it is imperative that they keep that momentum going.

Risk professionals must work to maintain and even strengthen the important relationships they built during the pandemic. As it was during the emergency planning process, collaboration will continue to be a key ingredient to successfully managing risks. Maintaining those relationships, both internally and externally, will enhance strategic decision-making and support goals.

Risk professionals should continue to challenge norms. COVID-19 highlighted deficiencies in organisations' processes. Never has it been more apparent that outdated processes and plans can contribute to the collapse of a business. Risk professionals have an opportunity to reassess their



organisation's business model and lead conversations about its viability, efficiency and adaptability.

Finally, with a reinforced appreciation for risk management, expectations will rise. Business leaders will reassess resources, as well as the people they have running the risk programmes. If it was not already before, professional development must become a priority for risk professionals. Advancing expertise with a globally recognised certification cannot only further validate the professional, it reinforces their commitment to their craft and instils confidence in leadership.

Risk professionals must continue to be strong communicators, problem solvers and strategic thinkers. They must step out of comfort zones, challenge norms and not settle for reporting to corporate boards – but rather, aspire to serve on them."

ALEXANDER MAHNKE, CHAIRMAN OF GVNW

"I am not sure that the COVID crisis is going to elevate risk management in the company but it's certainly shedding a light on risk management from a stress test situation point of view. Pandemic risk is something that most of the companies I know have potentially dealt with in the past, and so we have anticipated the potential for situations like the one we are currently seeing.

COVID-19 is a stress test scenario. And most companies appear to have dealt quite successfully

"WE MUST CONCENTRATE ON INTERDEPENDENCIES BETWEEN RISK SCENARIOS."

Alexander Mahnke, GVNW

with the situation. The question is whether there are procedures in place to learn our lessons for comparable situations in the future. We have to concentrate less on specific risks in the future and more on interdependencies between different risk scenarios.

If you look at COVID-19 from a pure risk standpoint, it also has other risk elements to it, like for example potential cyber vulnerability or public unrest. It is associated with an economic downturn. So it's more about improving understanding of these linkages; this would be a more holistic approach to looking at risk.

Risk management can be quite esoteric – if you talk about risks and potential impacts – but when you get into the specifics of the matter I believe that you have to look at scenarios. And the great thing about scenarios, and matching them against balance sheet resilience, is that you will be more prepared to mitigate the risk. For some of the smaller companies, risk management has been too two-dimensional, and in the future we will have to touch on further dimensions.

Risk reports are a bit like benchmarking processes: they are only as good as the input they get. I never attribute too much importance to risk surveys. I'm not surprised that pandemics were not in the top ten of the risk reports that came out before COVID-19. Going back five to seven years, we all knew that cyber was a major threat but it was never in the top ten. And now it's the number one risk in some of these reports." **SR**

Business: Interrupted

The COVID-19 crisis has brought many companies to a halt. Yet those trying to claim on their business interruption policies are being told it's a no-go. What lessons must insurance buyers take into future coverage negotiations?

The COVID-19 pandemic has highlighted the limitations of business interruption (BI) insurance, with companies across the globe discovering costly gaps in coverage as the outbreak takes hold.

In the UK, clients of insurer Hiscox have begun to plan legal action against the firm after they were denied a payout for "an occurrence of any human infectious or human contagious disease" under their BI policies pushed insurance and risk markets to their limits, Hiscox says the insurance industry does not have enough capital to cover BI losses from COVID-19. It also argues its BI policy covers only localised events, such as an outbreak of Legionnaires' disease, on company premises.

The dispute underlines the mismatch in expectations between buyers and providers on BI policies. In the US, insurers are under political pressure to pay out on claims. Yet most BI policies exclude pandemics and only cover BI caused by physical property damage.

NOT FIT FOR PURPOSE?

Asia-Pacific risk and insurance professionals believe the COVID-19 crisis will prompt organisations to review their insurance coverage and the level of protection that BI products offer. Geetha Kanagasingam Tizi, a management consultant at First Global Risk, based in Singapore, says there is "almost no BI coverage specifically for COVID-19, rendering the BI policies that most businesses have during this COVID-19 era… unfit for their purposes".

She believes risk and insurance managers should review their insurance arrangements as they approach renewals, and "negotiate for better and wider coverage that should include infectious disease".

As a minimum, Kanagasingam Tizi says companies should review insurance policies in their entirety, run "scenario simulation tests", and conduct remedial action to address coverage gaps.

She believes risk assessment exercises should be conducted to ensure deductibles in a policy are "reasonable and fit for purpose". Risk teams should also seek further understanding on non-denial of access coverage terms and conditions, she says.

Peter Jackson, senior director of multi-national clients at Lockton Wattana Insurance Brokers in Thailand, says BI policies were initially designed to cover property damage, and have lost some of their focus in recent years, leading to the current confusion. The broadening of terms and conditions in the soft insurance market of recent years has been particularly problematic.

"BI policies have always been designed to pick up the loss of profits from property damage events," he says, "but over the years there's been 'scope creep' as additional clauses have been added, and to some extent, BI policies have lost their focus. The addition of contagious and communicable diseases was a nice 'add-on' and one that insurers and clients alike never thought would result in many claims."

Jackson adds: "Now everyone is focusing on a tiny corner of the BI policy wording. Is COVID-19 a derivation or mutation of the SARS exclusion? Many clients' businesses are in desperate situations, and they are looking at all ways to get relief, and support cash flow. But can insurers afford to open the floodgates to a tidal wave of claims they never anticipated?"

"BI POLICIES HAVE LOST THEIR FOCUS. CONTAGIOUS AND COMMUNICABLE DISEASES WAS A NICE 'ADD-ON' AND ONE THAT INSURERS AND CLIENTS ALIKE NEVER THOUGHT WOULD RESULT IN MANY CLAIMS."

Senior director, Lockton Wattana Insurance Brokers
Peter Jackson

He believes the outbreak will make insurance buyers consider new products to cover non-physical damage (NDBI) losses. Existing NDBI policies have "high cost and complexity" that put clients off and therefore require a fundamental rethink.

NEW OPTIONS NEEDED

"COVID-19 has already awoken some to the fact that their insurance policy doesn't cover a lot of risks," Jackson says, "and they are asking 'what else is available?'"

This provides an opportunity for "simplified products that, initially at least, don't have high limits," he says. He believes organisations should understand the limitations of traditional BI cover. "Recognise that BI is only for physical damage. The risk manager needs to understand the intangible business interruption risks and build a risk mitigation and risk transfer strategy accordingly."

The pandemic will prompt risk managers to review their insurance arrangements before the next crisis hits. Some emerging insurance products may help organisations cover future non-damage BI losses.

Insurance groups have launched a range of specialist NDBI products in recent years, including cover for network interruption and loss of attraction. Parametric insurance, meanwhile, may also help to cover certain risks.

NDBI products are developed to protect against the loss of profits triggered by disruption to business that is caused by a non-damage event. Such products may help to cover risks from future disease outbreaks.

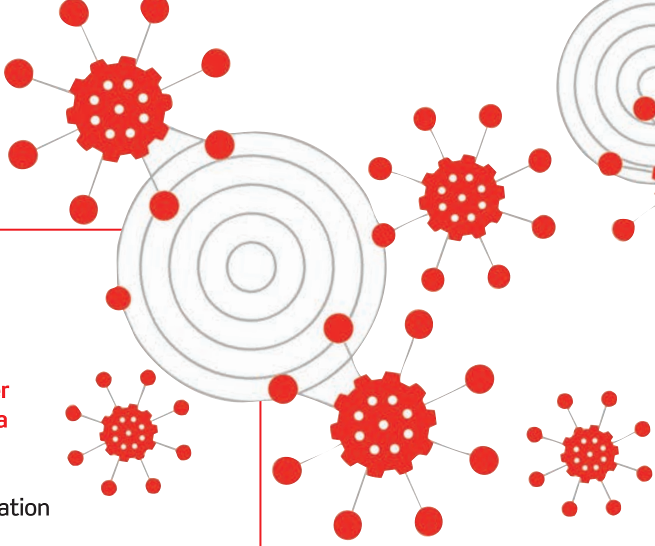
In 2018, Aon launched an NDBI product to protect companies with high levels of intangible assets, including loss of income from interruptions such as extreme weather, and terrorist and cyber attacks.

Swiss Re Corporate Solutions offers non-physical damage BI insurance, with tailored coverage related to items such as cyber events, regulatory risks and political unrest. The insurance is also designed to cover strikes and other disruptive events, covering lost profits and additional expenses incurred.

Victoria Tan, head of group risk management at Philippines conglomerate Ayala Corporation, believes organisations have the right tools available to cover business interruption losses if they are prepared to be creative. "It is the insured who should think about how they can protect their operations," she says. "Sometimes people need to learn the hard way."

Specific insurance products can also be tailored to cover non-physical damage business interruption. Tan says Ayala has evaluated "procuring cover related to non-damage business interruption under our parametric solutions". The company's cyber coverage also includes business interruption considerations.

"The current pandemic will certainly raise clients' consciousness of the need to purchase proper NDBI insurance and will likely boost relevant insurers' offering," Baker McKenzie's Italy-based lawyer Francesco Maruffi said in April.



THE HISCOX BATTLE OVER BI

A group of nearly 350 businesses – most of them SMEs – have come together to launch a legal fight against British insurer Hiscox after they were denied a payout on their BI policy following the COVID-19 outbreak.

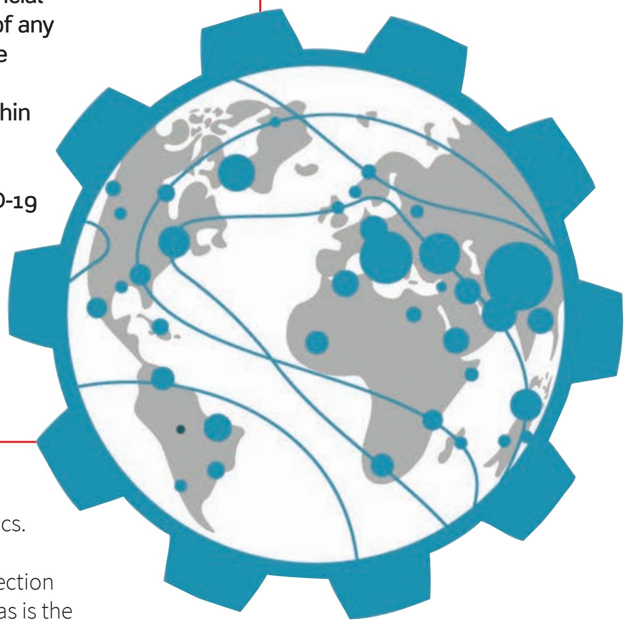
The group, calling itself the Hiscox Action Group, has launched a £40m arbitration claim. They want the insurer to pay for lost profits following the pandemic.

The dispute centres around Hiscox's policy wording. The policy covers financial losses for businesses unable to use their premises following "an occurrence of any human infectious or human contagious disease, an outbreak of which must be notified to the local authority".

Hiscox says the policy is designed to cover localised risks that occur within a mile of the business, such as outbreaks of Legionnaires' disease – not global pandemic events.

The insurer says underwriters do not have enough capital to absorb COVID-19 losses. Hiscox's lawyers claim the BI policy doesn't cover the pandemic. "Business interruption policies across the industry were never intended to cover pandemic risks," a spokeswoman told BBC News in April.

This bitter dispute has sparked a debate over the future of BI insurance coverage, with some entities now believing collaboration between insurers and the state may offer a more reliable source of protection against future pandemic losses (as we explore on the next pages).



Yet NDBI insurance is regarded as expensive and is seen as one of the more difficult policies to obtain. As yet, NDBI products have not been widely adopted. They are currently most attractive to asset-light companies with a high concentration of intangible assets.

Organisations must conduct granular and thorough risk assessments before taking out the coverage. Willis Towers Watson says NDBI insurance requires "a different approach to risk identification and assessment. Conventional business interruption, by comparison, is relatively straightforward".

ARE RISK POOLS THE ANSWER?

