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- BUILDING CODES NEED URGENT REVAMP
- THE SHOCKWAVES NZ'S QUAKES SENT THROUGH THE INSURANCE INDUSTRY
- FINDING A NEW NORMAL POST-PANDEMIC
- CLIMATE CHANGE SURVEY SPECIAL: ARE BOARDS FINALLY TAKING IT SERIOUSLY?

**AUSTRALIA EDITION** 2020 | US$25

# SCORCHED EARTH

We've been through hell. In the face of the Black Summer, a deadly pandemic, and more severe weather-related events on the horizon, playbooks are being ripped up as risk teams face new extreme challenges.

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# Time to flex your muscles

The past, terrible year has deeply tested both our business and human resilience. Risk managers can play a major part in building future strength against such shocks, but you can't be afraid to force the c-suite door down first.

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The events of the Black Summer may already feel like a lifetime ago, given the global healthcare crisis COVID-19 has unleashed. But with a new bushfire season upon us, there are once again signs the fires are starting early. Warm and windy conditions sparked several fires across the Gold Coast in August, with an out-of-control bushfire spreading across 294 hectares in the Tweed Valley. The fire at Duranbah was as big as 133 football fields and a painful reminder of the destruction seen last summer.

The numbers are still difficult to comprehend. The summer of 2019–20 was the driest and hottest on record. Extreme winds and arid conditions, particularly across parts of New South Wales, fuelled a prolonged inferno that ultimately left over 46 million acres (18.6 million hectares) of land scorched, and engulfed 6,000 buildings across the country.

As Australia began to come to terms with a natural and ecological catastrophe on a scale never before seen, the COVID crisis erupted and Australian states went into lockdown. It is an understatement to say that 2020 has been a year of shocks, and for risk managers it has been a test of much more than their business continuity plans.

As discussed at our virtual Climate Change Roundtable (pages 6–11), the threats of extreme weather-related catastrophes and a global pandemic have shone a light on risk management. Its role in ensuring companies and their supply chains are more robust in the face of major threats, such as climate change, has never been more important.

As Eamonn Cunningham, president of the RIMS Australasia chapter, observed, 2020 has provided the opportunity for risk managers to "show their worth to their organisations". He recommends that risk professionals insist on being in the boardroom when important decisions are being made. "If you're outside of the room when these conversations are happening, my message is to knock on the door and force yourself in. That might sound like a risky strategy but it will pay dividends when people start listening to your advice."

The risk community can play a large part in building more resilient organisations; companies that can adapt their business models and supply networks quickly when faced with major disruptive incidents. What risk managers can't do is predict Black Swan events – although many risk experts do point out that a global pandemic on the scale of COVID-19, albeit remote, was there on the risk register all along. Still, resilience is not about predicting every eventuality, it's about being prepared for the shocks, however they arise.

We know that natural catastrophes are becoming more frequent and more severe; that the risk landscape is shifting. One-in-100-year event scenarios are occurring more frequently and hence, the return period of these natural catastrophes is changing. The cause is a combination of macro trends, including climate change, population growth and major infrastructure development.

There are more interconnections between risks than ever before, with intangible exposures becoming more disruptive to businesses. A crisis like COVID-19 has multiple consequences, plunging economies into recession, heightening cyber risk as a result of remote working, as well as stirring up geopolitical tensions and social unrest.

It is all far from over. At the time of writing, the Melbourne lockdown had been extended by two weeks as it became the epicentre of the country's second coronavirus wave. Then there is another summer to prepare for and the promise of the usual gamut of natural hazards, from hail events and cyclones, to bushfires and floods. Across the Tasman Sea in New Zealand, it is always earthquake season.

It is time to demonstrate that risk managers are not just another cost centre – risk averse, with their own special language that the c-suite struggles to understand or relate to. It is time to make clear that we are essential partners and business enablers within our organisations as we all navigate these challenging times and look for opportunities to adapt, grow and prosper. Keeping one eye at all times on future sustainability. **SR**

**"RISK'S ROLE IN ENSURING COMPANIES AND THEIR SUPPLY CHAINS ARE MORE ROBUST IN THE FACE OF MAJOR EXISTENTIAL THREATS, SUCH AS CLIMATE CHANGE, HAS NEVER BEEN MORE IMPORTANT."**

# Insurers to take on intangibles

As businesses face increasing cyber, data and IP exposures, Australia's insurance industry is adapting offerings, and bringing intangibles coverage into the mainstream.

In our modern business world, intangible assets are just as valuable as tangible products and resources. Items like data, content, software code, brands, confidential information, inventions, industrial know-how and design rights are integral to companies, yet many continue to overlook their value, according to intangible asset advisory firm EverEdge Global.

Companies often fail to recognise the importance of intangible assets, as they can be difficult to value through traditional accounting methods. Yet a spate of high-profile cyber attacks, data leaks and intellectual property theft cases has underlined the importance of keeping such assets safe.

So far in 2020, the Australian government and several private companies have been hit with cyber attacks, highlighting the need to protect intangibles.

**30%** increase in cyber insurance purchased over the past three years.

And this is driving the need for new and improved insurance solutions, say Australian insurers.

The Australian insurance market has typically focused on traditional classes of insurance, with quantifiable, tangible risks front of mind for organisations. But in recent years, intangible risks have risen up the agenda, prompting risk managers to seek specialist coverage as corporate risk profiles change.

Aon has seen a 30% increase in the purchase rate of cyber insurance over the past three years, with 2020 looking to eclipse that growth this year, says Michael Parrant, Aon cyber insurance practice leader. "This has been spread across SMEs and through to large corporates in Australia. While these assets have existed for some time, the insurance solutions and the available capacity has been limited. Over the past 12–24 months, we have noticed a significant increase in available capacity, an expansion of available coverage, and a more sophisticated manner of valuing those assets."

Parrant believes demand for non-traditional lines of insurance will continue to grow. "We can compare cyber and IP insurance to D&O insurance 20 years ago. D&O insurance was once considered a discretionary purchase, whereas now it is a fundamental line of coverage for most organisations. Cyber and IP are following a similar evolution – however, the timeline is vastly condensed."

Max Broodryk, product leader for cyber risk in Australia for AXA XL, notes that publicly announced breaches, including attacks on Australian National University, Landmark White, Page Up, Lion and Toll Holdings, have raised awareness.

"Everything is increasingly being connected and digitised," he says. "An increase in data has led to more and bigger data breaches, both as a result of human error and as a result of cyber crime and nation-state theft of information."

Insurance products are adapting, but while they may address some aspects of cyber exposure, including property, liability and crime insurance, significant gaps remain, says Broodryk.

"Standalone cyber insurance has been developed to address this; specifically the cost of notifying a data breach, the resultant business interruption, the cost of reconstituting data, fines and penalties levied by regulators – where legally permissible, third-party claim costs, forensic investigation costs, legal costs, ransom costs – where legally permissible, and public relations advice costs," Broodryk says. "Coverage options also sometimes extend to cover business interruption arising from cyber attacks against, or system failure in relation to, supplier and customer systems."

While cyber insurance is now "widely available" for Australian companies, SMEs have been slower on the uptake, Broodryk adds. **SR**

## Pandemic test case filed

**The Insurance Council of Australia** (ICA) and Australian Financial Complaints Authority (AFCA) have filed a test case in the NSW Supreme Court to consider the application of infectious diseases cover in business interruption (BI) policies. It will be heard by the NSW Court of Appeal beginning on 2 October.

The primary purpose of the test case is to seek a decision on whether references to a quarantinable disease under the *Quarantine Act 1908* should be construed as a reference to a listed human disease under the *Biosecurity Act 2015* in various policies issued to small businesses containing BI cover.

The outcomes of the test case will be used by the AFCA in determining relevant complaints arising from COVID-related BI claims. Legal costs are being funded by the ICA.

ICA's CEO, Rob Whelan, says: "This test case is an important step towards providing greater clarity to insurers and small business customers."

"The industry wishes to have the case heard as quickly as possible, given the challenging times being experienced by the small business sector because of COVID-19, the past season of natural disasters and

# APAC commercial insurance pricing up 31%

**Global average commercial insurance prices** increased 19% in the second quarter of 2020, according to the Global Insurance Market Index released by Marsh, and by 31% across Asia Pacific. The global average increase is the largest since the index was launched in 2012 and follows year-over-year average increases of 14% in Q1 and 11% in Q4 of 2019.

As with Q1, average price increases were mainly driven by increases in property insurance rates and financial and professional lines. Certain D&O markets saw large increases. In the UK, D&O pricing increases averaged over 100%. A similar situation exists in Australia, noted Marsh, where a lack of competition has resulted in capacity shortage.

Commenting on the findings, Dean Klisura, president, global placement and advisory, at Marsh, says: “While pricing movements this quarter were impacted by losses related to COVID-19, other large losses contributed to overall pricing pressures. As insurers continue to work through claims in property and D&O, and with the full cost of COVID-19 still developing, upward pressure on pricing is anticipated for the balance of 2020.”

Pricing increase in the APAC region was largely driven by increases in property and D&O coverages. Global financial and professional lines were up 37%.

The Australian authorities have sought to tighten scrutiny of litigation funders in an effort to mitigate the surge in class action lawsuits. It is hoped the move will have positive implications for directors and officers at a time when coverage is difficult and expensive to secure.

“The government should be congratulated for making moves towards untangling some of the issues currently facing insurers and clients in the D&O market,” says James Baum, CEO of Aon Australia. “While there may be some limitations as to the practical import of the changes to the continuous disclosure regime, these announcements are a positive development that will help both to relieve some of the pressure on companies amid COVID, and to open up some capacity and optimism in the insurance market.” **SR**

# ‘Black Summer’ bushfire claims hit $1.86bn

**The Australian bushfires of** 2019–20 cost insurance companies $1.86bn. The insurance industry loss data released by PERILS covers the peak period for the bushfires during the turn of the year. The Black Summer was the worst Australian bushfire season on record, affecting the entire continent and resulting in 34 fatalities. An estimated 18.6 million hectares of land between September 2019 and March 2020 burned.

