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Insurance & Risk Management News

Risk Frontiers Global 2021

Global Risk Management Survey

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COMMERCIAL RISK'S GLOBAL RISK MANAGEMENT SURVEY 2021

New year, new dawn? Or simply world weary?

The world is weary. Weary of Covid-19 and yet another wave of infections. Weary of economic insecurity and, for risk managers, weary of the hard insurance market and the toll it is taking on their portfolios but also on their relationships.

Looking ahead to 2022, many of the nearly 700 risk managers surveyed for Risk Frontiers Global 2021 reported that people risk is rising to the top of their agendas. The weariness is wearing people down, they said.

The weariness is also apparent in the risk management community as professionals report working harder than ever to help steer their organisations through the pandemic crisis and through a potentially tricky economic period to follow.

So much remains up in the air as 2021 ends, thanks in no little part to the Omicron variant of Covid-19 sweeping across the world.

Risk managers reported looking forward to 2022 in the hope that it can be a new year, new dawn, but also with slight concern that it may simply be more of the same.

The insurance markets have been challenging this year too and, again, the risk managers are concerned it may be another year before the market starts to soften once more. With insurers warning that they have not reached sustainable levels on all parts of their business, risk managers are increasingly being asked by their boards about the relevancy of insurance into the future and, at the same time, are asking themselves about the value of the relationships that they had built up over years, sometimes decades.

But there are green shoots of recovery and optimism that should not be ignored, said the risk managers, and they remain confident that they have a vital role to play within their organisations.

For now, all that is left for me to do is to thank the nearly 700 risk managers from across the world who once again spared us their time to take part in this survey, and also to thank HDI Global for sponsoring this global report.

I wish you all a prosperous new year and hope for better things in 2022.

Liz Booth
Editor, Risk Frontiers Global 2021

Strained relationship with the insurance market and rising risks dominate 2021 survey

◇ OVERVIEW

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Risk managers are yet to report the end of the current hard market insurance cycle and say that it has truly damaged the relationship with the insurance industry for some time to come.

75% of respondents believe rates will continue to harden

The Risk Frontiers Global 2021 survey, which includes views from almost 700 risk professionals across the world, showed that in terms of whether insurance rates are expected to harden, 75% of risk managers across the world believe they will, with only 14% confident that rate rises are at an end.

Broken down regionally, the worst-impacted area was Europe, where some 94% of the 350-plus risk managers surveyed reported continuing premium increases, with D&O insurance, as well as cyber, particularly hard to find.

When all respondents were asked which lines are most impacted, the risk managers broadly agreed that property damage, engineering and liabilities were heavily impacted, while many outside of Europe cited motor rates. Other areas of concern included cyber and D&O cover, as well as many other liability and financial lines.

We also asked the risk managers whether they believe terms and conditions are becoming tougher and more stringent. The global result was a much closer call.

While in Europe, 87% of those surveyed said terms and conditions were more difficult to agree this year, in Africa it was a 50:50 split between those who are seeing terms and conditions get tougher and those who have seen little change.

Rising rates have made for another difficult year and impacted relationships in the market

As a result, the global picture was that 54% are reporting more stringent terms and conditions, compared to 46% who are not.

This year, we asked whether risk managers would be looking for alternatives to traditional insurance. Globally, it was a 50:50 split between those who are seeking another option and those who are not. The 'no' figure includes those who already have alternatives – and many of those risk managers reported increasing the use of, say, their captives, or of increased retention to carry the risk themselves.

When it comes to the claims picture, some 84% of risk managers across the world reported more difficulty this year in settling their claims and said insurers increasingly argue over every word and clause, looking for ways not to pay the claim. That accounts for many of the disputes, said the risk managers.

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Again, regional differences played into the final figure. For example, in Europe 56% of respondents said claims were harder to settle, while in Africa 88% of respondents were struggling to get their claims paid. Many of those reported not just delays in payments but denials of claims and an increased number of disputes as a result, eroding trust in insurance as a concept – always a major challenge for the African continent's insurers.

91% of those surveyed said financial risk had risen

THE RELATIONSHIPS

All of this has damaged the tripartite relationship between insured, broker and insurer, agreed the risk managers.

Some 64% of them reported that the relationship with their broker was worse in 2021 than in 2020 – only 22% believe it has improved. Meanwhile, 45% of those surveyed said the relationship between broker and insurer had improved – and many reported feeling that the broker was "siding" more with the insurer than with them as the client.

The direct relationship between insurer and insured has also suffered, with 49% of risk managers reporting a worsening relationship in 2021. The risk managers blamed a mix of the hardening market but also a sense that insurers no longer cared about the long-term relationships built up, sometimes over decades, and were pushing back decision-making to head office to distance themselves from their insureds.

Interestingly, by the end of the survey, increasing numbers of risk managers said there was a glimmer of hope in that both brokers and insurers appeared to be trying harder to work with risk managers. But many of those interviewed said they were working from a fairly low base and it would take time for risk managers to forget their experience of the past two years.

THE RISKS

The survey also asked about individual risks, building on the results from previous years surveys.

> "Human resources risk has also risen up the agenda, with the pandemic highlighting the need to take care of the workforce"

Some 98% of risk managers worldwide cited cyberattacks as a growing risk in 2021

For the first time in a long time, 71% of risk managers reported that political risks had not worsened this year – maybe as a result of the Brexit situation finally being resolved, maybe because more people were concentrated on the Covid-19 crisis, or maybe because there were fewer contentious elections, particularly across Africa.

Other risks took central stage in 2021 instead and many of those are expected to continue to be a rising threat into 2022. Overall, 91% of those surveyed said financial risk had risen – in Africa 100% of those surveyed reporting it as a growing risk. Exchange rate risk was up too – again driven by 100% of Africans who considered this a growing risk.

They reported balance sheets were impacted by a worsening currency exchange rate against the US dollar and that some central banks took dramatic short-term steps to protect their currencies, including shutting down foreign exchange facilities.

Human resources risk has also risen up the agenda, according to 75% of those surveyed globally, with the pandemic highlighting the need to take care of the workforce. The risk managers are worried about the existing workforce, particularly as yet more Covid-19 lockdowns roll out across the world, courtesy of the Omicron variant.

But they are continuing to worry about staff retention and recruitment, including of risk management professionals, as they said Generation Z looks for new ways of working and in completely new jobs.

But the biggest perceived risk was cyber, with 98% of risk managers worldwide citing it as a growing risk in 2021. Questioning some of the respondents, the results were very clear. The pandemic had driven cyber threats upwards as people worked from home and organisations were left struggling to make changes and ensure security of their networks.

The pandemic, said the risk managers, had also opened the eyes of senior management to the very real threat of a cyberattack, while some headline events, such as the Colonial Pipeline incident, only served to heighten the awareness that this was a risk that could happen to anyone.

RISK MANAGEMENT

Risk management itself is seen to have benefited from the pandemic, in that risk managers from across the world reported receiving more attention from senior management. While in some of the mature markets risk managers felt they already had a senior role, there was also a feeling that risk managers

> **"Many risk managers** reported that they were no longer seen as the 'no' people and were instead being appreciated for bringing sensible, balanced advice to the table"

had also had to prove their value through the crisis.

