StrategicRISK ferma daily

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Concerns about Solvency II


Peter den Dekker, FERMA president

'We are very concerned about the impact Solvency II will have on the market especially for commercial and industrial insurance and the implications not just in Europe but across the world because other jurisdictions are looking to adopt similar solvency rules.'

These were the words of FERMA president Peter den Dekker, speaking at the opening of the FERMA Forum yesterday. He said that Solvency II had emerged already as a major concern for delegates at the conference. 'It is going to be one of the big things throughout this conference - and after we leave it is still going to be an important issue,' he commented.

The Comité Européen des Assurances (CEA) recently issued a letter to CEIOPS expressing their major concerns about the impact that Solvency II will have not only on the insurance industry generally but also on insurance buyers, ie policyholders. Den Dekker said that this contrasted to the CEA's approach last April when the European parliament adopted Solvency II. At that time the legislation was warmly welcomed by the CEA but received a cautious welcome from FERMA.

'The solvency capital calculations will rely very strongly on models,' he continued. 'We wonder if the emphasis on modelling could shift underwriting decisions to a senior manager within the insurer like the CFO. In that case, buyers would lose the understanding

> “We are very concerned about the impact Solvency II will have on the market especially for commercial and industrial insurance”

of their business that they have built up with underwriters who have the experience to rate their risks correctly.’

Den Dekker expressed the hope that the internal risk management that insurers are required to have by Solvency II will not be too overwhelming and over-riding and that underwriters will be able to take into account their clients’ risk management approach.

‘We want an active discussion on this in which we invite the brokers’ association BIPAR to participate, not just advising their clients with captives behind the scenes but also publicly raising their voice to defend their clients’ interests,’ said den Dekker.

In his speech, he also pointed out that brokers’ commissions had yet again become a conference focus this year with news of a lifting of the ban on contingent commissions in the US. ‘I hope that in a year’s time broker remuneration will not be an issue any more. We are trying to work together with the broker associations to come up with a sensible agreement to get this issue pushed out of the way so that we can concentrate on issues that really matter to us like Solvency II,’ he explained.

This forum marks the 35th anniversary of FERMA. More than 1,100 people have registered which, said den Dekker, means FERMA is still an important platform for information and for networking.

The relevance of reporting

Marie-Gemma Dequae

Paul Taylor

Some members of FERMA’s board have queried whether true reporting of risk in annual statements is realistically achievable – or desirable.

Discussing risk management issues at a FERMA directors’ roundtable debate on Sunday, Paul Taylor, vice president and board member, said that a number of countries have requirements in terms of the information that companies have to report. However, he considered that much of the information actually reported was of little value.

‘Most of the information given is very generic. How many companies want to describe the key risks to their business and put them into an annual report which will be read by their competitors?’ he asked.

Fellow FERMA board member Jorge Luzzi agreed, also pointing out that such information could have an impact on share price.

Another FERMA director, Marie-Gemma Dequae, described the situation in France where companies are also expected to report on the insurance of their risks. However, this requirement is open to different interpretations. As FERMA president Peter den Dekker pointed out, companies will confirm that they are adequately insured in relation to the risks they are taking but they will not want to give detailed information on their policies and limits.

A full review of this roundtable debate, which was sponsored by ACE Europe, will be published in the next issue of StrategicRISK.

D&O competition short lived?

Jardine Lloyd Thompson Limited (JLT) told FERMA Forum delegates yesterday that if companies are offered discount on their directors’ and officers’ liability (D&O) insurance they should take it but not put it into their budget for next year.

‘Competition has heated up in the market for D&O for commercial companies, producing reductions of 5–10% on a like-for-like basis’, according to Mike Lea, head of JLT’s financial and professional risks practice. ‘Very large accounts are the greatest beneficiaries. It could be short lived: insurers are probably trying to fulfil targets set when rates were expected to harden significantly.’

Ian Nichol, partner, JLT, said, ‘The commercial D&O market remains a competitive environment for companies with strong balance sheets and a number of new carriers have helped to maintain pressure on premiums whilst also providing alternative options for clients and additional capacity.

‘There has been a lot of speculation about the impact of increased claims notifications but to date this has not manifested itself in across the board premium increases or restrictions in policy wordings. However, it is a different environment for financial institutions where rates are still increasing by 25–40% but new players have come into the market and the upward trend has stabilised,’ he explained.

CFOs step up risk management a notch

Chief financial officers (CFOs) are playing an increasingly pivotal role in the risk management of their firm and setting best practice, according to a panel discussion yesterday morning at Aon’s Women in Insurance networking breakfast at the Forum.

In a world driven by financial metrics, key performance indicators are expanding to include a company’s performance in managing risks, in addition to return on investment and cost of capital. Hence CFOs are being increasingly included in the development of strategic risk management processes and solutions rather than solely on the costs involved. Aon’s ‘crystal ball’, predicting how the insurance and risk industries will evolve, sees CFOs escalating their effectiveness in terms of risk management. The global insurance broker also expects to see more companies appointing chief risk officers (CROs).

This role, working in partnership with the CFO, is helping to elevate risk management to the board and increase the standards of professionalism in handling the risks facing their organisation. CFOs are gleaning insights from their CROs on appropriate stress test scenarios and decision making processes, in particular, around mitigating the risks around investment portfolios and factors affecting cost of capital.

However, Aon’s global risk management survey found that 62% of risk management functions report into a CFO or finance department so over a third of companies could be bypassing this crucial role.

At the session, Christa Davies, CFO of Aon Corporation, commented on her role in relation to risk management: ‘As CFO, my job is to manage risk for our firm and we have put in place solid business practices and a sound global finance team to manage risk holistically across the company. This is so we provide information in an efficient and effective manner to our business heads, and so that we can generate the best return on invested capital for our investors.’

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XL completes European mid-market rollout

XL Insurance has expanded its middle market offering and launched a new team based in Amsterdam selling property and casualty (P&C) insurance to companies based in the Netherlands.

The dedicated middle market team will offer P&C services to companies with an annual turnover between €30m and €300m. The development of additional products for this market, including directors' and officers' liability insurance, is planned.

The new Dutch unit completes XL's middle market rollout in Continental Europe. The insurer now has units based in Vienna, Zurich, Milan, Madrid, Munich, Paris and Amsterdam. XL has had a middle market offering in the UK since June 2008.