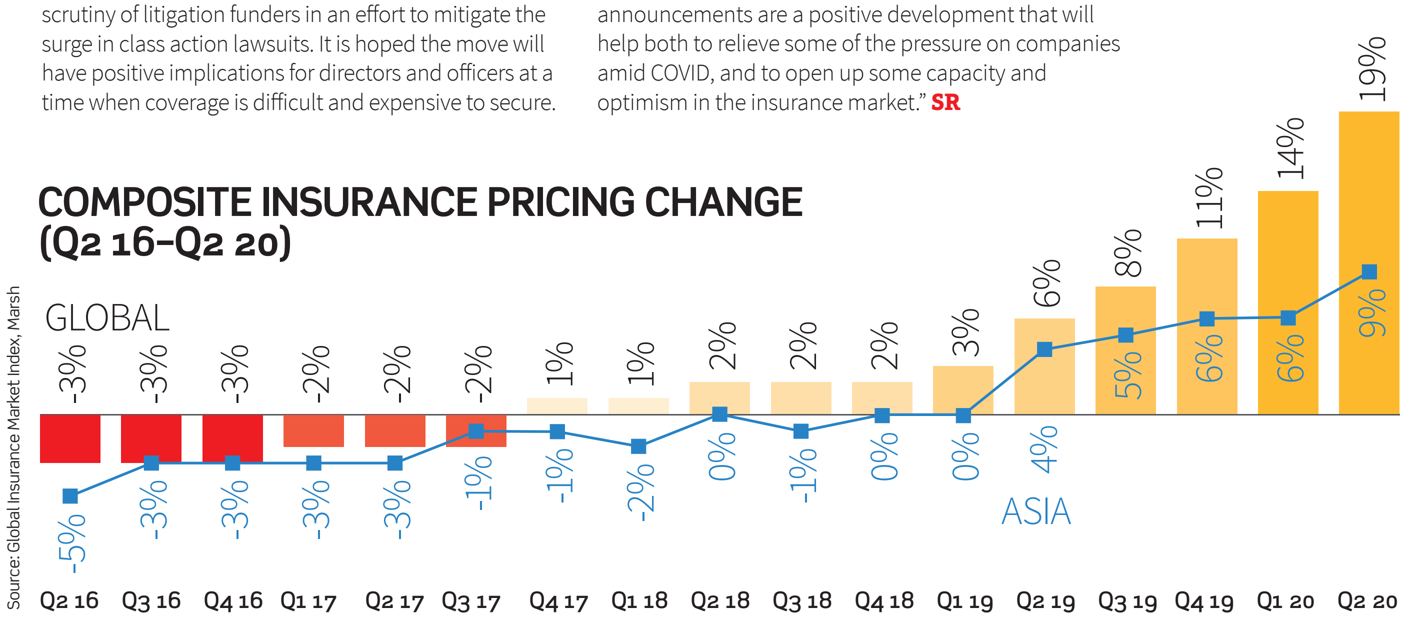
Moody’s modelling firm Four Twenty Seven believes the ultimate insurance losses arising from the 2019–20 season will likely exceed the $4.4bn record set by Australia’s 2009 Black Saturday fires.

Darryl Pidcock, head of PERILS Asia-Pacific, says: “The affected communities have been significantly impacted by these losses and are now facing additional pressures from the coronavirus pandemic.”

Losses during the New Year peak period were most severe in New South Wales, accounting for 70% of the industry loss, followed by Victoria (17%) and South Australia (13%).

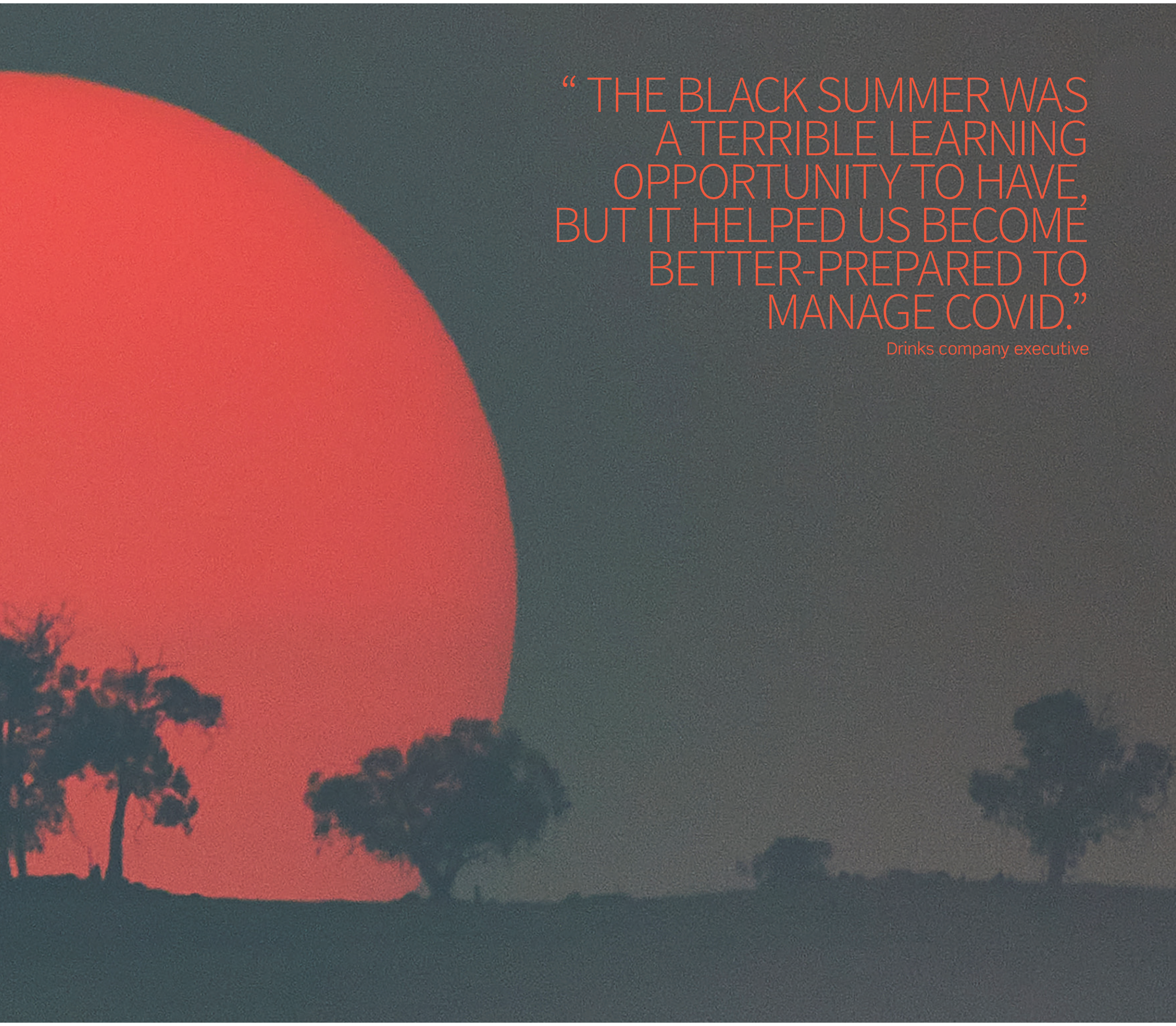
Research predicts that climate change will add up to three months of high wildfire potential in Western Australia by 2030–40. Nik Steinberg, managing director of research at Four Twenty Seven, says: “Wildfires in Western Australia have affected extractive industry facilities, like those in mining and petroleum, in the past, and wildfires could also become more frequent for those facilities adjacent to wildfire-prone areas in the future. Extractive industries constitute the majority of Western Australia’s economic output, and the state produces 48% of Australia’s total exports.” **SR**

## COMPOSITE INSURANCE PRICING CHANGE (Q2 16–Q2 20)



# Dark before the dawn

At *StrategicRISK*'s Australasian Climate Change Virtual Roundtable, risk experts discussed their organisations' resilience to the deep shocks of the past year. As businesses endured the ultimate stress tests, how have approaches to risk changed and improved?



“ THE BLACK SUMMER WAS A TERRIBLE LEARNING OPPORTUNITY TO HAVE, BUT IT HELPED US BECOME BETTER-PREPARED TO MANAGE COVID.”

Drinks company executive

In August, Australasia’s top risk managers came together virtually to discuss the impact of heightened climate risks in the region, as companies continue to count the cost and wider fallout from Australia’s Black Summer of 2019–20.

In conjunction with RIMS Australasia, *StrategicRISK* asked the region’s top risk professionals about their approaches to climate change, and whether they had adapted strategies in the wake of this year’s significant natural catastrophe events.

The conversation was conducted under Chatham House Rules, but some participants have given permission for their opinions to be used in this feature.

**HOW DID THE EVENTS OF THE BLACK SUMMER IN AUSTRALIA IMPACT BUSINESS SUPPLY CHAINS? AND WHAT LESSONS HAVE RISK MANAGERS LEARNED FROM THE CATASTROPHE?**

One risk executive in the retail sector said her organisation had started a risk assessment into its supply chain following the bushfires.

She said: “They probably thought the supply chain was more vulnerable and this whole experience has stress tested it both from an international and Australian perspective. Incredibly, they have held up really well, and that’s even with IR issues at the same time. They are continuing to work on making it better.”

The head of compliance at a major global drinks company said there had been “physical impacts” to the Australian business. “There were bushfires 10km out of town, so we essentially had to shut down our distillery to maintain only critical functions there for the safety and operation of the site.”

The drinks executive went on to say that there were restrictions on the company's ability to move manufactured products around Sydney. Health protocols also had to be put in place for staff in affected areas.

"Our Sydney manufacturing facility was impacted by the bushfires west of Sydney. We had to use PPE to ensure safe breathing. It actually enabled us to build a good stockpile coming into COVID-19. We also had to take physical things like smoke on the site into account, and whether that impacted our fire and safety, or smoke warnings."

Eamonn Cunningham, president of the RIMS Australasia chapter, said the scale of the impact, and speed of the onset, made organisations review their own playbook regarding supply chains.

"This was region-wide, and it was with us for weeks – in some cases, months," Cunningham said. "Suddenly you have to go back to basics, which is always the sensible advice with regard to business continuity management, and build up an alternative response based on fundamentals and whatever mother nature has tossed your way."

"Some people found themselves dropping their pre-prepared playbook into the bin and starting afresh, and writing it on the circumstances that they found themselves in."