Overall, 68% of risk managers surveyed said the Covid-19 pandemic had changed their organisation's approach to risk management. The good news is that 96% of risk managers said the pandemic had provided a boost for risk managers and pushed risk management up boardroom agendas.

Many reported that they were no longer seen as the 'no' people and were instead being appreciated for bringing sensible, balanced advice to the table. Some reported that their board was now bringing them into development conversations at an earlier stage and were increasingly interested in the enterprise-wide risks that the risk managers could tackle.

In terms of lessons learned from the pandemic, the risk managers agreed that one of the most valuable lessons had been around people. Organisations could not afford to ignore their greatest resource.

There is also growing concern that, as one risk manager put it, the risk of ill health is "like an iceberg and we have only just started to see the tip of it". He, and many others, worry that there could well be a healthcare crisis in the years ahead as the impact of the pandemic hits, particularly around mental health. Staff may burn out or already be struggling at home, unseen.

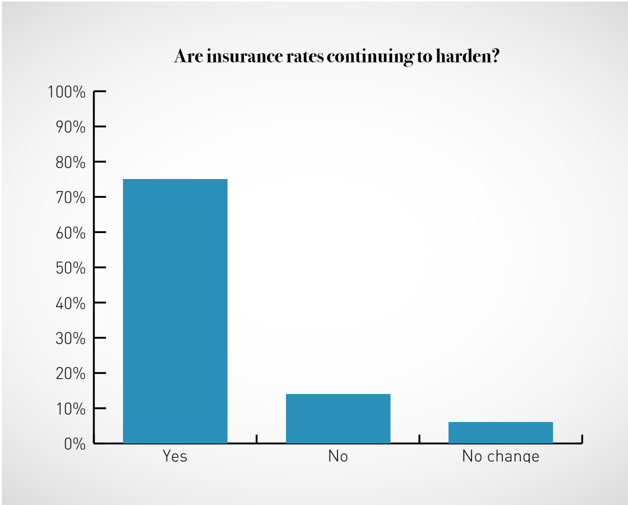
There was also concern that any organisation that is not perceived to have 'done right' by its people will struggle to retain and recruit people into the future. That is a risk highlighted by the pandemic and one that continues to concern risk managers.

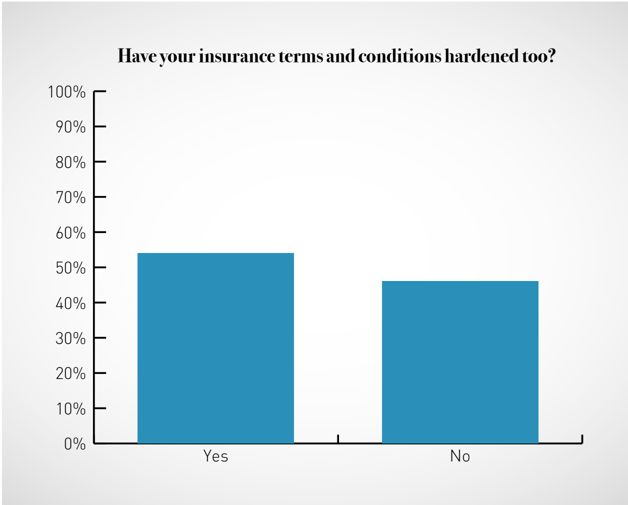
As the Omicron variant threatens populations once more, risk managers are worrying about the longer-term impact. Many of them expect to see a lot of movement in the job market as we finally emerge from the pandemic – something that is both a threat and an opportunity.

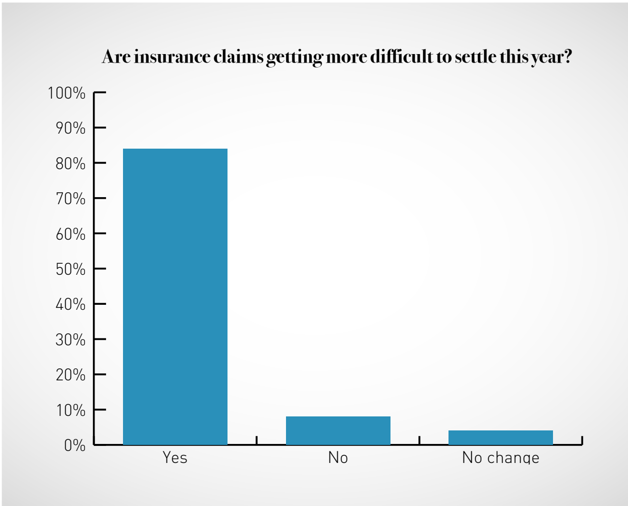
Overall, in 2021, as in the years before, risk managers reported that there is plenty that has kept them busy through the year and they believe that 2022 is likely to be just as challenging.

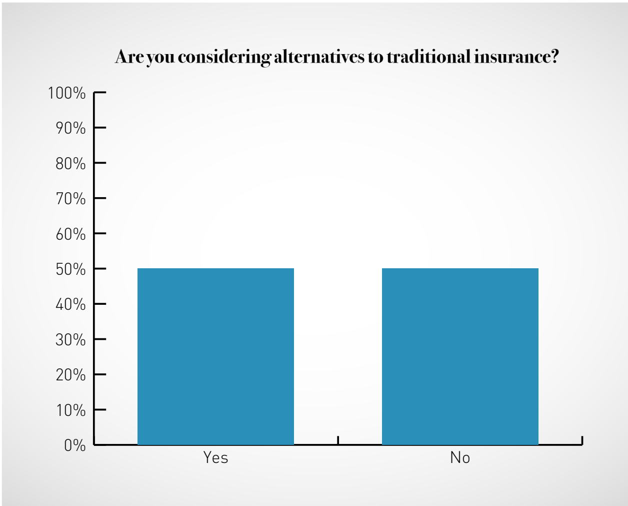
As the Omicron variant threatens populations once more, risk managers are worrying about the longer-term impact