Cover

XL's property insurance for the middle market covers damages and business interruption as well as damages from natural disasters. Its casualty solutions cover general third party liability, product liability, product recall and environmental liability.

With shrinking insured volumes as a result of the recession, XL is realistic about growth prospects for the new department. Daniel Maurer, chief underwriting officer, Middle Market P&C, Continental Europe & Asia, said: 'There is never a perfect time to enter a new market. We are confident this is a good time to establish an operation in order to be ready and operational when the economy returns to normal.'

Boardroom must ask tougher questions

Boards and audit committees should be asking tougher questions of management to fully understand the controls they have in place and the changes they propose to make to risk functions and their attitude towards fraud, says Ernst & Young in a new report published yesterday.

Meeting today's financial challenges explains that many businesses were potentially hit harder than they should have been by the global downturn because they did not effectively plan for the impact of external risks. In many cases this oversight has impacted the financial reputation of companies, and directly led to investors and other key stakeholders requesting more detailed information and transparency ahead of investment decisions.

Christian Mouillon, global assurance vice-chair at Ernst & Young, says: 'Our research shows that many organisations need to improve their oversight of risk management. The scope for boards and audit committees to improve is increasing and it's essential for impacting the company's overall performance. A major shift in perception is needed to elevate the attitude towards the risk function away from just another compliance exercise.'

Ernst & Young's research found that 76% of 153 audit committee members from around the world found their role had become more challenging in the last 18 months. Only 13% rated their risk function as very effective. Four in 10 companies polled separately for the research expected to increase their risk management resource. Of these, 85% were planning to improve the alignment with business strategy and objectives; and 84% were planning to improve the risk assessment process.

Mouillon comments: 'Our research highlights the need for companies to take a much broader view of their risk management function. For many, the global economic downturn was the first real event to test their external risk management assumptions and procedures. The depth and speed of the global economic downturn, coupled with extreme market uncertainty, caught many organisations unaware. They simply hadn't effectively scenario planned for the impact of external risks or the effect it would have on their financial positioning. It is clear that the C-suite and the audit committee should be robust in questioning decisions.'

He concludes: 'The last year has shown that financial challenges are far more likely to result from external events. As the audit committee works with management, they are in a good place to ensure that businesses rise to minimise these risks and plan accordingly.'

Spanish and Turkish risk management associations join FERMA

The board of FERMA has accepted into membership two national risk management associations: the Spanish Iniciativa de Gerentes de Riesgos Españoles Asociados (IGREA), based in Madrid, and Turkish Enterprise Risk Management Association (EMRA), based in Istanbul.

The addition of IGREA and EMRA brings FERMA membership to a total of 17 countries. In his opening speech to delegates yesterday, president Peter den Dekker said that the inclusion of two new members was 'a great start to the Forum'.

Correction

We apologise for the mis-spelling of Aon's president and chief executive Greg Case's name in yesterday's FERMA Daily.

What's new at this Forum?

Franck Baron, chairman of the Forum, yesterday highlighted some of the innovations that have been introduced this year. These include:

- **risk managers on the grill – a panel session today that is open to all delegates and gives risk managers' insurance partners the opportunity to challenge them on topics of interest**
- **going 'green' – 'We have tried to reduce the impact of this event on the environment as much as possible,' explained Baron**
- **FERMA night – this will be held tomorrow to celebrate FERMA's 35th anniversary.**

'Everyone is welcome,' said Baron, who built up delegates' expectations with news of a birthday cake and 'a surprise' from board members which he described as 'something never seen before at a risk management conference.'

See you in Stockholm

The venue for the next FERMA Forum in 2011 has been announced – and it's Stockholm.

The city is currently constructing Stockholm Waterfront - a world-class convention centre for conferences, banquets and large-scale events. The main conference hall will seat 3,000 delegates. The same building will house a four-star hotel with 420 guest rooms and office accommodation.

The building is centrally located between Central Station and Klara Sjö and the project, which has a very strong environmental focus, should be completed by 2010.

With the benefit of hindsight

Achieving effective risk management is the overriding goal, post-credit crunch. One year on from the collapse of Lehman Brothers, Nathan Skinner lists the key risk management lessons from the financial crisis

Risk management needs to be given greater authority and attention

Corporate risk management has been the subject of significant reappraisal given the near collapse of the financial system. The overriding view is that risk managers lack influence in the companies in which they operate. During the boom times, it was too easy for traders to lean on the risk department and get their approval where it shouldn't have been given. Non-executives, the ultimate risk managers, were also incapable of applying the brakes. The UK government's Walker Review proposed measures to address these failures, including beefing up the role of non-execs and boosting the independence and ability of risk managers to challenge the board. It remains to be seen if they will enforce these requirements with sufficient vigour.

Incentives should reward long-term stability, not short-term profit

Sadly, greed was the hallmark of the great banking crisis of 2008. One of the main lessons is that financial incentives are perhaps the biggest factor in determining human behaviour. It wasn't just the money-hungry traders that led the financial system off the edge of a cliff; thousands of fraudsters, large and small, proliferated in a system that rewarded far too heavily short-term financial success. Regulators have proposed action to ensure remuneration policies discourage excessive risk taking. Legislation has not had much success at curbing human behaviour in the past. Investors, shareholders and taxpayers will all be hoping that in the future it might.

Don't believe everything the models say

Risk models were widely used by the financial sector but proved completely inadequate at signalling or averting imminent disaster, through a combination of bad risk management and inaccurate reading of the models. Also, most models were based on historical data that was incompatible with developments in the modern financial system and the phenomenon of systemic risk. The principal lesson here is not to rely too heavily on mathematical models. Institutions should pay more attention to the data that populates risk models and combine this with human judgment. Regulators are also much more eager for financial firms to use stress testing and scenario planning in their response to dramatic events.

Build reserves in the good times to draw upon during the bad

The amount of capital that banks held as a buffer between their assets and liabilities was at the heart of the crisis. Banks weren't holding enough, so when it came to the crunch, taxpayers were forced to pump trillions into the system to prevent it from imploding. US and UK policymakers are leading the way in calling for banks to adopt counter-cyclical capital buffers that are built up in the good economic times so that they can be drawn on during the bad times. Many other firms, including insurance companies, plan to build bigger financial buffers over the next year.