While NDBI insurance may offer useful solutions for business losses arising from non-damage sources, such as denial of access, loss of attraction and cyber attack, it remains to be seen whether, in practice, such coverage would pay out in the event of another global pandemic. It is unclear whether insurers would have the appetite to cover future pandemic losses, as the furore over rejected BI claims continues to unfold.

Given the sheer scale of the COVID-19 outbreak, the insurance sector is unlikely to put itself on the hook for systemic levels of risk. As Hiscox outlined, the insurance sector may not be able to absorb such losses now or in the future.

First Global Risk's Kanagasingam Tizi says: "Going forward, insurers and reinsurers may be sceptical of providing too high a liability limit on such a disease, even if they agree, as a single large claim may adversely impact their capital."

In the UK, insurance groups, including Aviva and RSA, have formed a steering group with government-backed reinsurance fund Pool Re to strengthen the sector's response to future pandemics. National governments may need to offer a layer of protection to businesses in the future, as is the case with other potentially systemic risks – such as those arising from natural catastrophes and terrorism.

Meanwhile, in the US, the Risk Management Society (RIMS) has written an open letter to the US government calling for a TRIA-type solution for future pandemics. TRIA (the Terrorism Risk Insurance Act) is a federally backed terrorism backstop that was set up to ensure a viable insurance market existed in the aftermath of 9/11.

Kanagasingam Tizi adds: "Perhaps a feasible solution may be an insurance pool where a large support of the capacity comes from governments and states, including investors, to make the policies more affordable with more available capacity. It will be interesting to see if the outcome marks a huge shift in insurance history."

The Association of British Insurers has called on governments to partner with insurers to protect the world from future pandemics. It believes protection gap entities — schemes between governments and insurers to mobilise capital after major disasters — may offer a potential solution.

Following the COVID-19 outbreak, protection gap entities, such as the UK's Flood Re scheme and New Zealand's Earthquake Commission, may be needed to advise nations on how to deal with disease outbreaks. Until then, risk managers – in partnership with their brokers and underwriters – will have to be creative to protect against further outbreaks and non-damage business interruption events more generally. **SR**

"IT IS THE INSURED WHO SHOULD THINK ABOUT HOW THEY CAN PROTECT THEIR OPERATIONS. SOMETIMES PEOPLE NEED TO LEARN THE HARD WAY."

Head of group risk management,
Ayala Corporation
Victoria Tan

Partners against pandemics

COVID-19 has led to losses beyond comprehension and, as many businesses are learning, coverage. Experts argue governments must pool resources and, vitally, expertise with insurers to provide protection for the next crisis.

The COVID-19 pandemic has wreaked devastation, shutting businesses, halting supply chains, and causing millions of people to lose their livelihoods.

Organisations have been left reeling from the outbreak, and are now having to seriously reassess their approach to risk and insurance. With many traditional lines of insurance failing to protect businesses from losses, questions are being raised over how economies or the insurers will cope with another outbreak.

Scientists predict pandemics will remain a high risk. Influenza epidemics have been reported regularly over the past 500 years, with intervals between pandemics averaging 40 years. Yet already this century, SARS, MERS, H1N1 and COVID-19 have taken huge numbers of human lives and caused overwhelming economic loss.

Insurers are certainly now unlikely to widen their coverage to include pandemics. So what can be done to cover such a crisis in the future?

ENTER THE RISK POOL

The answer is likely to lie at a government level. The pandemic will prompt governments around the world to introduce additional layers of risk protection to guard their economies against losses. And with the insurance sector unable to absorb pandemic losses on their own, it is hoped governments will collaborate with insurers to develop solutions.

Parametric solutions at government level are one possible way forward. In Asia-Pacific, parametric insurance cover is available for Pacific Island States through the Pacific Island Catastrophe Risk Assessment and Financing Initiative (PCRAFI). The schemes cover losses for earthquake and tropical cyclones, but insurance experts say they could be reconfigured for pandemic risks.

Protection gap entity schemes (PGEs), or insurance risk pools, are another option. These schemes, as collaborations between the insurance industry and public sector, have been set up to offer a layer of protection for natural catastrophe risks, and other major events, including terrorist attacks.

Peter Jackson, director at Lockton Wattana Insurance Brokers in Thailand, says: "COVID-19 has been the trigger for governments to relook at PGEs. The US, UK, France, Germany and Australia are all looking at pandemic PGE solutions. That's the right action to take – COVID-19 is not going to be the last pandemic we will face."

"Governments will have learned a lot from COVID-19 on how they manage crises, and that includes how they manage the financial consequences of a major catastrophe. While it makes sense to develop pandemic-related PGEs, the next big catastrophe may not be a pandemic but something else. The danger is that PGEs may lag behind the catastrophe we next face."

He says Asia governments "have recognised for quite a while they can't bear the full costs of catastrophes", meaning collaboration and public-private partnerships are required.

"China and the Philippines, in particular, have initiated state-sponsored programs with insurers to address specific natural catastrophe risks. PGEs are an opportunity for the insurance industry to increase its relevance to society and the global economy. Do we have the vision, expertise and the financial strength to emerge from our niche into a more

"THERE IS A WORLD OF DIFFERENCE BETWEEN PUBLIC PRIVATE SCHEMES, WHERE PRIVATE INSURANCE TAKES THE FIRST LOSS, VERSUS THE STATE TAKING THAT LOSS."

Chief executive, Insurance Council of New Zealand
Tim Grafton

visible contributor to whatever the ‘new normal’ looks like?”

HOW WOULD IT WORK?

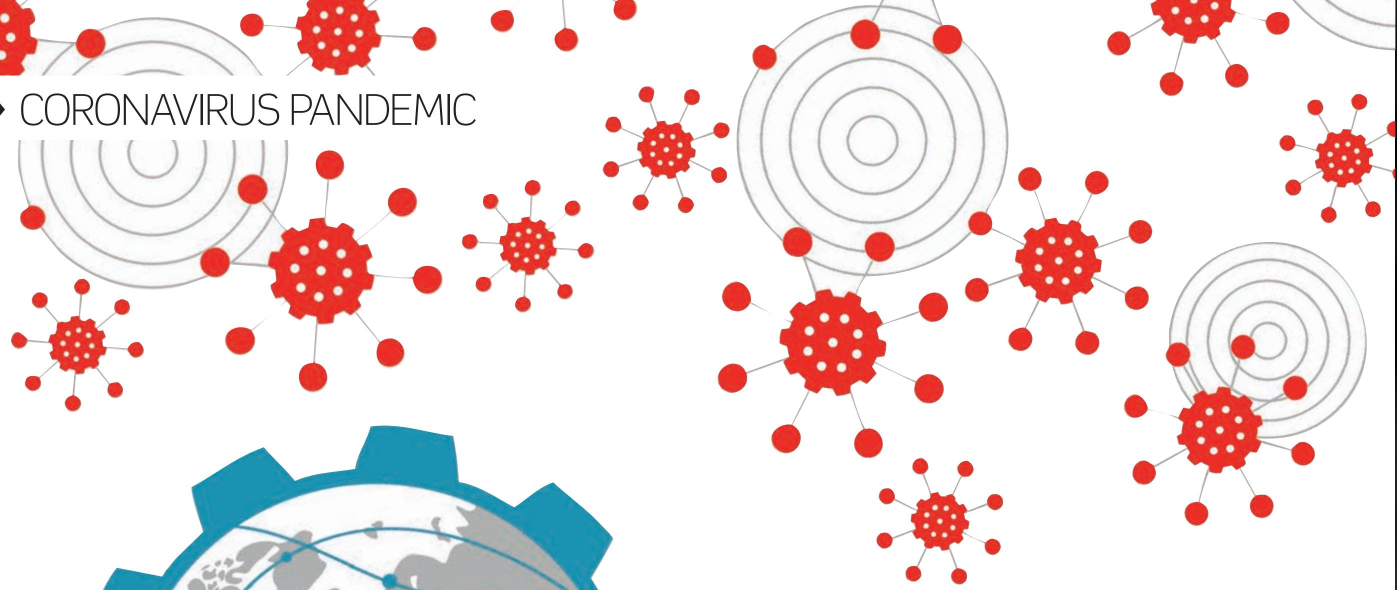
Existing collaborations could offer an answer. New Zealand’s Earthquake Commission (EQC), which is funded by a levy on home insurance premiums, operates New Zealand’s Natural Disaster Fund, which pays out for property and land damage. Some experts believe a similar pool could help protect against pandemics.

New Zealand’s EQC pays claims from its Disaster Fund, then uses reinsurance markets if needed, using state funds as a last result. Importantly, the EQC also conducts research and education into national catastrophe risks, and helps to prepare businesses and individuals with risk management.

But Tim Grafton, chief executive of the Insurance Council of New Zealand, warns that the EQC’s role of paying for physical property and land damage is “very different to responding to economic losses arising from a pandemic”.

“A high-level feature, such as the first loss being met by a state entity with private insurance/reinsurance bearing costs above that up to an agreed sum, could be looked at. There is, though, a world of difference between public private schemes, where private insurance takes the first loss, versus the state taking that loss, or if losses are shared from the ground up. So the pros and cons need to be carefully thought out and designed. Of course, there are other models out there, and perhaps the most obvious to consider would be parametric cover. This has been used where governments have sought to share risks against natural catastrophes once pre-defined payment triggers have been met.”

Grafton believes the ABI, which has called for the UK to adopt a protection gap entity, “is absolutely



"GOING FORWARD THERE NEEDS TO BE A GOVERNMENTAL LEVEL OF RESPONSE FOR PANDEMICS. AT THE SAME TIME, THERE'S A VITAL ROLE FOR THE INSURANCE INDUSTRY TO PLAY."

Head of the Asia-Pacific captive practice, Willis Towers Watson
George McGhie

right to call out the need to develop new public private sector partnerships (PPP) to deal with these systemic risks including pandemics". In the UK, insurance groups, including Aviva and RSA, have formed a steering group with government-backed reinsurance fund Pool Re to strengthen the sector's response to future pandemics.

"It is too early to say what shape a PPP might look like," he says. "That is going to require a lot of work. One starting point may be to look at examples around the world of public private risk pool arrangements to see what can be learned from those models that might be applicable to new arrangements for pandemics."

In the US, new legislation that would pave the way for a government-backed pandemic risk pool has entered Congress. Endorsed by RIMS, among others, it is modelled on the US terrorism backstop (TRIA), which was set up in the aftermath of 9/11.

Australian insurers are also weighing up options for pandemic protection. The Insurance Council of Australia is examining ways to include pandemics more easily in policies and has engaged actuarial consultancy Finity to consider the options, one of which is a pandemic risk pool.

An Australian pandemic pool could follow a model similar to the Australia Reinsurance Pool Corporation, a reinsurance backstop that provides terrorism cover for commercial property. Insurers can reinsure terrorism losses through the government-managed ARPC by paying premiums. Insurers pay out on claims after an event and claim from the pool to recoup excessive losses.

The Insurance Council of Australia said it was "too early" to provide further information about its pandemic insurance plans.

ESSENTIAL INSURERS

Head of the Asia-Pacific captive practice at Willis Towers Watson, George McGhie, says the insurance industry will play a crucial role in helping governments guard against future pandemic risks and losses. "If we look at the losses from COVID, it is almost beyond comprehension, and certainly beyond the ability of the insurance market to fund. It's not a risk that can be transferred to the industry in its entirety. It's just not possible."

McGhie added that governments would need to take the lead, but would "require support from the industry in terms of the expertise required to analyse and evaluate exposures, and to put in place structures, which may be parametric in form, and may allow access to the private sector funding that is available and can be structured."

"Going forward, there needs to be a governmental level of response for pandemics. At the same time, there's a vital role for the insurance industry to play in supporting that effort, not only in terms of taking the risk on but in applying expertise in the analysis and evaluation of risk. That's the real value the insurance experts offer. The partnership between the public sector and industry goes across expertise, not just funding."

McGhie said protection gap entities could "absolutely" offer a solution: "We've seen examples with terrorism with Pool Re in the UK, where there's a government-backed entity supported by the insurance industry, in terms of expertise and capacity."