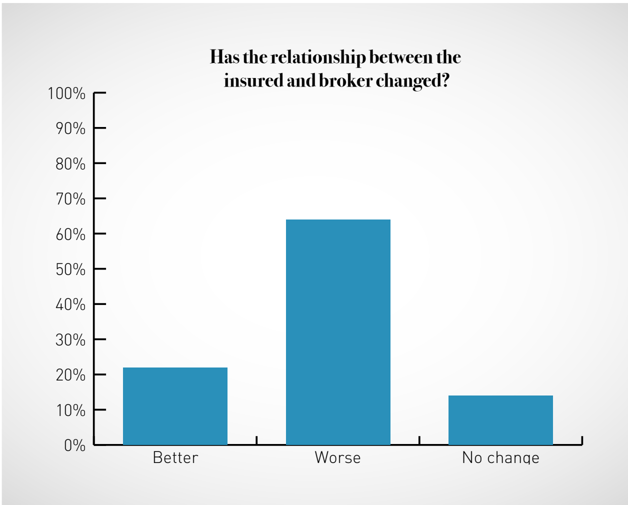
The global numbers: 2021

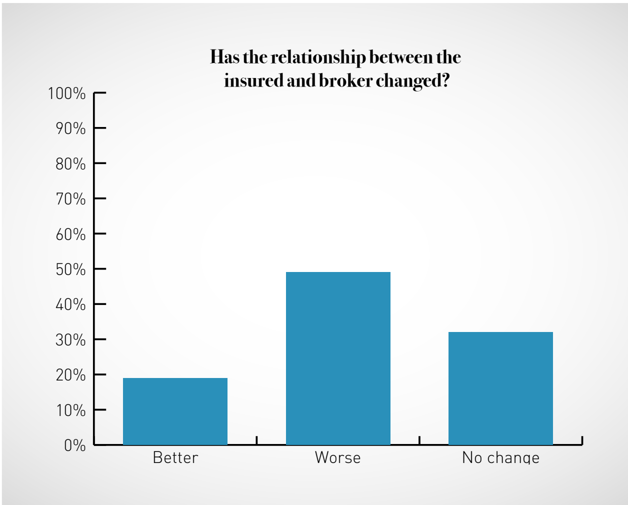




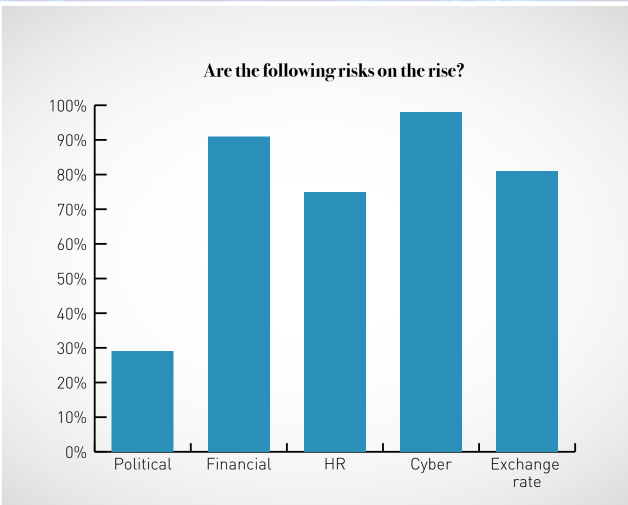


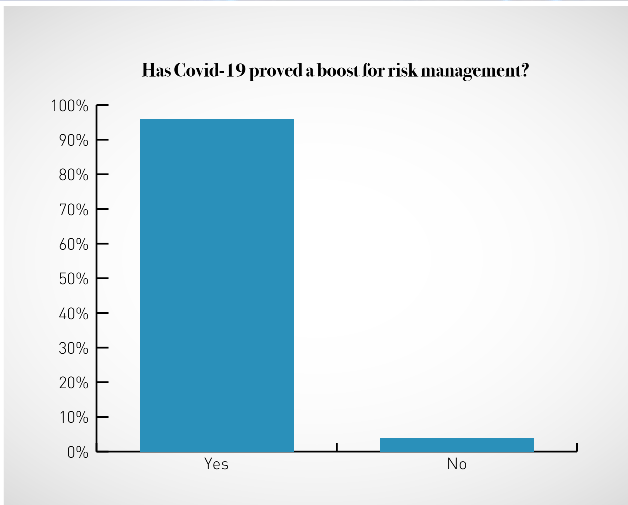






84%
said claims have been getting more difficult to settle this year





Moving forwards together

In a hardening insurance market, HDI Global's focus on working in partnership with brokers and risk managers on an individual basis has proved key to being able to maintain the provision of appropriate and affordable cover, says Dr Edgar Puls, CEO of HDI Global

Edgar Puls says HDI's direct and personal approach has strengthened relationships

◇ RISK TRANSFER

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The insurance market is going through a period of much-needed correction after 15 years of inadequate rating, according to Edgar Puls, CEO of HDI Global.

"Looking at our book of business, those conditions meant we were consistently paying out more for losses and costs than we had been getting in in premiums. And with a number of headwinds – including inflated claims costs, changes in claims severity and heightened nat cat activity – this just was not, and is not, sustainable," he says.

"We needed to recalibrate our global book," adds Puls, something that market conditions enabled the insurer to start to address two years ago.

"Our approach has not been a one-size-fits-all one, but a process of recalibrating each and every risk on an individual basis in a transparent and open process, working with our clients, their risk managers and brokers, to review each individual risk," he explains.

The reality is that price increases or a reduction in the scope of coverage are rarely an occasion for customers to celebrate, concedes Puls. "We therefore needed a lot of transparency and many, many conversations with customers. And to be honest, I think that in many ways our direct and personal approach has actually strengthened these relationships."

Closing the gap between premium level and risks is not an overnight fix however, adds Puls, pointing to ongoing trends that are increasing overall claims costs.

> **"Our approach has been** one of recalibrating each and every risk on an individual basis in a transparent and open process"

THREE MAJOR TRENDS

"The first clear trend that we are seeing," reflects Puls, "is around the reduced frequency but increased severity of claims. Claims frequency is falling in many regions and industry sectors, as a result, for example, of the increased prevalence of predictive maintenance and monitoring of operations and systems. However, this positive trend is offset by an increase in the severity of claims due to a number of factors.

"These include an increased value of the sum insured per square metre, and in the value creation of sites themselves, with the latter impacting, for example, business interruption claims costs. The goods being produced are also increasingly specialist, needing tailored insurance coverages. And the reliance on global supply chains has also increased in recent years, the vulnerability of which were clearly exposed and demonstrated by the *Ever Given*'s blockage of the Suez Canal."

The second major trend, notes Puls, is the increase in nat cat losses around the globe. "This year," he says, "there have already been some major and severe events with higher claims costs than major previous events. Hurricane Ida will result in an estimated insurance loss of nearer €35bn.

"We also had the Uri freeze in Texas – one of the most disastrous nat cat events of the last decade at an estimated market-wide cost of more than €10bn. And in Europe we have just witnessed Storm Bernd, which will result in estimated total insured losses of more than €8bn, and was Germany's biggest ever nat cat event. HDI Global alone has paid out €330m for insured losses from Bernd and, together with our sister company, handled more than 6,000 claims."

Another worrying trend in terms of rising costs, says Puls, is claims inflation. "This year, at its peak, we saw claims inflation of between 4%-8%, as a result of shortages in raw materials such as wood and steel. Under this scenario, premium levels need to keep pace and track inflation."

All of these trends underline the need to ensure risk to pricing is at the right level, insists Puls.

"The reality is that 15 years of a soft market cannot be offset by one or two years of moderate market hardening. Unfortunately, this is also demonstrated by our key financial indicators. In 2020, our combined operating ratio (COR) was still situated on the wrong side of 100% – to be precise: at 104%. In the medium term, we are targeting a COR of 95% – and while I am pleased to confirm that for the first nine months of this year, we have hit 98.6%, there is clearly still some way to go"

EMBRACING ESG

Working closely with clients also extends to the environmental,

> **"HDI Global has a major** focus on the E of ESG. We are already carbon neutral in Germany and will be so worldwide by 2025"

social and governance (ESG) agenda, adds Puls. "HDI Global has a major focus on the E of ESG. We are already carbon neutral in Germany and will be so worldwide by 2025."

From an investment perspective, he adds that HDI will be carbon neutral by 2030, also referencing the green bond launched this autumn by parent company Talanx.