Nick Deitz, risk and compliance manager at Australian software company Atlassian, said the fires made organisations "look back at where those impacts might be", and consider "risks around the supply chain".

"It made us look at the employee – their personal perspective," Deitz added. "There are California wildfires going on at the moment and we have got a lot of people out there, and it's the same. It's asking: 'Where are your people?' 'Where are they at risk?'"

"During the bushfires, we looked at the air quality and asked whether people wanted to come in. How do you get access to a mask? It was very much focused on employee welfare, but it made the risk and procurement teams consider the risk around supply, too."

An Australia risk manager in the professional services market said the summer's events made his company look more closely at the welfare of staff and their families across Australia.

"They might be caught up in it, they might need to take leave, there might be mental health issues – all that stuff is relevant in the COVID world."

The risk executive said many of their clients were impacted by the fires, with some clients unable to pay bills or get up and running. They were doing what they could to help.

"From a risk perspective, we were nearly taking an opposite approach, and looking at what controls can we potentially relax? Therefore, we're not hammering customers to pay bills, we're having empathy, and in some cases, wiping a debt because it was so small."

"This is where risk can play a good role. It's not just ensuring tightening controls. It can be about loosening controls. That was an eye-opening exercise for the risk team."

"FROM A RISK PERSPECTIVE, WE WERE LOOKING AT WHAT CONTROLS WE COULD POTENTIALLY RELAX, TO HELP OUR CLIENTS."

Professional services risk manager

# "THE QUALITY OF OUR RESPONSE IS NOT ARTICULATED IN THE PLAN BUT IN THE QUALITY OF OUR LEADERSHIP AND OUR PEOPLE, AND THE ABILITY TO MAKE GOOD, QUICK DECISIONS."

Catherine Parker, head of enterprise risk, QIC

**HAS THE BLACK SUMMER FORCED YOU OR YOUR ORGANISATION TO RECONSIDER THE WHOLE QUESTION OF RESILIENCE? IF SO, IN WHAT WAY?**

Risk professionals said Black Summer had proven to be a valuable learning experience, and had helped businesses to prepare for the following shock of COVID-19.

The drinks company executive said it was important to focus on retailers, and review how to help smaller partners through the crisis.

"How can we give them free stock where we don't clip the ticket, or give them deals, and set them up for success? We want a good relationship. How can we ensure that we are an organisation that helps local customers and the beverage industry, and also be seen as doing the right things?"

"We feel like we have coped quite well through COVID because we learnt a lot of lessons from [the bushfires]. We've put together lots of additional work to support the hospitality industry, and have learnt lessons about how we can be more resilient," he added.

"If there's smoke damage in Sydney, for example, and people want to work from home, we know we have tested that with the bushfires, so we were more agile for COVID. It's a terrible learning opportunity to have, but it helped us become better-prepared to manage COVID."

Catherine Parker, head of enterprise risk & governance at the Queensland Investment Corporation (QIC), said a key learning from the Black Summer was taking the lead from public officials and their actions.

"If you look at our public leaders and the commissioner during the bushfires, you see a great example of a transparent and open approach," Parker said. "The quality of our response is not articulated in the plan but in the quality of our leadership and our people, and the ability to make good, quick decisions. It has been a great opportunity to think beyond the immediate crisis and cement ourselves as an important strategic function."

A risk and compliance executive in the energy sector said the bushfires had accelerated conversations on climate change risks and building climate resilience.

"From our perspective, there are two main triggers for senior management and board level engagement. One is the bushfires, and the other is the Task Force on Climate-Related Financial Disclosures. A key part of that is assessing a business's resilience to climate-related risks".

"From my perspective, our risk management function has been heavily involved in articulating what they might look like for the business. With a relatively conservative board, these factors are starting to drive change around climate-related risks, risk management more broadly, and flowing through to our resilience programme."

Katie Sexton, global leader for risk at Woods Bagot, added: "We weren't directly impacted from a supply chain perspective, but many of our people routinely work remotely, which put us in a good position to manage the impacts of COVID-19. As a design firm working worldwide and responding to issues of resilience and climate change, we're taking a greater stake and leading role in the design of buildings and master planning. Climate change is at the forefront of designing for a sustainable future."

**HOW SHOULD OUR INSURANCE ARRANGEMENTS ADAPT TO GROWING CLIMATE RISKS?**

The discussion also included some thoughts on how organisations should approach their risk transfer arrangements with regard to climate change.

Robert Walpole, vice-president and head of Property, Asia Pacific, at insurer Allied World, said risk managers needed to maintain discussions with their entire insurance panel in order to get the best coverage and pricing.

"A surprising number of risk managers we speak to spend the majority of their time talking with their lead market, even though they have a co-insurance panel supporting their programme. In this changing market, some of the most important conversations in the renewal cycle need to happen with the following markets so they have a greater understanding of the risk in hand and ultimately buy into the renewal approach taken by the lead."

"Without this dialogue and trusted relationship, following markets can prove problematic towards the end of a placement, driving the terms and conditions that diverge from the lead's renewal position. Engaging with follow markets should be a priority long before a renewal cycle and ideally before a hardening market."

Walpole believes the tripartite relationship will become increasingly important amid heightened climate change risks, and said closer collaboration between insurers, brokers and risk managers is key in ensuring risks are protected.

"It's essential to spend time with key stakeholders in risk transfer, but timing is everything, so invest that energy early on so those stakeholders buy into your risk management philosophy from the beginning. Then, when times are tough, you can rely on your established relationships to ensure your risk is transferred to a market willing to support you in the most optimal approach available."

**HOW ARE YOU AS RISK MANAGERS POSITIONING YOURSELF TO BE IN THE CENTRE OF CONVERSATIONS ON CLIMATE CHANGE RISKS?**

Risk managers shared their recent experiences of incorporating climate risks into their organisation's strategies. QIC's Parker said her firm had made some structural changes to its business, with the responsible investment team joining its risk group. She said the change reflected the importance of climate risks to clients.

"In terms of our risk management framework, we've incorporated climate risk as part of risk appetite. We've got the top level identification of those risks, and now we're trying to flesh out with the responsible investment team what that looks like, and trying to articulate that and establish risk tolerance."

RIMS' Cunningham added: "We've faced two large dark clouds in the bushfires and COVID-19, and from a risk manager's perspective, those things have a small silver lining. Risk managers have a chance to show their worth to their organisations. There are many examples of when risk managers are not in the room when key decisions are made, and they are then told to action those decisions."

"Given the recent dramatic events, if you're outside of the room when these conversations are happening, my message is to knock on the door and force yourself into the room," Cunningham continued. "That might sound like a risky strategy but will pay dividends when people start listening to your advice. Climate change, and the transition to a low-carbon economy, is an opportunity for you to show what the risk management industry can do."

The energy sector executive said environmental and social governance was getting more airtime, "particularly at senior management and board level".

They added that the Task Force on Climate-Related Disclosures made it a good time to discuss climate risks with board-level executives.

"It's a great time to get a seat at the table, because they are looking for expertise in risk management and how to apply that," said Cunningham. "They want to be covered from a climate-related risk perspective, and everything else that wraps into that ESG [environmental, social and governance] bucket."

"One of the big things we're working through is: What does ESG mean to our organisation? Who gets to decide and how does that translate?"

The drinks company executive said their organisation was "working through the same issues". "You've got some people that want to define it as purely environmental, as opposed to the broader thing about how we front up, what is our licence to operate, do we operate a sustainable, safe supply chain, do we have a reconciliation action plan. It's about having that three-legged view of all of those elements."

> "IT'S A GREAT TIME TO GET A SEAT AT THE TABLE; THEY ARE LOOKING FOR EXPERTISE IN RISK MANAGEMENT AND HOW TO APPLY THAT."
>
> Eamonn Cunningham, president, RIMS Australia

Deitz of Atlassian said his firm's CEO had been "quite vocal" about climate change issues, leading from the front and making sure "the company has to back that up".

"We do have a head of sustainability and we bring those things together. Human rights are a big issue for us as a company; so is having controls around data and people's right to privacy."

"We're doing more public reporting and commitments. Part of that is building trust with the customer and with society. Our CEO likes to comment about it, so we need to be held to account and we want to be held to account. We want to do what we say we're doing, and if we're not, we should be prepared to have fingers pointed at us. One of the good things for me is that because the message is flowing from the top and the sustainability group, people ask where that fits with enterprise risk management, so they are bringing me in."

**HAVE THE INCREASING FREQUENCY AND SEVERITY OF NATURAL PERILS MADE YOU REASSESS YOUR BUSINESS MODEL IN ANY WAY, PARTICULARLY AS AUSTRALIA AND NEW ZEALAND TRANSITION TO A LOW-CARBON ECONOMY?**

The risk manager in professional services stressed the importance of flexibility among the workforce, and the ability to work from home in the event of natural crises. He said a key principle was "to try not to have anything that is tied to a building", that could "prevent an employee from working where they want to".

"It kind of sounds simple, but in the past, years ago, we had servers sitting in head office, and if the head office was unavailable for whatever reason, and we couldn't access it, we'd be in a bit of a pickle. So we asked, how can we push things into the cloud and go faster?"

"Digital transformation is such that if the COVIDs of the world happen, or bushfires or earthquakes, or typhoons in Asia, regardless of what mother nature throws our way, we can make sure our staff can work, so long as they have a stable internet connection."

Cunningham said the transition to a low-carbon economy was a "political" issue and, as such, organisations need to take into account political changes, and whatever regulations may be imposed on businesses.

He added that organisations needed to be mindful of regulatory developments in their jurisdiction and the potential for future changes.

"The impact, depending on the legislation, can be quite profound," he said. "It's another dimension in this very complex area – you have politics right on top of it."

The energy sector executive said his company had hired staff to understand changes in legislation. "For our business – a heavily regulated business – that is the number one risk as we transition to a low-carbon economy."

Walpole at Allied World asked the participants whether they conducted much due diligence on the climate risks among their supplier base.

The energy sector executive responded that he looked at the issue of climate resilience across the supply chain, and how to assess suppliers against the company's risk operations.

He said: "What does that operational relationship look like? Do you have resilience or business continuity expectations? How do those commercials flow through to the operational management of that third party? What level of comfort do you require from the third party around the increased impact of extreme weather events on their supply chains? Even if they have a local presence and stock in Australia, where are they getting it from?"