Augusto Hidalgo, head of the Climate and Resilience Hub, southeast Asia, at Willis Towers Watson, says public sector risk schemes with parametric insurance could protect countries in future pandemics. "We believe that government-backed public sector-led risk pools, which crowd in the private sector, are the way to go."

He says governments would have several options for financing pandemic risk pools, in the form of "budget refinancing (taking cash from somewhere else and applying it to the problem), contingent borrowing (making funding available from development and corporate banks) or retention (agreeing to keep a certain amount of risk). Lastly, there is risk transfer – reinsurance and insurance, or risk transfer to the capital markets, such as catastrophe bonds. There are a number of financing alternatives." **SR**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PRODUCT RECALL
BUSINESS INTERRUPTION
CONSTRUCTION RISK

Turning to tech

A risk pioneer in Asia-Pacific, Steve Tunstall talks about the evolution of the profession as he's seen it and a future focused on technology – with its potential for great upsides and corporate-crushing downsides.

Steve Tunstall describes his path into risk management as a "long and unexpected journey". After studying mechanical engineering, surveying and then project management, he "stumbled across" the risk profession while working on big projects, believing there was a need for companies to look at broader downside issues.

"I did a part-time masters in project management and did my dissertation in risk management when no one was doing it. I wanted to look at the big strategic risk issues facing companies."

This early curiosity developed into a career in the Asia-Pacific region, starting in the 1990s when he took a job at Hambleton Risk Management, a UK consultancy with a large Asian client base. Heading out to Hong Kong and then Singapore, he worked as a risk consultant for businesses operating in countries across the region.

"I don't think the industry really existed here in the 1990s," he says, speaking from his base in Singapore. "There wasn't a professional association, and there wasn't much going on. I tried to bring the Institute of Risk Management from the UK to Asia, and set up a special interest group, but they never got properly established."

"TELLING IT LIKE IT IS TO SENIOR FIGURES IS ALWAYS DIFFICULT. FINDING A WAY OF HAVING THOSE CONVERSATIONS WITHOUT LOSING YOUR JOB IS A BIG ACHIEVEMENT."

As one of the pioneers of the profession in Asia, Tunstall has seen companies adapt their approach to strategic risk. "Risk management wasn't really a term here," he says of the 90s. "People were buying insurance on behalf of companies, and there were people who called themselves risk managers, but they were mostly compliance people in the finance sector."

After decades in the profession, Tunstall says there has been more "global recognition" for the risk industry, as chief executives embrace "structured processes that encourage genuine communication about the bad things that might happen in life."

He says modern boardrooms recognise the need for a "formal structure" to navigate the myriad of risks

in 2020: "The top of the business now understands that when things go wrong, they really go wrong, so you need a formal structure for that."

DON'T SHOOT THE MESSENGER!

As the risk profession began to blossom in the early to mid-2000s, Tunstall landed at Hong Kong airline giant Cathay Pacific, becoming the group's first-ever head of corporate risk management. His experience was an eye-opener, as he got to grips with the risks facing one of the region's top airline operators.

"One of the biggest issues was setting up the risk management function from scratch," he says. "It was all about finding allies in the business, and a cohesive approach. Cathay was going through huge changes, particularly the evolution in the technology space, shifting from being solely an airline operator to an effective data manager."

Tunstall cites bringing together the risk, insurance, legal, compliance and back-office functions as one of his proudest achievements at Cathay. He says engaging with senior figures and controlling shareholders was challenging: "Telling it like it is to senior figures is always difficult. Finding a way of having those conversations without losing your job is a big achievement."

Tunstall has sympathy for the airline sector, which is facing an unprecedented shock and reduction in demand in the wake of the COVID-19 crisis. With borders closed and planes grounded, many airlines across the region will struggle to survive the year. He predicts pain for the industry and risk managers in the sector.

"It's too early to say what the future will look like, but we will see some major changes in the [airline] sector," Tunstall says. "If I were a risk manager in that industry, I'd be asking what is the industry going to look like in the next five years? How can we pivot to new opportunities?"

"You have to work out how to keep your job. Many airlines will go bust this year, and won't exist anymore. That has huge implications for those companies, and for all of us who have enjoyed cheap travel. Flight activity may not come back for another decade, so there's a huge issue there."

Tunstall believes airlines operating in countries with competition restrictions should survive, however, and "will continue to exist one way or another, because people will need to fly from London to Auckland or from Hong Kong to Australia".

GOING IT ALONE

In 2013, Tunstall left Hong Kong to work for leisure giant Genting, taking responsibility for risk management at the company's Singapore operations, and Resorts World, Sentosa. After spending a year at the corporation, he went out on his own to build a risk consultancy and pursue entrepreneurial ventures.

"THERE'S A LACK OF TRUST IN INTERMEDIARIES, SO TECH HAS AN IMPORTANT ROLE TO PLAY. IT WILL HELP COMPANIES GET INSURANCE IN A FAIRER, CHEAPER WAY."

Today, Tunstall runs consultancy Tunstall Associates, developing risk, insurance and resilience services for corporates across the Asia-Pacific region. He is also co-founder, board member and general secretary of the Pan-Asia Risk and Insurance Management Association (PARIMA). For Tunstall, the trade body underlines how far the sector has come in Asia.

"I saw it as a great way to give back to the industry," he says. "It's a not-for-profit organisation, and it was set up to help our emerging profession and give people the ability to talk to one another, learn, improve through education, and build some consistency. That's vital for our profession."

According to 2018 figures, PARIMA has over 1,641 members across 984 organisations, covering 13 Asia-Pacific nations. Tunstall wants the organisation to help risk managers professionalise. "Most recognised professions have a formal entry or qualification process, so people can look and see they have achieved a qualification. Risk management has not been like that," he says. "In the fullness of time, risk management as a vocation must be taken as seriously as accountancy."

Tunstall has plenty of plans for the future, and

“WE ARE GOING TO SEE SOME OF THE BIGGEST DATA BREACHES EVER OVER THE NEXT SIX MONTHS. COMPANIES HAVE OVER-REACHED AND THE CYBERCRIMINALS ARE LOVING THIS.”

believes technology will be at the heart of the risk management industry in the years to come. In 2016, he set up Inzsure, a technology platform to help SMEs procure, manage and claim on their insurance. The company is ramping up activity, and ultimately, Tunstall believes insurance technology platforms will replace intermediaries and agents.

“The platform helps smaller companies get the right protection. The introduction of technology will be massive in helping businesses,” he says. “COVID-19 could be the final nail in the agency coffin. Small companies only need an agent for the most complicated risks.”

He says businesses across Asia have typically been reluctant to trust agents, leaving many under-insured. “Small companies across the region don’t buy insurance. They see dealing with intermediaries as expensive. I was at a conference in Bangladesh and asked a company why they didn’t have more agents in a particular city. He told me there was a lack of trust in intermediaries, so tech has an important role to play. It will help companies get insurance in a fairer, cheaper way.”

MAKE AND BREAK

While attempting to disrupt the intermediary market, Tunstall says risk managers must also be aware of technological changes within their own organisations. “Your future will be entirely about technology, or your business will no longer exist. Companies and industries that have failed to progress with their technological adoptions and solutions will be devastated by COVID-19.”

He believes risk managers also need to be mindful of the risks posed by technology, particularly as organisations shift to remote working and outsourced IT solutions. “So many companies must be close to a technology collapse right now. No one is ready to have everybody working from home. So many must be on the edge of their technological capabilities, using personal devices to access corporate systems in a way never envisaged when these systems were set up.”

“We are going to see some of the biggest corporate security collapses and data breaches ever over the next six months,” he predicts. “Companies are overstretched and have over-reached. There are cybercriminals out there right now, loving this. Tech is key to opportunities, but is also one of the biggest downside risks.”

He says insurers need to do more to protect companies against cyber and technology risks. “The insurance industry is not stepping up fast enough to offer the right amount of protection in this area that customers need. Insurers have to head towards cyber protection policies that look more like all-risk coverage. That would give buyers more confidence.”

After being a part of the emergence of the risk profession in Asia, it looks like Tunstall is primed and ready for the technological revolution. **SR**

Risk professional 2.0

For the new generation of insurance and risk players keen to embrace our digital future, a combination of tech knowledge and true human qualities will be needed to stand out and thrive, says Willis Towers Watson's Amanda Scott.

With technology evolving at lightning speed, how is the industry evolving to keep up? Risk professionals have historically focused on the technical aspects of their jobs, but roles within the insurance and risk professions have seen substantial changes over recent years.

The increasing use of AI and new technology means risk professionals will need to continually evolve their personal skillset to remain relevant and add value as a critical partner to business strategy.

THE WINNING FORMULA

A recent survey of workplace trends among risk professionals, produced by Airmic in collaboration with Willis Towers Watson, makes it clear that those who can mesh strategy, vision, influencing skills, commercial awareness and technological fluency on top of traditional technical risk competencies will be best positioned to help their organisation navigate today's dynamic risk environment.

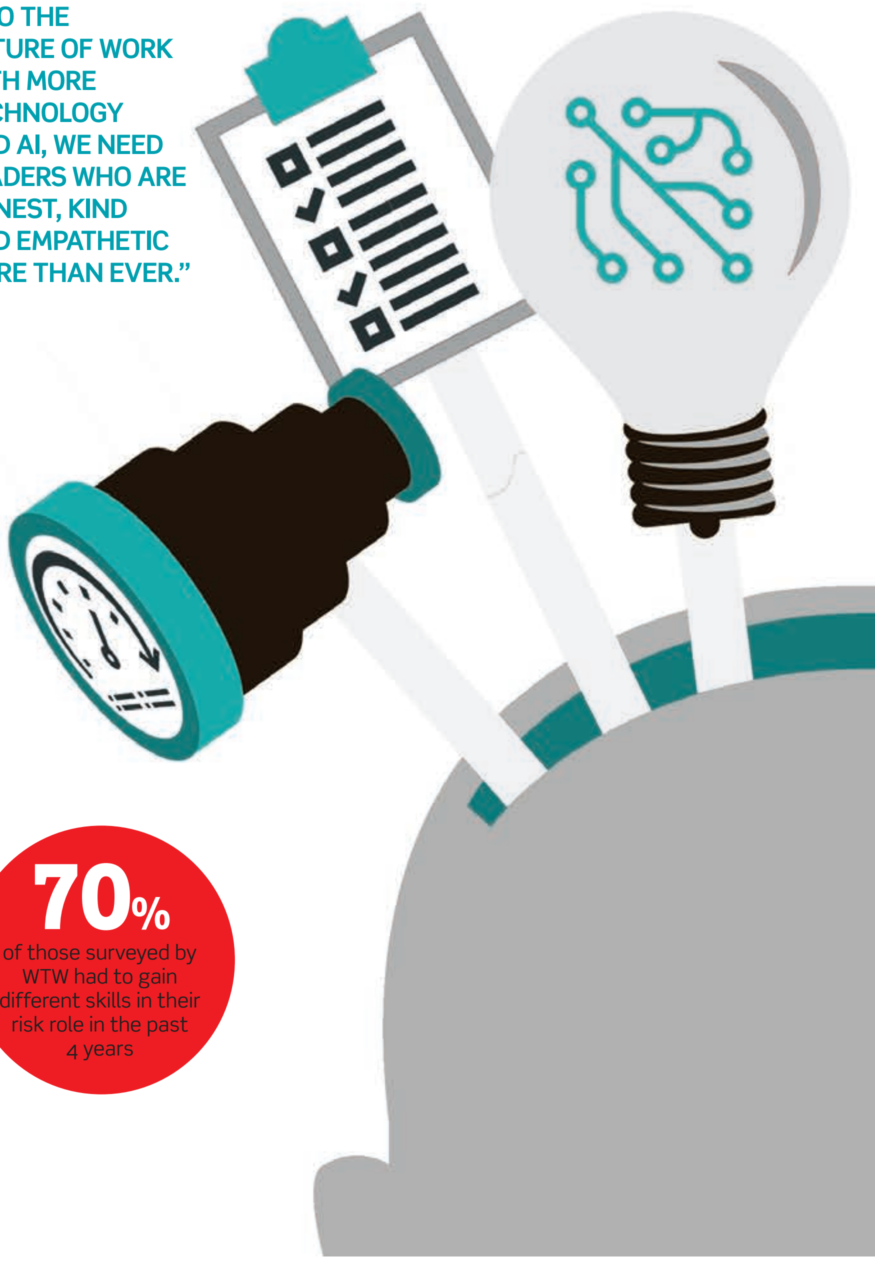
The purpose of the survey was to help risk professionals think about the future – of the industry, their profession, their role and their personal skillset. The findings revealed that most risk professionals questioned (86%) are using technology to work faster and smarter, to stay organised, and for research and learning opportunities.