"As a global industrial insurer, we want to be able to follow and support our clients in their quest to transition away from carbon, as they invest to replace existing carbon-intensive methods and processes with less carbon-emitting or even carbon-neutral processes. These changes in their operations also may bring new risks, so we are focused on analysing these, mitigating and insuring them."

This partnership approach sits at the very heart of HDI Global's philosophy, adds Puls. "In many ways, Covid-19 has helped bring us closer to our brokers and clients.

HDI Global has paid out almost €5bn in claims in the last nine months

It has raised the profile of insurance with many businesses and there has certainly been more interest from the c-suite in understanding their insurance, opening the door for us to share our specialist knowledge and to intensively discuss risk, risk mitigation and therefore identify or tailor appropriate insurance solutions, while reducing vulnerability and volatility in our book."

This renewed board-level interest in risk management and the increased influence of risk managers is a very positive outcome, adds Puls. "The pandemic has meant that many risk managers now enjoy a strengthened position and their importance has been fully recognised if it was not before. This is good news all round."

In the final analysis, Puls sums up: "We anchored our purpose to take care of the unexpected, and paying out claims to compensate our clients is the real test for any insurer. And this remains our focus. In the last nine months for example, HDI Global paid out almost €5bn in claims. And to be able to continue to do that, to be there for clients in their hour of need, to remain a reliable and predictable partner for our brokers and clients, we must stick to our focus on achieving risk adequate rates."

A silver lining

It's been a tough year for many risk managers but proving their value to their organisation has been key to an overall feeling of success – a silver lining for many

REGIONS

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This year has proved a complicated one for risk managers in terms of their insurance programmes, but they have enjoyed better fortunes when it comes to the role of risk managers and their likely roles in the future.

The insurance market may have shifted irretrievably in a post-pandemic world and as the market continues to harden, warned a group of French risk managers, who reflected a widespread view among risk managers across Europe when they were surveyed as part of the Risk Frontiers Europe 2021 risk management survey.

The group suggested changing working practices and a massive increase in data collection and analysis may result in a changed relationship between insurers and insured that simply won't be put back together again in the pre-2019 manner.

As insurers collect more information and increasingly retreat behind computer analytics and into head offices for decision-making, risk managers fear the days of local contacts and sound, long-lasting relationships may have disappeared.

60%
in Europe said Ts & Cs were harder to agree this year

Oliver Wild, chair of French risk management association AMRAE and chief risk officer at Veolia, explained his thinking. "When you place say a €100m programme, in the past you may have found one insurer willing to take on the risk. Now it is anything from three to five insurers on the same risk.

"That not only makes it harder to sort in the first place, it brings into question long-term relationships. That is partly breaking up – you had one partner before but now you are dealing with three or four."

His view was echoed across Europe. In Belgium, for example, risk managers also pointed to the way that their risks had been moved away from the local offices, with final decisions on programmes being taken in head office, where there was no direct contact between underwriter and risk.

There was mounting fear from risk managers that the deep understanding of their risks was being sacrificed as insurers looked to drive up prices and cut capacity. There was also mounting concern that 'good' risks that were well managed were counting for little when it came to available capacity.

Oliver Wild said that buyers now have anything from three to five insurers on the same risk

LOSS OF CONTROL

Risk managers across the continent were revealing concern about a loss of control over the insurance buying in their programmes. They know their risks inside out, they said, but their ability to voice that to insurers was being lost – not helped by the need to go to three or four insurers to find cover for their programmes.

So, no surprise then that some 67% of the 500-plus risk managers surveyed reported continuing premium increases, with D&O insurance, as well as cyber, particularly hard to find. Some 60% of those surveyed said terms and conditions were more difficult to agree this year, while about 60% said claims were harder to settle too.

The upshot of that was some 50% of those surveyed said they were looking into alternatives to the traditional insurance market.

Worryingly for insurers and brokers alike, was that 50% of risk managers surveyed said the relationship between insured and insurer has been damaged, with more than 60% saying the relationship with their broker has also been damaged.

Late in the year, there were some glimmers of hope, with risk managers reporting a clear effort from both brokers and insurers to improve their communication. Julia Graham, CEO of UK risk association Airmic, said collectively, risk managers and their organisations are still facing the challenges of the "harsh market", including increasing insurance rates. "But there are some signs things are easing back a little – for some," she believes.

She has also seen real efforts from insurers and brokers to try and rebuild some of the bridges burned during the past tough few years.

However, that does not necessarily mean everything is back to being sweetness and light, and the risk managers were predicting another tough set of renewals as they move from 2021 to 2022.

One warned: "It is virtually impossible to get a long-term arrangement in place. In 2019 or 2020 you were potentially at the end of a long-term agreement but now the market is more fragmented and you will find policies have been rewritten to exclude pandemic and silent cyber."

67% in Europe said risk managers have a higher profile

In Germany, the risk managers agreed that the impact of insurers' behaviour in the past couple of years may well impact the tripartite relationship between insurer, broker and insured, but said it was too early to make any firm conclusions. They said the next set of renewals will test that relationship and it is likely to be in 2022 that the full impact of any damage will be felt.

"We hear insurers say they are working hard on relationships and that this year will be different to last year. But for me the jury is still out," said one of the group.

> **"We hear insurers say** they are working hard on relationships and that this year will be different to last year. But for me the jury is still out"

And as Christian Boehm, insurance risk manager at technology group Freudenberg, added: "From what we hear from our members, more and more insurers are tending to send their decisions upwards to special committees and sometimes finally to the headquarters around the world. As a result, the customers have less direct contact with the final decision-makers."

The risk managers agreed it was more than a case of a few rewordings, but rather a shift in the relationship, and they needed to start work on any renewals much earlier to achieve what would have been quite straightforward two or three years ago.

RESPONSIBILITIES

Moving forward, the role of the risk manager appears to be changing in the wake of the pandemic, with greater responsibilities and a better line of sight to the main board. Half of those surveyed said risk management had a higher role than before, although only 38.1% said Covid-19 had made the difference.

A more positive 67% said that risk managers have a higher profile in the organisation in 2021. However, many of those surveyed cited human resources as a key risk going forward and that included a shortage of skilled risk managers coming up through the ranks. They agreed that more could be done to improve the perception of the sector and to encourage young blood to join.

Overall, said the risk managers, it has been a tough year but they are confident of what the future will hold and that they will have a key role within their organisations, helping to identify and manage the risks as they emerge.

Risk managers have greater responsibilities and a better line of sight to the main board post-pandemic

A glimmer of hope?

As 2021 draws to a close and 2022 looms, risk managers are reporting a glimmer of hope when it comes to their insurance renewals

RENEWALS

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While the 2020-2021 renewals were torrid and fractious affairs, it seems there is light at the end of the tunnel as it becomes marginally easier to agree terms for 2022 contracts.

However, as always, the picture is far from uniform across the continent.

European risk managers are generally looking ahead slightly nervously as they wait for the 1 January 2022 renewal season. Hard bargaining is underway – something that is already causing challenges in itself.

As one risk manager said: "I took my programme to the broker in September for the January renewal. I need an answer from the insurers because I have to report to my board and get sign-off on the budget in October.

"However, I am being told by the insurers that they will not have an answer for me until November at earliest."

This tightened timeline is reported by more than one risk manager and, overall, those surveyed said it does nothing to enhance an already stressed relationship between insured and insurer.

