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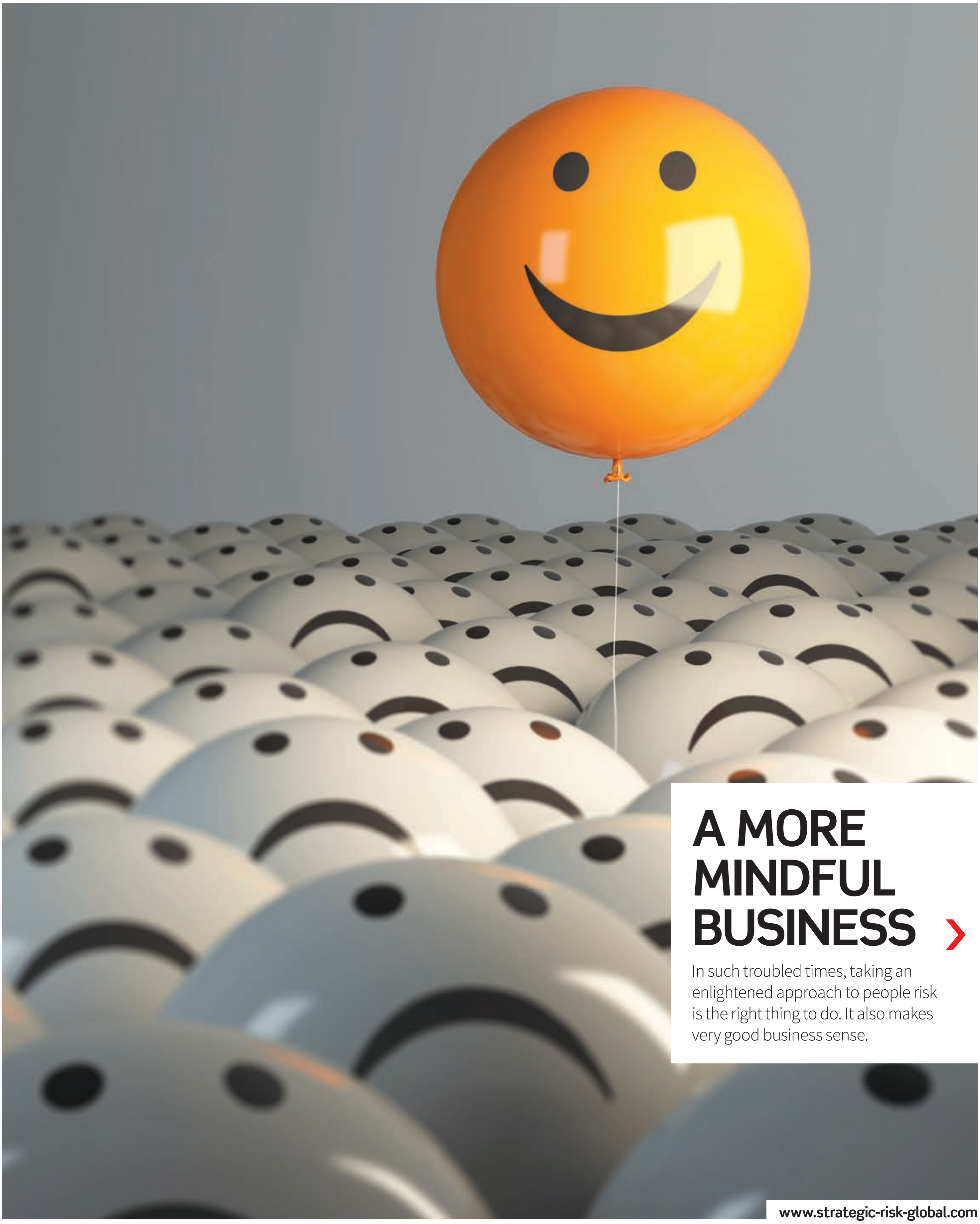

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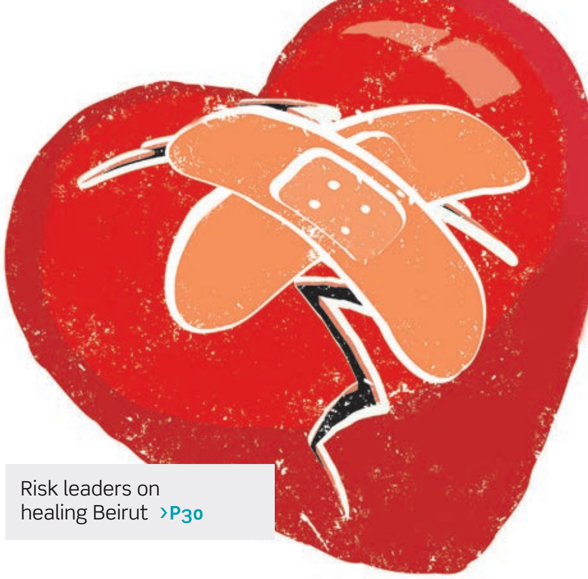
Contents



Survival of the swiftest

Risks are evolving, and growing more elusive. It is possible to adapt and even find success in these shifting times if we act now and work together. But will the insurance market do the same?

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As delegates get ready to tune into Airmic Fest 2020, the UK risk association's first-ever virtual conference, it's a different world from that of just over a year ago when risk managers descended on the northern British spa town of Harrogate.

The COVID crisis is far from over. With second waves and ongoing restrictions, this is nothing like business as usual. Our vocabulary has changed. We talk of 'remote working' and 'social distancing', sign off emails with 'stay safe' – as UK comedian Michael McIntyre quipped in a recent sketch in which he visits a fortune teller in 2019: "'Furloughed'? You can't just make words up!"

The pandemic has reaffirmed the value of the risk manager, and not just because they have proved the worth of their business continuity plans. It is now more appreciated than ever that risk professionals have an important strategic role, not just in managing the latest crises, but as a key business enabler, supporting decision-makers with the insight they need.

Airmic's five 2020 risk megatrends – cyber, geopolitics, regulation, reputation and climate – reflect a heightened level of uncertainty. The two most concerning megatrends were business interruption (BI) arising from a cyber attack and data compromise, resulting in fines and reputational damage. The third was an economic downturn – which now looks likely in most economies.

Intangible assets already account for as much as 85% of the total business value across industries, according to a report from Lloyd's and KPMG, which warns that the business landscape has shifted again under COVID-19.

KPMG partner Paul Merrey said: "To remain resilient and competitive, organisations across all industries must be proactive in finding new ways to enhance their business practices to protect these [intangible] assets, and this will require a new way of thinking and acting."

As business risks become more intangible, it will be more challenging for risk managers to quantify these exposures in a way the board understands. How do you measure and assign a risk score to reputation (page 24)? How do you measure the exposure of your digital assets, human capital, IP and supply chain? What insurance solutions exist if you want to transfer them?

For all its talk of parametric solutions and pandemic risk facilities, the insurance industry is still trying to figure out how to insure cyber risk. Even BI remains largely contingent on physical damage at a time when businesses are more likely to be disrupted by a network failure or supplier insolvency than a fire or flood.

Where broader wordings do exist, including cover for 'the occurrence of human infectious or contagious disease' and 'denial of access' clauses (both soft market relics), these have been hotly disputed, giving rise to recrimination, litigation and high-profile BI test cases. Insurers never intended to provide cover for systemic risks such as COVID, is the common argument.

In a blow for insurers, however, the UK High Court found in favour of a group of SME policyholders in a test case brought by the FCA. The judgment clarified that the pandemic, and the government and public response, were a single cause of the covered loss. "Insurers should reflect on the clarity provided here," said Christopher Woolard, interim chief executive of the FCA, noting that "roadblocks to successful claims" had been removed.

It is clear the insurance industry needs to do much to win back trust from the risk community, including providing products and services that are fit for purpose, starting with non-damage BI. As Airmic chief executive John Ludlow said in an interview with *StrategicRISK*: "The market has been too slow to develop solutions for emerging new and evolving risks."

And yet commercial insurance rates creep higher in this hard market (page 17). With rate hikes of 31% in the UK in Q2 2020, according to Marsh – and triple-digit price increases in distressed classes such as D&O – risk managers are rethinking their buying strategies. Can they retain more risk on their balance sheets? Are captives a better option, albeit not one that will help them with classes like D&O?

"There are some signs of change but this is too slow and there is too much finger pointing and not enough collecting thinking and coordination," said Ludlow. "Nobody can be enjoying this [hard market] scenario and unless we work together there won't be much to come back to." **SR**

"THE INSURANCE INDUSTRY NEEDS TO DO MUCH TO WIN BACK TRUST FROM THE RISK COMMUNITY, INCLUDING PROVIDING PRODUCTS AND SERVICES THAT ARE FIT FOR PURPOSE."

Dysfunction in governance to blame for Beirut explosion

The Lebanese government resigned after the blast was deemed a national failure, but risk experts say it is also a tough reminder to direct focus towards risk profiling and transparency across all international operations.

As the international community continues to assess the fallout from the explosion in Beirut, leading risk professionals believe a long-term failure in national governance and governmental structures was likely behind the deadly event.

The Lebanese government has resigned following the explosion at the capital's port on 4 August. Ministers were widely blamed for failing to safeguard the port, which was destroyed by a significant blast involving 2,750 tonnes of the chemical ammonium nitrate.

The death toll from the explosion has surpassed 200 people, with casualties topping 6,500. The Lebanese people have accused their government of widespread corruption and years of negligence.

Insurance analysts at AM Best believe the incident will put a strain on Lebanon's insurance sector. Insurance penetration rates are low in the country, but property insurance has been growing in recent years. The damage affected residential areas in one of the wealthiest parts of the country.

"ALL THE KEY PEOPLE KNEW WHAT SHOULD BE DONE; IT WAS THEIR WILLINGNESS OR INABILITY TO ACT THAT WAS THE ISSUE."

Chief executive, Airmic
John Ludlow

Some of the risk profession's top executives believe the tragic incident underlines a national failure of governance.

John Ludlow, chief executive of Airmic, the UK-based association for corporate insurance buyers and risk management professionals, says: "The root cause of the Beirut disaster is a long-term decline in national governance and the dysfunctional national structures ultimately caused by sectarian political leadership in Lebanon."

"This is a tragedy on so many levels: the lives lost, the pain and suffering of the survivors, the property damage, the capability of the country to trade and the inability of people of different beliefs to work together for a better future. All this while the world looks on, some trying to help, some using the situation for their own ends."

He added that "the only glimmer of hope" was "the remarkable resilience of the people themselves", and the prospect that "one day a leader will come to help them heal their divisions, regain national sovereignty and rebuild the state infrastructure before disaster befalls them again".

WE MUST LEARN FROM THIS

The tragic events have drawn comparisons with the explosions in the Chinese port city of Tianjin five years ago, which killed 114 people and injured more than 700.

The Tianjin explosion originated in a warehouse containing dangerous sodium cyanide, and was said to have generated power equivalent to 3–21 tonnes of TNT. The event resulted in insured losses of more than $3bn, with most claims from motor, cargo, liability and property insurance.

Ludlow says the comparison between the two events was "superficial", as in Beirut he laid the blame at the government's door. "All the key people knew what should be done; it was their willingness or inability to act that was the issue, and this stems from the governance issues," he says.

Franck Baron, group deputy director for risk management and insurance at International SOS and chairman of PARIMA, is calling on the risk community to learn from the event.

"Let's not take this for granted," he says. "Do we have full visibility and understanding of our operations and supply chain, including suppliers and external vendors and contractors? Are local regulations and international standards properly respected and enforced? The Beirut explosion shows clearly that the storage was not designed for such dangerous chemicals, which had been there for six years."

Ludlow says risk profiling will be "key" for similar sites around the world. "One cannot isolate the asset from the context," he says. "If one has assets in parts of the world that have raised risk profiles, dysfunctional state governance in this case, then more effort needs to be put into understanding the situation and mitigating the risk in line with one's risk appetite."

"Risk and audit managers must also be very aware of the difference between gross and net risk," he continues. "Long-line risks – those with high-gross risk made acceptable through controls – need to be checked and audited. Too often, executives are only interested in the high-net risks, the shark nearest the canoe. This can result in poor levels of compliance."

Ludlow says insurers will inevitably learn lessons from the event. "Insurers should, of course, price risks appropriately and refuse to pay claims that are due to wilful non-compliance, but they also need to ensure that they are not facilitating moral hazard in providing paperwork for illegal operations, safe in the knowledge that they can enjoy premiums and decline claims."

Baron says the blast, following the Tianjin incident in 2015, will raise questions about the location of industrial sites.

"This is an endless question as we have witnessed over the years and across the globe the development of more residential areas near pre-existing industrial and logistics sites. Local authorities in many countries have not been sufficiently focused on health and safety, and are more prone to seizing real estate and population growth development strategies at the expense of people safety. We see the same issue in nat cat prone regions."

Ludlow hopes the event will draw increased scrutiny on the handling of high-risk cargo among logistics firms, shipping companies and ports, as well as the financial distress of cargo companies.

"Government authorities, port authorities and logistics firms certainly have a role to play in ensuring that high-risk cargoes are not putting others at risk. This shipowner was new to the business, in financial distress, and the ship was in a poor state of repair before it got to Beirut while carrying a high-risk cargo. This scenario needs to be addressed internationally." **SR**

"DO WE HAVE FULL VISIBILITY OF OUR OPERATIONS AND SUPPLY CHAIN? THE BEIRUT EXPLOSION SHOWS THAT THE STORAGE WAS NOT DESIGNED FOR SUCH DANGEROUS CHEMICALS, WHICH HAD BEEN THERE FOR SIX YEARS."