However, very few within the sector are harnessing technology for self-evaluation or for building up professional relationships and communications. Only about half of those surveyed stated that they are very or fairly confident when it comes to using emerging technologies, with others declaring themselves somewhat or not confident.

Young risk and insurance professionals will need to find ways to become more confident through classes or partnering with individuals and projects to build up their experience.

We must upskill and constantly reinvent ourselves or we risk being made redundant by technology. On a more positive note, this presents the opportunity

"AS WE HEAD INTO THE FUTURE OF WORK WITH MORE TECHNOLOGY AND AI, WE NEED LEADERS WHO ARE HONEST, KIND AND EMPATHETIC MORE THAN EVER."



70% of those surveyed by WTW had to gain different skills in their risk role in the past 4 years for us to offer more value. If we can find the best ways to work hand in hand with technology, we will foster improvement. The World Economic Forum's report on 'Jobs of Tomorrow' reflects that demand for the digital and human factors, combined, is driving growth in the professions of the future.

BEING HUMAN

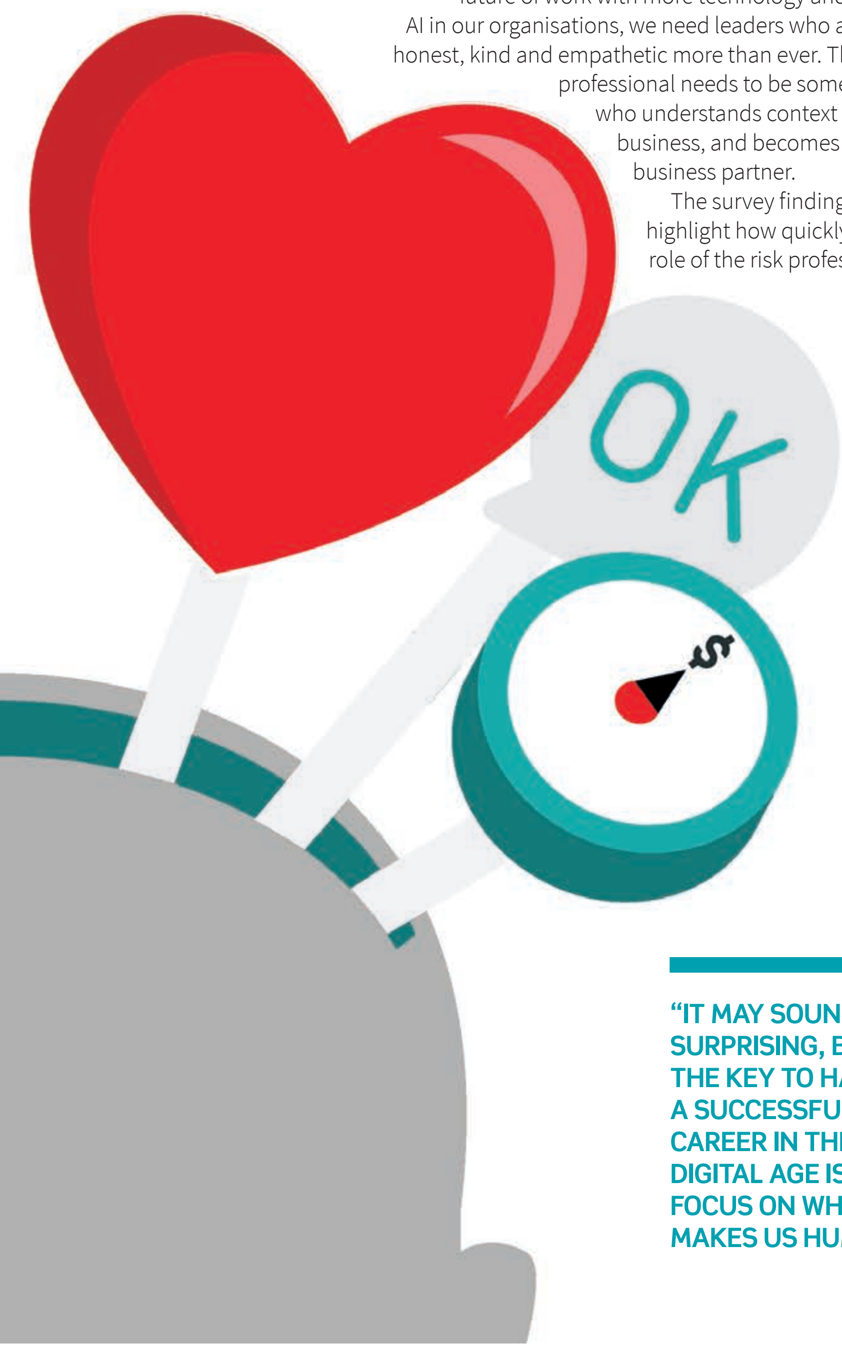
As technology increasingly takes over more routine and manual tasks, a risk professional's value will hinge on interpersonal communication and their emotional and social intelligence.

56% of survey respondents in the millennial age bracket were female.

Disruption is the new normal and no industry is exempt from change. Life is faster, it's more complex and we're more connected. It's more challenging, but it's also more exciting. Although technology will facilitate change, risk professionals need to take the decision to drive that change. As we head into the future of work with more technology and AI in our organisations, we need leaders who are honest, kind and empathetic more than ever. The risk professional needs to be someone who understands context and business, and becomes a business partner.

The survey findings highlight how quickly the role of the risk professional is changing, with nearly three-quarters (70%) of respondents saying they have needed to acquire different knowledge and skills in the last four years. When asked what skills would be most important in the future, digital literacy (58%), a creative and innovative mindset (55%) and negotiating and influencing skills (53%) were the most commonly cited. It is interesting to see from these findings, in particular, that there is an increased dual focus on both technology and being human.

The technical aspects of the role of a risk professional are being stretched into areas requiring influencing skills, business awareness, and tech fluency. Those that can combine those skills are most likely to achieve success. It may sound surprising, but the key to having a successful career in the digital age is to focus on what makes us human.



"IT MAY SOUND SURPRISING, BUT THE KEY TO HAVING A SUCCESSFUL CAREER IN THE DIGITAL AGE IS TO FOCUS ON WHAT MAKES US HUMAN."

STRIDES IN GENDER DIVERSITY

The survey also shows there is an incredible pipeline of female talent in the risk management profession, with increasing numbers of women in risk management roles. Over half (56%) of millennial respondents – those born since 1981– were female, and women tend to stay in the risk profession longer than men do. This compared to 38% from generation X (born 1965–80) and 18% of baby boomers (born 1946–64).

According to recent analysis by Willis Towers Watson, companies with practices that support greater gender diversity are rated more effective by their employees across a range of topics than those that do not. Additionally, this analysis found that companies that offer supportive family services and health education programmes for women provide better environments for finding work/life balance and managing workloads.

WORKFORCE OF THE FUTURE

It is reported that 65% of children entering primary school today will ultimately end up working in jobs that do not yet exist. As consultants, we are seeing a shift in focus towards skills and, as a result, are working with leading organisations to help break down job roles into the core skills required.

From my own experience working with schools, the emphasis on memorising information that children can easily Google seems outdated. Based on research on the future of work, the aim should be for students to learn critical thinking, building empathy, teamwork, using design thinking, creativity and how to consolidate reams of data to create original thoughts.

Looking at the top careers aspired to by children between the ages of 11 and 16, research has found that 18% of children want to be doctors, whereas 31% want to be social media influencers/YouTubers. So for the insurance and risk management industries to continue to thrive and provide a valuable service to society, it must find ways to attract and retain top talent from this new demographic, which will soon be taking their place on the professional stage. **SR**

Amanda Scott is head of talent and rewards at Willis Towers Watson, UK.

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Spreading their wings

Demand for international insurance programmes is on the rise as businesses look to expand globally, increase efficiencies and take advantage of new insurance markets' maturity.

While appetite for universal programmes was historically largely driven by bigger multinationals, these days insurers are seeing more new business come from smaller and mid-market companies. Gillian Gunnink, head of international programmes strategy at Swiss Re Corporate Solutions, explains: "Middle market customers are becoming more sophisticated, and they are expanding their footprint both in their supply chains as well as their financial assets." She adds that her organisation is also seeing greater interest from companies headquartered in emerging economies such as China.

That doesn't mean that there is no longer demand from huge multinationals. Rather, because those companies often times have shrinking footprints, the way in which they use international programmes is evolving and many are relying more heavily on captives.

STRIVING FOR EFFICIENCY

The changing dynamic of the businesses seeking international programmes as well as the unique challenges those companies face, mean that insurers are having to evolve offerings, become more dynamic, and leverage technology to drive efficiency.

One of the main challenges is the rise of decentralisation, which can cause difficulties for smaller organisations in particular. For instance, some companies may lack the sophistication to have control over the structures of their organisations.

A company may well not have the framework, communication or established relationship to be able to prevent local offices from buying a local policy from a non-program entity in-country. This impacts the premium allocation process and the invoice and policy issuance administration. So, it is crucial that the communication between those local offices and the headquarters becomes transparent and is monitored in a very effective way, so as to gain all of those efficiencies and productivity from a true multinational programme.

"This really requires insurers to support companies in overcoming the complexities of their global insurance programmes by getting serious about the use of technology in order to remove those barriers; we need to utilise the full suite of technological advances we've made in other industries. We need to ensure that wherever possible we are leveraging robotics, APIs, and distributed ledger technology while integrating processes end-to-end to overcome these increased administrative burdens."

She adds that as well as embracing technology, insurers also need to work with clients to promote contract certainty, ensuring that coverage is complete and complementary from country to country.

With the globally standardised property policy *ONE* Form, Swiss Re Corporate Solutions found a tech-based way of doing so and is onboarding customers and broking partners in the important property segment. *ONE* Form ensures the highest possible alignment between master and local policies – making the complex issuance processes faster and more efficient.

The same challenges are also driving an increased use of captives, which are being deployed in new and interesting ways. In turn, this means that insurers must make sure that the same optimisations can be applied to the captives' markets to pass on increased efficiency.

Gunnink says: "Owners of captives have very high expectations of their fronting carriers; in addition to that which is needed for non-captive programmes, they require extremely transparent, timely and fully reconciled international programmes. They rely on that transparency and efficiency to reap the full benefits of such programmes ."

STILL A PEOPLE PROCESS

While technology is critical for a successful international programme, Gunnink emphasises that people and networks are still just as important as ever.

Swiss Re Corporate Solutions has begun hiring 'deal architects' – a role specifically designed to help make sure that international programmes run smoothly. The first deal architect has already been appointed in America, with more to follow in Asia and the EMEA region. She concludes: "The human factor is absolutely essential. Our network is a living thing that is continually growing and changing, and it's made up of thousands of insurance professionals that need to maintain knowledge levels and coordination.It's important that this network is supported with technology, but what's equally crucial are the people on the ground." **SR**

In partnership with Swiss Re Corporate Solutions

Locking down contracts

Contract certainty has always been crucial for businesses, but a loss event like the COVID crisis has shown just what can happen when agreements are not secure.

The consequences can be severe, as Martin Hegelbach, head Property & Specialty at Swiss Re Corporate Solutions, explains.

He says: "Complex perils like for example Suppliers Extensions (CBI), COVID-19 etc. can create huge issues for the insureds, for instance because the continuity of the business is interrupted. That's why it is critical to have the certainty that insurers are able to pay out straight.

"If this contract certainty doesn't exist it could potentially be life threatening for the insured. Businesses need to have an understanding of whether that contract with the insurance company is certain because at the end once a loss event has happened it becomes absolutely critical."