However, there is also a feeling that although the time to settle programmes may be short, they will get the insurance they need.

Alexander Mahnke, president of German risk association GVNW and insurance risk manager at Siemens AG, summed it up: "The change in terms of insurers' profit margins was understandable and necessary. Our insurance partners need to make money. Although we sometimes feel there has been a backlash and some exaggerated behaviour in the past year."

Overall though, he stressed: "We have dealt with the bottom of the market."

As a result, he said, insureds should not have as difficult a time at the next renewals as in the past year. But he said risk managers should be under no illusions – those tough conditions are unlikely to soften either.

Hard bargaining is underway for the 1 January 2022 renewal season

Added to that, the German risk managers reported that there are also a number of German companies that are reaching the end of pre-existing long-term agreements and they may well face the same pain as other risk managers experienced in 2020, as their portfolios come under extreme scrutiny and re-alignment by the insurers.

CONTINUING INCREASES

But the picture is not even. In Switzerland, Patrick Thomazeau, senior manager risk and insurance, Europe and Latin America, at Mondelēz International, reported continuing increases with little sign of the market levelling off, let alone falling back once more. He has heard talk of increases up to 60% in some lines.

Like Mahnke, he reported a particular challenge in finding a two- or three-year agreement – a major change from the softer market when such deals were readily available.

"Now everything is going up, except capacity," he said. "The insurers are very reluctant to give big layers. If we have to place €100m or €200m of cover, we will need to find many more insurers willing to become involved. And to get those risks placed, insurers are asking many more questions than before."

Another risk manager warned that it has simply not been possible to find coverage for some global risks. "Even in the reinsurance market, we have seen major challenges with insurers simply walking away for strategic reasons." He cited mergers and acquisitions within the insurance market itself that took place during the past few years, which resulted in fewer choices. This only added to the challenges of finding large capacities or insurers with the required global capabilities.

"The choices of global insurance programme carrier are getting less and less," he said.

Added to that, another risk manager reported with many high-value transport and marine risks to cover, exclusions have become much more numerous. For example, new exclusions such as the Communicable Disease Exclusion LMA5397 or the Cyber Endorsement LMA5403 became the new standard to avoid systemic exposures to insurers.

"We are far more concerned about where this journey goes," he said, "it is not only pricing but also the risk appetite. It is currently a challenge to work with insurers and to get them to understand the core of our business, to design specific solutions for emerging risks across various insurance lines."

In France, Cyril Lelarge, head of corporate insurance at Sanofi, believes the insurers are using the current pandemic crisis to force other changes on the market.

"They are using Covid-19 to put pressure on clients," he suggested, while acknowledging that the insurers themselves are under


Alexander Mahnke

"The change in terms of insurers' profit margins was necessary... although we sometimes feel there has been some exaggerated behaviour in the past year"

pressure from the reinsurance market. He says another concern is how widespread the impact has been. "It is not about one line of business but across all lines of business. Financial lines are particularly tough and anything to do with US exposures. I think it is a difficult and unique situation.

"As a risk manager, you don't want any surprises when it comes to your renewal, but you will need to manage all these reductions in your programme."

FUNCTIONING RELATIONSHIP

A year ago, the talk was of divorce and major splits between insured and insurer. This year, 50% still believe their relationship with insurers has deteriorated in the past year. However, as we head towards 2022, much of that conversation has toned down and the risk managers report a functioning working relationship, albeit a little strained.

As one Danish risk manager said: "Our insurance broker knows that for us it is important that we have the direct communication with our insurers. For instance, during the insurance renewal period all the important meetings I will have will be with the insurer directly, without involvement from the broker. Because this is the best way to ensure that our insurer has the best possible knowledge about us.

"We do use insurance brokers – a lot actually – but only when this adds value. They support us in the renewal and complicated tasks during the insurance period."

As all the risk managers concluded, a key risk for 2021 and heading into 2022 is simply to get capacity for their insurance portfolio. While some may appear slightly more relaxed than others, they all shared a common view that the hard market is far from over and things could get worse before they get better.

The feeling, however, is that ultimately they will need the insurance market to be there for them into the future and that, while it may be tough going at the moment, they recognise the need for a sustainable insurance sector and a professional approach to their risks.

In fact, some put the lack of a functioning insurance market high on their risk list. They were concerned that the current insurance model may not be fit for purpose in the years to come, as insurers walk away from risks that "become too difficult".

Cyber and climate change were among the two most frequently cited risks in that bucket, as the risk managers feared increasing numbers of exclusions would render the policies redundant.

Tying the two threads together, one Swiss risk manager warned of the ESG movement, asking how it will impact insurers' appetite for risk. "There are a few of us exposed by insurers deciding to align themselves in terms of ESG compliance. We are already seeing repercussions for our businesses," he said.

Overall, 2022 may be a new year but for the risk managers, there is real concern that it will be yet more of the same, with only a tiny glimmer of hope to cling to.

A tough year with little sign of relief

Risk managers across Africa report that the continuing Covid-19 pandemic is straining every element of their businesses as they adapt to a new environment, but say that risk management looks set to have a bigger role to play into the future

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Last year, the pandemic changed everything. One minute we were working in our usual fashion, ticking along and confident in the risks that organisations were facing. Then, Covid-19 upended all of that.

For the first time in eight years, political risks were no longer the leading risk across the continent, replaced by cyber as players across Africa were struggling to implement the 'new normal' of working from home.

By the end of 2020, much of that upheaval had settled into new working patterns that many expected to revert once the pandemic was done.

However, in 2021 across Africa, the pandemic has rolled on and on as wave after wave has hit the continent. While South Africa in particular was heavily impacted by health risks associated with the pandemic, the rest of the continent was faced with more economic upheaval.

Now, with the Omicron variant dominating the headlines and international travel disrupted once again, minds are turning to what next.

South Africa was heavily impacted by health risks associated with the pandemic

"Weaknesses in business continuity plans and disaster recovery plans were evident, although most businesses were able to bridge the gaps"

RISING RISKS

This year's Risk Frontiers Africa 2021 survey results reveal that cyber risk is still high on the agenda, with 97% of the 300 risk managers surveyed saying it is an increasing risk.

However, for the first time since *Commercial Risk* has run this survey, financial risks are at the top of the list, with 100% of those surveyed reporting it as a growing risk.

The closely aligned exchange rate risk is considered a growing threat by some 92% of respondents, while the risk most associated with the new normal of home working – human resources – is cited by 79% of respondents as a growing risk.

As one respondent said: "Coronavirus made it very difficult for some corporates to remain in operation – some are still operating but with a skeleton staff, while some downsized – and that has affected profits in a negative way."

This applied to risk management as well as to the wider organisation. As another risk manager reported: "Weaknesses in business continuity plans and disaster recovery plans were evident, although most businesses were able to bridge the gaps without incident. Risk managers were presented with an opportunity to show their value to the business from proactive risk management."

He added: "The effectiveness of their performance will be seen in the near future."

STEPPING UP

That new emphasis on risk management is probably why 95% of Africa risk managers reported that risk managers have been boosted by the Covid-19 experience and why 78% of risk managers believe their organisation is placing greater focus on risk management.