Group deputy director, risk management and insurance, International SOS
Franck Baron

A year of accelerating trends

We're coming together virtually for Airmic Fest to discuss the volatile risk mix and difficult year ahead that our industry faces, says Airmic's John Ludlow.

Two of the lasting legacies that will come out of the COVID crisis for the risk profession will be the wider use of communications technology and the importance of the risk manager, in particular the enterprise risk manager. These accelerating trends are among the many themes we will be discussing at Airmic Fest, our first-ever virtual conference.

The enterprise risk manager should absolutely be taking centre stage in any company right now, working across the whole company, with different c-suite members; working on individual risks, but also looking at interconnections. The world is complex, volatile and changing at a high velocity. The profile of risks is being shaped by technology and the megatrends of cyber, geopolitical tensions, the ongoing climate catastrophe and increasing demands on the shoulders of boards. This risk cocktail is becoming more volatile.

A FUTURE OF CASCADING RISKS

We're going to have to learn to live with COVID for the time being. And also look through the lens of COVID at all our other risks, because 90% of them have probably seen an increase risk profile because of the pandemic. COVID is a cascading risk. And the next cascade is a recession, unemployment, reduced consumer demand for products and what all this means for our organisations. They say there's no inflation in this one, but I find that so hard to believe. It's going to be a tough 12 months.

There are some hard choices to make and we need to understand the difference between what is wanted and what is needed to keep businesses going. Recessions mean cutting costs but they also give permission to accelerate strategic change. The challenge is to find resilience and opportunity, and a risk-informed strategy has never been more valuable.

The next obvious thing to crystallise is the Brexit piece. That's going to be quite difficult because it definitely is going to be a hard Brexit regardless of what the UK government will do to try to soften it.

The agenda at Airmic Fest is quite structured, but huge and varied, bigger and more diverse than ever before in the subjects it is covering. We have keynote speeches and panels filmed live, with audience interaction in real time. All the workshops you would expect are included and these have been recorded to be streamed at the event, with an opportunity for a live Q&A afterwards. Four seminars will take place on live platforms, and knowledge HUBS complete the experience. This year we have added the Big Conversation – a space where anyone can pitch in.

And it's not just for the three days of the conference. The platform will be up until the end of the year. So whereas before you would be able to go to one or two workshops, now you can watch them all. It will be a whole learning library.

EMBRACING THE VIRTUAL MEET-UP

When it became obvious that we couldn't hold a physical event this year, we thought: "We've got to walk the talk. Let's go for a digital conference." We found a partner that was a digital disruptor in the conference business. They are environmentally driven and so they don't like people flying to conferences anyway, and have a strong track record of hosting virtual events.

This is going to be a great learning journey for Airmic but also for the whole industry. Many of us – especially in London – enjoy face-to-face meetings and workshops, and we probably haven't been that good at embracing the technology. The market has changed dramatically over the last few months – you can easily see an underwriter or broker for a quick ten-minute meeting. Before you might only have made a couple of appointments in a day. Now you call people or get on Zoom.

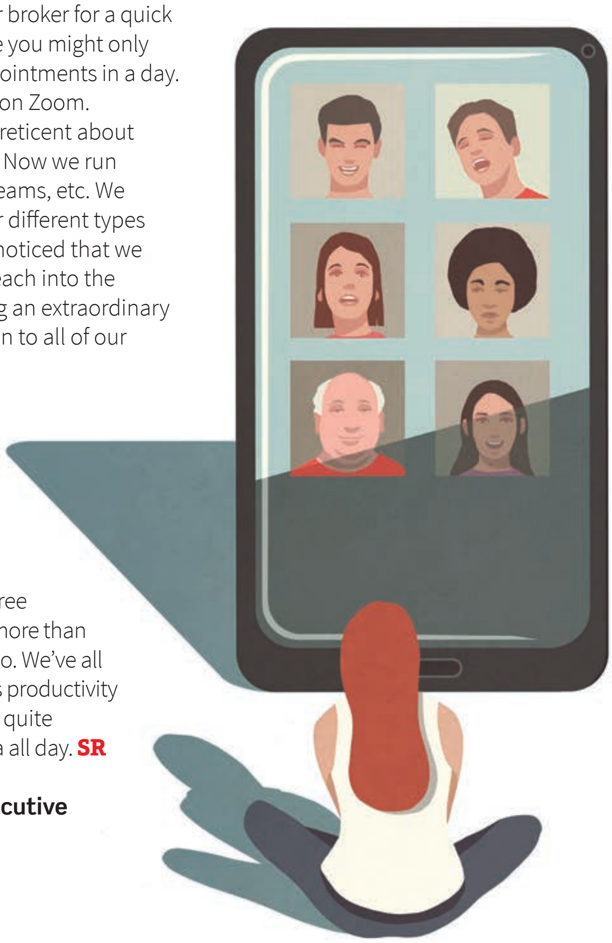
At Airmic, we were a bit reticent about running workshops online. Now we run everything on Zoom and Teams, etc. We have different platforms for different types of discussions. We've also noticed that we have got a deeper, richer reach into the membership. We are seeing an extraordinary number of people dialling in to all of our digital events.

Members are enjoying it because it's such a small commitment, dialling in for an hour compared to taking half a day out of their diary. We're up to 16 or 17 special interest groups, meeting three times a year. Which is a lot more than we ever used to be able to do. We've all adapted and in a lot of ways productivity is up, although it can all be quite exhausting being on camera all day. **SR**

John Ludlow is chief executive of Airmic.

"RECESSIONS MEAN CUTTING COSTS BUT THEY ALSO GIVE PERMISSION TO ACCELERATE STRATEGIC CHANGE."

CEO, Airmic
John Ludlow



Enter the captive

A pandemic-only risk solution prepares for the crisis behind us, not the ones that are coming, says AMRAE president Oliver Wild. Future solutions need to be multiple, and adaptable. This is where captives come in.

This summer, AMRAE participated in a roundtable with the French government to discuss what a risk solution would look like for pandemics, or even non-damage business interruption or exceptional risks.

We were able to clarify a lot of aspects in terms of whether it is useful to create a pandemic solution or something extending to exceptional risks. That was one of our key messages: If we create a pandemic or catastrophic fund, we're building a solution for the crisis that's gone and not preparing for the future. We need something that is broader, to help companies survive any exceptional crisis effectively.

The other message that was integrated into the report is the fact that there is not one solution for all businesses. When you opt for a solution like the pandemic fund, it is not for large businesses, which are able to determine their potential losses and in a first step, work on adapted solutions with self insurance, captives and the insurance industry. A fund solution is more appropriate to small to medium businesses. So we emphasised the fact that we may need to have multiple solutions, depending on the size of the business.

Ultimately, any solution needs to be built on strong risk management. If you understand your vulnerabilities and you understand your risks, there's a lot of work the company can do itself in terms of adaptation and mitigating risk before it actually seeks an insurance solution. So we made sure that strong risk management foundation was included in the government's proposed structure. That thought process was critical.

SUPPORTING THE CAPTIVES OPTION

If you look at an exceptional risk solution as a tower, it has a strong risk management foundation, risk mitigation by corporates, and then you get into the insurance scheme. We are strong proponents of an insurance scheme that includes the use of captives or the ability to self-fund a rainy day provision through some other form of self-insurance. Captives are a superb vehicle when it comes to looking at multiple risks because you can actually blend them into a portfolio, and so it's adaptable when it comes to the kind of crisis that we later face. It also ensures that companies have skin in the game, requiring them to have a good understanding of their risks and their risk mitigation processes. Then you're better informed in the discussions you can have with reinsurers.

"CAPTIVES ARE A SUPERB VEHICLE WHEN IT COMES TO LOOKING AT MULTIPLE RISKS BECAUSE YOU CAN ACTUALLY BLEND THEM INTO A PORTFOLIO, AND SO IT'S ADAPTABLE WHEN IT COMES TO THE KIND OF CRISIS THAT WE LATER FACE."

President, AMRAE
Oliver Wild

AMRAE is encouraging the French government to facilitate captives because currently there are very few French captives. There's a significant opportunity for the government to understand why companies are setting up their captives in countries where the regulatory framework is robust, but potentially more flexible. So in our talks it was not just about thinking through how we can better insure exceptional risk, but also to say: "Maybe we should review the regulatory framework to incentivise the creation of captives locally or more generally in the European market."

Captive insurance is something that AMRAE has been pushing for a while. And with the markets hardening, the captive is a great vehicle for reducing your total cost of risk transfer. It's about being able to have that discussion with your CFO that insurance is not just a cost centre. That it can actually enhance operational excellence through risk prevention and then with financial management and governance through the captive. It is particularly important now more than ever, when everyone is reviewing their budgets in light of the crisis.

INSURERS: DON'T HIDE BEHIND COVID

This crisis has shown that the companies with good risk management practices have the most resilience. There is a recognition of the benefit of risk management, and so you may see more investment on that side. Tangible investments in prevention and risk mitigation will also put risk and insurance managers in a stronger position to negotiate in a hardening market.

AMRAE's message to the insurance market is: Don't use COVID as a reason to increase rates – pandemic was not covered, or very rarely, and so there should be very limited claims. Additionally, the insurance on offer today does not include additional covers for pandemic.

Our advice to risk managers is that at renewal they will be faced with carriers that are looking to rebalance their portfolio. And this started pre-COVID crisis. They will be asking more questions, because insurers are trying to justify potential technical increases in the premium. This is understandable, as long as it doesn't conflate issues that are unrelated – like COVID. **SR**

Oliver Wild is president of AMRAE and risk, insurance and internal control coordination director at Veolia.

We control our future

Change is hard, but so is losing your value or becoming irrelevant. Risk managers have the power to create a new dawn for their profession, says Hans Læssøe of AKTUS.

Three things are happening: Some risk management individuals, some risk organisations and the two global risk standards (ISO 31000 and COSO) are calling for more influential, proactive and pre-decision risk management.

Yet most risk managers still keep on trucking. Doing what they have always done, the way they have always done it.

At the same time, more management teams consider risk managers to be naysayers and administrative burdens with little or no perceived value add.

The world is changing faster than ever before. The requirements to be competitive and bring value in everything that you do will be increasingly important as executives reduce, outsource or even cut functional areas that are not considered to do enough for the company.

TIME FOR A PARADIGM SHIFT

When Darwin expressed “survival of the fittest” 150 years ago, he was not talking about the ability of the strongest or biggest species to survive and evolve, but of those most able to adapt to changes in circumstances. This is true for businesses as well – and as the speed of change grows, effective adaptability becomes pivotal for business sustainability.

This leads me to two observations.

First, something has to happen if the risk profession is going to be a profession going forward – and we cannot rely on the risk profession being maintained for compliance reasons. After all, it will not take much for an AI system to do it better, faster and cheaper just a few years in the future.

Second, risk managers have to drive the change themselves. No one else will do it for them. Of course, this also means that risk managers have the freedom to define how to change. So where is the direction, aspiration and strategy for what has to happen?

Paradigm shifts are hard to grasp, even harder to internalise and harder still to execute in real life. I see the need for a paradigm shift based on three steps to be taken by the risk manager. What we are looking at is not a quick fix, but a hard process of change – change in the way the risk manager sees things, the way risk managers act on things, and the way risk managers are perceived.

1 LEARN THAT RISK IS GOOD

And no, I am not talking about 'positive' risks. Traditionally, the focus of a risk manager has been to control/minimise and eliminate risk taking. To a business executive, this is nonsense. There is no such thing as making a decision without taking risks – and if there were no risks, there would be no profit/benefit to be gained.

So as risk professionals we must drop the notion of minimising risk taking, and start looking at intelligent risk taking. Racing icon Mario Andretti said: "If everything is under control, you are moving too slowly." This is true in business as well. The way some companies succeed and disrupt is to change the rules, the products, the marketing, the business model – something to establish a competitive advantage.

So change and hence risk is good. Learn to love risk taking – intelligent risk taking.

2 TALK ABOUT PERFORMANCE

Traditionally, the risk manager helps manage risks to minimise the level of exposure the company may face. By and large, within the organisation, they are the only one who cares about risks in that respect. As a risk manager, you need to do the following things:

Start learning, if you have not done so already, the language of the business. Measure risk in terms of business performance metrics and replace impact, likelihood, velocity, vulnerability and so on, with net present value, profit, return on sales, or whatever performance parameters the company is using.

Be aware, any business will have a battery of performance measures – but no one outside the risk office sees having three 'red risks' as better than having four. Counting risks adds no value to them.

Start looking at your risk portfolio and measure/analyse how these risks affect performance on business metrics. ISO 31000 states that "risk is the effect of uncertainty on objectives".

Learn to measure in performance scales and communicate performance rather than using risk-centric metrics. This is how you can more easily communicate with executives in a way they find meaningful.

3 INFLUENCE DECISIONS

Sad to say, but most risk managers are busy saving the performance of projects, actions and decisions that have already been made. This way they are, rightly, seen as somewhat reactive. In an increasingly volatile world, being reactive means being too slow.

ISO 31000 states that risk management must be integrated with decision making. Instead of deciding (implicitly or unknowingly) to take a risk and then trying to manage this – companies need to deploy intelligent (aware, analysed and deliberate) risk taking.

Risk managers have to look at how decisions are made and what they are based on. The good news is the risk manager may not need direct access to the c-suite or board of directors to succeed. They may be better at liaising with the specialists and analysts who preparing the information that will be presented to decision-makers higher up in the chain. Collaborate with these people to ensure risks (positive or negative) are duly and validly embedded in the decision material.

A competent risk manager knows which analytical tools are needed and which can support the material with Monte Carlo simulations and outcomes in ranges, rather than fixed numbers – which will never materialise in real life anyway.