DEALING WITH INTERNATIONAL PROGRAMMES

Of course, contract certainty is even more complex when it comes to international programmes. For businesses with multiple operations across different jurisdictions – working out what is covered is far from straightforward. On top of that, different regulations, limits and contract wordings in each location can mean that it is hard to get global clarity.

The answer, says Hegelbach, is to create a programme where policies are consistent regardless of location and the contract wording is the same everywhere. This is something that Swiss Re Corporate Solutions has been developing with its new approach to international systems and its *ONE* Form framework. It ensures the highest possible alignment between master and local property policies – making the complex issuance processes faster and more efficient.

While there may be some instances where local regulations mean that contracts need to vary, he says this should be the exception rather than the rule.

He explains: "Under our *ONE* Form framework, contracts are only different if there is a local regulation that necessitates it. For example, if there is a terrorism coverage in France or another country where the legislation is different than to the United States, obviously we have to comply with.

"But at the same time, we don't want to reflect this wider, tighter or specific coverage in the master policy, because it doesn't make sense in the other countries and causes contract uncertainty. But other than these rare examples it is a back-to-back system."

HARNESSING TECHNOLOGY

Creating consistency is just one way that technology can help with contract certainty. Other key benefits can include improved cashflow and better controls of documentation and compliance.

Unfortunately, some older international programmes, legacy systems, processes that are pieced together and conflicting technology as a result of mergers can lead to inefficiencies.

But modern systems and bespoke IT solutions should mean that when an organisation has to make a claim, it is paid quickly with the minimum possible interruption.

Hegelbach says: "The paper flow is very important from a compliance perspective, not just for us and our clients, but also for the brokers. If the broker is not compliant, then they have an error and omission risk because they bear the responsibility as well. Too often at the moment, intermediaries are heavily challenged by regulations simply because the programmes are so cumbersome."

BETTER ACCESSIBILITY

One final benefit that technology has had for modern international programmes is that it has made them more accessible, particularly for mid-sized companies and those based in less well-developed countries.

For example, modular approaches have meant that organisations can pick and choose the most relevant elements of a programme, making it far more affordable. For instance, a business could decide that it wants fire and nat cat protection, but not cyber, and build the programme that way.

Equally it means that businesses can group together coverages in one region (for instance, South America) rather than having to insure each country individually. This approach means that firms can have the benefits of an international programme approach, without being priced out of the market.

Hegelbach concludes: "These smaller companies in these less developed countries have now access to the services we offered before to the Fortune 2000 and I think that's a huge benefit." **SR**

SPECIAL REPORT ›
CLIMATE CHANGE

A truly global risk

A refusal to grasp the magnitude of the environmental challenge could cost reputations and even render business models obsolete. COVID-19 has been all-consuming, but could it now lead to a valuable perspective shift when it comes to climate change?

IN PARTNERSHIP WITH airmic FM Global Swiss Re Corporate Solutions

Momentum behind climate change has been gathering over the past two years and now, a global pandemic is likely to accelerate action in a number of areas. Changing market sentiment, driven by movements such as Schools Strike for Climate and Extinction Rebellion, is putting pressure on business and policymakers around the world.

In June, teen activist Greta Thunberg urged governments to treat climate change with a similar urgency to coronavirus and said the pandemic has proved the world can "act with necessary force".

Growing awareness of extreme weather and natural perils, and how they impact business and supply chains, is also driving attention to the physical effects of climate change. It is widely acknowledged that weather will become more extreme in the future and some natural perils – such as hurricanes, wildfires and floods – could become more intense. Attribution studies are beginning to assign a climate change footprint to some natural peril events.

In some industry sectors, reporting requirements around climate change are influencing how organisations – and their boards – think about the risks and opportunities arising from the 'existential crisis' of our age. Anticipation of climate taxes and other levies are additional powerful incentives. And in the future it may become more challenging to secure commercial insurance coverage if action on climate change is not taken.

"We have specific policies around what we will underwrite depending on whether the end client's operations are sustainable or not," explains Nigel Bamber, head of customer, UK, Swiss Re Corporate Solutions.

"I speak to some of the large mining and oil companies and our policy around that affects how they are seeing the world. Our stance and that of other re/insurers does actually shape their mindset and helps them on the transition they need to go through."

A MULTI-FACETED CHALLENGE

The need to preserve reputation and brand is also shaping the approach to investment portfolios and how companies adapt their business models in order to be seen as better and more resilient corporate citizens. As economies decarbonise, climate change impacts businesses both directly and indirectly, according to Adriano Lanzilotto, vice-president and client service manager at FM Global, and risk managers need to appreciate the complexity and multi-facets of the challenge.

"The first thing you consider when you think about climate change is the weather-related risks, because they are the most apparent and immediately recognisable. In recent years, we have seen some hurricanes causing major damage to Puerto Rico and southern parts of the US, for example. If you have a plant in an at-risk location, you could lose the property and the operations and revenues generated by the business unless you invest in a resilient building structure."

Poor decision-making can also pose an issue. "If you think about where companies expand, they typically expand into emerging markets where the cost of production is lower. But incidentally, many emerging markets are also the ones that present more natural hazards exposures," says Lanzilotto.

"Say you were planning to grow in a region that is hit by a major natural catastrophe. The growth you were hoping to achieve is now not going to happen. As you've diverted management attention to the restoration of those plants the company incurs an opportunity cost, and you could lose investor confidence. So your share price can go down following a catastrophe like that."

From a risk management perspective, climate and sustainability risk are high on the risk register. For the first time in this year's WEF Global Risks report, the top five global risks in terms of likelihood were all environmental. The report sounded the alarm on these issues:

- Extreme weather events
- Failure of climate change mitigation and adaptation by governments and businesses
- Human-made environmental damage and disasters
- Major biodiversity loss and ecosystem collapse
- Major natural disasters

As is the case with all macro trends, these risks are interlinked with dependencies that are not yet fully appreciated. In the future, climate change is likely to stress ecosystems, exacerbate resource scarcity (as population growth continues), cause greater migration and enhance geopolitical tensions, warns WEF.

LEARNING FROM COVID

It is perhaps too soon to fully appreciate how the COVID crisis will influence the climate agenda, but it seems clear that it will. "In many ways, climate change has been treated in a similar way to pandemics," says Scott Feltham, group insurance manager at

With necessary force: Internationally renowned climate change activist Greta Thunberg entreats governments worldwide to take the issue as seriously as they have the coronavirus pandemic.

Compass Group. "In terms of how resilient we are to climate change, and the extent to which we have tested that resilience. And a bit like with pandemics, the assumption has been that there have been bigger fish to fry."

"COVID took us by surprise; the speed it came about," he continues. "That will put the wind up people. What COVID-19 has indicated is these things can come about and they can catch us unaware, and we need to do what we can now as corporates to make sure we are resilient to some of these key risks that will become further accelerated because of climate change."

"If nothing else, going forward shareholders will expect us to become more accountable in terms of having a robust strategy in place – a risk management strategy that responds to climate change," adds Feltham. "That's going to be at the forefront of the board's mind going forward. I've spoken to peers of mine and a lot of them share these views."

But while the COVID-19 pandemic was a rapidly unfolding crisis that governments, business and society could not ignore, climate change is a more insidious threat.

"For a number of years, pandemic was on the WEF Global Risk report, but it tended to be on the report in terms of impact rather than probability, because it was considered so unlikely," says Julia Graham, deputy CEO and technical director of Airmic. "And when organisations and governments create risk registers, risk severity is a function of the two: impact and probability. So it was no surprise that it disappeared off risk registers."

"In 2020, for the first time, climate change took the top five positions on the WEF risk register. And that is because it is both high impact and high probability. All these risks that were there before COVID-19 haven't disappeared. And therefore I think it will come back into the profile because it isn't going to go away without man taking some material actions."

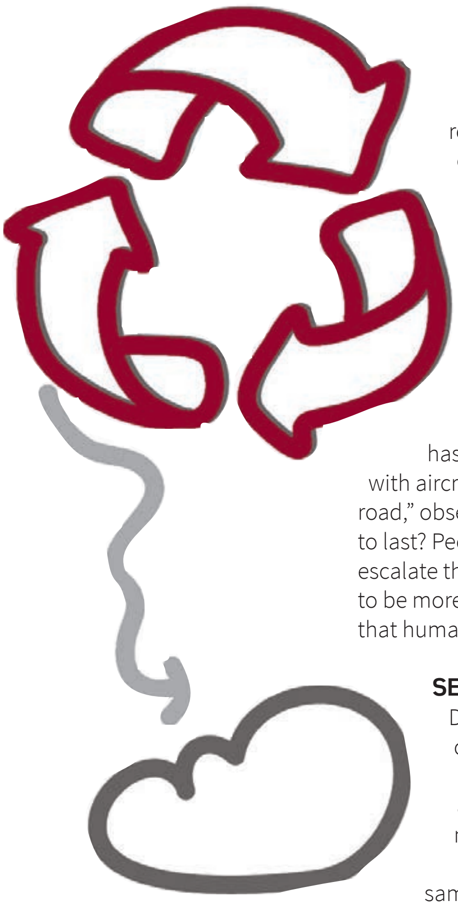
The ways in which companies will take action to address and prepare for climate change, and the speed with which this will happen could actually be accelerated due to the pandemic. According to Martin Bertogg, head of catastrophe perils at the Swiss Re Institute: "As we discovered with COVID-19, climate change is a global crisis and not a problem you can solve by yourself. Concentrated actions need to be global to have an impact."

Lockdown trends such as reduced business travel, remote working, changes in transportation and the decline of non-renewable energy sources could become more permanent as companies seek to reduce their carbon footprints. But as Airmic points out in its 2020 annual survey, even with the unprecedented economic standstill that has arisen due to COVID-19, the world still has over 90% of the decarbonisation it needs to do to keep temperature rises to less than 1.5°C.

Meanwhile, concerns surrounding a post-COVID

"IN 2020, FOR THE FIRST TIME, CLIMATE CHANGE TOOK THE TOP FIVE POSITIONS ON THE WEF RISK REGISTER. AND THAT IS BECAUSE IT IS BOTH HIGH IMPACT AND HIGH PROBABILITY."

Deputy CEO and technical director, Airmic
Julia Graham



recession could mean that strategic and external threats take a back seat in the near term. The cancellation of the COP26 climate summit – due to take place in Scotland later in the year – and the delay of a major research project in the Arctic are signals governments may already be falling behind in coordinating climate action plans.

"Look at what's happened to carbon emissions during COVID-19. The world has been a healthier place in terms of climate, with aircraft not in the skies and fewer cars on the road," observes Graham. "But do I think that's going to last? People are going to want to fly again. It may escalate things like electric transport and the desire to be more environmentally conscious, but my fear is that humans have a short memory."

SEEING SUPPLY CHAIN WEAKNESS

Due to COVID, what may have been a more challenging conversation in the past between risk and insurance managers and their boards may now be altogether more straightforward.

"Risk managers need to speak the same language as the board," says Lanzilotto. "CFOs and CEOs generally don't want to be involved with insurance-related issues, but they want to know about what could cause a loss of enterprise value, whether that is from business disruption and financial loss, or from reputational damage if the company can't demonstrate that it is resilient."

The further lessons the crisis has offered from a supply chain vulnerability perspective are a prime example of this. As was the case with the Thai floods of 2011, the abrupt closure of the Chinese economy during the COVID crisis has again highlighted the disruption that catastrophes can have on the flow of components around the world.

"The extent of a supply chain can be really complex and sometimes organisations can struggle to understand the full extent of their supply chains' risks," says Lanzilotto. "They might understand the first two tiers, but they don't know who sits behind them. Supply chains are actually a matrix and an event that hits a lot of companies, like a natural catastrophe, can expose some companies to a very nasty surprise."

A TECH-ENABLED TRANSITION

There may be an increasing move to 'onshoring' supply chains in the future in order to avoid using suppliers in countries that are highly exposed to natural perils. This could further encourage the development of the 'new economy', one enabled by technology, robotics and sustainable power sources.