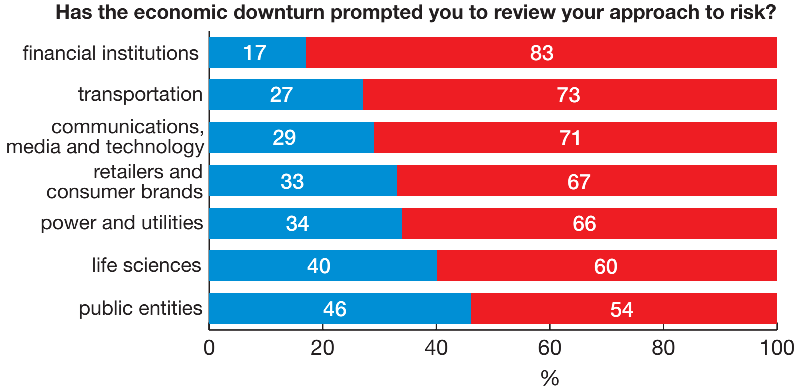
Final thought

As the financial sector seeks to rebuild its reputation and regain trust among investors and regulators, the balance of power needs to shift back towards risk management. If risk managers can arm themselves with the appropriate levels of authority, clear visibility into their businesses, and the ear of senior management, they will become an integral part of any future recovery.

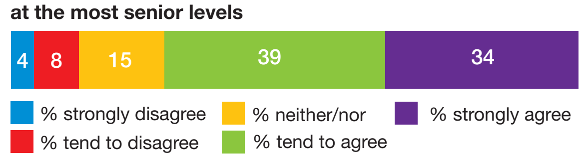
This article appeared in the October 2009 issue of Insurance Agenda, available on www.strategicrisk.co.uk

EXCLUSIVE Turning to risk management

Has the economic downturn prompted you to review your approach to risk?



The economic downturn has raised the importance of risk management at the most senior levels



What will happen to your risk management budget in the next 18 months?

Marsh released a survey profiling the impact of the financial crisis on risk management professionals. The survey profiled 750 risk managers across seven sectors from five European countries (France, Germany, Italy, Spain and the United Kingdom). StrategicRISK reveals a snapshot of the findings here.

In response to the global economic downturn 69% of organisations said they have reviewed their approach to risk. The downturn has also prompted senior managers to take a closer interest in risk. Almost three quarters (73%) of participants agreed that risk management is now more important at the most senior levels. Unsurprisingly, financial institutions are the ones most likely to be implementing change in their risk management procedures. At the other end of the spectrum public bodies and life sciences firms have been less impacted by the crisis.

One risk manager said: 'Since Lehman hit the boardroom in a significant way there is now a limit set to our organisation's appetite for risk...We are being selective about the sustainability of the contracts we take on board and the sectors we want to be in. In terms of suppliers, we blindly relied on external benchmarking before, and now we will scrutinise them to a far greater degree.'

As a result of the downturn, costs are being cut across the board, and yet risk management seems largely immune – over a third (34%) of participants expect their risk management budgets to increase. And despite expectations of a hardening insurance market only a quarter (27%) of participants expect to spend more on insurance. Overall the findings suggest that organisations intend to invest heavily in risk management infrastructure and general strengthening of risk management departments.

Global programmes – the challenges

An interview with Clive Hassett, director operations, major risks and affinity, ACE Europe

What is a global insurance programme and is it a popular way of transferring risk?
A global insurance programme is a series of contractual arrangements that enables a buyer of insurance to provide a parent company and its worldwide subsidiaries with consistent insurance coverage wherever they happen to be located. They are popular because they enable a company to maintain tight control over the insurance buying decisions and the risk management practices employed throughout the international organisation.

What are the main challenges facing the insurer when arranging multinational insurance programmes?
The biggest challenges for insurers are: providing policies across the full geographical footprint of the insured; delivering consistent levels of service throughout an overseas network; providing timely and accurate management information; ensuring fiscal and regulatory compliance, and ensuring prompt movement of premiums and claims payments to captives and reinsurers.

What problems do the insureds face when arranging multinational insurance programmes?
Risk managers seeking to arrange a global programme may face problems collecting all the required underwriting information from their subsidiaries. They could also have difficulty managing the change from existing insurance arrangements or deciding on the optimum balance between risk retention and risk transfer. Finally, it could also be tricky agreeing the premium allocations between a companies' subsidiaries. This is done in conjunction with the insurer.

How have insurers responded to these challenges?
Insurers have responded to these challenges in a variety of ways. Firstly they have established their own offices in key international commercial centres supported by a network of partner insurers. Insurers have also developed sophisticated IT platforms to allow accurate, timely and consistent transmission of instructions. Some insurers have created dedicated teams, expert and experienced in managing global programmes. It is also important that insurers maintain a constant dialogue with the insureds and brokers to resolve problems and emerging issues. Insurers also commit to work to agreed service standards.

What should risk managers do to help overcome these challenges?
In my opinion risk managers should create a team within the business that is experienced in risk management and insurance matters. This team should work with subsidiary companies to explain the benefits of being part of a global programme. Some companies may want to create captive insurers to help manage and control the overall cost of risk management. Companies should also seek to establish productive working relationships with their brokers and insurers. It is important that companies use insurance as just one part of an overall risk management regime.

Are local policies not a safer and cheaper way of arranging insurance in multiple jurisdictions?
Generally, no. A web of local policies, all with different terms and conditions, possibly purchased by non insurance professionals, is not the best foundation for an economic and effective insurance programme.

In the wake of the economic crises does the insurance industry have the capital, security and desire to support potentially burdensome and expensive global insurance programmes?
It is generally acknowledged that the property and casualty insurance industry has protected its capital and continues to operate in a conservative fashion with minimal exposure to non-traditional investment products or complex financial derivatives. There has not been a material shortage of capital across most traditional insurance products and markets or any significant price volatility over the period of the current financial crisis. Most global insurers recognise that in the current economic climate they need to work closely with their global customers who are more concerned than ever before about the need to have compliant and affordable programmes.

How has the insurance industry responded to the question of compliance with all the different rules and regulations around the world pertaining to insurance? How far has the industry come and can it do more?
Global insurance companies take the question of regulatory and fiscal compliance extremely seriously. These insurers have, for the most part, significant local subsidiary companies operating around the world, each of which is subject to local supervisory bodies. As such they are compelled to run their affairs strictly in accordance with local regulations.