The risk manager should then focus on asking: "How do we use this insight to execute and meet our targets?" All of this must be in close collaboration with the people informing the decision-makers and execution planners. Become part of the solution. Be an active, positive and hence valued member of the team that designs decisions made by those in power.

This way, you will earn your right to be heard, and your right to influence decisions and actively add value to the business. It will not be a quick fix. So the sooner you get started, the better.

Start small, focusing on a decision process or project where you most easily and effectively can make a tangible positive impact. Learn and adjust your approach to match the next step, and the next, and scale fast – you will not have the time or luxury to move slowly. The business around you is moving and changing quickly.

Now you can create an opportunity to have an impact on decision making, and to establish intelligent risk taking in the company. This way you become valuable. You will also gradually build your network as well as your insight into the company's business system and money-making logic.

"YOUR LEVERAGE IS THE WORLD'S INCREASING VOLATILITY – SO THE NEED FOR YOUR COMPETENCY IS ALSO GROWING. YOU JUST HAVE TO DEMONSTRATE YOU HAVE IT."

Founder, AKTUS
Hans Læssøe

4 INFLUENCE STRATEGIES

Once you have earned your wings on tactical/operational decision processes and projects, you may start looking at the more evasive decision processes, such as strategic design and strategy definition. You will not be granted access to discuss strategy with executives before you have proven the value of your approach and efforts.

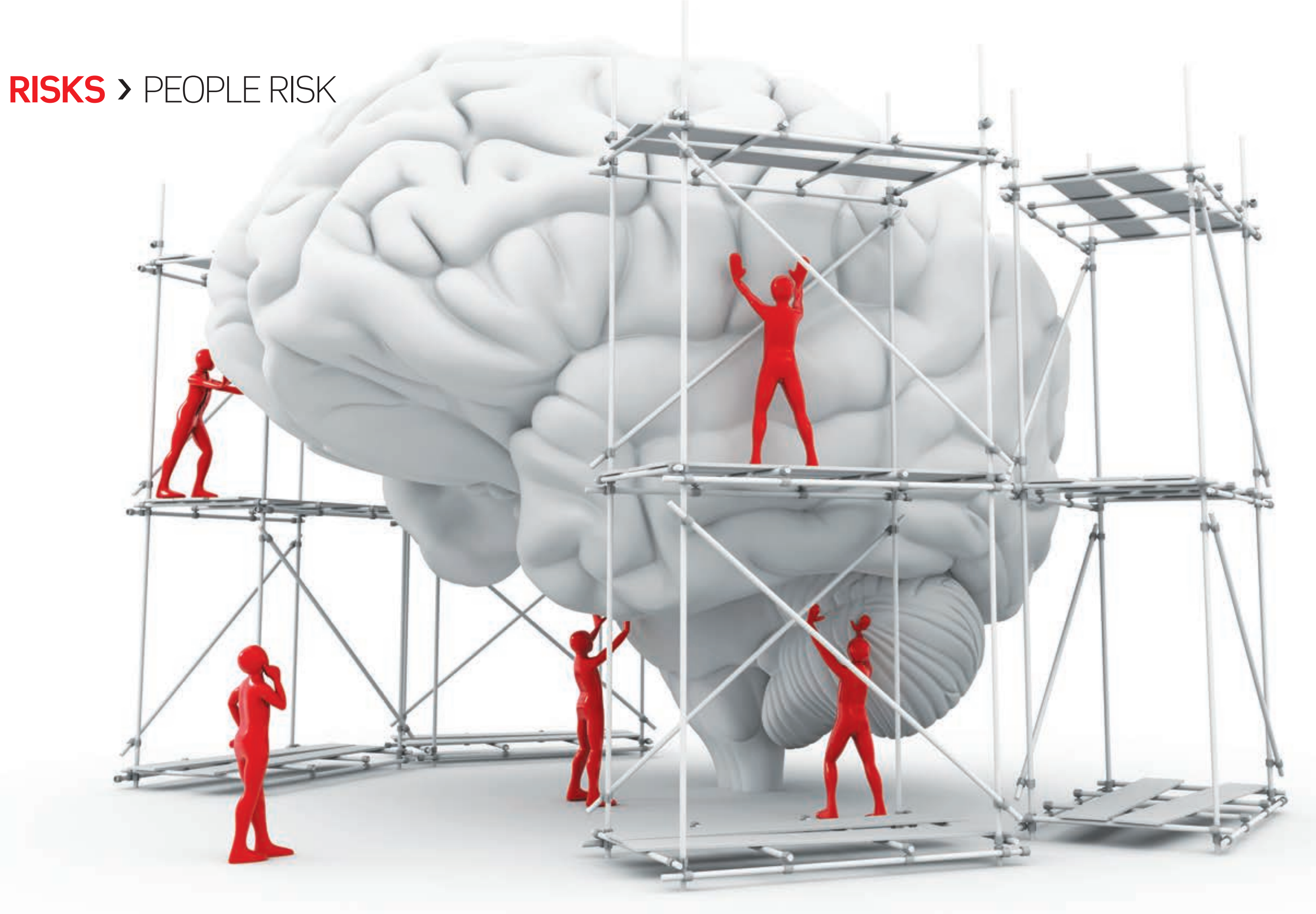
But don't worry – you don't have to. Instead, liaise with the strategy specialist/analyst team that drives the strategy definition process. Together you can shape scenario thinking, war gaming and so on, to push for a strategy that will be more resilient in a volatile future.

This may not earn you a c-suite title, but it will make you highly regarded among those who have one. Gradually, you will be adding tangible and significant value to your business, which is a prerequisite for being truly valued in your company. Your leverage is the world's increasing volatility – so the need for your competency is also growing. You just have to demonstrate you have it.

This approach needs to be developed and fine-tuned by the wider profession over the next few years. In risk, we do not have decades to get this right. The world is moving too fast.

Twenty years from today, everything will be different. There is no telling what will be safely handled by trusted AI and what we will still be contemplating and doing as human beings. It's time to act now. Good luck! **SR**

Hans Læssøe is founder of AKTUS.



Because they're happy

As companies begin encouraging staff back to work, taking care of their mental as well as physical health isn't just about being nice. Being a mindful business could pay dividends over time.

The pandemic has fundamentally changed the way we work and do business. A Studio Graphene survey of over 500 decision-makers within UK organisations found a whopping 45% of businesses said the pandemic has prompted the most radical digital transformation in their history. Forty-seven percent have migrated their offering from in-person to online, 39% have invested in a new area of technology and one in five have launched a new app.

However, these huge shifts have not been without their challenges. The sudden work-from-home order left many firms grappling with logistics and technological challenges. Meanwhile, staff struggled with fears around job security, while working parents were now trying to balance home-schooling with their jobs.

MISSION CRITICAL POST-CRISIS

Now, lockdown restrictions are easing as governments seek to protect their local economies, but the virus is still at large. And so the challenges for businesses have become even more difficult. Organisations must work out how to bring employees back to work safely, while acknowledging that many want more flexibility. Companies are also being forced to make redundancies and, in some cases, even declare bankruptcy.

Danny Wong, founder and CEO of Goat Risk Solutions, says: "When the lockdown first happened, most of us were in crisis mode, shifting operations onto remote arrangements and ensuring we could support our customers in the best way possible. But, of course, customer demand for most businesses fell off a cliff. We have gone from one crisis to another – the new focus is cashflows, furloughs and redundancies."

From a people risk perspective, organisations need to think carefully about communication with staff that are being made redundant and supporting those that remain. This is mission critical, partly because failing to manage people results in increased absenteeism, drops in productivity and a loss of talent,

"SUPPORTING EMPLOYEES' MENTAL HEALTH WILL NOT ONLY RESULT IN A HAPPIER, MORE EFFECTIVE WORK ENVIRONMENT BUT WILL ULTIMATELY LEAD TO LOWER RECRUITMENT COSTS."

Director, Well@Work
Liam Arnold

EXPERT VIEW: CHANGING SPACES TO PROTECT WELLBEING

Required safety measures in workplaces could cause feelings of isolation and anxiety for staff. Jitesh Patel, CEO of office design specialists Peldon Rose, shares some of the ways you can redesign workplaces to counteract this.

It is vital that HR and operations departments are aware of the measures that now have to be incorporated to ensure staff are safe, but this must be balanced with employee wellbeing, as many of the necessary changes run counter to this.

Ensuring partitions are clear and made of glass or Perspex will help to promote a better sense of socialisation, thus helping to alleviate feelings of separation.

Continuing staff social activity is also important but looking at doing activities outside and, even holding meetings in spaces like parks, will help to boost morale.

Incorporating design elements like 'biophilia', where natural elements are introduced to a space, also contributes to employee mental health.

Despite the need to socially distance, breakout areas will still be important going forward. Providing areas where staff can unwind and take a few minutes will be key to improving and maintaining levels of wellbeing.

but actually the risks run deeper than that. Consumers are increasingly voting with their feet, and how you conduct yourself throughout the pandemic will have far-reaching impacts on reputation – and ultimately the bottom line.

Liam Arnold, director of Well@Work, says: "Supporting employees' mental health will not only result in a happier, more effective work environment but will ultimately lead to lower recruitment costs and fewer sickness days, saving the company money!"

AKTUS founder Hans Læssøe adds: "A focus on staff wellbeing and mental health is good, as people drive businesses and make things happen. Without them, you have nothing."

And this focus will pay off in the future. Tracey Skinner, group insurance director, BT Group and Airmic chair, says: "Taking care of staff's physical and mental wellbeing will lead a company to flourish over the longer term as their staff will be more engaged and productive. Businesses that do this will be rewarded over time."

EXPERT VIEW: WE NEED TO TALK ABOUT MENTAL HEALTH

Employee mental health needs to be on the risk management agenda, says Farzana Baduel, a risk, issue management and crisis communications expert. Your reputation could rest on it.

Employees as a stakeholder group have risen in prominence due to their access to social media channels and review websites like Glassdoor to tell their stories and make their feelings known about a company and a brand. Couple that with consumers who are increasingly shaping their purchasing decisions based on how companies are treating their employees, and it is clearly vital that businesses pay close attention to staff mental health.

Help senior leadership to be seen as authentic by talking about their own worries and concerns due to uncertainty. This normalises mental health as an issue, allowing everyone else in the company to talk about and ask for help for their mental health, by removing stigma and shame.

It is also important to train line managers to spot early signs of mental health concerns, teach employees how to self-check for their own mental health, and ensure staff know whom they should contact if they need help.

TALKING TO HR

Perhaps one of the greatest challenges for risk managers is to find ways to break down the silos that can exist between HR and risk teams. Many of the issues that urgently need to be addressed for the success of the business have traditionally fallen firmly under the remit of human resources. But COVID-19 has shone a light on the importance of protecting employees' health, and the challenges of workplace flexibility.

Skinner explains: "HR have traditionally focused on the 'softer' areas around wellbeing and risk around the 'harder' areas of hazard risk. But there is a very good reason to join together in the management of people risk, not least for management of the pandemic and returning to work."

Emmanuel Fabin, insurance manager at TSB, adds: "The global pandemic and subsequent lockdown has shown the rapid nature of change in the work environment and how adapting is key to mitigating the impact on business and employees.

"In times of uncertainty and vulnerability, effective risk management has a fundamental role to play. Employees are the key resource of an organisation, and any exposure that could impact a company's key resource needs to be prioritised and managed."

Of course, breaking down the silos between HR and risk is far from straightforward. Often it can feel like you are speaking separate languages. Goat Risk Solutions' Wong says: "As you would in managing any type of risk, I suggest trying to articulate the risk in the form of a problem statement. Staff wellbeing and mental health is an obvious potential risk area given the current situation and the consequence is on performance, engagement, absenteeism and the possibility of employers' liability claims."

"I advise clients to apply a performance management approach, something our HR colleagues are experts in. In this way, we are explaining risk to our HR partners in a way they understand." **SR**

Staying safe… and well

As lockdowns begin to ease, *StrategicRISK* spoke to EuroChem's group head of risk Alex Sidorenko and chief human resources officer Viktoria Chervatyuk about their joint game plan for the months, and challenges, ahead.

WHAT CHANGES HAVE YOU HAD TO MAKE TO PROTECT STAFF WELLBEING DURING THE CORONAVIRUS PANDEMIC?

VIKTORIA CHERVATYUK: Our people are our most valuable asset. From the outset of the pandemic we have taken closely coordinated steps to ensure that every single one of our 28,000-plus colleagues has easy and sustained access to PPE, disinfectant and, of course, a safe work environment with in-built distancing.

Where allowed by law, we have taken employee temperatures daily and sent unwell colleagues home. As the world hit the peak of the lockdown in late spring, we had just over 7,000 people working from home across the world, presenting challenges to our IT systems.

We have taken sensible measures to ensure production has remained on track, and prepared protocols for stronger steps such as reducing production lines to skeleton staff and leaving reserves crews at home in case of an outbreak on site; or preparing sites to allow staff to live at work for extended periods if there is an outbreak in their town.

Highly coordinated communication and the need to guard against complacency are essential as people begin to tire of all the restrictions ahead of potential second waves and new spikes.

HAS THE PANDEMIC MOVED PEOPLE RISK UP THE AGENDA FOR RISK MANAGERS?

ALEX SIDORENKO: The last few months have certainly adjusted our interpretation of the probability of events and made many reassess the impact pandemics have on business objectives.

Staff wellbeing is already on top of our risk agenda. COVID-19 proved that risks are highly correlated and we need to manage people risks, while at the same time think about market, liquidity and logistical risks. In a way, the better we manage business risks the more time and resources we have to protect our people.

WHY IS A FOCUS ON STAFF WELLBEING AND MENTAL HEALTH GOOD FOR YOUR BUSINESS?