"RESILIENCE IS ABOUT BEING ABLE TO SEE AROUND CORNERS AND ANTICIPATE WHAT MIGHT HAPPEN. AND THEN HAVING THE ABILITY TO MOVE QUICKLY TO ADAPT TO THAT CHANGE."

Partner, Clyde & Co
Nigel Brook

It is important that risk managers consider both the physical and transition risks arising from climate change and the transition to a zero-carbon economy. The ability to scan the horizon, anticipate how the global economy is likely to change in the face of the climate threat, and adapt business models accordingly, is a big part of what makes an organisation resilient, believes Clyde & Co partner Nigel Brook.

"Resilience is about being nimble; being able to see further ahead or around corners and anticipate what might happen. And then having the ability to move quickly to adapt to that change. I suspect that's going to become a very valuable commodity in the 2020s."

The speed and ways in which companies will need to change may be far more radical and much faster than previously imagined. In fact, it appears some business models are already no longer viable post-COVID. As Canada's Green Party leader Elizabeth May told Reuters in May: "Oil is dead." No business wants to be the Kodak or Blockbuster of this new era.

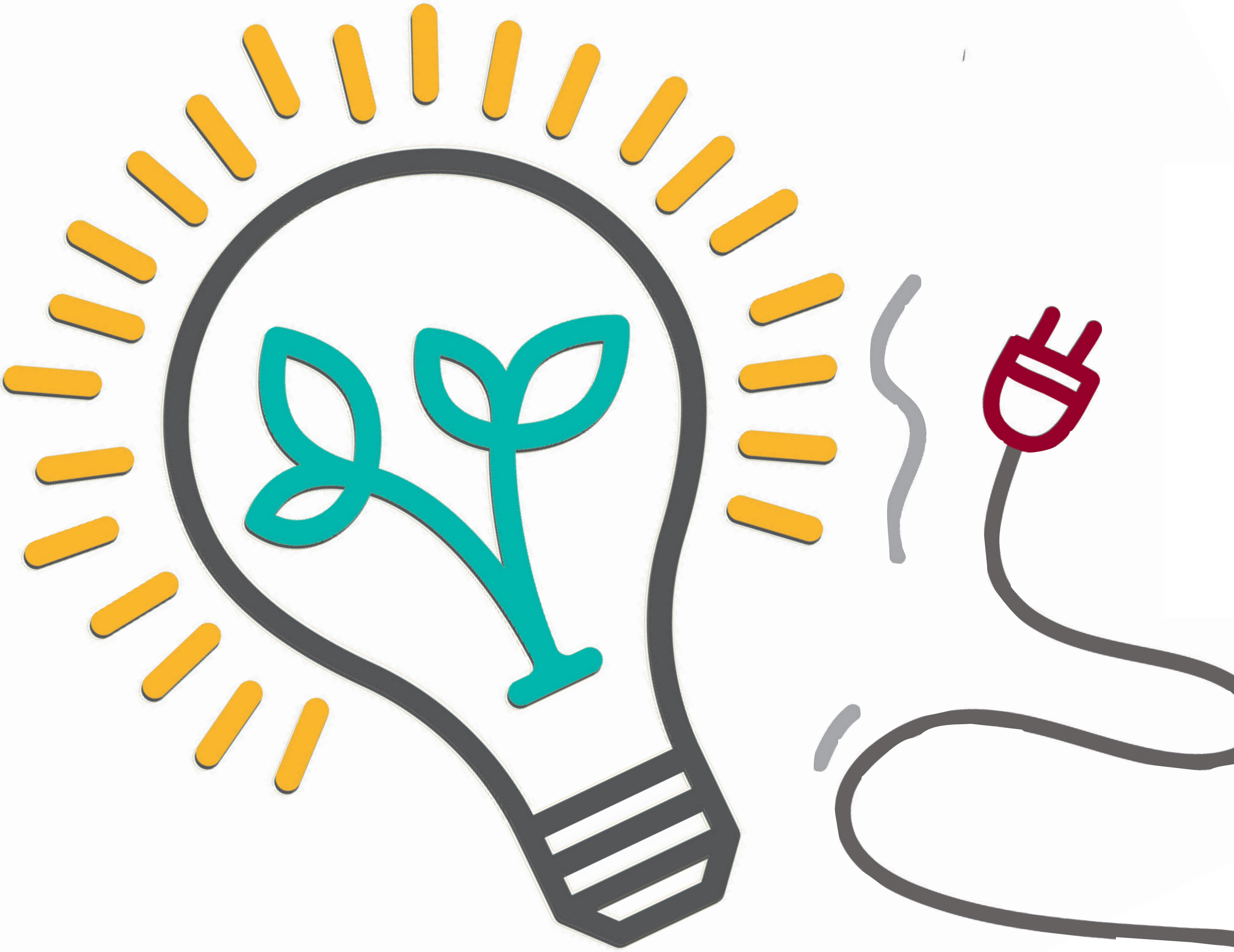
"Without understating the physical risks, but acknowledging that they are perhaps a little bit easier to understand – from a business perspective it could be that transition risk has a more destabilising effect over the next five to ten years," says Brook. "What's going on is still pretty poorly understood."

"The price of solar has fallen by a factor of five in the last five years, for instance, and its now price-competitive with fossil fuels. So it will soon be cheaper in some parts of the world to close down an existing coal or even a gas plant and build a solar plant next door."

BRAND BUSTING

With mounting pressure from consumers, shareholders and regulators, it is imperative organisations understand the implications of climate inaction on their brand and reputation. Reporting requirements outlined by the Task Force on Climate-related Financial Disclosures provide a gold standard roadmap, says Brook. He thinks such disclosures are likely to become mandatory in the future.

"Governance is a really important thing," he says. "Are companies horizon scanning? It's about developing a deep understanding of climate risk, asking 'where is the risk in your business?' and identifying what forms it takes. It isn't just physical and transition risk, it's a reputational risk. So taking action on climate change really matters." **SR**



Seeing the light yet?

Addressing climate change is not just about saving the world, it could save your business. Our exclusive *StrategicRISK* survey discovers that boards could finally be switched on to this risk, but true enlightenment may still be a way off.

Risk managers say their businesses are making important strides when it comes to measuring and monitoring the impact of climate change on their business, but concede there is still a long way to go. This is according to research conducted by *StrategicRISK* in June 2020.

Half of those surveyed said their organisation's approach to climate change was 'improving', with a further 23% describing the approach as 'mature'. Moreover, 73% said their board was engaged with climate change, suggesting companies and their senior management are taking the threat seriously.

'Reputational concerns' was the most common driver for organisations' engaged approach to climate change risk. Fifty-nine percent of risk managers said their company is concerned that lack of action around climate change, and how climate-related risks and opportunities would impact the business going forward, could have a detrimental impact on their brand and reputation.

Nearly half cited environmental, social and corporate governance concerns and corporate social responsibility duties as a key driver behind their organisation's approach. Other reasons climate change is rising up the agenda are concerns around supply chain disruption, a greater awareness of extreme weather events and greater regulation and reporting requirements.

A fifth of respondents said their company had experienced losses that could be attributed to climate change in the last five years. Of these, a quarter had experienced the losses directly, while three-quarters had seen the impact of extreme weather as a result of disruption within their broader supply chain.

PHYSICAL AND TRANSITION RISKS

More than half of respondents (55%) said their organisation was looking at both the physical and transitional risks arising from climate change. This includes the impact of extreme weather events on their business continuity, as well as the risks and opportunities arising from the transition to a low carbon economy.

The internal controller of a financial services company said "climate-related scenarios can be the cause of the lack of availability of physical assets and resources, as well as human resources. These aspects are normally taken into account when defining the possible vulnerabilities of an organisations (the business continuity plan). They can also be considered as real scenarios, during impacts and frequencies assessment."

For risk managers in certain sectors, there is a clear opportunity arising from the shift and how this will impact business models. The risk director of an engineering company noted that as the firm's main business is in renewable energy, "climate change is more than a concern. It is our main business and part of our strategy is to reduce our CO_2 footprint".

THE COVID EFFECT

At a company level, the COVID crisis is not expected to divert too much attention away from climate and

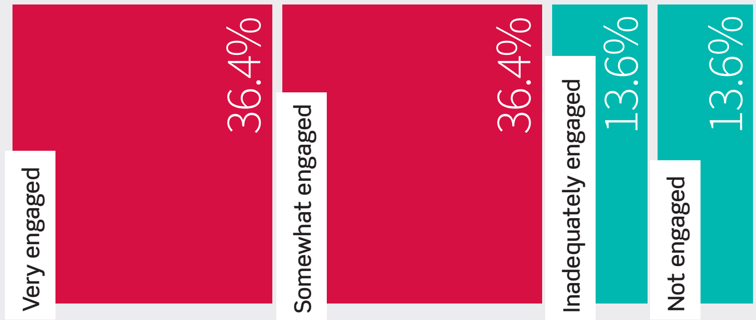
IN THE FUTURE Risk management will be embedded within the ERM approach within the next six months.

Head of risk and insurance at a tech company

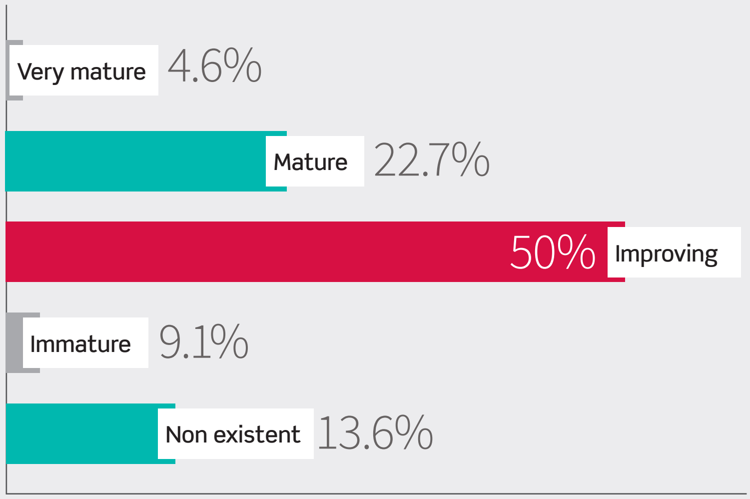
A CLEAR TARGET Sustainability is one of the targets to achieve and promote; business continuity planning of extreme weather has been developed.

Head of internal audit, education academy

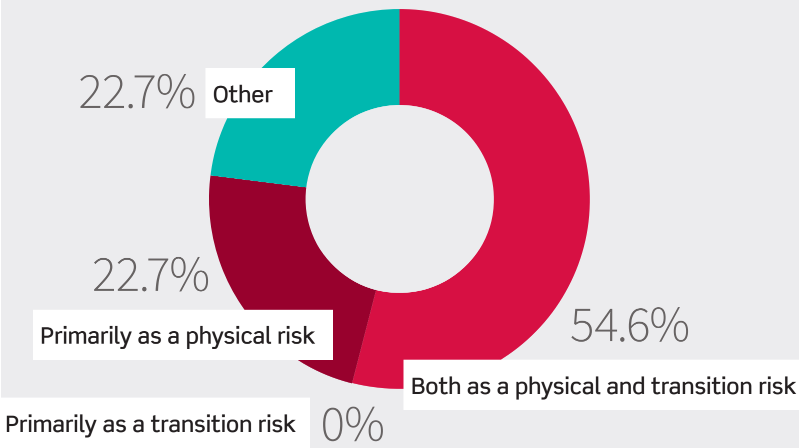
HOW ENGAGED IS YOUR BOARD AND EXECUTIVE MANAGEMENT WITH CLIMATE CHANGE?



HOW WOULD YOU DESCRIBE YOUR ORGANISATION'S APPROACH TO MEASURING AND MONITORING THE POTENTIAL IMPACT OF CLIMATE CHANGE?