Even within economic trading blocs, such as the EU, regulations vary between country and insurers need to be aware of and in compliance of these rules.
Global insurers now recognise that it is not possible to transfer terms and conditions in policies across national boundaries without taking note of, and allowing for, differences arising from language, market practice and legal frameworks. Furthermore, rules, regulations and taxes are constantly changing and insurers must have the mechanisms in place to be able to capture and action these movements

> "Risk managers should have a clear understanding of what they are trying to achieve with their global programme"

What other advice do you have for risk managers who are considering whether or not to buy a multinational insurance programme?
Risk managers should have a clear understanding of what they are trying to achieve with their global programme. What is the desired balance between centralised corporate control, cost saving, risk retention and compliance? The risk manager may have to consider whether or not the company is structured and managed in such a way that a global programme will be possible to implement. They should also: agree the levels of risk retention and risk transfer, speak to other risk managers about their experiences, decide on the level of broker involvement, get to know and challenge the insurance companies, and ask for references.

HOT TOPIC

What delegates think

On the crunch:

'The current recession is hard on almost all kinds of businesses – and for the paint industry it is certainly not an easy task either to stay on track. Knowing that letting a lot of people go in order to save costs is not necessarily the right way of dealing with the current situation, at Hempel we have focused on keeping our expenses down by doing things smarter, which in turn has created new ways to run the business in an even more efficient way.'
Helle Friberg, group risk and insurance manager, Hempel

On potential pitfalls of global programmes:

'When opting for a global insurance programme, risk managers should be aware that local premium taxes and a variety of parafiscal charges could be due on the insurance premiums allocated to the individual risks covered in each country involved. Not taking this seriously might cause tremendous problems when claims have to be paid out locally.

'Risk managers should talk about this issue with their brokers, insurers and tax advisers when setting up their global insurance programmes and every time a cross-border insurance programme comes up for renewal.'
Luc Kegeleers, senior manager, global tax cosourcing, EMEA accounting and tax compliance solutions, Deloitte Belgium

'One of the biggest challenges is how to remain focused on the commercial (both cost and coverage) aspect of structuring a global programme whilst balancing the compliance issues in the midst of such diverse and somewhat ambiguous regulatory and tax rules.

'Unfortunately this is now an ever increasing conundrum for risk managers particularly as tax authorities are under tremendous pressure to generate tax revenues resulting in tax audits to collect unpaid premium taxes, plus interest and penalties where appropriate. Additionally, insurance supervisors are entering into agreements with each other to exchange information about the activities of an insurer. The latter issue could affect an insurer's attitude and willingness to participate on a global programme.

'Frequently risk managers only consider the payment of premium taxes and overlook the most significant aspect of a global programme – corporate tax implication on claims receipt. Generally the average premium tax rate is around 12% but the average corporate tax rate is around 26%! If a claim is received by the parent rather than the loss making subsidiary, the claim receipt could be treated as taxable income in the books of the parent company. When the money is transferred to the loss making entity, the local entity could be taxed on the amount received. Potential double taxation costs therefore could far outweigh the insurance premium or premium related taxes.

'The whole process of designing global programmes needs to be reconsidered if not revamped. Well before any renewal date, or entering into a formal insurance contract, European risk managers should familiarise themselves with the potential regulatory and tax issues and adopt a fully transparent and pragmatic approach to structuring their global programme. Such a structured and disciplined approach would lead to greater degree of compliance and, in the long term, lower costs of a global programme.
Praveen Sharma, global leader of the insurance regulatory and tax consulting practice at Marsh

On planning for a pandemic:

'By definition, any pandemic will have a truly global impact, and in today's globalised economy this means having to look at the impact on your local operations worldwide, as well as the effect on the company as a whole. This needs to be factored into any response. Although there is no magic solution my "golden tips" reflect what we practise in our operations and focus on a few key areas.

- Management, ie having in place clearly identified teams at major locations as well as at a corporate level.
- Monitoring, you have to constantly monitor the situation through ongoing connections with international health organisations and services.
- Communication – established teams will communicate guidance on "best practice" precaution measures.

Another important focus should be on employee health and safety – evaluating the guidelines to support any possible actions to ensure the safety of your employees as well as business continuity.

Business continuity includes maintaining essential staffing levels and mobility provisions to support essential employees' ability to work at home or to redirect key functions to alternate locations and the documentation of key procedures. Finally you should test and update your plans regularly.'
Maurizio Castelli, country manager Italy, XL Insurance

'Have a minimum preparedness plan ready and keep it fresh – you never know when you will need it – could either be for the current H1N1 flu or for something that is yet to be seen!

'For any company it is extremely important to rely on own actions to protect employees, customers, supply chain, stakeholders and assets. Do not rely on authorities or governments to take care of everything when a pandemic hits. Not all countries have health services equipped to meet demands and by the end of the day they will for sure "only" take care of people's medical needs on a predefined level, but they will and cannot handle business continuity, effect of absenteeism on the entire supply chain, lost revenue, increased expenses etc.

'It is in the hands of any responsible company to protect its employees and business in such a situation and a position on such a topic is needed up front - it could easily be too late to start planning once the pandemic hits.

'And keep preparedness plans pragmatic. This will allow better buy-in than very complicated plans. Do not panic!'
Anette Terp, risk manager, corporate finance and administration, Nycomed.

On choosing a captive domicile:

'The basic hygiene factors such as availability of specialist captive knowledge, ancillary service providers such as accountants and lawyers, and good basic infrastructure are all still very important, as are the costs involved both in setting up and ongoing running of the captive.

'In the past 12 months, the financial credibility and sustainability of the domicile, together with the robustness of its regulations have come more to the fore. Captive owners, while still looking to ensure their captive is efficient and in a region that does not add to the tax burden of the owner, are becoming increasingly interested in reports from organisations such as OECD, IMF and FATF as they seek to ensure that their organisations are operating in, what the OECD referred to as jurisdictions that have "substantially implemented the international tax standard".'
John Batty, business development manager, Isle of Man Finance

'Access to market, such as EU passporting, would be a determining factor in choosing an onshore location. The cost of operation relative to the quality of employees, services and so on is high on everyone's list. Other frequently quoted reasons for making the final choice would be the strength of the institutional and professional infrastructure, a good tax treaty network and user-friendly legislation. In times like these, however, the overriding importance of factors such as the stability of the host jurisdiction and its standing in international forums cannot be underestimated. In the final analysis, I would say it all boils down to a combination of practicality and peace of mind.'
Dr Michael Xuereb, director, strategic development unit, Malta Financial Services Authority