CHERVATYUK: You've touched upon one of the core elements of my work, though I'm not a fan of viewing wellbeing through the lens of business needs or commercial goals.

The physical wellbeing and mental health of EuroChem people are crucial because we want people to be well. Period. We want them to feel good and be healthy. We want people to be safe and happy at work, and to take care of themselves and each other. If we focus on this, then we receive in return a myriad of benefits, one of which is the positive effect on business. Wellbeing naturally translates to the bottom line.

Perhaps the most important effect is that people are more likely to be safe at work if they are fit and healthy, physically and mentally. And if you can work safely in confidence, you are more likely to be productive.

We find that by striving for a healthy work environment – in all senses - we gradually build armies of positive people in our communities. In this context, we find less difficulty in hiring and retaining top talent, which can be an issue at some of our remote locations.

HOW CAN RISK MANAGERS AND HR DEPARTMENTS BETTER WORK TOGETHER TO ENSURE THAT PEOPLE RISKS ARE ADEQUATELY MANAGED?

SIDORENKO: We take a number of steps in this regard, perhaps the most fundamental of which is integrating risk management competencies into staff education at all levels, and leveraging corporate online education platform to distribute risk management content.

Risk features prominently across internal communications channels, and through the efforts of HR, all departments are instructed to systemize the integration of risk management into all major decision-making processes.

Also, as Viktoria states, we like people to have fun and be safe at EuroChem! This is a central principal to my engagement approach with colleagues.

Colleagues enjoy learning about risk management through simulations involving card games or lottery scenarios, and these are more likely to stick in the mind. For instance, there's a fun four-card simulation you can do that shows how misleading it can be to follow your gut instinct. Breaking the simulation down into mathematical probabilities suddenly enables better decision-making.

Much of the success of culture change involves the willful adoption of risk management into people's daily lives, and at EuroChem we have the freedom to use the full toolkit to do so thanks to our coordinated efforts with HR. **SR**

"WE WANT PEOPLE TO BE SAFE AND HAPPY AT WORK. IF WE FOCUS ON THIS, THEN WE RECEIVE IN RETURN A MYRIAD OF BENEFITS, ONE OF WHICH IS THE POSITIVE EFFECT ON BUSINESS."

Chief human resources officer, EuroChem
Viktoria Chervatyuk

RESILIENCE MEANS INTERRUPTING BUSINESS INTERRUPTIONS.

The choice to be resilient has never been more important for a business to make. Today, resilience means choosing a different approach to insuring your commercial property. Above all, it's choosing to navigate the business, personal and risk complexities you face to ensure you move your business forward. Which is why Resilience is a Choice.

RESILIENCE IS A CHOICE.

FM Global

From big skies to big city

Navigating a path from aviation to finance, Sara Byrne is using her expertise managing the ultimate risk – one that can be life or death – to steer risk culture in the Hong Kong banking sector.

Sara Byrne has taken an unusual route into the risk management profession. The regional head of operational risk, property, for Standard Chartered began her career in her native Australia as a flight instructor.

Byrne started flying at the age of 15 and gained her licence aged just 16. In her home city of Brisbane, she took to the skies with her father and developed a long-lasting love for aviation. "It was something I could do with my dad, and when it came time to pick a career path, I ended up in that world."

After a spell as an instructor, Byrne's journey into the risk management sector began when she joined airline Virgin Blue as a flight operations and technical support officer. She spent several years at the company, later as a flight standards coordinator and airside standards advisor, dealing with safety and standards issues.

"At Virgin Blue [now part of Virgin Australia], my first role was writing programmes for pilots and running simulators, similar to what I'd done in the instructor world. I then moved across various roles in the company. Airlines are very risk-focused. At an airline, the main issue is safety. The work is risk management."

Sara says her time in the skies also helped her lay the groundwork for a career in strategic risk. "When you learn to fly, you're making risk-based decisions on the information you have in front of you. My time flying definitely helped cement a risk methodology."

A FLYING START

Byrne eventually left Australia and Virgin to work for Hong Kong flag carrier Cathay Pacific as an in-flight safety and standards manager, and then Jetstar, working in several safety, security and risk roles. She rejoined Cathay Pacific for a second spell, holding the role of group safety resilience manager until early 2019.

"The aviation sector has always been very risk-based, managing legal and safety requirements. The technical side was very ingrained." At Cathay, Byrne fostered a culture of independent and critical thinking around risk. Staff were encouraged to follow risk management processes, but in difficult situations to be creative in order to achieve the best outcomes for the company and its passengers.

LANDING IN HONG KONG

Between 2014 and 2017, Byrne studied for an MBA, with the aim of moving out of the airline sector into the broader risk management industry. But she met some barriers on the way, with companies and recruiters wanting specific industry experience.

"I'd been in the aviation industry for some time and wanted to do something different. I saw there was a different way to demonstrate my skills, and that they were transferable to other sectors. Eventually, I came across my current employer in the financial sector, and a boss who wanted someone from outside of the banking industry." That employer was in Hong Kong, at one of Asia's leading financial institutions, Standard Chartered.

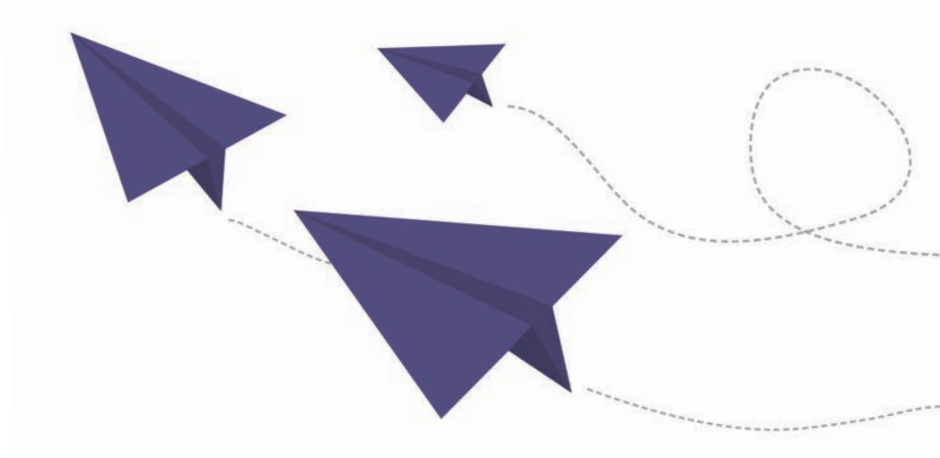
She believes there are many parallels between risk management in the aviation sector and the financial world. And there are plenty of lessons that finance can learn from the safety-first airline industry.

"I've found in banking, while there are lots of layers of defence and there are operational risk methodologies, people struggle to articulate the risk they are trying to mitigate. You need to be very specific about the worst foreseeable outcome of a hazard and be clear on what you need to do to mitigate it. It's about having better risk language and understanding the difference between a hazard and a risk. When you're in front of auditors or compliance, make sure you're using the right words."

In her banking role, Byrne is excited about bringing in the concept of 'Just Culture', promoting a more collaborative approach to risk across the business. She wants front-line staff to express potential concerns and

"WHEN YOU LEARN TO FLY, YOU'RE MAKING RISK-BASED DECISIONS ON THE INFORMATION YOU HAVE IN FRONT OF YOU. MY TIME FLYING DEFINITELY CEMENTED A RISK METHODOLOGY."

Regional head of operational risk, property, Standard Chartered
Sara Byrne



employees to “balance accountability with learning”.

“Companies set people up in a system to do a job, but we know those systems aren’t perfect. If we only look at the last layer of defence – people – and don’t look further upstream at how the error occurred, we are never going to fix the problem. The concept is very big in aviation. If there’s a heavy landing, and the crew don’t tell people, they put the next flight at risk. So you’re encouraged to put your hand up.”

CULTURE OF ACCOUNTABILITY

So how does Just Culture work in banking? Byrne explains: “It looks at how we set individuals up for success. Or failure. Are we getting them to do something they are not trained for? Are our processes unclear? Is our training ineffective? It’s not a silver bullet, but it will hopefully lead to more effective risk mitigation, as we will not just be focused on the last line of defence but all layers of defence.”

Culture is a key concern in the Asia-Pacific financial sector in 2020, with increased regulatory focus on banks, and poor conduct highlighted by Australia’s Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

“The Royal Commission talked to culture as one of the reasons the financial institutions ended up where they were,” Byrne notes. “You need to create an environment in your organisation where you set people up to do the right thing. That is exactly what Just Culture aims for, with accountability and learning.”

“YOU NEED TO CREATE AN ENVIRONMENT WHERE YOU SET PEOPLE UP TO DO THE RIGHT THING. THAT IS EXACTLY WHAT ‘JUST CULTURE’ AIMS FOR, WITH ACCOUNTABILITY AND LEARNING.”

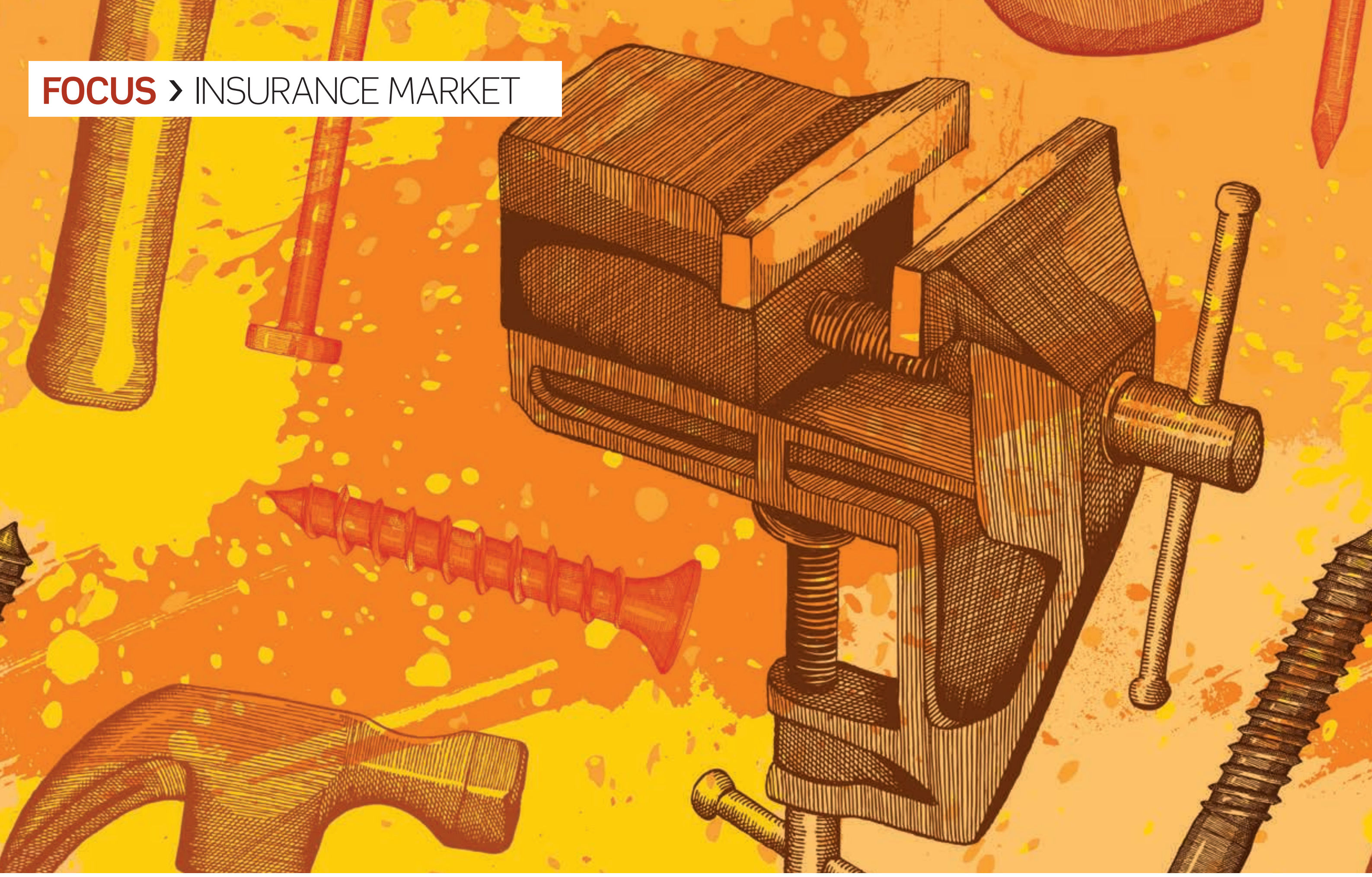
Regional head of operational risk, property, Standard Chartered
Sara Byrne

“In the aviation industry, it is regulated that you have a Just Culture, because there’s loss-of-life risk if a pilot or crew member does something and doesn’t tell someone. In the banking world, we’re not talking about loss of life, but we are talking about loss of revenue, money, confidence. They’re also very important.”

Byrne would like to see a shift in corporate approach to risk. “We’re not here to police; we’re here to help businesses achieve objectives. We navigate that space between production and protection. We help businesses find out what the boundary looks like, and they should leverage that capability.

“Other areas, like legal or compliance, don’t have as much flexibility as us. But in risk, we navigate that space. If we’re brought into conversations early, we can help inform better business decisions.”

After changing the face of risk management in the skies, Byrne is taking on the city. **SR**



Turning of the screw

A hard insurance market has risk managers in a vice-like grip, leading to calls for insurers to "sort it out" – to price more appropriately and give more notice of changes. But do risk managers also need to toughen up?