"For me, it's a broader resilience conversation with suppliers based on a risk assessment against their impact on your operations and ensuring you are having conversations around whether they are going to be able to continue to supply in a changing environment."

The retail executive said their company had taken steps to improve oversight of supply chain risks in the wake of the Black Summer and COVID-19.

"My company has expanded from product safety to people safety in their supply chain, right into Bangladesh and the factories there. It was able to pivot and upskill their supply chain touchpoints, and we are now looking at a value assessment across the supply chain and doing the financial assessment of some of our key players.

"We'd be the first to say COVID has made us embrace our supply chain. Supermarkets used to think: 'Oh well, they just supply stuff,' but now, suppliers are at the front and centre of the organisation. That has happened since COVID and it builds a good robustness that will allow me to look in at resilience as a whole. I'm thrilled to see that."

A risk professional in the Australian construction sector said climate-related risks had begun to put pressure on wider manufacturing industries. He said his company had shifted its focus to low-carbon and low-impact products.

"Our innovation focus has ramped up tremendously, and we are preparing for the future. We have low-carbon concrete products and fire-retardant plasterboard features, which have been researched and developed to prepare for that extra demand."

"Political will [on climate change] is underpinned by public sentiment. So having a sense of where the public interest is, and having a sense of how that translates, is important. We will see demand from customers first, before we see it in the regulations." **SR**

"DIGITAL TRANSFORMATION IS SUCH THAT REGARDLESS OF WHAT MOTHER NATURE THROWS OUR WAY, OUR STAFF CAN WORK."

Professional services risk manager

# Can building codes keep businesses afloat?

The growing frequency and severity of weather events must provoke a revisit of our building codes. As FM Global's Michael Stuckings explains, smart building design can not only mitigate damage to properties but to the businesses they house.

The past decade has seen catastrophic bushfires, cyclones and flooding across Australia and the world. Much property has been destroyed and the economic impact has run into billions of dollars.

Against this backdrop, it was encouraging to see the Australian Building Codes Board (ABCB) acknowledge recently that building codes must evolve. These codes have done much to protect communities from natural disasters, as the ABCB points out, but they could do more to prevent economic loss.

This is a global conversation. Following a workshop of code development and research organisations from Australia, Canada, New Zealand and the US, the International Code Council (ICC) has called for building code developers and the wider industry to work with climate scientists and regulators to establish reliable models for the development of forward-thinking risk strategies.

It wants the public and private sector to work together on the development of risk identification strategies and building resilience guidelines, as well as research initiatives that will improve the understanding of climate science and create alignment on building durability expectations.

The ICC has also recommended the education of primary audiences including the public and policy makers, as well as the building, finance and insurance industries. It wants advanced risk and impact analysis to recognise the economic and social benefits of greater investment in building resilience.

**"CHANGES TO BUILDING CODES COULD MEAN BUILDINGS BECOME A LITTLE MORE EXPENSIVE. BUT IT DOESN'T COST THAT MUCH MORE TO DO STUFF RIGHT, SO EVERYONE WILL SLEEP EASIER IN THEIR BEDS."**

Operations chief engineer, FM Global
**Michael Stuckings**

### BUILDING RESILIENCE MATTERS

This concept of building resilience is central to reducing the economic impact of severe weather events. Health and safety is quite rightly first and foremost in Australia's National Construction Code but it doesn't currently take building resilience into account.

Using floods as an example, the code's primary focus is on ensuring that buildings don't collapse, but it does little to help minimise business impact and get operations running again.

The Brisbane flood in 2011 was a seminal event for industrial and commercial property owners because of the extent of impact in various areas, including the central business district. We saw major warehouses take in two metres of water and close for several months, and shopping centres flooded to almost ceiling level.

There needs to be more emphasis on how things are built to withstand events like this. It wastes time and money to be ripping out sections of plasterboard and throwing out furnishings, especially in the current economic environment created by COVID-19.

It's always best to avoid putting anything valuable on the ground floor. I've seen some sensible construction where the ground floor is used for open-air car parking with a small reception area. That makes the building more resilient to flood waters. People don't think about sewage, snakes and all manner of other nasty aspects of this water, which is incredibly dirty because the power of these surges brings everything with them.

I've seen companies put data centres in the basement. That's not a good idea. But, of course, city office floor space is expensive and people don't want to be located underground with no windows, so it's often where high-rise building designers locate main services and switchboards. Water runs downhill so it's not uncommon to see these basements flood and take down electrical services for the entire building. The ensuing business impact can last months.

One common sense measure is flood barriers that can be erected in your driveway to ensure that water doesn't run in. Such small things can help minimise the risk and impact of major weather events.

### DEEP IMPACT ON REPUTATIONS

In addition to the property damage, clean-up operation, lost market opportunity and reduced productivity, the longer term reputational damage is often overlooked. Newly released Pentland Analytics research, commissioned by FM Global, found that flood losses wiped an average of 5% off the value of major listed companies.

Based on more than 70 of the world's largest businesses, which had all suffered damage in major flood events during recent years, the study found that they had lost a collective value of US$82bn one year after those flood losses. To put it bluntly, investors are more likely to view flood losses as bad management than bad luck.

So, although it may be tempting to build on a flood plain because of the lower costs associated with acquiring the land, there's a strong case for making more resilient choices. This means considering other less risky sites and, where you have to build in a location that's flood prone, taking all possible precautions to minimise risk. These include making sure you have an adequate emergency response plan in place, carrying out structural reinforcement, elevating critical equipment and installing flood barriers.

We need to make sure people understand their exposure because it's impossible to protect against something you don't know about. It's not just value for the company but also value for the community.

Here in Australia, bushfires are a perennial problem for the owners and operators of commercial property. This will be top of mind for many risk managers, following last year's devastating bushfire season. The Royal Bushfire Commission has stressed the importance of avoiding a repetitive cycle of disaster, rebuild and recovery.

The National Construction Code is focused on getting everyone out safely in the event of a fire, making sure the fire brigade has space to fight the blaze, preventing the fire from spreading to neighbouring properties, and stopping the building from falling over onto them. If everyone gets out safely but the building is a ruin, that's viewed as a success under the code.

But building owners and business operators are unlikely to agree with this. So, until the code takes resiliency into greater account, it's up to owners to go above and beyond.

Trimming or clearing undergrowth is the first step in minimising exposure but that's not always a viable option. You can, however, remove combustible yard storage and other debris, while closing openings like ridge vents and loading dock doors. It's important to use appropriately rated construction materials where possible, and exposure sprinklers in existing buildings that aren't made of those materials.

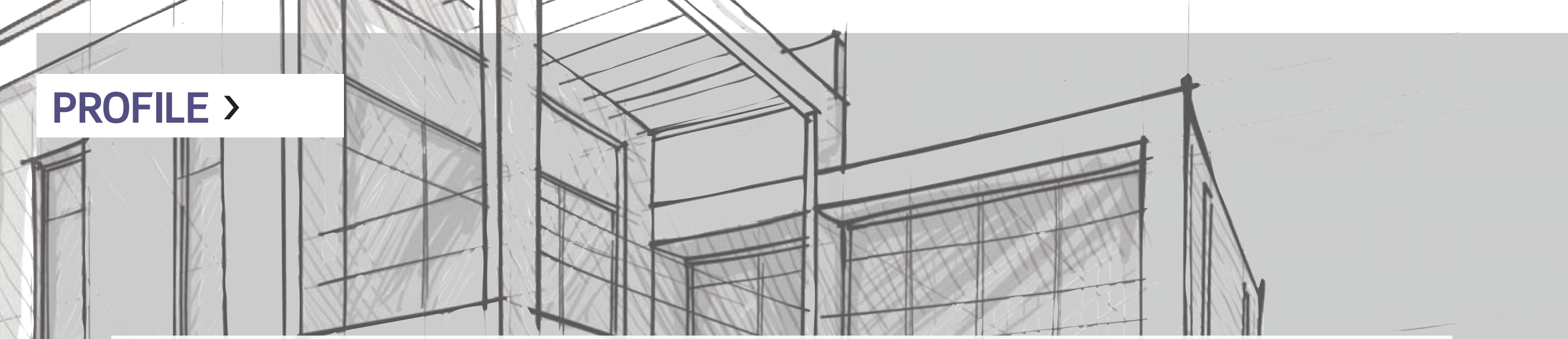
**BASIC MEASURES WORK**

High winds are also a major risk for commercial property owners and business operators. We're lucky to some degree in Australia that we don't have major cities that are prone to hurricanes. But severe cyclones are moving south and now pose a real threat to Brisbane, the Gold Coast and built-up areas in northern New South Wales.

The focus of building codes here is to make sure the roof doesn't blow off and the building doesn't fall over. But it's important to consider basic measures like reinforced roller doors and windows. When a cyclone lifts the roof sheeting or blows in a window, it's followed by heavy rains that can blow in for days on end before anyone can get there.

Sometimes small things can make a big difference. Following an FM Global site visit in Queensland some years ago, the management of a business was advised that its roofing was inadequately secured. The business took that recommendation and reinforced the roof. When a cyclone hit soon after, a competitor in town lost its roof, but this business was able to keep trading and serving the community, winning a lot of goodwill.

Changes to building codes in Australia and other nations around the world could mean that buildings become a little more expensive. But it doesn't cost that much more to do a lot of this stuff right, so everyone will sleep a little easier in their beds next time a severe weather warning is issued for their suburb. **SR**



# The art of saying 'yes'

Truly embodying the notion of *carpe diem*, Lendlease's Kevin Bates has built a global career in risk, founded on seizing every opportunity, giving it his all and then passing it on.

Risk managers have got to be genuine, authentic and transparent in order to succeed, believes Kevin Bates, group head of risk and insurance at property and construction giant Lendlease.

"People will sniff out a fraud, as they should. Measure and poise are also important. Someone once told me: 'Have more than you show and say less than you know,' and I find those very wise words to live by. Always hold a little something back in everything."

His other career advice? Don't say 'no' to the boss when an opportunity comes your way.