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Welcome to Prague














Left to right: Angelo Colombo, Allianz; Marcelo Homburger, Aon; Eduardo Nobrega Pereira, Construtora oas ltd; Jose Roberto Conduta, Harmonia

Left to right: Fillipo Emmanuelli, Belfor; Neal Courtney, Belfor; Paul Taylor, Morgan Crucible

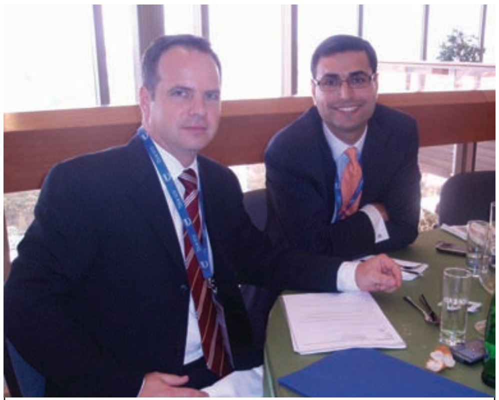
Left to right: Marc Lehmann, executive director, Willis; Fabrizio Matarazzo, district manager, Andreas Spintzyk, principal and Enrico Aliotti, regional manager EMEA, Global Risk Consultants

Left to right: Frederic Schmidt, Ace; Jeff Dowling, Ace; Ralf Blesching, Ace

Left to right: Patrick Steenwegen, underwriting manager property Europe, Munich Re Group;
Nils Rikard Wieksten, client manager, Munich Re Group

Left to right: Emanuele Cordero Di Vonzo, Marsh; Marco Dalle Vacche; Alberto Mendolio, Marsh

Left to right: Philippe Labey, director risk and insurance, SB Alliance; Matilda Bjerndell, risk and business continuity manager, Svenska Spel



Left to right: Stefan Sowietzki, Marsh; Rohan Bhappu, Marsh

Left to right: Balint Pinter, Aon; Zsolt Nandori, MOL Group; Nick Wildgoose, Zurich

Left to right: Luca Franzi, Rasini Vigano SpA; Luigi Sturani, managing director Southern European and Latin America Group, Aon

Left to right: Klaus Moller, manging director, Danish Crown Insurance; Jens Holm, corporate tax and risk manager, LEO Pharma A/S; Morten Thomson, student, Aarhus School of Business Finance

Left to right: Liliana Baptista, Brokers Link; Antonio Fernandes, Sonae Group

Jesper Morgils, group treasurer and risk manager, Superfos

Katherine Kanaga, Marsh

Left to right: Jana Bicanova, chairman, Aspar CZ; Alena Najmanova, investment, insurance, taxes, SKO-Energo; Krasmir Logofetov, chief audit executive, Vivacom

Left to right: Alfred Eeltink, Sales Manager, Aon; Jann Winther Christensen, Risk Manager, Danisco

Left to right: Mark Vos, Crawford; Philippe van Melckebeke,Galtier Expertises

Left to right: Jolyon Lord, Dominic Wheatley, Willis Management (Guernsey), Caroline Bradley, Guernsey Financial Services Commission

Around the Exhibition

Measure your awareness

(left to right) Alex Kiffen, executive vice president sales and marketing; David Simkins, MCS division

Munters has launched its Code Blue risk awareness programme to help risk managers maximise the benefits of business continuity and disaster recovery plans. At its core the programme aims to deliver a faster response to a property damage incident and therefore quickly stabilise business critical operations.

Risk managers visiting the Munters stand can undertake an on-the-spot risk awareness test to see just how prepared they are and discuss their pre-loss mitigation plans.

The Chubb view

(left to right) Klaudia den Ouden, de KEIZER, Monique Kooijman, Chubb Insurance and Aad Meijburg, de KEIZER

Chubb is expecting interest from risk managers in Solvency II, as well as concerns about pricing. 'Risk managers want to achieve the best possible products for the lowest possible price!'

The insurer also expects service, international capabilities and financial stability to be high on the risk manager's agenda. 'After the crisis with the banks, everyone is very concerned about how money is spent in the insurance industry.'

JLT focuses on D&O

Ian Nichol, partner, JLT

High on the list of the topics that broker JLT expects risk managers to be focusing on when they visit its stand is directors' and officers' liability insurance.

JLT's Ian Nichol says that some of the key areas for risk managers to address in relation to financial risk include:

- how fit for purpose is their D&O policy?
- does the programme structure adequately match the reasons for buying cover?
- a review of the panel of insurers
- what are the disclosure requirements to underwriters and are these potentially prejudicial?

The overall theme of JLT's stand is the firm's re-branding. And, if you leave your business card when you visit, appropriately you will receive a leather business card holder.

GLORAM – assessing global risks

Tine Thorsen, Zurich

Zurich is debuting its global risk assessment module (GLORAM) at this year's Forum. The company says the module provides the conceptual and analytical framework to answer questions around the comparative risk exposures of countries and specific risks, areas where a country could reduce its overall risk exposure and how overall exposure might change if specific risks reduced or increased.

'The power of GLORAM resides in its capacity to simulate the impact of a changing risk landscape on individual countries or clusters of countries with similar risk exposures.'

Additionally, Zurich expects discussions with delegates to focus on supply chain, global mergers and acquisitions, and global compliance issues.

Captive changes

Feyi Omola, A M Best

At stand number 65 A M Best is focusing on the rapidly changing landscape for captives and the growth in captives ratings.

The company continues to do extensive work in the captive sector, and its recent special report on European and US captives shows a clearly active captive landscape. It says that the captive market will continue to develop in the face of its current challenges, while of particular interest to risk managers in the current climate is the financial strength of their insurers and of captives. Feyi Omola, Clive Thursby and Bryan Martyn are all here at the Forum and will be happy to discuss captive issues with delegates.

There is a selection of market reports and current research, including the most recently released special reports on captives available at the stand. Visitors can also view:

- Best's Statement File – Global, the worldwide insurer ratings, financial database and analysis system, provides not only the latest credit ratings and reports but timely and accurate financial data, including interim accounts, on more than 12,900 companies worldwide. Best's Statement File – Global is available on-line via BestLink.
- Best's Insurance Reports®, A M Best's flagship product, now available on-line through the BestLink® data-retrieval system. Best's Insurance Reports offer qualitative and quantitative analysis on thousands of insurers, reinsurers and groups.
- Best's Underwriting Guide which allows users to quickly evaluate the risks associated with a business or industry and the exposure for applicable lines of insurance. The guide is frequently used as a reference and training resource for underwriters and risk managers.