78% in Africa said focus on risk management is increasing

But as that same respondent stressed, risk managers have been given an opportunity and now is the moment that they must step up and do their jobs so efficiently that they cement their places with the organisation.

"There will also be a sustained slump in staff productivity due to… failures in adapting to managing remote teams"

Not all the risk managers reported that it had been easy, with some saying they had struggled to cope. As one said, risk management is "better but more needs to be done", while another said their firm's reaction had been "very bad", explaining: "They were caught with their pants down. They only started to react when the horses had already bolted."

It was by no means all negative, with many risk managers reporting that they had been able to step up and had shown the value of risk management. Those with business continuity plans in place had been able to use those (although many also said these would need to be reworked in light of the Covid-19 experience).

Others said it had shown the need for a plan and now the senior management were more willing to listen and implement plans for the future. None of the risk managers felt the crisis was over and many said there was a lot more work to be done.

EMERGING RISKS

In terms of the risks emerging from the pandemic, many cited cyber and human resource risks. As one explained, there will be "increased operational risk events due to failure to timely adapt business processes, systems and controls", adding: "There will also be a sustained slump in staff productivity due to, *inter al*, failures in adapting to managing remote teams."

Others feared future lockdowns, while another had a long list of concerns: "Livelihood crises; climate change; cybersecurity; infectious diseases; polarised industrial landscape; and terrorism."

In terms of how to mitigate these many risks, the risk managers still turn to insurance for the most part. Although that it not without its concerns.

Several of the risk managers voiced concerns that insurers were "cherry picking" risks and excluding the very things that risk managers

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Human resources risks were cited by some as a new threat emerging from the pandemic

wanted to see support for, such as infectious diseases and even some cyber cover, as well as property covers.

Across the continent, from Nigeria to South Africa, there have been riots, provoked by political events but resulting in widespread business interruption losses. There have also been some political upheavals, with elections seeing presidents deposed.

Supply chain risks are also emerging – some as a result of the riots, but also some as the result of power outages. And across the board, climate change is a major concern.

97%
in Africa said cyber risk is increasing

RISK TRANSFER

Again, there is mounting disquiet that international insurers are choosing to withdraw from covering some carbon-extraction industries, leaving African economies struggling to transition to a new way of thinking while the pandemic continues to batter their finances.

Words like subjugation, control and power are being used, with people lashing out at the insurers that are choosing to withdraw their cover.

And all of that comes at a time when, the world over, insurance premium rates are on the rise. There is a feeling that it is all making hard conversations internally even more difficult. In all, some 77% of insureds said they are experiencing rising premium rates this year, with few reporting any signs of that changing as we head into 2022.

In terms of which classes are most directly impacted, motor, property and engineering all score highly, while there is mounting concern about how to insure financial risks, D&O and cyber risks.

Unlike other parts of the world, risk managers are split 50:50 in those who are seeing terms and conditions get tougher and those who have seen little change.

But 88% of the risk managers reported that it is becoming harder to settle claims as insurers increasingly argue over every word and clause, looking for ways not to pay the claim – that accounts for many of the disputes, said the risk managers.

But there are some things that insurers cannot control. For example, inflation and a struggling exchange rate mean that for some claims, the money to pay is there and the insurers are willing, but the settlement is just not covering the loss in full.

There are some concerns that, in some cases and in softer market conditions, the insurers simply had not priced the risk correctly and had underestimated the eventual cost of a claim.

Half of the respondents said the relationship between insured and insurer is worse than a year ago

Fewer African entities use captives or alternatives to traditional insurance, compared to their global counterparts, with 65% of respondents saying they have no intention of looking elsewhere for cover. But 35% said they will start investigating the alternatives – whether that means retaining more risk or finding another solution.

RELATIONSHIPS

Some of that is driven by a deteriorating tripartite relationship between insured, broker and insurer.

Overall, 64% of the African risk managers reported a worsening relationship between insured and broker, while 50% said the relationship between insured and insurer is worse than a year ago.

Only 12% believe the relationship between insured and broker has improved, while 16% said the relationship between insured and insurer has improved. These figures compare to the 44% of risk managers who said the relationship between broker and insurer has improved – a sign perhaps that insureds are feeling hard done by this year and fear that the insurance sector is closing ranks and shutting them out.

It will be interesting to see what the January renewal season for reinsurance brings and whether risk managers feel that way again in 2022, when they renew their own programmes once more.

People must be the number one concern for 2022

Human risk rose to the fore during the Covid-19 pandemic and must remain a top priority for all businesses, warned a group of Asian risk managers meeting as part of the Risk Frontiers Global 2021 survey

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The human factor is one of the greatest threats but also one of the greatest opportunities for businesses in 2022 as the world emerges from the Covid-19 pandemic.

That was the view of a group of risk managers meeting as part of the Risk Frontiers Global 2021 survey.

Franck Baron, chairman of the Pan-Asia Risk Management Association (Parima), voiced his concern that most companies are not paying enough attention to their greatest asset: their people. He warned that it could pose a massive threat to organisational survival as the world emerges from the pandemic.

"We are going through a massive change in the way we are operating, working and living," he stressed.

"Every human has been impacted by the changes wrought by Covid-19. There are risks to mental health, the working environment, and more importantly to the way people are going to look at the way they live and work. I am seeing massive changes. Maybe we will return to 'normal' in a couple of years but right now it is about how a company can adapt to this, how it can support its people and make sure we are protecting the values of the company while people are working remotely."

Asia's previous experience of SARS and MERS meant it was better prepared than Europe and the US for Covid-19

UPHEAVAL

For Andrew Chan, vice-chairman, Chartered Accountants Australia and NZ Hong Kong Council, the "first key risk would be another pandemic – a super virus that is even more dangerous than this one". He continued: "It is about people but also about social and economic upheaval.

"It is not just about the risk of deaths but also of unemployment and the subsequent risk of social unrest. Also, economic and debt crises may arise. Interest rate rises as well – all this will add up to a fascinating and interesting environment for risk managers going forward."

He said that Asia, having been through SARS and MERS before, was "pretty prepared, so even in December 2019 when we heard there were some cases coming out of China, we started to look at crisis management plans and ask what we would do if another SARS happened".

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"We didn't predict this two years of Covid-19 but when it came back in 2020, everyone was wearing masks already. So, Hong Kong did quite well in containing the virus."

Steve Tunstall, general secretary at Parima, added: "I was managing director of Schindler lifts in Singapore through SARS. We thought it was the end of the world but fortunately that one only really lasted about six weeks, so we got off a bit lucky.

"But certainly it had prepared everyone mentally, and in my next role we were thinking about all the forms of MERS, bird flu and even Ebola was on our radar: what would the implications be for Asia? I think Asians were expecting something every couple of years but certainly nothing of this magnitude, whereas perhaps Europeans and Americans were thinking it was Asian and African diseases."

CLIMATE CHANGE

Jamie Sandoval, group risk management and sustainability, finance group, Ayala Corporation, said: "The pandemic has hit us very hard but another global systemic risk is climate change and in the recent past, the Philippines has been experiencing more frequent and more severe typhoons and thunderstorms.

"As compared to Covid 19, climate change is a catastrophe in slow motion, with so many causes and effects, and while the pandemic may have inadvertently resulted in a minor reduction in emissions in 2020, the need to combat climate change remains as high as ever.