Reflecting on his 17 years within the organisation, which has seen him take on several different careers in different parts of the world, Bates says: "If you want your career to grow, you've almost got to never say 'no' when your chief executive gives you a tap on the shoulder. You probably get one free pass at saying 'no', but beyond that your career isn't necessarily going to have the growth and speed in it that it does for those who are happy to say: 'Pick me, pick me!' Certainly the organisation for which I work is incredibly meritocratic. If you are good at what you do, you will have opportunity."

Scottish born and bred, Bates began his career at a law firm in London and still describes himself as a "recovering lawyer". Bates thrives on never cutting corners. Early on in his professional life he was advised never to say: 'That will do.' "You're being paid to give your expertise in an area where very few have, and as you're going through a body of work, if you ever struggle and think, that'll do… stop. Go through the detail again."

Some time after he joined the Lendlease legal team, Bates had a fortuitous meeting with the company's then-CEO Greg Clarke – in the company bathroom of all places – and that is when his career in risk kicked off.

This saw Bates move out to the head office in Australia to work with David Hutton, who at the time was the CEO for Lendlease's retail and communities business in the country. "Clarke said: 'This guy is Yoda, you'll learn everything and anything from him.'"

Over the next six years, he went from being a risk manager in Lendlease's communities business to heading up risk and insurance for the region in the retail and communities business. "I went on to run Australia, and that's when it was part of Asia-Pacific within the Lendlease structure."

It was around this time Bates hit that magical moment when he felt he had truly become a seasoned risk professional. "It felt like: 'I've got this! I can't be surprised here and it's exciting. Every day is completely different but I feel I can adapt.'"

## THE ASIAN ADVENTURE

The next tap on the shoulder came when Lendlease decided to split the regional business in two. "The then-CEO for Asia said: 'I need a general counsel, a head of compliance and head of risk and insurance for Asia. I said I was interested in being the head of risk… but he explained he needed me to run all four functions, as at the time we couldn't justify the overheads."

Bates took on the challenge with the agreement that it would be a four-year stint, during which time he would find a long-term replacement for each of those functions. So he moved out to Singapore, travelling frequently between Singapore, Malaysia, China, Japan and Taiwan, fully immersing himself in the culture.

"I started learning Mandarin," he says. "It was just one of those magnificent times in my life that I look back on with enormous satisfaction. I was running the entire region and I had such responsibility and accountability, and at that point in my career I was ready for it."

From the start, Bates was looking for talented individuals to take up the reins as the business grew. "As soon as I get my feet under the table I try to replace myself, because I can't do my next job if I don't have someone ready to do this one. The first thing I did was

**"IF YOU WANT YOUR CAREER TO GROW, YOU'VE ALMOST GOT TO NEVER SAY 'NO' WHEN YOUR CHIEF EXECUTIVE GIVES YOU A TAP ON THE SHOULDER."**

Group head of risk and insurance, Lendlease
**Kevin Bates**


**"FOR THOSE WHOSE SKILL AND WILL IS IN THE APPROPRIATE QUADRANT, THIS IS THEIR TIME. THE OLD ADAGE OF 'NEVER WASTE A GOOD CRISIS' HAS NEVER BEEN MORE APPROPRIATE THAN IT IS RIGHT NOW."**

Group head of risk and insurance, Lendlease
**Kevin Bates**

give away legal, because the risk manager and lawyer in me knew I was dealing with five countries and five completely legal systems and cultures, none of which were in my training. So the first thing I did was meet with the general counsel and build the legal function with her."

## PANDEMIC PREPARED

"Our current CFO, Tarun Gupta, called me and said: 'I need you to come back and run risk insurance for us.' I mentioned I was really enjoying my time in Asia. His response? 'That's great, Kevin. Get on a plane.' That was six years ago."

Bates is proud of how Lendlease has handled the COVID crisis, with crisis teams coordinated across all the regions the company operates in. "I was able to inform our group CEO and my boss, the group CRO, on a daily basis, so senior management was aware of exactly what was happening. I've been humbled by the performance of my team. I'm desperately proud of them."

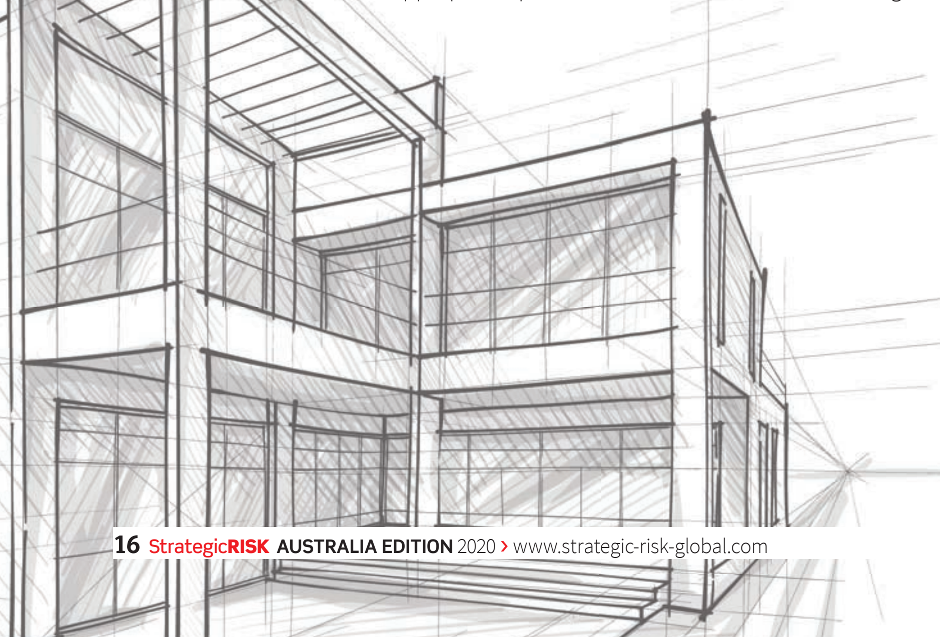
The pandemic itself was not a surprise, although the extent of the crisis was unprecedented. Having experienced managing the process for swine and bird flu in Asia, Lendlease already had pandemic plans in place. It may have been deemed a remote yet catastrophic risk, but it was there on the risk register.

"We have a suite of good documents that are there to guide us on most scenarios, but was I able to just go to a pandemic plan for every single country in every single city in which we operate, and did it have a scenario plan for a shutdown of schools, transportation, etc.? Of course not, and I don't know anybody who did have that."

One of the things that surprised Bates during the crisis was how certain individuals rose to the challenge. And not always the people he might have anticipated. He notes that remote working has really helped make it possible for introverts to excel in a way that was more difficult in the traditional office workplace.

"I've been floored at how wrong I've been about some people. It's been baffling to me. I had a conversation with a member of my team and observed that he was really thriving. He told me: 'This is just me outside of the office. I am an introvert, and being remote has levelled the playing field for me!'"

"So do I think the COVID crisis has elevated the risk profession? For those whose skill and will is in the appropriate quadrant, this is their time. The old adage of 'never waste a good crisis' has never been more appropriate than it is right now."



## BUT WHAT NOW?

The challenge is far from over, however. Business models will have to change, disruptors have become the disrupted almost overnight, and a rapidly hardening commercial insurance market is adding yet more pain. In getting back to 'business as usual', risk managers will need to understand how the business environment has changed, in some ways irreversibly.

"Supply chain concerns me," he says. "There will be a migration away from South China manufacturing. What does that mean financially? And from an expertise perspective? Employment and insurance will change. Were any cyber policies currently in play written with the intent of 90% of workforces working from home? I would guess not. So is it priced and worded appropriately?"

He thinks business integrity will become a big differentiator as the world moves forward. "Different organisations will be seen to be above the others because of their resilience and cultural integrity."

Other macro-challenges like climate change and the need to adapt business models to embrace greater sustainability have not gone away. "As much as everyone was exclaiming about dolphins in the canals in Venice and the ability to see the Himalayas clearly from parts of India that had lost that view decades ago, it doesn't mean mother nature is healing."

"Nature is very good and very quick at reclaiming things. But we're still in a world of hurt in terms of rising sea levels and global warming. So businesses need to have a focus and commitment to sustainability as we look to the future, and I am thrilled that Lendlease has exactly that." **SR**

# Shaken to its core

Following the Christchurch and Kaikoura earthquakes, New Zealand's risk and insurance sector has seen seismic shifts in both risk assessment standards and the cost of underwriting. Exactly how deep was the impact?

In February 2011, New Zealand was struck by its most devastating earthquake for a generation. A magnitude 6.3 tremor hit the nation's third-biggest city, Christchurch, killing 185 people and injuring thousands. The event caused massive damage to the city's central business district, destroying historic landmarks and commercial buildings. Nearly a decade later, the city is still trying to recover.

Before this, Christchurch was not even viewed as one of the nation's seismic hotspots. Sitting on major fault lines, the north and south islands have both been hit by catastrophes, before and since. In 2016, Kaikoura, 180 kilometres away, was rocked by a magnitude 7.2 quake, killing two people and affecting thousands.

## SOARING COSTS

Christchurch became the biggest insured event in New Zealand's history, according to the Insurance Council of New Zealand. While the earthquake was reasonably low in magnitude, it caused huge damage to the city centre, with the insured cost estimated at more than $31bn, and private insurers paying out $21bn.

New Zealand's protection gap entity, the Earthquake Commission (EQC), paid out $10bn following the Christchurch quakes. The EQC is funded through a levy on home insurance, collected by insurers and passed on to the public body. The EQC pays out the first $150,000 of damage to residential properties caused by natural disasters, with insurers assuming the remainder.

Lloyd's of London says reinsurance market support is vital for the future of New Zealand's insurance market. Reinsurance costs have soared since the two major quakes, with a shift towards risk-based pricing. Over the past decade, insurers and brokers have learned many lessons, while premiums have risen across the country. In high-risk urban centres, like the capital, Wellington, commercial buildings struggle to obtain coverage.

## LAY OF THE LAND

Risk professionals say the earthquakes have prompted an overhaul of risk management procedures. Chris Beh, practice leader for New Zealand at Marsh, notes that the tremors of the past decade have resulted in new building codes and technical standards for structural assessments.

"From an engineering and technical perspective, a lot of changes came out of the 2011 earthquake. And out of that

**$31bn**
total insured cost of the Christchurch earthquake in 2011.

grew a chartered field of engineers to do seismic assessments."