Average double-digit hikes in commercial insurance pricing and broader exclusions have tightened what was already a "harsh" market, according to Airmic CEO John Ludlow.

"The hard market has accelerated into a very harsh market and it's not just about price," he says. "It's also the exclusions going in because insurers can't model the risks."

Global average commercial insurance prices increased by 19% in the second quarter of 2020, according to the Global Insurance Market Index released by Marsh. This increase – the largest recorded since the Index was launched in 2012 – follows year-over-year average increases of 14% in the first quarter and 11% in the final quarter of 2019. The average recorded by Marsh was pushed up particularly by global property, which was up 19%, and global financial and professional lines, which were up 37%.

This year's 2020 FERMA European Risk Manager Report found there was almost universal concern by risk and insurance managers about these conditions: 90% saw limitations and exclusions of specific emerging risks, and 88% highlighted the change in market conditions.

IT BEGAN WITH DECILE 10

While conditions have undoubtedly worsened sharply in 2020, the hardening trend began several years ago, and for some the turning point was the Lloyd's Decile 10 review. Most insurers rely on some sort of Lloyd's platform to operate and the Decile 10 review, initiated by the market's then director of performance Jon Hancock, shone a light on underperforming areas of business.

"What this told the market was that there were genuine difficulties in terms of underwriting results in certain lines of business, such as international property, marine, professional and financial lines – D&Os and PI, in particular," says Alexander Chester, global placement

"INSURERS NEED TO SORT IT OUT. THEY NEED TO LEARN HOW TO MODEL RISKS, HOW TO DIFFERENTIATE BETWEEN RISKS AND HOW TO PRICE THINGS PROPERLY."

Chief executive officer, Airmic
John Ludlow

leader at Marsh UK & Ireland.

This toughened the position of insurers who were already under pressure to make changes to their underwriting approach.

"COVID-19 further strengthened the resolve of insurers to continue with this toughened stance and focus on their portfolio underwriting strategies," says Chester.

For risk managers, COVID-19 has meant that the hike in price has also been accompanied by a tightening up of the small print as insurers, reinsurers and Lloyd's syndicates looked to secure more stringent terms and conditions in accordance with their pricing models. "We are seeing insurers reacting with multiple levels of sign off, particularly on complex risks," says Chester. "All of this means a lengthening of the timeline required to secure the renewal capacity our clients need."

Capacity is also retrenching on some lines. There is a near absence of cover for non-damage BI, which is critical to resilience in case of systemic risks such as pandemic or widespread cyber attacks. All of this leaves some risk managers complaining that insurers are making a tough situation tougher.

"I think [insurers] really do have to face the charge that they are not giving enough notice of changes in lines they're covering, whether that's in terms of the coverages they're giving, the exclusions, their pricing," says Airmic's Ludlow. "We began saying to people earlier in the year that they needed to start their renewal earlier. And they do, but you're still not going to get an answer until one minute past midnight. So it's not very customer friendly."

"[Buying insurance] feels very transactional and, frankly, I think insurers need to sort it out. They need to learn how to model risks, how to differentiate between risks and how to price things properly because the way they're going customers are finding other ways than insurance to spend their money."

"COVID-19 FURTHER STRENGTHENED THE RESOLVE OF INSURERS TO CONTINUE WITH THIS TOUGHENED STANCE AND FOCUS ON THEIR PORTFOLIO UNDERWRITING STRATEGIES."

Global placement leader, Marsh UK & Ireland
Alexander Chester

RISK MANAGERS MUST TOUGHEN UP

Others point out that tough market conditions have also been compounded by a lack of preparation by risk and insurance managers, who have had it too good for too long.

Insurance buyers may have been lulled into a false sense of security by a prolonged soft market. "I'm part of the older generation now, and most of my colleagues have never seen a hard market," says Alexander Mahnke, president of German risk management association GVNW. "They don't know how to deal with it, how to prepare and how to negotiate."

But all risk managers need to act now and find ways to help their employers. For some, the increased amount of risk data now available may present an opportunity to improve the accuracy and efficiency of risk analysis and use that for leverage when purchasing insurance.

"Data analysis and visualisation and even AI is producing information that can interact with insurance products for more accurate coverage," says Dirk Wegener, president of FERMA. "Risk managers are doing more than ever before to collect and analyse data, and they need to build further skills."

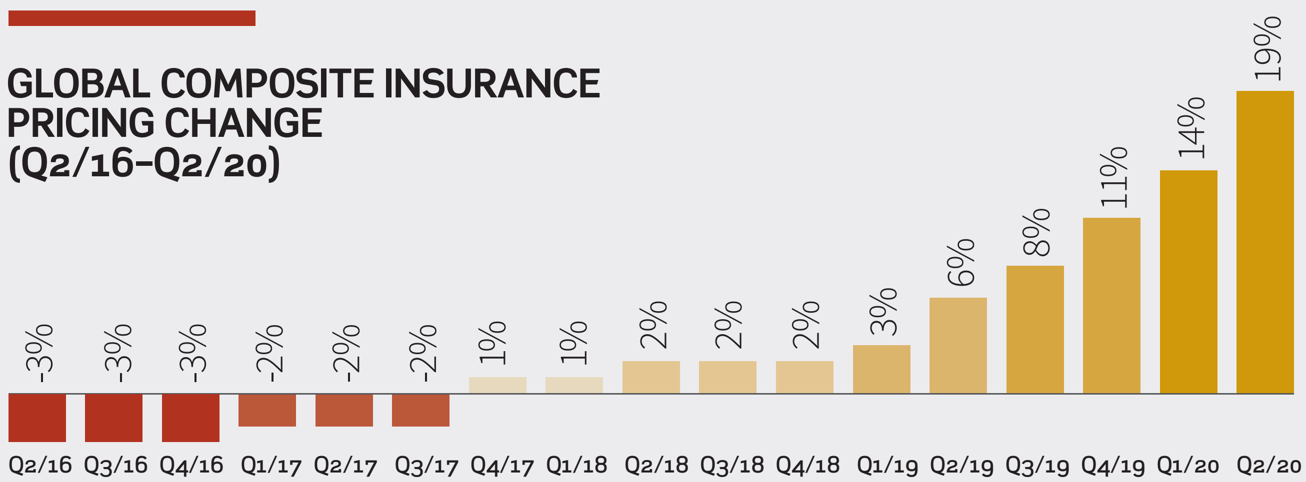
But, in the end, better working practices can only take you so far if insurers have cut their capacity or pushed prices beyond what's affordable. This may mean turning to new markets that might not understand your business. And here the role of the broker becomes vital. "What makes a good broker is someone who can be more technical and more knowledgeable than the insurers even, so they can adapt according to the conditions," says Mahnke.

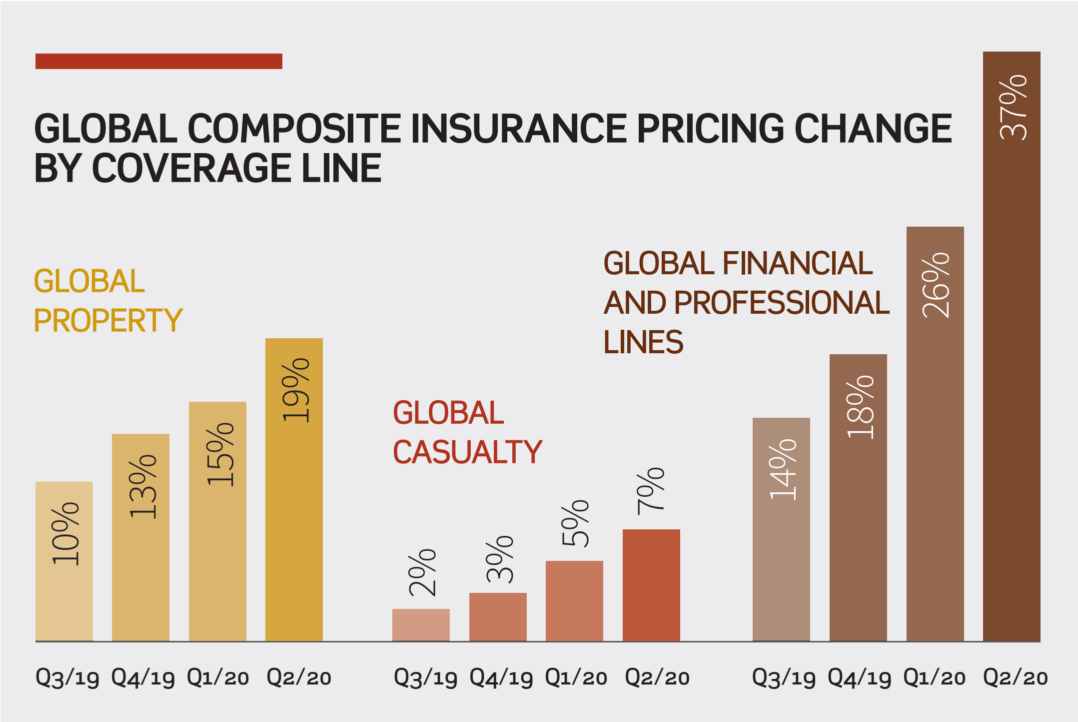
According to Marsh's Chester, in a hard market that means following a placement strategy that creates competition in the market on behalf of clients, setting a strategy that has an A plan and a B plan, anticipating challenges and talking to the client about developing a response in advance.

"It's also very important to manage the timeline effectively and make sure that the flow of information to the underwriters happens when it should, particularly in the environment we are in at the moment where face-to-face meetings aren't always possible," Chester says.

"The most important work we do takes place before we go to the market and we are spending more time with clients than ever discussing high-quality

GLOBAL COMPOSITE INSURANCE PRICING CHANGE (Q2/16–Q2/20)





underwriting submissions and marketing plans, what engagement with insurers is required and how we intend to go about this. We are reviewing their plans, and looking at what they can give up and what they need to keep."

And finally, with risk becoming an increasingly key consideration as corporate strategy adapts to a rapidly changing – and increasingly risky – world, risk managers must help their CEOs and CFOs to understand the strategic role that insurance can play in meeting corporate objectives. They should see it as part of a business's strategic decision-making, not just a transaction to provide insurance.

"The big advantage risk managers have is that they operate at the interface of all the risks the company faces, and they should use that," advises Mahnke. **SR**

"I'M PART OF THE OLDER GENERATION NOW, AND MOST OF MY COLLEAGUES HAVE NEVER SEEN A HARD MARKET. THEY DON'T KNOW HOW TO DEAL WITH IT, HOW TO PREPARE AND HOW TO NEGOTIATE."

President, GVNW
Alexander Mahnke

CAPTIVES: LOOKING AT THE ALTERNATIVES

Risk managers are keen to find other options for their more unusual risks to avoid the harsh prices and changing terms imposed by the current traditional insurance market. Are captives the answer?

With the hard market leading to price increases, and restrictions in terms and conditions, more risk managers are turning to captives as a way of flattening out the highs and lows of the market. "We're seeing more enquires about putting more risk into captives," says Owen Williams, manager, Captive Centre of Excellence, AXA XL. This was already the trend before the pandemic, as shown by the 2020 FERMA Risk Manager Survey.

Nearly half the respondents said they would use alternative forms of risk transfer (46%) and a similar number (43%) said they were likely to increase the use of an existing captive or start a new captive to deal with risks that are difficult to place commercially.

"They are what I call risk incubators," says Williams, "and they can be an efficient tool to transfer emerging and unusual risks, for which affordable solutions might be unavailable in the traditional insurance markets."

In addition, the data collected on these non-traditional losses can be used to identify options for better managing these risks, as well as to refine the policy terms and conditions to more closely match the exposure.

They also give direct access to reinsurers who can help with negotiating capacity and T&Cs, as well as grow their own revenue while keeping profits within the overall corporate structure. "Writing more business in a captive means that, should a large or unexpected loss occur, there is more premium within the captive to cover that," says Williams.

Of course, using a captive requires a firm to accept the portion of risk that is contained within it, but that can be mitigated by purchasing reinsurance or working with a fronting insurer who understands that risk well.

"While insurers do not give advice on the structure or governance of captives, where we can help clients is by providing an insurer's view of pricing to ensure that the premium the captive is charging is a fair commercial market premium," says Williams.

"And risk managers should work with their advisers to make sure that they can show their captive has a robust governance structure in place."

Trash and debris in the aftermath of Hurricane Irma

Climate change ground zero?

The true, devastating economic risk created by increased flooding in Florida is still under-estimated, exposing a global need for systemic shifts in the way we protect assets vulnerable to climate risk, explain Paula Pagniez and Prasad Gunturi.

The full economic impact of climate risk includes many hidden costs. And certain areas will experience these both sooner and more severely. One such place is Florida – the canary in the climate risk coal mine, due to its particular geography.

The geography of the Sunshine State – an expansive coast line, low elevation and porous limestone foundation – makes it vulnerable to flooding and makes adaptation challenging. With storm surge from hurricanes of increasing intensity and frequency projected to become more severe and tidal flooding more frequent, physical damages to Florida real estate will accelerate with the changing climate. Rising sea levels could also push saltwater into the fresh water supply and damage water management systems.

FLOODING BATTERS REVENUES

The knock-on effects could be even greater. Florida's real estate losses during storm surge from a 100-year hurricane event would be $35bn today, forecast to grow to $50bn by 2050, assuming no change in building stock. Devaluation of exposed homes could be $10–30bn in 2030, and $30–80bn by 2050. This could be even greater if climate hazards affect public infrastructure assets like water, sewage and transportation systems.

Property values and the taxes associated with buying and selling real estate make up a sizable chunk of state and local budgets. So, the very governments tasked with protecting residents from extreme weather events will have less revenue to do so because of – that's right – extreme weather.