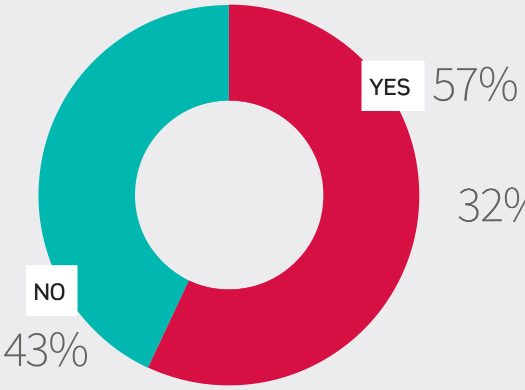


HOW DOES YOUR ORGANISATION TREAT CLIMATE CHANGE FROM A RISK PERSPECTIVE?

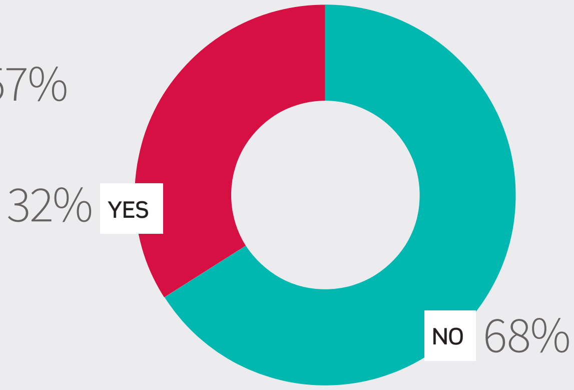


In partnership with airmic FM Global Swiss Re Corporate Solutions

ARE MORE NEAR-TERM CHALLENGES, SUCH AS THE **COVID-19 PANDEMIC** AND **RECESSION**, DIVERTING ATTENTION AWAY FROM CLIMATE AND SUSTAINABILITY RISK?

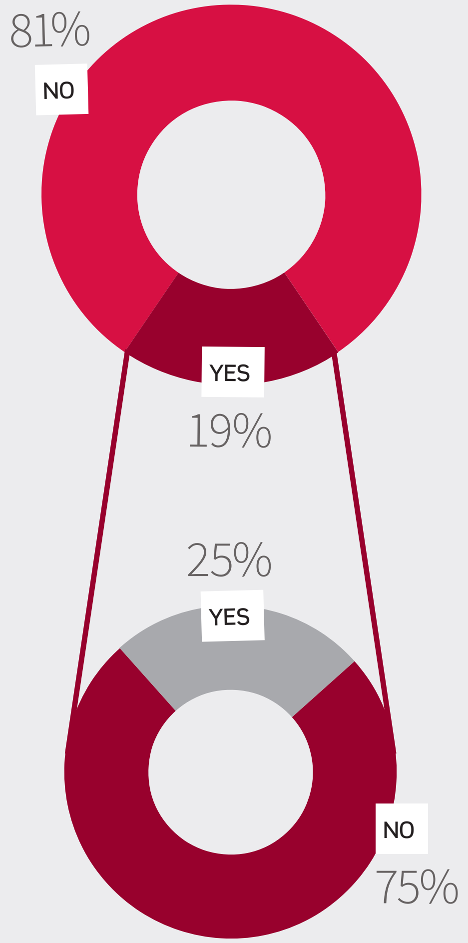


AT A **GOVERNMENT** LEVEL



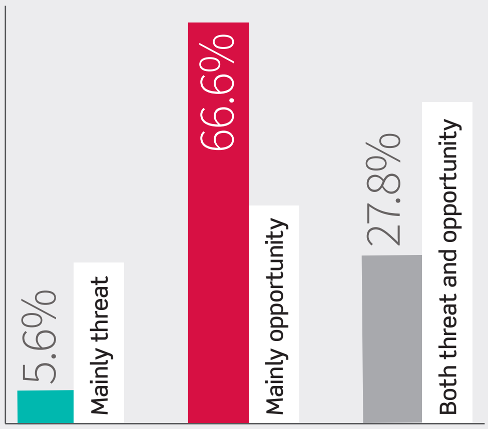
AT A **COMPANY** LEVEL

HAS YOUR ORGANISATION SEEN **LOSSES IN THE LAST 5 YEARS** THAT COULD BE ATTRIBUTED TO CLIMATE CHANGE?

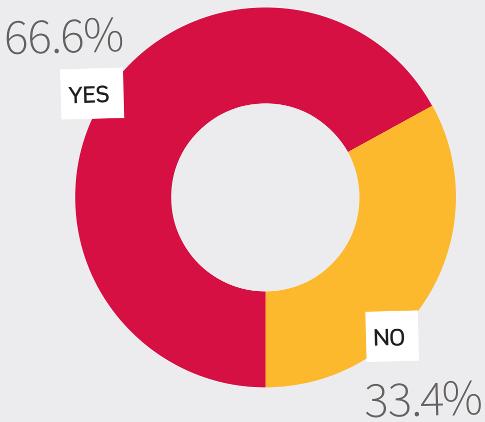


IF YOU ANSWERED YES, WERE THE LOSSES **EXPERIENCED DIRECTLY** BY YOUR ORGANISATION?

IS THE TRANSITION TO A **LOW CARBON ECONOMY** MAINLY A THREAT OR OPPORTUNITY FOR YOUR BUSINESS?



IS YOUR ORGANISATION PLANNING ON LEVERAGING SOME OF THE **CHANGED BEHAVIOURS DURING LOCKDOWN** (SUCH AS REMOTE WORKING) AS PART OF ITS CLIMATE CHANGE STRATEGY?



A WAY TO GO Climate change is considered when discussing certain management issues, but it is not really embedded into daily operations for all employees.

Senior risk analyst, financial services organisation

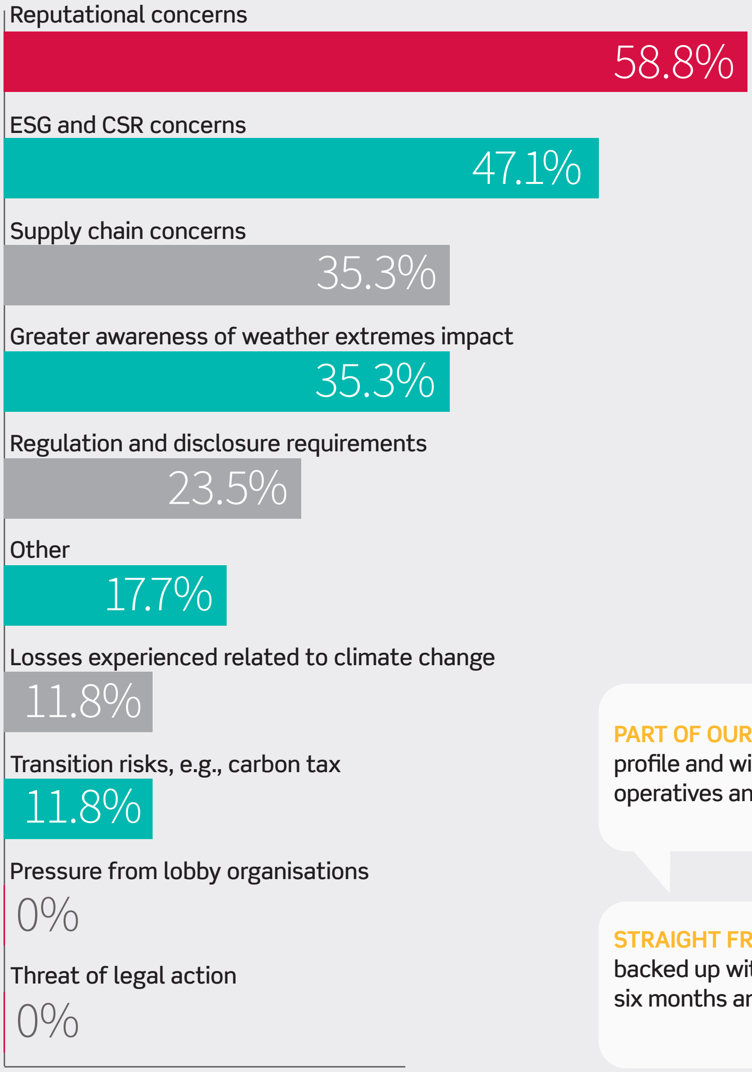
IN TALKS Discussion has occurred regarding the inclusion of climate change in reporting.

Senior project officer, customer services, public sector company

FULLY INTEGRATED Climate change risks are an integral part of the ERM approach.

Risk management consultant

WHICH OF THE FOLLOWING ARE **DRIVING YOUR ORGANISATION'S APPROACH** TO CLIMATE CHANGE RISK?



sustainability risk, according to 57% of respondents. This is because the pandemic is "short term and operational" while the climate crisis is "long term and strategic", according to one risk consultant.

Respondents did, however, acknowledge the significant pressures many of their organisations are under during the current crisis. "Getting back to operations and restoring a pre-COVID level of performance is a huge challenge," said one survey participant.

"For the last few months, attention has been on navigating the current challenges," added another. "However, I expect focus on climate and sustainability risk to ramp up over the next six months."

Distraction in the face of a global crisis is even more of a concern at a government and policymaking level, according to over two-thirds of survey respondents (68%). With governments fighting to get the level of infection under control, issues such as climate and sustainability will inevitably a back seat in the short to medium term, thought some.

"The immediate pressure of saving lives and ensuring livelihoods for all is indeed a big distraction," said one risk management consultant.

"In our opinion, COVID should have been no more than a major event and that is how we have treated it in our ranks," added the director of an energy consultancy. "Unfortunately, many others were not prepared and we have had to adapt quickly to their failures."

At the same time, respondents acknowledged that the coronavirus pandemic – a low-frequency, high-impact event that had not been considered an immediate concern by many risk managers and their boards – had further stressed the importance of managing climate and sustainability risk. This could have a positive impact going forward and actually assist risk managers in retaining board-level attention.

Two-thirds of respondents said their organisation was planning on leveraging some of the lockdown behaviours, such as remote working and online meetings (creating a reduced property footprint) and less frequent business travel, in the longer term, as part of their climate change strategy. While it is still early days, with the aftermath of the COVID crisis far from over for most businesses, some already see these changes as an opportunity to improve efficiency and save on cost, as well as reduce carbon footprint. **SR**

PART OF OUR ETHOS Climate change-related risk is high on our profile and within our policy and company ethos. As such, all operatives and agents sign up to it when they engage with us.
Director of an energy consultancy

STRAIGHT FROM THE TOP We have a clear policy at top level, backed up with targets and programmes. These are reviewed every six months and updated.
Executive director of a management consultancy


FAST
FORWARD
Speeding up the Customer Experience.
Advancing Corporate Insurance Together.
F9
Swiss Re
Corporate Solutions
Speed. Simplicity. Service. Not your typical description of a commercial insurer. But Swiss Re Corporate Solutions is anything but typical. For a start, we want to improve the customer experience. That's why we work with you to understand your needs, and provide tailored, state-of-the-art risk management solutions, without the hassle. We also know the world is changing and you need a partner who anticipates the future. At Swiss Re Corporate Solutions, we're relentlessly addressing industry inefficiencies and customer pain points to transform corporate insurance. By combining fresh, innovative perspectives with tech-driven solutions and applied expertise, we're leading the industry forward. We're rethinking corporate insurance with you in mind.
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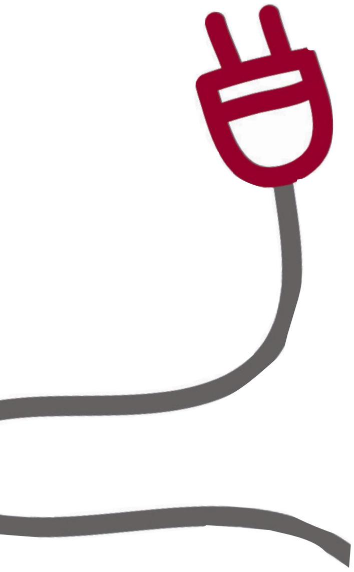
Can we ensure insurability?

Global warming is just one factor provoking the rise in natural disasters. If we want to avoid 'no coverage' regions, we must invest in risk mitigation.



Economic losses from natural and man-made disasters in 2019 were $146bn in 2019, according to Swiss Re sigma, down from $176bn in 2018. But just $60bn of the losses were covered by insurance, pointing to a 'protection gap' of exposures.