The Christchurch event was notable for a high degree of ground liquefaction, where soil turns to liquid. Beh says it helped insurers to learn more about the process and related risks. "Prior to Christchurch, it wasn't well understood. We also learned a lot about liquefaction causing lateral spreading, where the soil moves horizontally, causing issues for underground pipework."

New Zealand has also since moved to classify earthquake-prone buildings, and put plans in place to mitigate potential damage, Beh says. "Over time, there have been changes across the different regional authorities in terms of the time required to upgrade buildings if they are earthquake-prone. How we look at things is more conservative since Christchurch."

The Kaikoura event prompted a review of the building materials used in construction projects, especially the use of precast hollow core concrete floors.

"The definitions have changed, and there's more emphasis on life safety and building deformability," Beh explains. "There has also been a spotlight on improving the seismic resilience of tanks, silos and wine barrel racks, including connecting platforms and walkways, in the wine industry due to large failures of these assets."

He adds: "The insurance sector has been leading change in this important sector through the coordination of industry representatives, designers and manufacturers of such equipment… We have made big changes in how we view seismic resilience."

**83%**

of property claims from Kaikoura earthquake had been fully settled within a year.

**"THERE HAVE BEEN CHANGES IN THE TIME REQUIRED TO UPGRADE BUILDINGS IF THEY ARE EARTHQUAKE-PRONE. HOW WE LOOK AT THINGS IS MORE CONSERVATIVE AFTER CHRISTCHURCH."**

Practice leader for New Zealand, Marsh **Chris Beh**

### CHRISTCHURCH'S IMPACT

The insurance market in New Zealand has undergone a major shift since Christchurch and Kaikoura. There was a tightening of the reinsurance market, leading to increased reinsurance costs and higher premiums for households and commercial buildings.

Insurers have also moved from total replacement home insurance to 'sum insured', helping reinsurers gain a clearer understanding of their maximum liability for residential homes.

The terrible impact of the tremors has changed insurers' approach, particularly around seismic risk in city centres. Swiss Re says the consequences seen in Christchurch are "probably the norm as opposed to the exception" for a city centre earthquake.

The insurer wrote a whitepaper on lessons learned from Christchurch, saying: "It is true that the probability of a Christchurch-type event in any specific city is very low. Nevertheless, there is a substantial probability that one or other city somewhere in the world will be affected in the coming years and will show similar claims-inflating effects."

Tim Grafton, chief executive of the Insurance Council of New Zealand, says the insurance market has evolved since Christchurch: "That earthquake series and the 2016 Kaikoura have better informed understanding of risk, and this has been reflected in revised models produced by RMS and AIR. There is also work underway by GNS to upgrade the Natural Hazard Seismic Model for New Zealand, noting a substantial revision has not been made since well before the Canterbury earthquakes. The better understanding of risk has informed insurance underwriting."

According to Grafton, the major quakes of the past decade have resulted in "upwards adjustments to how that risk is priced in higher risk areas, regardless of whether the property is residential or commercial". Risk appetite "will vary on location around the country", he adds.

Wellington is viewed as the country's biggest earthquake risk. Grafton says Wellington, largely built on reclaimed land and subject to liquefaction, has a high level of commercial property, "with varying degrees of seismic resilience".

He notes even Kaikoura caused $1bn in damage, including building destruction. "Consequently, commercial property has seen sharper increases in risk premium. Residential apartment dwellings, of which there are quite a few in the CBD, purchase commercial property insurance as opposed to standalone home insurance. When you buy home insurance, you buy an all-perils cover. However, if you are a commercial property, you must buy separate earthquake cover, which often carries a 5% excess and a higher charge, because it is a more complex risk than a house."

Grafton adds: "Also, while standalone residential house owners can select their sums insured, residential property owners in apartment dwellings are required by law to fully insure for fire and separately for earthquake. Consequently, these owners face the sharper premium increases and have limited ability under the law to share risk to mitigate that cost."

The insurance sector was criticised over its handling of the Christchurch event. But in Kaikoura, the EQC and private insurers worked in a partnership model, with insurers acting as agents of EQC, investigating and paying out on claims for customers directly. Insurers then sought reimbursements from the EQC.

Grafton hopes Kaikoura will be a new model for disaster recovery. One year on from the event, 83% of all property claims relating to the Kaikoura earthquake had been fully settled. In contrast, three years after the Christchurch earthquakes, only 34% of property claims to private insurers had been fully settled.

"It is acknowledged that this is the way forward," Grafton says. "Learnings from Kaikoura will lead to more efficient responses in future." **SR**

# Life after lockdown

As Australia and New Zealand begin to emerge from the COVID crisis, ahead of many nations globally, businesses must now define what the 'new normal' will look like. Because now there's no such thing as 'business as usual'.

Nearly 10 months after COVID-19 was first discovered in Wuhan, China, the virus outbreak has infected more than 26 million people across the globe. The pandemic continues to surge in the US, India and Brazil, as economies suffer, businesses fail and people stay in lockdown.

Most nations worldwide will have cast an envious eye at Australia and New Zealand, which, by international standards, have escaped the worst of the outbreak. After introducing stringent early lockdowns and border closures, the two Australasian nations have reduced deaths and infections to relatively low levels.

At time of writing, in early September, Australia had 26,000 cases with 660 deaths, while New Zealand has had just over 1,750 cases, with 22 deaths. In contrast, the US, the worst-affected nation, has suffered approximately 185,000 deaths, with over 6.12 million cases.

As most nations ponder whether to ease restrictions or go back into lockdown, Australia and New Zealand relaxed rules on movement and social gatherings back in June, although a local lockdown was imposed in Auckland in August when cases there rose. After quelling the first wave of the virus, companies based in the two countries now begin the task of to tackling the many post-lockdown risks.

## BRAVE NEW WORLD

With Australians and New Zealanders returning to offices, mass gatherings, daily commutes and shops, what are the biggest risks facing organisations in the region? What challenges do companies face, and is the threat of COVID-19 really in the past?

New Zealand is currently at alert level two after gradually easing some of the world's most stringent lockdown restrictions. The nation is managing a strict border as the country otherwise attempts to return to normal life. There are currently few restrictions on what New Zealanders can do and where they can travel domestically, outside of Auckland.

**"HAVE HONEST CONVERSATIONS WITH SUPPLIERS, CUSTOMERS AND EMPLOYEES. MAKE INFORMED DECISIONS – AND AVOID KNEE-JERK APPROACHES."**

President, New Zealand and Pacific Islands chapter, RIMS
**Teressa Betty**

While New Zealand currently has minimal community transmission of COVID-19, risk professionals warn the fight is not won. Cases continue to appear in managed isolation, and risk experts say companies must not return to the old way of doing things just yet.

Teressa Betty, president of the New Zealand and Pacific Islands chapter of RIMS, says organisations should focus on health and safety, and the psychological wellbeing of employees.

She says organisations should consider "how to ensure psychological safety of workers at a time of great uncertainty, not just regarding job security, but also the shifting sands around us, due to the fear and uncertainty that the pandemic brings".

Organisations also need to factor in the impact of remote working, and how the customer experience in their business has changed. "While NZ has escaped relatively unscathed to date, the ongoing implications and outcomes are far from clear," Betty says.

"From a strategic perspective, it is difficult to get a handle on supply and demand, or financial forecasting, with any great certainty. Have honest, open, transparent conversations with suppliers, customers and employees. Understand the downside risks of decision making. Make informed decisions – and avoid knee-jerk approaches."

For Betty, the shift to a more digital environment presents new risks: "Cyber security must be a focus as more people are working or interacting remotely."

She adds: "The pandemic is driving a greater digital agenda. Organisations may have been reluctant to adopt or invest in new technology, such as digital signatures, as they presented their own unique risks. However, with a prolonged business continuity event, this drove a greater need to invest in these tools. This brings positive change and enables an enhanced customer experience. Ensure


the risks are understood and appropriately mitigated or accepted."

**AUSTRALIA STILL PRECARIOUS**

New Zealand's neighbour Australia gradually relaxed COVID-19 restrictions after case numbers fell between March and June. In mid-June, prime minister Scott Morrison announced that sports events would return with reduced crowds from July. But Australia's COVID status is more complex than New Zealand's, with different states imposing different rules and restrictions.

Victoria was declared to be in a "state of disaster" at the start of August as Australia's second-largest state recorded 671 new infections in a single day.

While Australia's nationwide COVID case numbers are low by international standards, risk experts in the country are cautious.

Jason Smith, chief executive of the Risk Management Institute of Australasia (RMIA), says Australia is "in a good place", with ramped-up testing capabilities and contract tracing through the nation's COVIDSafe app. He says companies need to focus on the health and wellbeing of employees.

"There is the obvious health and safety concern around an increase in the infection rate and workers returning to the workplace being exposed to this. Also, we continue to be very concerned about mental health in the workforce and broader community, given that the economic recovery is multi-speed, and many workers are still facing a bleak immediate future."

He adds: "We all need to continue to maintain good social hygiene measures such as constant hand sanitation through frequent washing and use of hand sanitiser. Also, and just as importantly, if you don't feel well, then stay at home. "

**FINDING BALANCE**

Smith says organisations need to think about "how best to embed the rhythms of flexible and remote


working, because the old ways of office life are not going to return for a long time".

"Importantly within this is the maintenance of work/life balance. We need a healthy culture and respect around switching off the office at home and being present for our families."

Martin Baghdadi, an Australian risk consultant for Control Risks, is working with clients to assess the outlook for the nation's companies, particularly consumer-facing businesses.

Baghdadi says. "When you come out of lockdown, it doesn't mean everything is back to normal. Companies might be operating in team A and team B shifts, or gently reopening their office. There might be a new wave of infections, so companies have to be versatile and deal with that."

Baghdadi acknowledges that some employees may not want to return to the office out of fear.

"Some companies may not have planned for that. So employers are going to have to have conversations about the way forward. It's tricky for everyone."

### A TWO-NATION BUBBLE?

In recent months, politicians in Australia and New Zealand have called for a 'trans-Tasman bubble' for the two countries to travel and trade with one another freely. While the idea gained traction initially, recent numbers in Victoria have pushed the idea down the agenda. In New Zealand, cases continue to arrive from overseas into managed isolation.