$50bn

Florida's projected real estate losses for a 100-year hurricane by 2050.

The price or availability of insurance and mortgage financing in high-risk areas could also be negatively affected. While mortgages can be 30 years long, insurance is repriced every year. This duration mismatch means current risk signals from insurance premiums might not build in the expected risk over an asset's lifetime. This may lead to poorly informed decisions.

The insurance market will have to adapt to the risk-adjusted cost of insuring properties that now face a much higher likelihood of floods and hurricanes by pricing higher premiums for this coverage.

Even homeowners not financially distressed may choose to strategically default if their homes fall in value with little prospect of recovery. Shortly after Hurricane Harvey hit Houston in 2017, the mortgage delinquency rate almost doubled, from about 7–14%. As mortgage lenders start to recognise these risks, they could change lending rates for risky properties or even stop providing 30-year mortgages. This would further damage homebuyers and the state's economy.

GREATER RESILIENCE GLOBALLY

Research by US-based Climate Central provides a more global perspective of the impact from flooding, revealing the greatest effects will be felt in Asia, due to the number of people living in the continent's low-lying coastal areas. Mainland China, Bangladesh, India, Vietnam, Indonesia and Thailand together account for roughly 75% of the 300 million people who will be living precariously in areas projected to be affected by coastal flooding at least once a year by 2050.

In response to the scale of the myriad economic challenges presented by climate risk, it is estimated that $90 trillion needs to be invested worldwide in sustainable infrastructure by 2030, which will only be possible with a systemic shift in the way projects are financed to build resilience to climate change.

The need for societal resilience to shocks has already been made clear by the COVID-19 crisis. Investment decisions made now will either lock in a global network of climate-resilient infrastructure or a collection of exposed assets that will make social and economic activity vulnerable to climate risk.

There are three critical barriers we must overcome in shifting toward a more climate-resilient economy.

- **Incentive structures are limited by short-termism.** There is a crucial need to support longer-term incentive structures that promote resilience, such as regulation and cost of capital, in their growing efforts to foster and reward an appropriate integration of physical climate risks in investment decision-making.
- **Climate risk data and analytics is needed in mainstream finance.** Better data supported by sophisticated analytical tools is needed to properly assess and price climate risk, and to translate exposure into cash flow modelling.
- **Expertise must be shared across industries and the public sector.** A collaborative approach focused on building consensus in areas such as analytical methods and financial materiality is pivotal.

Properly pricing climate risk in financial decision-making will entail aligning investment flows towards infrastructure capable of withstanding a changing climate. Equally important will be to put in place a methodology to quantify the economic and financial risks and benefits, providing a substantial incentive for financial markets to embed resilience upfront.

With this in mind, the Coalition for Climate Resilient Investment (CCRI) launched last year with 35 institutions, including the WEF and the UK government, and $5 trillion in assets under management, and has since grown to include 53 members and $10 trillion in assets. CCRI members have been collaborating to address the accurate pricing of physical climate risks in investment decision-making to support more resilient economies and communities worldwide.

This is a good start. Alongside the physical impacts, climate change will continue to reshape every aspect of the global economy. With the stakes so high, the need to manage climate risk and support a more sustainable economy – from Miami to Kolkata – has become a strategic and financial imperative. **SR**

Paula Pagniez is director, Climate and Resilience Hub at Willis Towers Watson and Prasad Gunturi is executive vice-president, Catastrophe Analytics at Willis Re.

INVESTMENT DECISIONS MADE NOW WILL EITHER LOCK IN A GLOBAL NETWORK OF CLIMATE-RESILIENT INFRASTRUCTURE OR A COLLECTION OF EXPOSED ASSETS THAT WILL MAKE SOCIAL AND ECONOMIC ACTIVITY VULNERABLE TO CLIMATE RISK.

300m
people worldwide may be seriously affected by coastal flooding by 2050.

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Rise of parametric insurance

Parametric insurance has seen a popularity boost, as businesses look to protect their intangible assets from interruption events such as nat cats.

While property and casualty insurance for such events has been available for some time now, businesses have been turning to parametric insurance solutions as a complement to traditional insurance, drawn by the simplicity, speed and broad cover that such products provide.

Martin Hotz, head of Parametric Nat Cat at Swiss Re Corporate Solutions, explains: "Loss does not stop with direct property damage and the resulting business interruption (BI). Traditional policies are very good at addressing these situations, but there is basis risk in traditional PDBI policies, through sublimits, deductibles and exclusions. Parametric solutions are ideal to fill these gaps. Large nat cat events tend to have far-reaching and long-lasting ripple effects, to infrastructure, consumer spending, supply chains… Parametric solutions can assist in these situations, and this assistance can be provided very quickly. Studies have shown that when it comes to recovering from a large nat cat event, the quick release of funds makes them much more effective."

One of the key drivers in the popularity of parametric insurance is the increasing frequency and severity of nat cats. As they become more prolific and the risk of interruption grows, the quick and easy payout from a parametric policy is becoming more valuable.

Hotz says: "A warming atmosphere holds more energy, and with that comes the potential of more severe weather-related catastrophes. And the world's population living in low-lying, river flood, tropical cyclone or storm surge exposed areas has grown very rapidly over the last decades. The need for efficient risk transfer is clear, and we are here to make people, businesses and societies more resilient. Parametric solutions can be one way of achieving that. They are a helpful risk transfer tool as they are fast, transparent and flexible."

FOR OUR CHANGING BUSINESS MODELS

Another driver is the changing nature of business, particularly in the sharing economy. Many organisations are finding that some of their most valuable assets are not things that can be traditionally insured. For instance, taxi apps these days often do not own the vehicles that their drivers operate. Holiday let firms may not own the properties they rent out on their sites.

Businesses such as these are not well-suited to traditional property damage BI insurance by itself. If a nat cat affects assets not owned by the company, they are unlikely to be covered. Hotz says that parametric insurance, triggered instead by event occurrence, can address these gaps, allowing businesses to get a payout without needing to prove physical damage.

It can also help more traditional businesses recover from an impact to their operations. COVID-19 led to a surge in people working from home, so the state of their property and people's ability to work remotely is very business-relevant, but can be impaired by nat cats. So companies have started to purchase parametric solutions to hedge their employee assistance efforts following nat cat events. Hotz also gives the example of loss of attraction suffered by the tourism industry, where an earthquake may not cause any physical damage to the hotels, but the tourists stay away.

Parametric insurance can achieve things that are not possible with conventional insurance products. They push the envelope of insurability, eliminating all complexity of a loss investigation process and can give customers confidence when it comes to liquidity and speed of payout.

DATA YOU CAN TRUST

While parametric insurance has existed for over 20 years, it is still seen by many to be relatively new. And with any innovation there are always those that will have concerns. But Hotz says that advances in data analytics and modelling techniques have allowed for modelling of previously deemed "uninsurable" risks. Better data also means increased risk assessment certainty, allowing businesses to put sound continuity plans in place and make better-informed insurance purchasing decisions.

"There is a new world opening up, with instruments that allow us to monitor the globe on a 24/7 basis, and we are using this wealth of data for risk transfer purposes," he explains. "With this data, we can structure solutions that are more location-specific and therefore a much better proxy for the loss – where loss includes all direct and indirect adverse consequences from an event occurring. The acceptance of using independent third-party data – which typically is available within days of an event – as the basis for risk transfer, has gone up."

"This year, we settled payments from earthquakes, tropical cyclones and hailstorms within a few days of receiving notice. It is a quick, smooth, hassle-free process, so our insureds see that these products work." **SR**

"LARGE NAT CAT EVENTS CAN HAVE FAR-REACHING AND LONG-LASTING RIPPLE EFFECTS, TO INFRASTRUCTURE, CONSUMER SPENDING, SUPPLY CHAINS... PARAMETRIC SOLUTIONS CAN ASSIST IN THESE SITUATIONS, AND QUICKLY."

Head of Parametric Nat Cat, Swiss Re Corporate Solutions
Martin Hotz

Transfer, retain, finance

In this hardening market, Thomas Keist, Global Captive Solutions leader, outlines your risk financing options.

Shifting market dynamics and the COVID crisis have accelerated pressure on an already hardening market. This plus the impending recession is creating huge amounts of uncertainty, which is resulting in challenges for insurers, brokers and clients, with pricing going up and capacity tightened.

It is unsurprising, therefore, that many clients are reassessing what risks they choose to transfer or retain, and whether self-financing risks could be a cost-effective solution for them.

We see two types of clients wanting to explore self-financing. The first are those companies that are, from an insurance perspective, generally considered to be difficult occupancies in the first place. The second segment are those clients who are usually in a good position within the insurance marketplace but who believe the premiums currently charged by insurers do not appropriately reflect the risk their companies have.

Regardless of why you are considering a self-financing approach, there are four main options available.

INCREASE DEDUCTIBLES

The most obvious solution is to increase the deductibles in your insurance programme, retain the risk below that, and pay as you go. But the main downside with this is that you may have units within your group that are not cash rich or capitalised enough to bear such an increased retention or deductible. This means you could run into problems down the track, and you have to manage the claims or losses that fall within that deductible yourself, which will require greater resources.

SET UP A CAPTIVE

Captives have long been seen as a potential insurance solution for companies faced with a lack of capacity and high pricing due to a marketplace that may not adequately understand their risk or have sufficient appetite to underwrite it. A captive can provide additional capacity, controlling the type and level of risk the company retains versus what it chooses to transfer to the market. This is especially valuable in a hard market and can help to reduce cost, improve cashflow management and gain greater control over insurance.

However, captives are costly to set it up, expensive to run and there is quite a lengthy process involved if you later want to close it down.

SET UP A PROTECTED CELL COMPANY

If a company is put off by the costs involved with a captive, they might consider a PCC. With a PCC, you enter ownership into an equity 'cell' of an established cell company with all its infrastructure. You then benefit from the economies of scale of that infrastructure, which should mean you need to inject less capital.

However, you have to go to one of the established offshore cell companies, which means less ownership and direct control of the entity and more dependence on the third party 'core owner' for administration, management and governance. Also, you still need to inject some capital and you may still need to put up some collateral for the 'risk gap'.

SET UP A VIRTUAL CAPTIVE

A virtual captive offers many of the benefits of a captive without you having to become the owner of a legal entity, eliminating the regulatory complexities of the traditional set up. Instead, you emulate the financial mechanics of a captive (i.e., risk self-financing) on Swiss Re Corporate Solution's balance sheet.

In practice, this is an insurance agreement between the client and us, covering a multi-year period and financing risks over time. As the insurer, we provide coverage through the agreement and handle all solvency aspects through our existing infrastructure. Unlike a traditional captive, we pay any remaining funds through a low claims bonus to the customer. Similarly, there can be an additional premium element in case there are more claims than expected.

The first consideration before adopting the virtual captive approach is that because you have entered into a multi-year agreement, there is less flexibility to adapt coverages than with a real captive. This is because you're dependent on mutual agreement; if you have your own captive you can do whatever you want. Also be aware that because you are buying an insurance programme, there is some risk transfer involved, so you are still dependent on the risk appetite of the insurer for that remaining risk. So there are some risks where a virtual captive will not be an appropriate solution.

However, we believe a virtual captive will suit many corporates who have decided that the captive could be the right answer to their insurance needs, but who are also evaluating alternatives to avoid the time investment, cost and complexities. It is also well-suited to those businesses that are worried about exiting a captive in the future or which need to close a time gap before setting up a new captive.

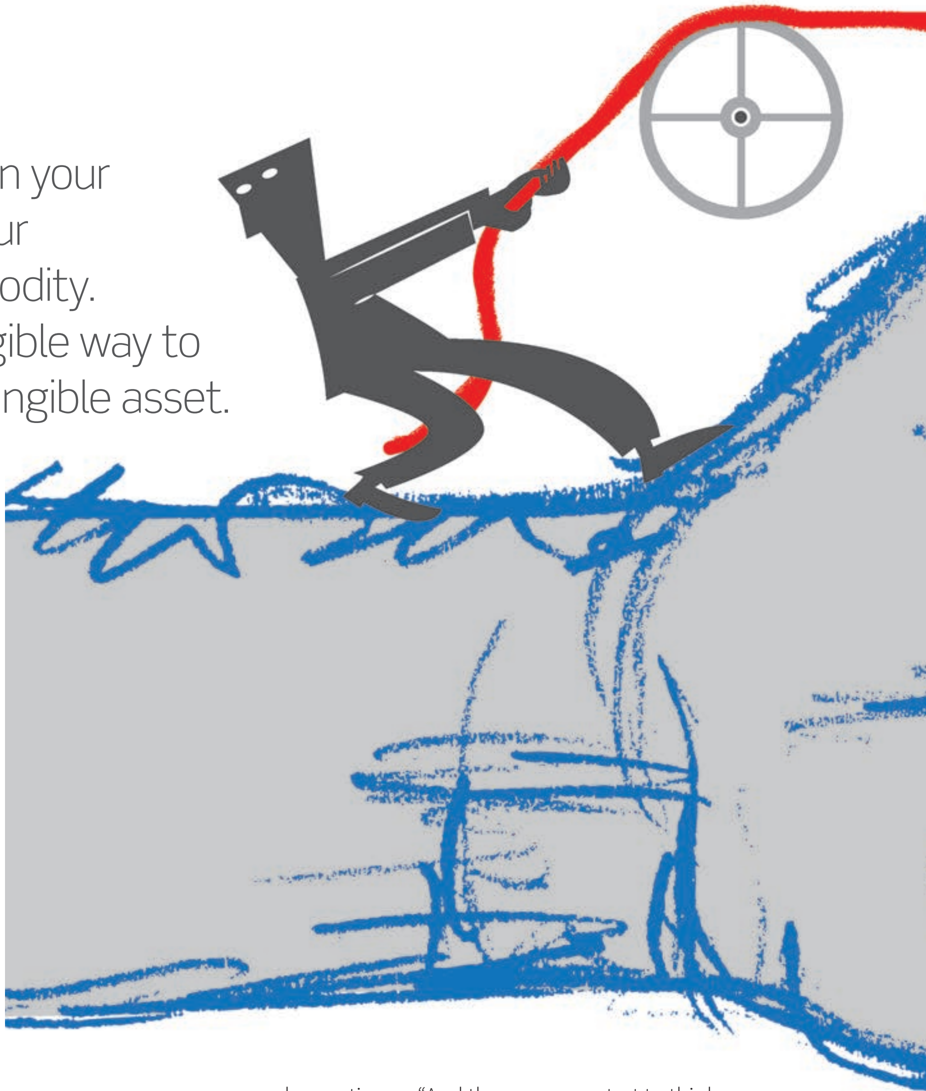
Interested in exploring virtual captives further? Join me at Airmic Fest, where I will be delving into how you can achieve the many risk financing advantages of a captive, without having one yourself! **SR**

"VIRTUAL CAPTIVE OFFERS MANY OF THE BENEFITS OF A CAPTIVE WITHOUT YOU HAVING TO BECOME THE OWNER OF A LEGAL ENTITY, ELIMINATING THE REGULATORY COMPLEXITIES OF THE TRADITIONAL SET UP."