Risk managers can also pick up a risk-free game of throw and catch for the family.

In familiar territory

(left to right): Cecilia Brugnoli and Marco Reiner, affari multinazionali, Generali

The international Generali Group, which has a 175 year history of providing insurance in Europe, is no stranger to the Czech Republic, current host of the FERMA Forum.

In 2008, a joint venture was established between Generali and PPF Group. As a result, Generali PPF Holding is the leading insurer in the Czech Republic. It underwrites 50% of all insurance policies in the region, and 45% of Czech citizens are its clients.

Moving to independence

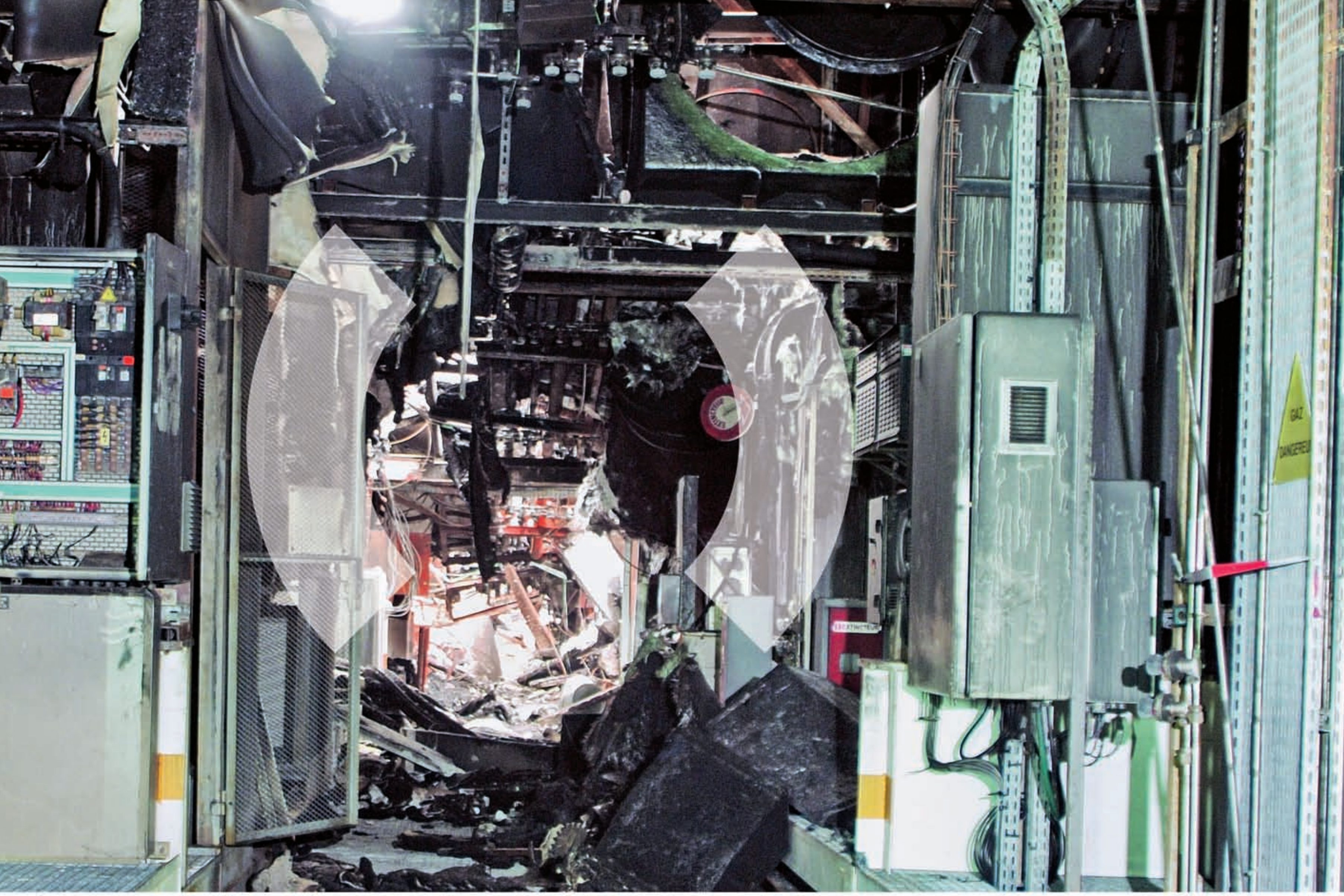
Julio A. Portalatin, Chartis Europe

The widely publicised problems experienced by AIG Inc and the formation of Chartis have been intriguing risk managers, reported Chartis CEO Julio Portalatin.

'We've been out there communicating with them on a consistent basis since the latter part of 2008,' he explains. 'We've been making sure that they understand the distinction between what has taken place on the AIG Inc level and the health and fitness of the insurance subsidiaries.'

Chartis is the domestic US and international property and casualty business with of equity of $44bn, some 33,000 employees across the world and representation in 160 countries and jurisdictions.

'Chartis is now working towards operational independence,' says Portalatin. 'This means that we will disentangle ourselves from the operational support we have been getting from AIG Inc. Eventually we will be in a position where we can file our own financials with the appropriate authorities, if needed raise our own capital, get an independent rating and ultimately accomplish operational independence.'



What's on today – Tuesday 6 October

PANEL DISCUSSION

09.00–10.30 **RISK MANAGERS ON THE GRILL**
Moderators: Herbert Fromme, insurance correspondent, Financial Times, Germany; Adrian LADBURY, international editor, Business Insurance, UK
Speakers: David Anderson, head of risk solutions, BP plc, UK; Peter den Dekker, president, FERMA, and corporate insurance risk manager, Stork BV, Netherlands; Flemming Kvorning, group risk manager, Coop Danmark A/S, Denmark; Ilkka Ilmonen, group insurance manager, Neste Oil Corporation, Finland; Marc Mathijsen, head of corporate insurable risks management, ING Groep NV, Belgium; Maurizio Micale, corporate risk management and insurance director, STMicroelectronics NV, Italy; Stefan Sigulla, chairman of DVS, and insurance manager, Siemens Financial Services GmbH, Germany

10.30–11.00 **Coffee break and visit to the exhibition**
Sponsored by HDI-Gerling