RMIA's Smith is in favour of this trans-Tasman bubble if both sides can implement it safely.

"The obvious rationale behind these travel bubbles is to establish connectivity with those countries with low risks of COVID-19 infections. Australia and New Zealand have mutually demonstrated this."

"I think all states and communities in Australia and across the Tasman have generally demonstrated socially responsible behaviours as evidenced by how quickly Australia and New Zealand were able to suppress community transmission rates. I'm sure this could be extended into trans-Tasman travel on the basis of the appropriate protocols being in place."

Smith says Australia's state-by-state COVID policy could slow down an eventual bubble. "The challenging issue would be that not all states in Australia have a consistent border crossing policy, with some states still maintaining closed borders. Until all Australian states have unrestricted travel, then enabling trans-Tasman travel would be problematic."

Even if a trans-Tasman bubble happens, risk managers are wary of how quickly things can change – a lesson cemented by the pandemic itself.

Baghdadi says: "Governments are now empowered to lock down and open up at their own pace. So that in itself is a new risk. You could be in one country tomorrow, and all of a sudden be on the wrong side of the border due to a shutdown. You might be stuck, or have to quarantine for two weeks when you return."

Uncertainty is the new normal. But uncertainty is something risk managers understand best. **SR**

**"WHEN YOU COME OUT OF LOCKDOWN, IT DOESN'T MEAN EVERYTHING IS BACK TO NORMAL. COMPANIES MIGHT BE OPERATING IN TEAM A AND B SHIFTS, OR GENTLY REOPENING THEIR OFFICE. COMPANIES HAVE TO BE VERSATILE."**

Risk consultant,
Control Risks
**Martin Baghdadi**

## CYBER RISKS AND VIRUS FEARS

**The dramatic increase in work-from-home activity as a result of the pandemic has opened up businesses to new levels of cyber risk vulnerability.**

While health and safety risks are the immediate issue facing Australasian organisations, cyber threats have also risen, as people work from home and use third-party software platforms to communicate and pass on information.

Control Risks' Martin Baghdadi says: "Cyber is a massive risk. I have just done an assessment for a schools group and looked at what platforms they should be using. I also asked a pension fund about how they are conducting meetings. At the end of the day, the safest way of communicating is face to face. Organisations have to do a proper assessment and educate their employees who are working from home."

"We have seen a huge uptick in cyber breaches, particularly for multinational companies. It seems to be happening more often because of COVID-19, with more phishing emails, and people clicking on things they shouldn't. We have warned organisations of the growing cyber risk."

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 change when it comes to climate change?

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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."

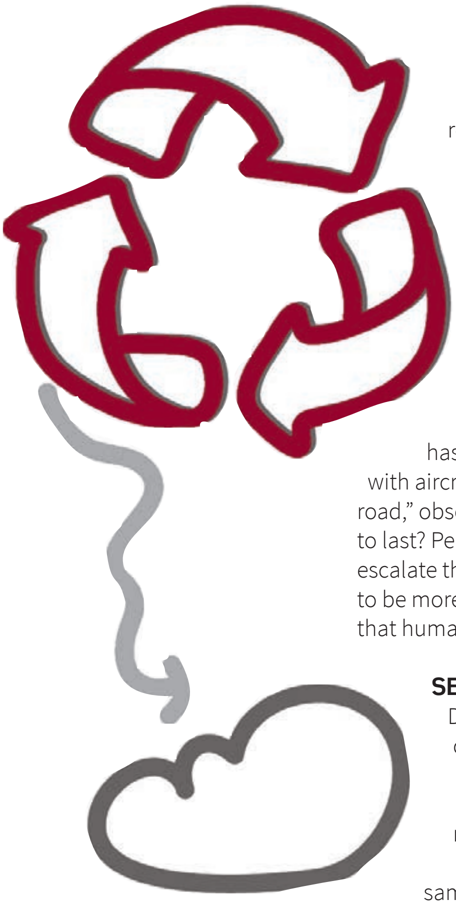
**"IN 2020, FOR THE FIRST TIME, CLIMATE CHANGE TOOK THE TOP FIVE POSITIONS ON THE WEF RISK REGISTER. AND THAT IS BECAUSE IT IS BOTH HIGH IMPACT AND HIGH PROBABILITY."**

Deputy CEO and technical director, Airmic
**Julia Graham**

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



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."

**"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**

### 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.

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

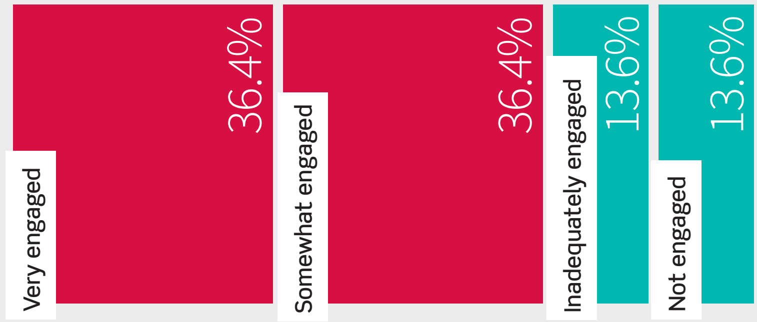
**IN THE FUTURE** Risk management will be embedded within the ERM approach within the next six months.

*Head of risk and insurance at a tech company*

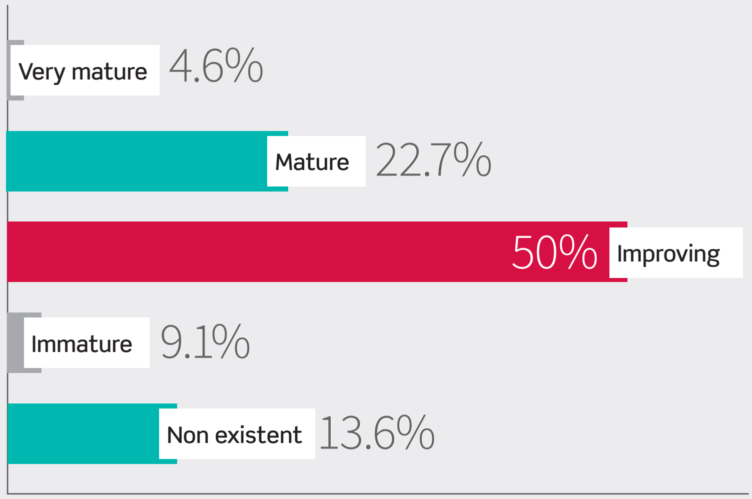
**A CLEAR TARGET** Sustainability is one of the targets to achieve and promote; business continuity planning of extreme weather has been developed.

*Head of internal audit, education academy*

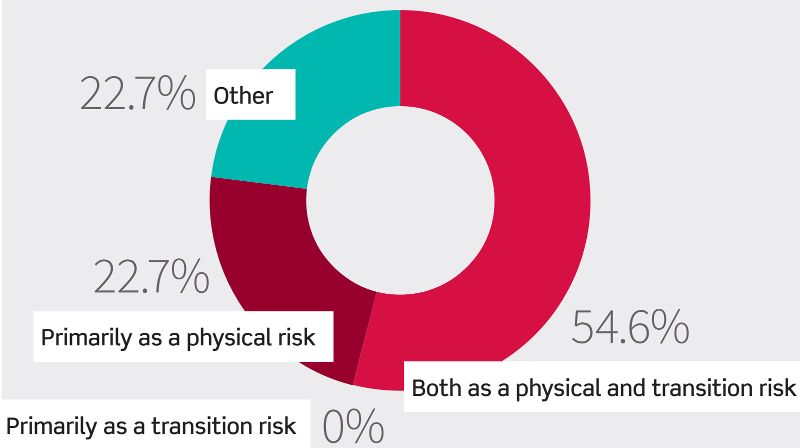
### HOW ENGAGED IS YOUR **BOARD AND EXECUTIVE MANAGEMENT** WITH CLIMATE CHANGE?



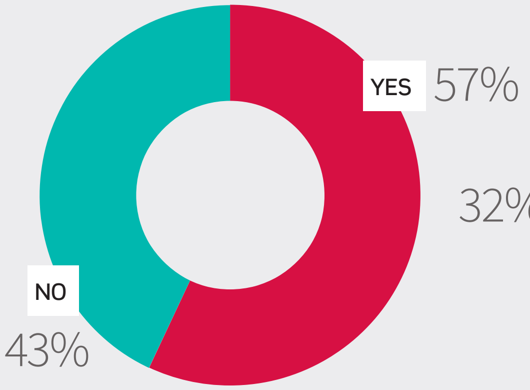

### HOW WOULD YOU DESCRIBE **YOUR ORGANISATION'S APPROACH** TO MEASURING AND MONITORING THE POTENTIAL IMPACT OF CLIMATE CHANGE?