Global Captive Solutions leader, Swiss Re Corporate Solutions
Thomas Keist

Fighting cancel culture

When one wrong move can ruin your name and your share price, your reputation is a precious commodity. But risk managers need a tangible way to manage and measure this intangible asset.



There's a popular quote from Sage of Omaha Warren Buffett that it takes 20 years to build a reputation, and just five minutes to destroy it. It has never been truer. In today's uncertain and hyper-connected world, a data breach, poor corporate conduct, toxic work culture, accountancy scandal or poorly worded tweet can cause share prices to plummet and provoke the wrath of shareholders.

As lockdown restrictions lift in many countries (despite fears of second waves), companies are faced with the challenge of keeping staff safe in the workplace and sensitively managing inevitable redundancies. Companies in the public eye are on a knife's edge and one mis-step can see their intangible assets – goodwill or reputation – diminish overnight. And, as Airmic notes in its 2020 risks and megatrends report, consumers have continued to find many corporate transgressions just as unacceptable throughout the COVID crisis.

At a time when intangibles account for as much as 85% of a company's value, according to Lloyd's and KPMG, risk managers are under ever greater pressure to measure, manage and mitigate the risks to their company brand and reputation. This year's Airmic survey ranks reputation and brand as the second-most concerning risk for its members (after cyber business interruption), having been bumped from its position at the top of the ranking a year ago.

"We're very good at measuring and managing physical assets and we're very good at measuring and managing money. And over the last 20 or 30 years, we've gotten better at managing people," says John Ludlow, chief executive of Airmic.

"What we haven't yet got our heads around is how we measure and manage reputation, IP and other intangible assets. We haven't really even gotten particularly good at measuring and managing the cyber vulnerability of our companies. That's all a black box to some extent still."

"Before you can manage the risk, you've got to be able to manage that asset in the first place," he continues. "And then you can start to think about the impact and likelihood of different events occurring."

"OVER THE NEXT FIVE YEARS, YOU'RE GOING TO SEE THE INVESTOR COMMUNITY DEMANDING REPUTATION RISK REPORTING FROM COMPANIES, BECAUSE THEY KNOW THIS IS THE THING THAT COULD REALLY HURT A COMPANY OVERNIGHT."

Chief strategy officer and co-founder, RepTrak
Kasper Ulf Nielsen

HARD TO GRASP

Just as organisations are under pressure to report on their approach to ESG, in the future, corporate reputation reporting will become standard, believes Kasper Ulf Nielsen, chief strategy officer and co-founder of RepTrak (formerly the Reputation Institute). When it does, risk managers will have to find a way to make the "intangible tangible".

"Over the next five years, you're going to see the investor community demanding reputation risk reporting from companies, because they know this is the thing that could really hurt a company overnight," he says.

Ulf Nielsen thinks it is no surprise that reputation is typically a top three concern for the risk community. "Risk managers are coming under more pressure and this is because the c-suite and board are coming under more pressure from investors and other stakeholders. But the frustration has been from within the risk

community, thinking: 'Well, we don't know how to do this because we can't quantify reputation.'"

However, this is changing. RepTrak, in partnership with risk management associations, has come up with a model that assesses an organisation's reputation as a net promoter score and integrates it into the wider ERM framework. Using the model, risk managers can then measure the potential impact of different scenarios on the business, its brand and reputation.

RepTrak describes reputation as an "emotional bond" that ensures stakeholders' support, and characterises it as a "consequential risk", in other words a consequence of an incident or error. The extent to which an organisation's reputation is harmed is then based on various other factors, including how strong or "sticky" its brand and image was in the first place, and how well and quickly it responds to the crisis.

EVERYONE MUST TAKE OWNERSHIP

Corporate communications play an important role, but in order to properly integrate reputation into an organisation's ERM framework, silos must be broken down. "One of the problems with reputation in particular is there are many facets to it," explains Ludlow.

"A brand is strengthened or weakened depending on the strength of leadership, financial returns, products and services, innovation, workplace culture, corporate citizenship. Each of those has a different owner in the corporation."

"So instead of ownership being under one person or one function, like HR managing people or facilities management taking care of buildings, everybody has got a stake in the reputation management," he continues. "You've got to have a team approach at the highest level. HR will champion making you an attractive workplace, CR will champion citizenship, company secretaries champion governance, while sales and marketing champion products and services, and the CFO champions the financials. You've got to get this team working together, agree a common framework and metrics, and work together to measure and manage the asset. And then a risk manager's got a fighting chance of saying: 'How do I protect this asset?'"

Ulf Nielsen agrees that ultimately, a successful approach to managing and mitigating reputation risk is about this ownership and collaboration. "I've seen inside some companies that have a brand and reputation strategy that is run by marketing, corporate communications and/or public affairs, and the risk people have never heard about it," he says.

KNOWING WHAT TO FOCUS ON

By speaking the same language and using the same metrics, risk managers and crisis communication experts will have a more informed response if the worst happens, he goes on. "Crisis communications will normally try to focus on products and services, but our data might tell you that you should focus more on global citizenship. It will also tell you how exposed you are to any one event compared to your competitors."

The same metrics can also hopefully assist in risk transfer. While the insurance industry has products for cyber insurance and product recall, both of which include elements of crisis management, the industry has yet to really understand insuring loss of reputation. Specialist non-damage business interruption (NDBI) style products have struggled with a suitable trigger, opting for negative media coverage, but this can be too narrow, thinks Ulf Nielsen.

The beauty of being able to measure reputation as an asset, on the other hand, means that parametric-style triggers can be used. Companies may decide, for instance, to retain losses of 10–20% of their reputation, but to take out products that would transfer the risk of more severe impacts. In the last of Airmic's fortnightly podcast series based around its 2020 report, experts from KPMG and AIG said insurers could play a leading role in covering reputation going forward.

"It is definitely an area where insurance should be more involved," said Paul Merrey, strategy partner at KPMG. "The first bit is the awareness of organisations that insurance can play a role here and for insurers to put in a bit more focus on this area, because insurance is about protecting an organisation's most vital assets."

"In developing insurance offerings, it is about better understanding of the asset values, what the triggers are, respective preferabilities, calculating the actual loss. In all of these elements, progress is being made." **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.

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

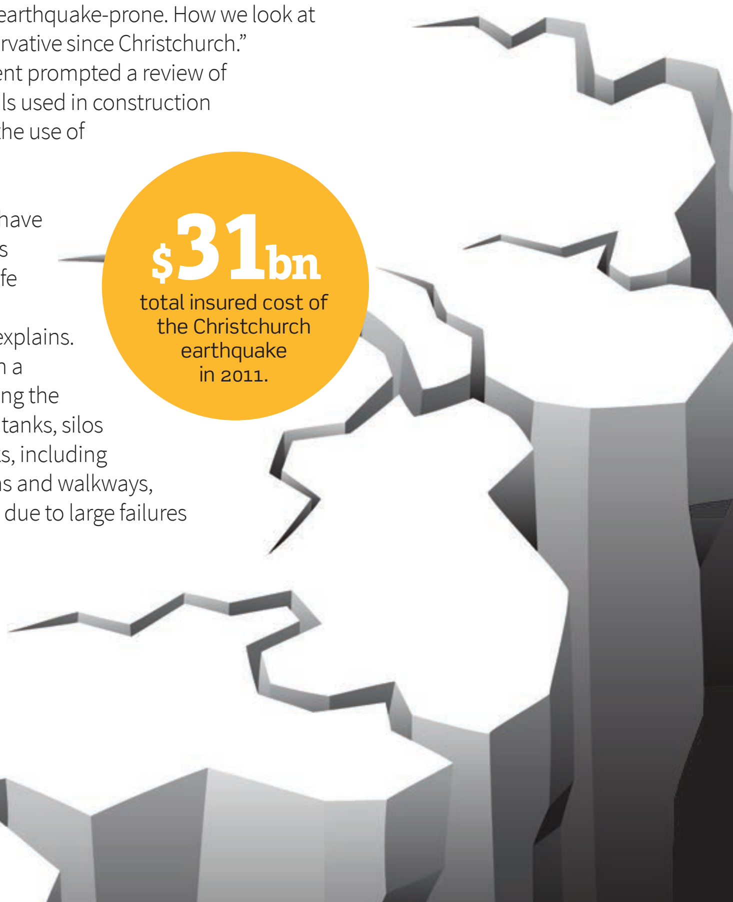
The Christchurch event was notable for a high degree of ground liquefaction, where soil turns to liquid. Beh says it helped insurers to learn more about the process and related risks. "Prior to Christchurch, it wasn't well understood. We also learned a lot about liquefaction causing lateral spreading,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

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



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.”

WHAT CHRISTCHURCH CHANGED

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.”

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

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.”

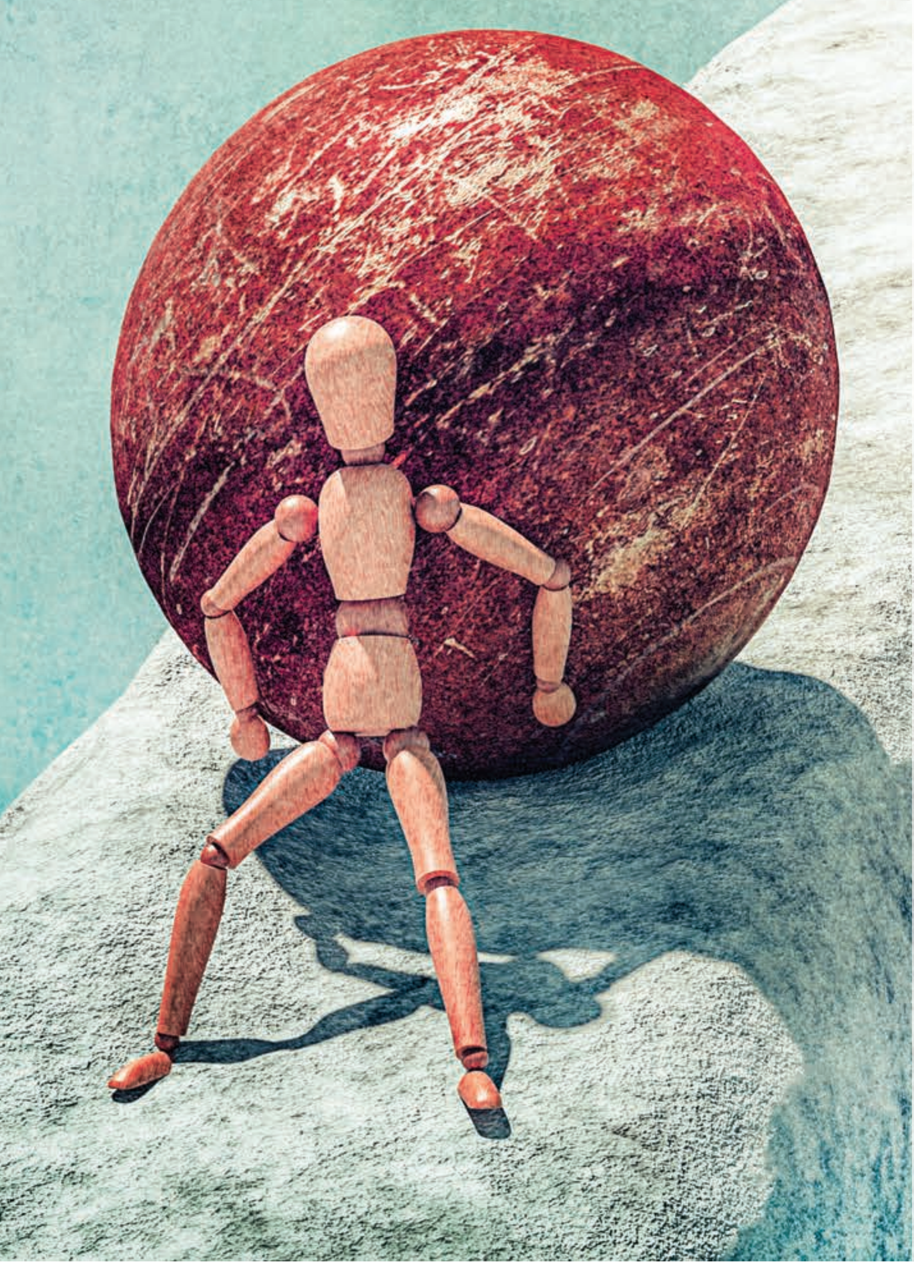
The insurance sector was criticised over its handling of the Christchurch event. But in Kaikoura, the EQC and private insurers worked in a partnership model, with insurers acting as agents of EQC, investigating and paying out on claims for customers directly. Insurers then sought reimbursements from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

Triumph against the odds

Even in the face of great disruption, it is possible to not only survive but to adapt, improve and even give back. But building this purposeful resilience starts with your people, says risk consultant Gareth Byatt.