"Climate change, like a pandemic, requires businesses to adjust their strategies and business models to adapt to a low-carbon economy. We, as risk managers, should be at the forefront of this change so we can help our businesses and organisations in assessing physical and transition risks, as well as in evaluating the financial impact of this change."

Baron added: "I am still very frustrated by the lack of consistency among countries in terms of addressing climate change risk.

Franck Baron

"We saw it was possible with the pandemic for governments to get very active. But governments are not doing this for climate change"

We saw it was possible with the pandemic for governments to get very active. But governments are not doing this for climate change."

CYBER

Another major risk is that of cyberattacks.

But Baron believes: "The sources of cyber issues are coming from human beings, and the fact that humans are not in a good state of mind makes it even easier for people to leverage this to develop cyber risks."

Tunstall agreed: "I think we are all feeling a little weak, a little tired and are worried about what the next [Covid-19] wave is going to look like. What will the damage be to us and our families?

"From a technical point of view, I have working mainly with startups for about ten years, been using Zoom for about five years and working from home for ten years. The silver lining for me is that everyone is a startup now. Everyone is having to change their businesses so fast and learn to be nimble, spin and move. Everyone is becoming a bit like me."

REBOUND

In Asia, one of the risks is missing the rebound, warned Sandoval. "How we can move out of the pandemic and how we can recover?" she asked. "We will see different speeds of recovery? The world is hungry to live again and we know there will be a rebound.

"Companies need to be ready for that and to emerge stronger and remain relevant in the new context, whether by innovation, rapid technology adoption or by streamlining – there are so many ways we can adapt. The key thing is to be agile enough to make sure our organisations are ready to bounce back."

RISK MANAGER ROLES

In terms of how risk managers fared in the pandemic, Chan said: "I don't want to say it was a blessing in disguise but when something like that happens, it makes people realise the value of risk management.

"For ten years you might be warning about a risk, and then when it materialises it drives change quicker and helps risk managers to have a seat at the table. It puts you at the front of decision-making. It will then encourage the company to come to you before a new project is launched in the future and to ask about risk."

However, Baron had a different view: "Digitalisation is helping for sure but it is about the people aspect. Risk management is about a team of people working in different ways. There have been a lot of teams unable to meet and work together to bring risk management to the next level.

"In addition, there is a huge undervaluing of the mental health of people. We are all doing our best but as corporations go back to work, it will be a massive challenge and we should not underestimate the importance of getting people better in terms of spirits and energy. It has been an extremely busy period – it is not as if we have been sitting back relaxing."

He also warned: "I actually don't think working from home has been that beneficial for many people. Yes, you saved time on commuting and could spend more time with your family, but many people found it hard to draw the line between work and private lives, so here again there is a growing number of people suffering from mental health issues. I don't see many companies actively dealing with this – this goes way beyond offering a yoga class via Zoom."


Jamie Sandoval

" **We have seen increased** awareness of the importance of risk management"

Tunstall also had a warning: "We have no idea what the mental health implications will be for everybody. Life is busy at the best of times. You layer a pandemic on top of that and, guess what, the wheels fall off. I think this is an iceberg issue. We will keep muddling along for so long but then we will see very severe consequences in the long term and I am not sure any of us can predict how those will play out."

The switch to home working has not been beneficial for everyone

Returning to the risk management role, Sandoval added: "When my boss and I stepped in to form the risk management function, the first thing we did was to remove the silo mentality so that when it comes to risk management, it is a collaborative effort. We have seen increased awareness of the importance of risk management – the company now sees risk management as an incredibly important tool in identifying both the threats and the opportunities that could affect the business direction."

She added: "They now realise that risk management helps us protect the organisation from unexpected events. It helps guide us in terms of preparing ourselves to manage the business in extreme scenarios. So, I would say I am glad that they are now seeing the value of risk management and I am seeing more organisations embed risk management."

Sandoval concluded: "Let's not forget about sustainability and ESG. In terms of the S, people are the backbone of every organisation and are critical in the organisation's ability to succeed. We need to be communicating with our people and engaging them. When we put all these processes together, it helps us build preparedness."

Risk managers must step up and engage with insurers

North American risk managers have been facing the twin challenges of a hardening insurance market and the impact of the Covid-19 pandemic throughout 2021, with only a few signs of better news

Lockdown in Times Square, New York: the Covid-19 pandemic has exacerbated an already hardening market

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Risk managers across the US were reporting continued stress in terms of their insurance portfolios throughout 2021 and are learning fast about the changed relationship with their carriers in a hard market.

Jennifer Santiago, treasurer and director of finance at US risk management association Rims, said: "We are seeing continued stress in our marketplace and the Rims membership is wrestling with risk financing solutions and the question of: how do I balance retention and transfer?

"We almost have to throw the rulebook out for those who have not lived through a hard market before – I have not. The ability to increase your retention and get a premium credit applied or credits for outfits that are doing very well don't seem to be part of the discussion any more unfortunately, so that has really shifted the dynamic. Insurers are shrinking capacity, they are putting up less limits and also raising pricing, so it is the opposite of what we knew."

She said it was not all doom and gloom, with some bright spots appearing, however "challenged risks will have a hard time in the property market, while EPL and D&O will continue to have pressure because of the economy", she said, adding: "Covid-19 has added another layer on top of this because there are so many companies struggling."

Santiago continued: "There are challenges across every line of insurance and there is nothing that is an easy ride. Insurers are trying to right-size their portfolios and we have to pivot to this digital world – and how many of us are really ready for that? Interest rates are low so they are also contending with that. It is really a confluence of challenges that we are facing at the moment."

Looking ahead, Santiago sees "some creativity" and said: "It is incumbent on us as risk managers and from the Rims perspective to come forward and let the market know what we need. They are very valuable to us and it is a symbiotic relationship – so how do we come together to design these solutions? They will not look the same as in the past – the rulebook has been thrown out.

> **"We almost have to throw the rulebook out for those who have not lived through a hard market before"**

"But we need the market to step up and do the same. I think the backdrop is that many organisations are struggling and insurers are not far behind. I think that is what is causing the pullback on the reins. However, it needs to loosen."

The overarching message, she said, is: "We need to understand our risks and take an enterprise approach, and being able to present that to the market and to underwriters."

CAPTIVES

One much-touted solution in 2021 has been captives and they could become even more important as the world transitions through climate change. Captive insurers have a potential role to play in helping organisations support and finance aspects of ESG projects that bring long-term value, according to experts speaking during a Rims conference.

As businesses move to build a more sustainable carbon footprint, the ability to use surpluses generated from their captives to fund environmental projects could build value, the Rims delegates agreed.

As first reported in our sister publication *Business Insurance*, Karen Hsi, programme manager of captive insurance programmes for the University of California Office of the President, said the savings generated from self-insuring risk via captives could be used to implement future projects that reduce carbon footprints, such as adding solar panels on campuses.

One feature of captive insurers is the ability to invest any money held in surplus and reserves and return it to the parent organisation to finance operations.

"There is a longer-term value to using ESG as a broader risk management tool, not just the investment piece," Hsi said.