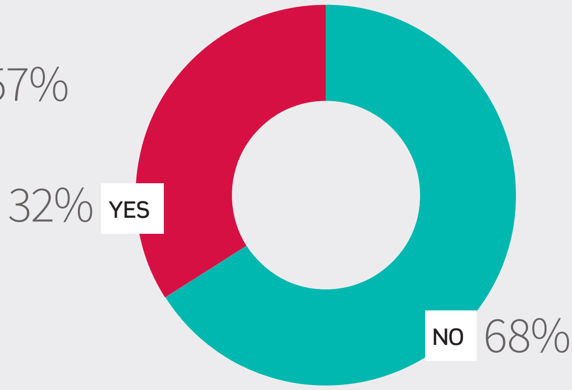

### HOW DOES YOUR ORGANISATION TREAT CLIMATE CHANGE FROM A **RISK PERSPECTIVE**?



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

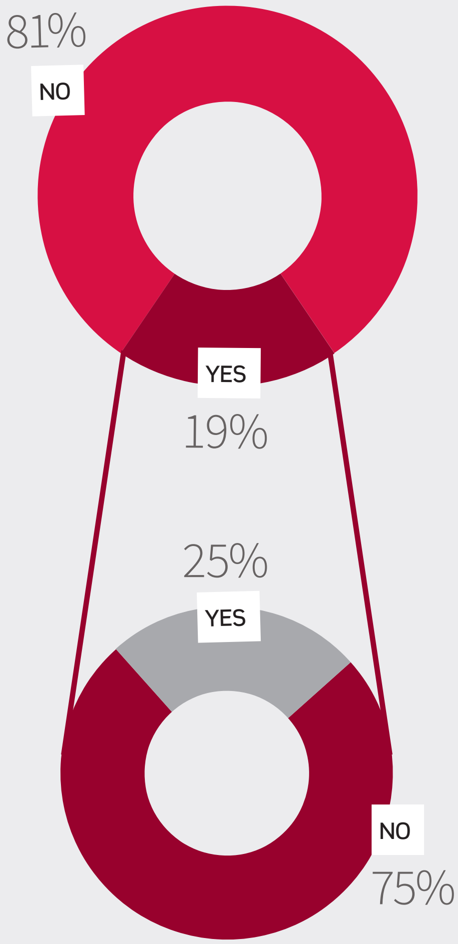



AT A **GOVERNMENT** LEVEL



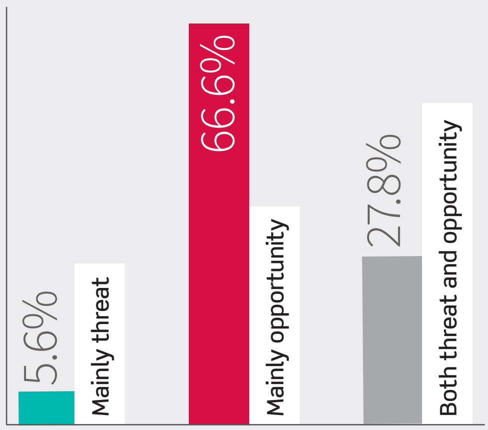

AT A **COMPANY** LEVEL

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

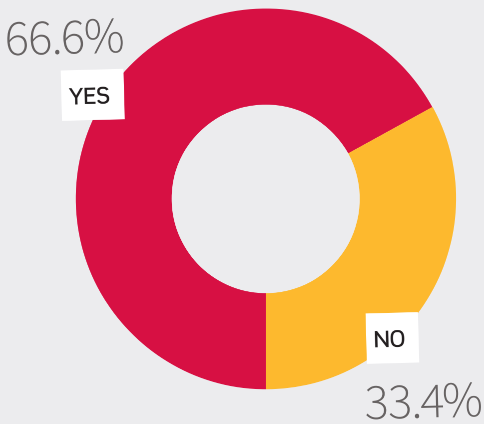



IF YOU ANSWERED YES, WERE THE LOSSES **EXPERIENCED DIRECTLY** BY YOUR ORGANISATION?

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.

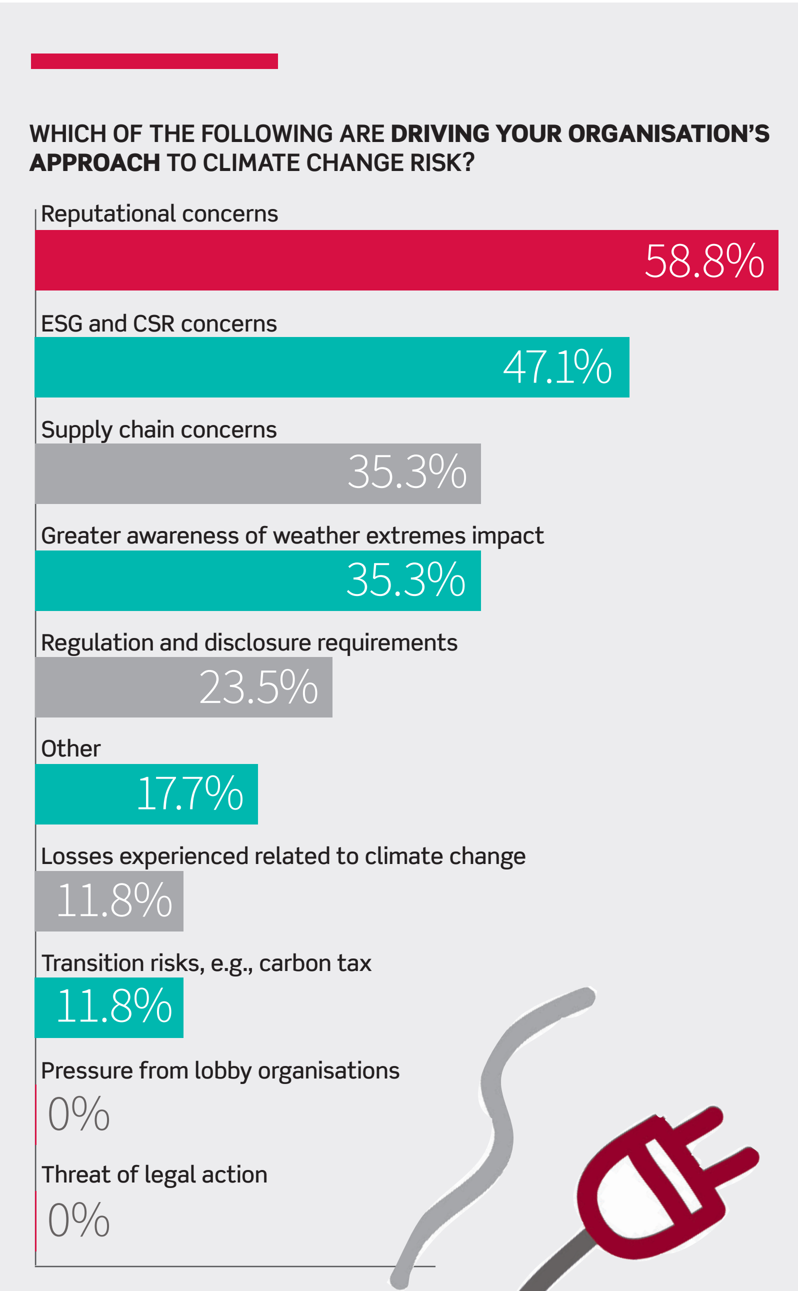
*Senior risk analyst, financial services organisation*

**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*




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 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.

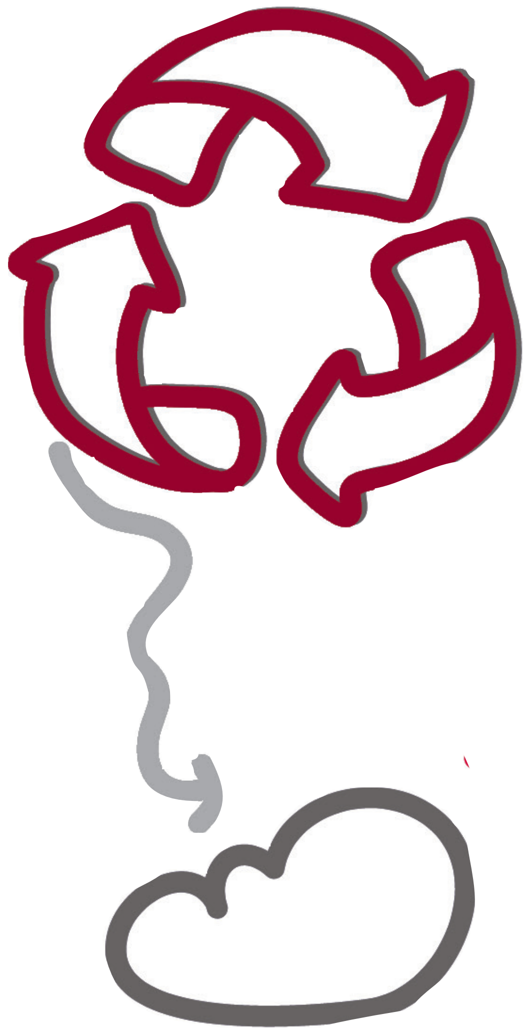
"The immediate pressure of saving lives and ensuring livelihoods for all is indeed a big distraction," said one risk management consultant.

"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**



**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.

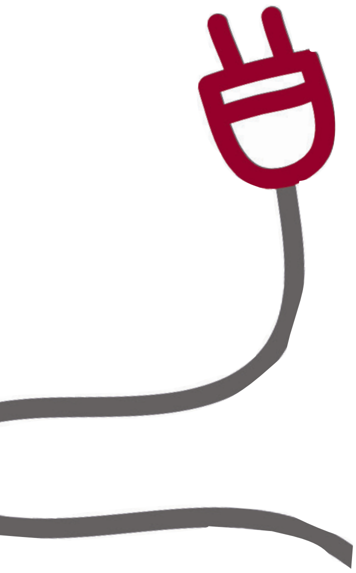
*Executive director of a management consultancy*

**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*

# 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.

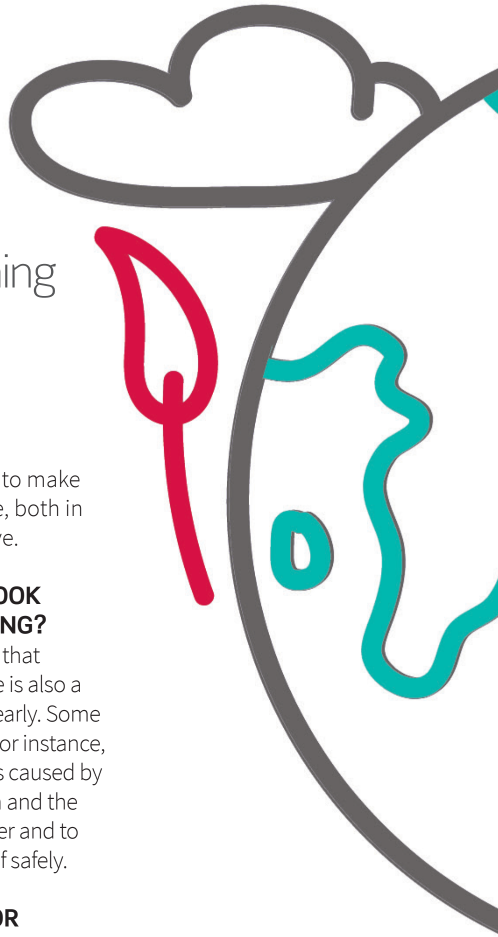
As a large asset manager, Swiss Re carefully considers its investment portfolio's ESG credentials. Recently, the business has pledged to stop covering the most carbon-intensive oil and gas companies, where the same step for asset investments had been made already a few years ago. Such steps are important 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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