Any organisation that has been around for a long time, no matter how large or small, has demonstrated resilience and adaptability to change. And likely never more so than during the 2020 COVID crisis. They will have coped through tough times, which will have included making difficult decisions during major disruption. They may also have maintained (and strengthened) their resilience during the good times.

There are many great examples of businesses that have demonstrated people-focused and societal purpose through the pandemic. These actions are being led by people who are innovating and finding solutions to urgent problems.

Pharmaceutical and medical businesses have donated PPE and switched their focus to collaboration in order to develop a vaccine for the novel coronavirus responsible for COVID-19. Many types of manufacturers have retooled production lines to make ventilators; clothing retailers have switched to making healthcare PPE; breweries have adapted production processes to make hand sanitiser.

The supply chains of supermarket retailers around the world are demonstrating admirable resilience, and many hospitality businesses have shown extraordinary robustness at a time of enormous difficulty.

Other examples of purposeful resilience can be seen in how businesses are addressing climate change and broader sustainability issues, natural disasters, cyber attacks, terrorism, operational breakdowns and disruption to trade or supply chains.

Organisations that have a culture and a good state of resilience have people who are adept at looking ahead, planning, anticipating, adapting, and responding effectively to events and change. These people are ready for, and often anticipate or see, changes and events occurring on their horizon.

EMPOWER YOUR TEAMS

Many actions taken now by people who make decisions for businesses will have implications for their organisation and across their value chains for quite some time. COVID-19 is raising many questions and causing shifts in thinking on the ways we can maximise resilience.

Although negative events and situations are clearly a major focus area, resilience also means responding to change in general. This includes ongoing shifts, such as advances in new technology and digitisation, data analytics, sustainability risk, complexity in our business

PURPOSEFUL RESILIENCE: CREATING A PRACTICAL FRAMEWORK

Tools and techniques that we use for risk management, and general business strategy and management, can help us understand our state of resilience and ensure it is both purposeful and appropriate.

It is worth having a practical framework for purposeful resilience, scaled to suit the size of your organisation and its context. ISO 22301 (Security and resilience – Business continuity management systems – Requirements) and the accompanying standards offer guidance for resilience and business continuity. A few examples of tools and techniques are:

1 HORIZON SCANNING

This has a natural link to scenario analysis. It includes looking at weak signals that are not immediately obvious, of possible changes and events on the horizon.

2 SCENARIO ANALYSIS

This technique adds most value when carried out regularly for a constant exploration of ideas, not as a one-off or occasional exercise. By regularly considering a range of scenarios that could put our resilience under pressure, we can ask ourselves how resilient we are and stress test our ability to respond to major changes. Scenario analysis is most effective when we think about plausible possibilities and apply them to our context.

3 'WHAT IF?' DECISION TREES

This involves plotting different paths of how events could take shape and impact your ability to respond based on different decisions.

4 STAKEHOLDER ANALYSIS

Analysing and mapping the stakeholders in your ecosystem, and understanding the resilience that exists in this map, can show you areas of strength and weakness. You can gain an understanding of which stakeholders really are critical.

5 BUSINESS IMPACT ANALYSIS

ISO 22300 describes business impact analysis (BIA) as the process of analysing activities and the effect that business disruption can have on them. It is about understanding your activities, what's critical to them and what kind of workarounds are sensible if they are disrupted in different ways. BIAs are usually used to inform a business continuity strategy.

6 BUSINESS CONTINUITY PLANS

ISO 22300 describes a business continuity plan (BCP) as documented procedures that guide an organisation to respond, recover, resume and restore itself to a pre-defined level of operation following a disruption. A BCP must be practical, not theoretical. It should be informed by a good risk assessment and high-quality BIA. It should represent your focus on people and sustainability.

How people work together to respond to disruption and maintain resilience is key. You don't want things to fall through gaps between teams.

Always ensure this technique is used in context to contribute towards your resilience strategy, and to help towards your business objectives.

environments, and the need to ensure the ecosystems and value chains that we exist in work well and can respond to change and withstand shocks.

'Purposeful resilience' starts with having a people-focused approach, empowering us to achieve sustainable outcomes and to innovate. It starts with showing trust in people, allowing them to adapt and imagine possibilities in a manner that fits with the organisation's context and their values.

Sometimes innovation is a result of what may be termed "creative desperation", when things urgently need to be addressed. At other times, it is a result of having a continuous improvement mindset.

It is not easy to maintain an effective balance of agility and control, but it is important. A starting point for understanding your true state of organisational resilience is to look at your structure, your commitment to people and their wellbeing, and to achieving sustainable and purposeful goals. Do you place people and sustainability at the heart of having a good state of organisational resilience?

Looking outside your own organisation, do the relationships you have with customers and suppliers in your value chain also demonstrate this approach? Potential vulnerabilities (which can appear and change quickly) need to be identified and addressed.

"WORKING TOWARDS A PURPOSEFUL STATE OF RESILIENCE REQUIRES AN INTEGRATED EFFORT, WITH AN AGILE AND COLLABORATIVE STRUCTURE."

Risk consultant and owner, Risk Insight Consulting, **Gareth Byatt**

RISK MANAGERS CAN BE THE GLUE

One team in an organisation (such as risk, resilience and/or business continuity) can act as a central resilience function to coordinate and bind other departments together.

It can also help to have a small advisory team of resilience practitioners to guide, coordinate and assist people with expertise and advice. But working towards a purposeful state of resilience requires an integrated effort, with an agile and collaborative structure.

Activities towards purposeful resilience should not be standalone measures that are carried out or maintained by just one function or team. They must be embedded into the regular activities of people across the organisation, and its partners.

Risk managers must be empowered to work with teams across their organisation and its ecosystem, to coordinate practical actions that make a difference, and improve the business's resilience to future shocks. **SR**

Rebuilding Beirut

People are in shock, local insurers may not have the paperwork, access is still limited – we will need to show patience and care in helping Beirut recover from its devastating blast, says Benedict Burke of Crawford & Company.

The massive explosion in Beirut on 4 August killed over 200 people, wounded many thousands and caused as much as $15bn of damage, according to officials. Rebuilding will be a huge task – and insurance is an essential component of the city's recovery, according to Crawford & Company's chief client officer, Global Client Development, Benedict Burke.

"We know what to do, but it will take time and patience," he says.

BATTLING SHOCK AND COMPLEXITY

"The lessons learned in the aftermath of the Tianjin port explosion in China in 2015 will be particularly significant in Beirut," says Burke. "Although I don't think Beirut will be as complex."

"For example, there were very significant contamination issues in Tianjin – the experience we gained in China will enable us to better help the carriers, brokers and risk managers involved in the Lebanon disaster with their response, particularly around distribution and supply chain management."

There will, of course, still be significant challenges, with third-party losses expected to range across damage to vessels, equipment and property, as well as loss of life and injury, business interruption, delay, demurrage and loss of freight.

"We are anticipating that the risk mitigation measures we developed in Tianjin will reduce both the complexity of these claims and the value of losses," says Burke. "That's not to say that there won't be significant and major claims, or significant and measure complexities. But in comparative terms they won't be as dramatic as China."

But he adds that this may change. "It's early days, and I'm speaking from experience and intuition as we are still gathering information. It's chaotic on the ground: a significant part of the city has been damaged or destroyed. There is also a security situation, social unrest and COVID-19 to contend with."

In this kind if environment, safety comes first. "Crawford & Company will not compromise the

"WE ARE ANTICIPATING THAT THE RISK MITIGATION MEASURES WE DEVELOPED IN TIANJIN WILL REDUCE BOTH THE COMPLEXITY OF THESE CLAIMS AND THE VALUE OF LOSSES."

Chief client officer, Global Client Development, Crawford & Company
Benedict Burke

"WHENEVER WE TALK ABOUT EVENTS LIKE THIS, IT'S IMPORTANT TO REMEMBER THAT THIS IS FIRST AND FOREMOST A HUGE HUMANITARIAN ISSUE FOR THE PEOPLE OF LEBANON, AND THAT THIS IS THE MOST IMPORTANT THING."

Chief client officer, Global Client Development, Crawford & Company
Benedict Burke

safety of our people," says Burke. "That being said, we have some courageous people on the ground. It always amazes me how loss adjustors walk towards danger. We also have recourse to some very sophisticated remote technology and that's a massive asset."

Even with this broad operational capacity it can be hard to gain access to the key individuals best placed to talk in an informed way about businesses and the challenges they face.

"Quite simply, they may be in shock," he says. "They may be understandably preoccupied by looking after their families. They may feel insurance can wait, for now. And in this sense complexity is not the problem, it's time."

Even when staff do talk to the insured, they are faced with untangling the complexities of the local insurance market. "We have to work with local insurers, without necessarily having access to the master wordings or the master programmes."

This means dealing with local cedents with local policies, with different terms and conditions, and different limits and coverage, which all need to be understood in order to get a sense of the potential overall exposure between cedent and reinsurer. And that takes a lot of time.

The firm has already put together a major incident response team with in-house capability, partners locally, a Dubai response hub and global client incident co-ordination from London.

"Whenever we talk about events like this, it's important to remember that this is first and foremost a huge humanitarian issue for the people of Lebanon, and that this is the most important thing," says Burke.

"And it's because of this that the effectiveness of our response is crucial."

HOW MUCH IS INSURED?

Although access to the port is still severely limited, Crawford is co-ordinating a loss response through its Dubai hub and through its head of marine in London. This is backed by several hundred Crawford Global Technical Services (GTS) adjusters and a seven-strong desktop marine TPA team with many years of experience managing marine liability claims on behalf of London market insurers.

These teams are supported by two qualified international marine solicitors.

It is crucial for Crawford to understand the mitigation methods deployed by the insured, which may well include the use of alternate ports or triggering different suppliers, explains Burke.

"What you sometimes find in this type of catastrophe is that the business interruption claim is actually more significant than the original physical damage claim," he says.

"It's vital to understand the extent to which their catastrophe plans are resilient. How much is insured? And how much isn't? Either because there was no cover, or the limits were set too low? There is still a lot to discover."

"But this is what we do. And despite the challenges we will be working with this community and helping them recover and rebuild for many months yet." **SR**

BEIRUT EXPLOSION: IN NUMBERS

2,750
metric tonnes of ammonium nitrate was detonated

200
people lost their lives

6,500
people were injured

300,000
people have been left homeless

$10–15bn
in property damage

250km
distance from the site the blast could be heard

Can we come back greener?

It may remain a challenge to convince the world that climate change is as worthy of emergency action as a pandemic. But as economies are restarting, we must seize the opportunity to embed more sustainability in the recovery, argues Zurich's John Scott.

In May, the World Economic Forum launched its COVID-19 Risks Outlook, in partnership with Marsh & McLennan and Zurich Insurance Group.

StrategicRISK spoke to John Scott, head of sustainability risk at Zurich, to find out more about the impact of the COVID crisis on sustainability and climate change-related risks. He acknowledged a balance needed to be struck between the need to maintain healthy populations as well as healthy economies.

"The key word is interconnectivity between these global risks," he says. "As we've tried to deal with the healthcare crisis and reduce transmission, we've shut economies to try to keep people at home and to keep them safe – to flatten the curve and protect our public healthcare systems. It's been very important to do that, but the economic consequences are really serious."

"Fiscal policies have protected the economies put on hold, but we can't keep them on hold indefinitely and this is the big challenge – managing the dichotomy between health and the economy. It's neither one or the other, it's got to be both."

Noting the rapid response to the COVID-19 pandemic, he said humans were hard-wired with a 'fight or flight' response when an existential crisis is an immediate threat. For a challenge such as climate change, where the impact takes a long time to unfold, the response is different.

"We're very good at running up the tree when the lion comes into the campsite, but we're not as good at dealing with things that happen slowly, and climate change is definitely one of those things. So right now we're in this situation where we're distracted by dealing with the very important challenges of the healthcare crisis and the economic crisis, but these long-term global risks have not gone away – they are still there."

"What's intriguing is that right now we're seeing significant reductions in emissions due to a reduction in travel and industrial activity," he continues. "If you go outside, everyone seems to comment on how blue the sky is and how quiet everything is."

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Head of sustainability risk, Zurich
John Scott

SUSTAINING MOMENTUM

Whether or not momentum can be retained around some of the changed behaviours brought about by the COVID crisis is ultimately down to how governments and businesses respond, Scott believes. Global movements – such as the activities of Greta Thunberg's School Strike for Climate and the activities of Extinction Rebellion – have also increased public awareness.

"We have seen changing attitudes towards working practices, travelling, meeting and consumption more broadly, and with consumer behaviour changing. All that creates business opportunities to really create and work out a more sustainable business model for all companies in all sectors."

Scott notes that the EU's 'green' recovery plan intends to accelerate its shift to a low-carbon economy. "It would be a tragedy to restart the economy as it was, without taking the opportunity of advancing plans to restart in a different way, or at least set us on the path of decarbonisation."

"We're all sensitive to it and once we're over this and recovering from this COVID-19 crisis, people will have an appetite to see a cleaner, greener and more sustainable recovery that's really focused on communities and people." **SR**