11.00–12.00 **WORKSHOPS**

7 **How to evaluate and maximise insurer claims performance and to select the claims performance profile that best meets your needs**
Submitted by AIRMIC – UK
Moderator: **John Hurrell**, chief executive, AIRMIC, UK
Speakers: **Kip Berkeley-Herring**, group risk manager, BT, UK; **Nicola Harvey**, group risk director, Christie's, UK

8 **How to avoid supply chain risks keeping your CEO awake at night**
Submitted by BELRIM – Belgium
Moderator: **Marie-Gemma Dequae**, board member of FERMA, Belgium
Speakers: **Carl Leeman**, chief risk officer Katoen Natie, board member of FERMA, and board member of IFRIMA, Belgium; **Nick Wildgoose**, supply chain product manager, Zurich Global Corporate, UK

9 **Project risk management from the tender phase to successful execution: a practical case study**
Submitted by NARIM –Netherlands
Moderator: **Frits van Blitterswijk**, manager, risk management and insurance, LyondellBasell Industries, Netherlands
Speakers: **Gijs Calis**, corporate risk manager, Stork BV, Netherlands; **John Scott**, head of risk insights, Zurich Global Corporate, UK

12.00–14.00 **Buffet lunch**
Sponsored by Business Insurance

14.00–15.30 **WORKSHOPS**

10 **Getting more from your insurance budget: aligning insurance with corporate finance**
Submitted by SIRM – Switzerland
Moderator: **Creighton Twiggs**, group risk manager, Clariant International Ltd, Switzerland
Speakers: **Markus Mende**, managing director, Aon Global Risk Consulting, Switzerland; **Tom Skwarek**, head of corporate business development, Swiss Re, UK; **Thierry van Santen**, CEO, Allianz Global Corporate and Specialty, France

11 **European Union affairs: Flood directive, Solvency II, Environmental directive**
Submitted by FERMA
Moderator and speaker: **Peter den Dekker**, president of FERMA, and corporate insurance risk manager, Stork BV, Netherlands
Speakers: **Guy Soussan**, partner, Steptoe & Johnson LLP, Belgium; **Stefan Sigulla**, CEO Insurance, Siemens Financial Services GmbH, Germany; **Jaap Meijers**, president of the European Federation of Insurance Intermediaries (BIPAR), Belgium; **Gabriela Diezhandino**, head of public affairs, Comité Européen des Assurances (CEA), Belgium

12 **Fast Forward Risk Management**
Submitted by FINNRIMA – Finland
Moderator: **Julia Graham**, chief risk officer, DLA Piper LLP, UK
Speakers: **Joseph Restoule**, president, Risk and Insurance Management Society, Inc. (RIMS), and leader, risk management, NOVA Chemicals Corporation, USA; **Tapio Huovinen**, director – risk management, UPM-Kymmene, Finland; **Paul Taylor**, director of risk assurance, The Morgan Crucible Company plc, UK

15.30–16.00 **Coffee break and visit to the exhibition**
Sponsored by HDI-Gerling

16.00–17.00 **WORKSHOPS**

13 **How insurance legal compliance is properly assured for multinational insurance and risk financing programmes**
Submitted by ANRA – Italy
Moderator: **Alessandro De Felice**, group risk manager, Prysmian SpA, Italy
Speakers: **Jens Wohlthat**, member of the executive boards, HDI-Gerling Industrie Versicherung AG, Germany; **Martin Strnad**, head of legal, attorney at law, Zurich Global Corporate, Switzerland; **Praveen Sharma**, practice leader insurance regulation and tax consulting unit, Marsh, UK

14 **Broker's remuneration: do we want to advocate a mandatory net quoting system in the business insurance sector?**
Submitted by AMRAE – France
Moderator: **Laurence Delaire**, deputy director, insurance department, GDF SUEZ, France
Speakers: **Gérard Lancner**, directeur risk management et assurances groupe, Yves Rocher, France; **Anne-Marie Fournier**, risk manager, PPR, France; **Bruno Vesval**, directeur général délégué, Gras Savoye, France; **Stanislas Chapron**, président du directoire, Marsh, France; **Jean-Paul Rignault**, chief executive officer, AXA Corporate Solutions, France

15 **Building and implementing a risk culture**
Submitted by ASPAR CZ – Czech Republic
Moderator: **Jana Bicanova**, chairman ASPAR CZ, Czech Republic
Speakers: **Peter Hacker**, partner and global head communication, media and technology practice, Jardine Lloyd Thompson, UK; **Radovan Kozisek**, head of risk management, E.ON Ceska republika, sro, Czech Republic

All workshops are in English.

Risk in Europe

John van der Steen, CCO of Aon Risk Services EMEA, looks at the European response to Aon's global risk management survey

European risk managers identified damage to their company's reputation as the biggest risk they are facing behind only the economic slowdown. In a sign of just how much the downturn is affecting European organisations and how far the process of outsourcing and globalisation has come, supply chain failures are ranked higher than in any other region.

Perhaps surprisingly, European companies are the second least prepared for their top 10 risks in the world, ahead only of Latin America. Without offering excuses for European companies, the risks they rank as the most threatening are considered to be amongst the most complex and most are essentially not insurable. However, these issues must still be dealt with by implementing an enterprise risk management programme.

Despite their relative lack of preparedness, European businesses are leading the world in how they are identifying their risks. Twenty eight per cent of firms say they discuss and analyse their risks at board level, compared to only 18% globally. However, 27% still rely on senior management intuition and experience, though this is not nearly as pronounced as in North America where this number is 55%.

Overall, though, Europe is relying upon the 'best practice' of assessing risks through business unit quantitative analysis. This increased quantification will also ameliorate broking negotiations to achieve more competitive premiums.

While the world has stared down financial Armageddon and is still dealing with the fallout, the role of the risk manager becomes more and more vital. Sustainable business continuity planning and enterprise risk management processes for the risks facing Europe's businesses will be critical to their future success.

Copies of the report are available at Aon's exhibition stand

Average reported readiness for top ten risks by region

Region	Reported readiness
Asia Pacific	74%
North America	69%
Middle East & Africa	69%
Europe	67%
Latin America	66%

What does the future hold?

Sue Copeman interviews Peter A den Dekker, president of FERMA and corporate insurance risk manager, Stork NV

You've taken over the presidency of FERMA at a time when risk management has never been of greater importance for European companies. What do you think have been the main factors influencing the way companies view risk management?
One of the main risks is that companies may be reacting in the way that they only want to fulfil risk management for compliance issues – window dressing for shareholders and the outside world.