The Swiss Re Institute expects global warming will cause a growing intensity and frequency of weather events in the future, but also sees more uncertainty in their assessment of those events. Hurricanes Harvey, Irma and Maria caused an estimated $92bn in insured losses, making 2017 the second costliest North Atlantic hurricane season. "The North Atlantic seems to remain in an active phase of hurricane activity, irrespective of climate change influences," sigma states.

While storms are not caused by one factor alone, "some of the characteristics observed in HIM are those predicted to occur more frequently in a warmer world". It notes the high level of rainfall over Houston and hurricane intensification. Other trends, like sea level rise and urbanisation, are contributing to growing exposures, particularly in 'peak zone' regions, such as coastlines.

"Looking at the evolving risk landscape, it is clear climate change is not the only driver," says Martin Bertogg, head of catastrophe perils at Swiss Re Institute. "Urbanisation is one trend and globally, we see a migration of people to the coast. We see other risk factors developing at quite some magnitude and pace, and as a corporation that's our challenge. To maintain offering our risk transfer product in a sustainable way when faced with a risk that is accelerating."

Going forward, insurability is one issue, believes Bertogg. Ultimately, some regions may be considered 'no go' areas because the risk is too high for re/insurance companies to take on. Or it is not economically viable for companies to locate operations there. "It won't happen immediately, but at some point too much premium will have to be paid at a specific location to make risk transfer a reasonable option," says Bertogg. "Insurance cannot cope with 'chronic risk'… something that is just persistently there. So if sea level rises by half a metre, that's not something we can just address with insurance."

This is where risk mitigation and investment in flood defences, sea walls, more robust architecture and stronger infrastructure may hold the answer. In high-income, flood-prone countries, such as the Netherlands, there is sustained investment in a sophisticated system of flood barriers and the construction of amphibious buildings, for instance.

"Some form of risk mitigation and precaution measures, particularly against chronic risks such as the persistence of flooding for example, will occur," says Bertogg. "And this will help to maintain insurability for acute risk, i.e., natural catastrophes." **SR**

We see the hazards first

EXPERT VIEW While more extreme, more frequent weather events are on the horizon, the insight from insurers makes it possible to build real resilience against lasting damage, says FM Global's Katherine Klosowski.

One of the mantras at FM Global is that the majority of all property loss is preventable. Many businesses believe that natural hazard events are inevitable, and while it is true that an event itself might be inevitable, the damage and loss arising from it is not. Oftentimes, the damage is a man-made loss, based on whether or not we take action to mitigate the impact of that event.

We had a client with a facility near the Po River in northern Italy, and we suspected they were exposed to flood. The facility was located 5km from the river and they were struggling to see how a flood could impact them. FM Global did research with a local hydrological consultant to model a flood event, which was able to identify not only that the factory was within the flood footprint, but could predict how deep the water was likely to get. By sharing that insight with the client, they understood the risk from a property damage and business interruption perspective, and were able to talk to senior executives about funding for risk improvement.

PREPARING FOR ADVERSITY

As the physical impacts of climate change begin to be felt, there is an important role for the insurance industry here. It is not just about offering risk transfer solutions, but also about sharing insights into hazards and vulnerability. This can help organisations prepare for and mitigate their exposures.

More than three in four CEOs and CFOs at the largest companies admit their firms are not fully prepared for the adverse financial impact of a changing climate. This needs to improve, and the tripartite relationship between risk manager, insurer and broker is a good place to start.

As a global insurance company, we see losses – e.g., where floods happen, how the water damages businesses, and how it disrupts supply chains. By sharing that information with clients, they understand the risks better, and whether there are immediate or longer-term exposures that are likely to unfold as the climate changes. By coming up with solutions to prevent damage from occurring, we offer considerable support.

This is where insurance companies are really driving the conversation with organisations on how to protect against the inevitability of more extreme and unpredictable natural perils in the future. **SR**

Katherine Klosowski is vice-president and manager, natural hazards and structures, FM Global.

"AS THE IMPACTS OF CLIMATE CHANGE BEGIN TO BE FELT, IT IS ABOUT SHARING INSIGHTS INTO VULNERABILITIES."

Vice-president and manager, natural hazards and structures, FM Global
Katherine Klosowski

Insurers pushing for change

When it comes to the business risks created by climate change, re/insurers are clued up. It's no wonder the sector is so focused on tackling the issue, says Martin Bertogg of the Swiss Re Institute.

The re/insurance industry is at the forefront of driving the climate change agenda. There are three key reasons insurers and reinsurers are so active in directing things forward and helping coordinate a fresh approach to climate change.

1 WE KNOW NATURAL CATASTROPHES WELL

The industry is covering many of the losses emanating from natural perils and these losses are on an upwards trend, both from a claims and an economic loss potential. Granted there is still a 'protection gap', with many regions of the world uninsured for catastrophe risk, and this is an opportunity for the industry to address the gap and change its approach to underwriting as catastrophic perils become more intense and we experience more weather extremes.

After 12 years of relatively benign catastrophe experience, we witnessed three successive years of heightened loss activity in 2017, 2018 and 2019, with major hurricanes, typhoons, wildfires and floods among the hazards driving devastation and impacting insurers and reinsurers from a loss perspective. Looking at these physical risks from a climate change perspective, none of them is marked explicitly as a 'climate change' event. Climate change makes some natural catastrophes, in their occurrence and in their severity characteristics, more likely to happen.

"PUBLIC PERCEPTION IS SHIFTING AND CLIMATE CHANGE IS NOT AN ISSUE ANY ORGANISATION CAN AFFORD TO IGNORE."

Head of catastrophe perils, Swiss Re Institute
Martin Bertogg

2 WE SEE THE TRANSITION RISK

This second reason involves the transition to a net-zero carbon economy and how it impacts our business models, when considering most, if not all, insurance companies as managers of large asset portfolios. In many ways, this transition risk, impairing the value of some assets, is happening at a much faster pace than physical climate change risks, likely accelerated by COVID-19.

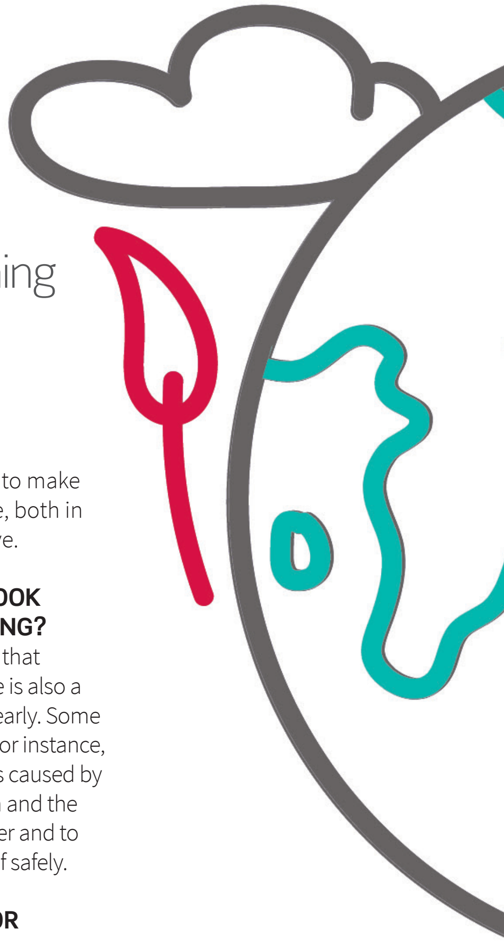
As a large asset manager, Swiss Re carefully considers its investment portfolio's ESG credentials. Recently, the business has pledged to stop covering the most carbon-intensive oil and gas companies, where the same step for asset investments had been made already a few years ago. Such steps are important from a transition risk standpoint, but also as we think about our role as citizens. Our staff want to work for a company built on sustainability. Public perception is shifting and climate change risk as an important contributor to sustainability is not an issue any organisation can afford to ignore.

3 OUR REGULATORS ARE DEMANDING FOCUS

The insurance industry is heavily regulated and the last few years have seen supervisors increase scrutiny on how the physical risks of climate change could really impact the sector. This further accelerates momentum to address both underwriting and asset positions under the header of sustainability and climate change. **SR**

Martin Bertogg is head of catastrophe perils at the Swiss Re Institute.

Keeping the flow



Thames Water's Richard Hoult discusses horizon scanning over the next 80 years and the challenges of resource scarcity as climate extremes become more common.

HOW DOES THAMES WATER APPROACH CLIMATE CHANGE FROM A RISK PERSPECTIVE?

The physical side of it is a key issue for us in terms of more intense rainfall, which causes more flooding of the sewer networks. We have a lot of water and waste treatment sites near rivers so the more extreme weather we have the more those are going to get flooded. And that has a knock on impact on customers.

The 'Beast from the East' in 2018 was a challenge from a water perspective. We went from freezing pipes to a quick thaw, which led to a rapid loss of water from burst pipes and lots of customers without water. Many water companies in other regions also couldn't fix the pipes quickly enough. We believe that situation could happen more often with climate change going forward.

We're focusing a lot more on resilience. Being in the water industry it's about being resilient to events but also shocks like COVID-19. How can we operate as a business and deliver a service no matter what happens? We've learnt a lot from events like the Beast from the East and Brexit, so when COVID-19 came along, the same governance structure was put in place and the same people were up to speed from day one. Yes, it's bigger than anything we've seen before but it actually worked and showed we are fairly resilient as a business.

SO IS RESILIENCE PART OF THE CONVERSATION AT A SENIOR LEVEL WITHIN THE COMPANY?

Yes. I had an email exchange this morning with the executive chairman around how to embed risk more in our language as a business. He suggested we replace the word 'risk' with 'resilience' – our people seem to understand the word better. People are starting to use that word a lot more than risk. So we're thinking that's how we can get the message over to the business most effectively – by taking more of a resilience lens. This is especially true when it comes to the big strategic challenges like climate change.

HOW IS THE COMPANY PREPARING FOR THE TRANSITION TO A ZERO CARBON ECONOMY?

We have a commitment to achieving net zero carbon emissions from our operations by 2030. Water production and wastewater treatment uses a lot of power - especially our water treatment works and pumping water around London all day and all night long, so energy efficiency is our starting point. Where we have land that isn't currently being used we're putting put in solar panels or wind turbines to make sure we've got a more reliable power source, both in terms of price and from a carbon perspective.

HOW FAR OUT DOES THE COMPANY LOOK WHEN IT COMES TO HORIZON SCANNING?

We have a five-year business plan and we use that timeframe from a reporting perspective. There is also a 10-year viability statement that we produce yearly. Some things that are becoming part of the culture. For instance, we're planning for the impacts to our business caused by increases in the population of Greater London and the Thames Valley. All those people will need water and to have their wastewater treated and disposed of safely.

HOW IS THE COMPANY PREPARING FOR FUTURE POPULATIONS?

We look at projected population growth over the long term. At the moment we're looking out to 2050 and in some cases 2100 and asking ourselves what we need to support the population in 30 and 80 years' time. From a climate change perspective, we will get much hotter summers and we can't, in many cases, take more water from rivers then, because of the environmental impacts.

Looking at new options for water supply, we are not keen to rely more on desalination, at least not using the technology currently available, due to the huge energy demand. Another option is to build a pipeline from parts of the UK that have more water, like some parts of the north of England. But the costs of long-distance pumping are quite heavy and there's the issue that the north may not have sufficient surplus water when it is needed.

The third option – our preference – is to build a big new storage reservoir, taking water from the upper reaches of the Thames when flows are high and storing it. When required, the water would be released back into the river and flow the 75 miles down to London.

WHAT IMPACT DO YOU ANTICIPATE FROM THE COVID CRISIS?

There is the potential for changes in working practices to lessen the need to commute on public transport. But this could only be a temporary phenomenon, so for now we are modelling scenarios and assessing risks. But whatever happens we will adapt and invest accordingly. Within the water industry, there's always a strong lens on the future and making sure our service continues to be resilient. **SR**

"WE WILL ADAPT AND INVEST. WITHIN THE WATER INDUSTRY, THERE'S ALWAYS A LENS ON THE FUTURE."

Head of risk, audit and assurance, Thames Water
Richard Hoult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