There is a potential downside to the increased attention on risk management. Officially risk management has not been seen in a particularly positive way in the news during the bank crisis. So risk management in the 'real' economy may not have been impacted by that sector.

I consider that risk management has always been important in the real economy. Basically the attention is more focused on financial institutions at the moment and on the way they have organised risk management. For example, there is increased attention to risk management in the insurance industry as part of Solvency II. That is becoming more and more important. What we have seen in the banking industry is that models are king. I assume that the insurance industry will do a better job in organising risk management within their companies, and that it will become embedded in their decision making process.

My personal view is that the crisis has not particularly increased the level of attention on risk management for companies operating in the real economy as compared to financial institutions. And financial institutions have learned lessons. You can have a sophisticated risk management system in your company but if you do not listen and assess it properly then even that good system will not save you from making the wrong decisions.

Are risk and insurance managers equipped to meet the challenges of the recession?
Yes. Risk and insurance managers have always been used to working under pressure especially in the old days – five to ten years ago – when risk and insurance managers often had to respond to corporate decisions that had already been taken. They were the last problem solvers! Now they are increasingly being involved in the whole decision making process from the start. Companies are recognising that risk and insurance managers add considerable more value in facilitating business deals if they are involved from the beginning.

That means risk and insurance managers have to make sure that they present themselves in the right way in the company, not as a business frustrator but as a facilitator. As long as they can do that and prove that they add value they will be involved more and more in important decisions. It comes down to the individual – how they operate and their position within the company. It is not rocket science. It's about whether you really communicate your message to the right people and at the right level. If that's done well, then risk and insurance managers are in a very good position to be part of their companies' challenging recovery out of the crisis.

How do you see the role of the risk manager evolving in the next two years?
It depends on the type of industry. I would distinguish between financial institutions and companies in the real economy. Within the financial institutions, risk managers' role must and will change due to legislation, and the requirement for better reporting and showing to the outside world that their risk management process is embedded.

In the real economy and especially within plcs (public listed companies), risk managers need to be more transparent with shareholders on where their main risks are and how they treat, control and manage them. That is already developing but not all companies are taking this requirement seriously enough. It comes down to where you position the risk management person. Is he a CRO, does he function at board level or below board level in an advisory function as a facilitator? Many companies and risk managers struggle to deal with this.

I think the position of the risk manager should be an advisory role to the board and not part of the board especially not in the real economy. Risk managers should provide advice, and also facilitate and communicate the message within the company so that they positively influence the culture and ensure that risk management in all areas is moving forward along the same lines.

What do you think will be your main challenges as president of FERMA in the next two years?
One of the main challenges is the need to improve the communication of our activities to the individual members of the national associations. They need to see what we are actually doing for them and for their national association. It's important to demonstrate the deliverables of FERMA's work, for example those coming out of our lobbying at a European level. One of our core activities is European affairs and we should show members what we do and communicate the results of that.

My goal would be in two years' time to see an increased level of member participation at the next Forum. We cannot force risk managers to attend but we can show them how important FERMA is for their individual interests.

We have a big challenge in improving our public relations, our influence on decisions at a European level, and the way we communicate the results to our members. Part of this involves visiting the national associations and telling them what we are doing so that we involve them in our activities. The result should be a two way communication and as a result of that better commitment to FERMA.

> "Companies are recognising that risk and insurance managers add considerable more value in facilitating business deals if they are involved from the beginning"

Achieving this means that our professional lobbying – both on insurance risk management issues and other areas that affect our companies at the European level – should increase. Since I took over the presidency of FERMA in June 2009, we have progressed with this but we are not there yet. Improving this and showing what we have been able to deliver to the national associations and their members means that we will see a higher return in terms of member registrations at the next Forum. I will not be satisfied if in two years' time (depending on the state of the economy) we have less than 450-500 members registered for the Forum. That should be our goal.

What do you see as the key issues for European companies in the next two years?
In respect of the subjects that are currently engaging FERMA, the biggest challenge for us is Solvency II. We've taken some major steps respecting this in the last couple of months. We have formed a working group looking specifically at captives and the effects of Solvency II. Cooperation with other interested parties such as the European Captive Insurance and Reinsurance Owners Association (ECIROA) is an important part of this initiative. It is important for us to influence the impact of Solvency II on captives. It's also important to be conscious of the impact that Solvency II will have on the general insurance market and availability of capacity.

We are also working on issues like collective redress and have responded to the EC's consultation paper on this, as well as taking into account the implications of the insurance mediation directive. We monitor closely and react to any European issues that have an impact on or influence our industry.

Further, following recent developments in the US that suggest the ban on contingent commissions is

over, we are seeking to establish an agreement with BIPAR, the European Federation of Insurance Intermediaries, which will specify an active disclosure requirement to industrial customers on the type of remuneration and from which insurers they receive contingent commissions.

FERMA does not want to ban contingent commissions per se but we would like full transparency of all forms of remuneration to customers. If we know for example from which insurer a broker receives contingent commission we can than ask for financial details of the remuneration agreements and on which basis they receive it. That way, risk managers can assess their brokers' remuneration arrangements before deciding whether to place business with them. I hope that before the next Forum we will have an agreement that comes from within the industry rather than through a legislator stepping in and trying to impose regulations.

You've taken on a challenging and time-consuming job. How are you going to manage to 'juggle' work, personal and FERMA commitments?

It is not easy to cope with all the challenges from my job and from FERMA. When I took on the role of FERMA president, I stepped down from my position as president of NARIM because carrying out these two jobs in addition to my daily work would have been too much.

Being president of FERMA is an honour but it's also a very challenging task. I took on the role because I didn't want simply to be on the sidelines looking on. I want the opportunity to influence the whole process and to move FERMA forward.

My personal commitments are somewhat under pressure. A lot of what used to be my free time is now dedicated to FERMA matters. Of course, my 'day job' has to come first.

I want to ensure that, no matter who the board members of FERMA are, its influence and the work it does will continue to expand. I would like to 'professionalise' the association.

That will take some time. I don't anticipate it happening during my first six or seven months of term as president but I'm sure that after then we will be able to demonstrate some good results to members and the value of the association to increase its professional status going forward.

> "One of the main challenges is the need to improve the communication of our activities to the individual members of the national associations"

Sue Copeman, editor of StrategicRISK, interviewed Peter A den Dekker, president of FERMA and corporate insurance risk manager, Stork NV

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