Anne Marie Towle, global captive solutions leader for Hylant, said captive surpluses can be used in a variety of ways when it comes to risk management and supporting overall ESG initiatives.

For example, during the pandemic many companies have leveraged their captive surpluses to help purchase personal protective equipment for their employees or to support Covid-19 testing, Towle said.

Being ESG-aware and having strong governance in place as part of overall risk management also helps when it comes to insurance and reinsurance renewals, the panellists agreed.

"We all know we are in a hard market. The pandemic has only made it harder," Hsi said.

She noted that captives can help organisations leverage renewal prices and premiums, adding: "ESG can help that further in the sense of your captive being at the forefront of best practices, being environmentally aware, being socially aware and having the governance."

As an example of this, when Vale S.A. found insurers unwilling to lead coverage on a large and increasingly unpopular risk, the Brazilian mining company put together a solution that left no doubt about the value of its captive as a risk financing tool.

Karen Hsi

"We all know we are in a hard market. The pandemic has only made it harder"

"We had a really challenging placement a couple of years ago in Africa with a coal business," said Michael Butler, Vale's head of insurance and risk – base metals. Project requirements called for high coverage limits, he recalled, and "there wasn't appetite in the insurance business to write those kinds of limits".

Speaking at the Rims Canada 2021 Virtual Conference, Butler said there were more than 50 reinsurers involved in the coverage, but no lead insurer was willing to participate and "glue that placement together".

Vale turned to its captive for that role, taking a "modest amount of risk" in the insurer, which allowed it to access the reinsurance market and "develop a solution that met our project finance requirements", Butler explained.

"Critical for us has been direct access to the reinsurance market and, with that, flexibility in designing insurance programmes," he said, highlighting the value of Vale's captive programme.

Current conditions are causing some companies to look more closely at captives, according to Alonso Teller, vice-president, captives and alternative risk transfer at AXA XL Canada. "We definitely can't deny

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that the current rate environment is motivating more and more customers to evaluate their risk placements and think about their risk strategies, and how to transfer and retain risks in the market.

"Though in some areas of the Canadian market we are seeing the intensity of rate increases tempered somewhat, there are still several lines that remain challenging and continue to push rates higher," perhaps making captives attractive, Teller added. Cyber insurance is an example, he said, of a line where rates continue to climb and towers of coverage are increasingly harder to put together.

Risk managers, particularly those with good loss records, may find captives appealing as an alternative to coverage that is expensive regardless of their claims history, Teller noted. And a captive can serve as a solution for organisations that find they are comfortable assuming more of their own risk, he pointed out.

Captives were born from innovation and can help organisations think about risks differently and create value, Towle agreed.

PANDEMIC BACKSTOP

Returning to the pandemic, Rims has given its support to a new pandemic insurance bill in the US, which would create a federal reinsurance backstop for pandemic risk. The Pandemic Risk Insurance Act 2021 (PRIA) would set up a federal system to share exposure to public and private business interruption (BI) losses from future pandemics.

Under the scheme, carriers would cover loss closures or disruptions for public health emergencies within its BI policies, with a parametric trigger that would pay out for a period of 180 days' fixed costs and payroll. The system would also cover event cancellation, general liability and D&O lines of business, while a pooling system would be set up for insurers that do not directly write non-damage BI.

US Capitol building in Washington, DC: a pandemic insurance bill has been proposed in the US, which would create a federal reinsurance backstop for pandemic risk

US risk management society Rims said the PRIA would "establish a viable insurance market" for non-damage BI with enough capacity for buyers, who would have greater certainty over coverage in the event that a future pandemic forces businesses to shut up shop again.

"It's critical that business and government leaders come together to develop a real insurance solution to prevent future economic disruption," said Rims president Ellen Dunkin. "Risk professionals are well positioned to provide a valuable perspective on insurance solutions that not only strengthen business resiliency but would allow our partners in the insurance industry to confidently deliver effective and affordable pandemic risk products."

In June this year, Rims joined the Business Continuity Coalition (BCC), which was set up by insurance buyers from a broad range of industries, including hospitality and retail, to develop an insurance programme for future pandemics. The BCC said it supports the PRIA

> **"It's critical that business** and government leaders come together to develop a real insurance solution to prevent future economic disruption"

and called for bipartisan support to approve the bill.

WORKERS COMP

Employers that self-insure their workers compensation exposure in the US are paying an increasingly larger share of the benefits that go to injured workers, with that amount rising to one fourth of the total costs in 2019, experts point out.

Self-insurance accounted for 25% of benefits in 2019, an increase from 21.6% in 1999, said Griffin Murphy, a policy analyst with the National Academy of Social Insurance (NASI). When amounts assumed within coverage deductibles are added in, he said, employers were responsible for 43% of benefits in 2019 – a jump from 34% some 20 years earlier.

"This growth has come at the expense of state funds and private insurers," which have paid fluctuating amounts during the past two decades, said Murphy, who was joined by NASI policy analyst Jay Patel in a virtual workers comp discussion at the International Association of Industrial Accident Boards and Commissions' 107th conference.

The analysts referred to NASI's recently released report – *Workers Compensation Benefits, Costs, and Coverage* – which tracks workers comp data from 1999 through 2019.

The report shows that self-insured employers paid $15.8bn in workers comp benefits in 2019, compared to $10bn in 2019. Private insurers were the largest payers, with $35.1bn paid in 2019, up from $26.4bn in 1999. State funds accounted for $8.8bn in 2019, compared to $7.1bn 20 years ago. The federal government paid a smaller share of benefits, amounting to $3.4bn in 2019, up from $2.9bn in 1999.

Unadjusted workers comp costs in 2019 declined 1.2% to $100.2bn from the prior year, an unexpected finding, according to Patel. "This is the first time it's happened since 2010," he said. "It's pretty surprising, because 2018 to 2019 saw increases in both covered jobs and covered wages."


Andrew Cortese

"We love self-insurance. It gives us the control to do the right thing for our employees and to do it faster"

The report shows that standardised workers comp costs – total benefits per $100 of wages – fell during the last five years, to $1.17 in 2019 from $1.38 in 2015. During the same period, standardised benefits dipped to 74 cents from 87 cents.

As an example, Nathan Fraley, corporate claims manager for Kroger Co, said: "We look at this every year. In a few states, we did move out of self-insurance," he said, mainly because it had little exposure in those states.

In states where self-insured retentions are capped, Kroger may prefer a high-deductible insured programme, Fraley said. Collateral requirements can sometimes present challenges as well, he added, "and that did play a part in us moving away from self-insurance in a few states".

"We love self-insurance," said Andrew Cortese, senior manager of claims analytics, data security and financial controls at United Airlines. "It gives us the control to do the right thing for our employees and to do it faster," while managing the "entire claim lifecycle", he remarked.

Whether to self-insure in a particular state is "really a financial decision for us when it comes down it", said Cortese. "There can be some administrative challenges one way or another, but at the end of the day it comes down to what the dollars look like, and we're looking at it frequently."

United has been able to show that its actuarial findings are "very different" from those that some states have used in analysing its exposure, Cortese said. Cooperative state regulators have been willing to hear the airline's reasons for "looking at it differently, because obviously we have a different viewpoint of our operation, what the exposure is and what the ongoing risks are".

COVID LAWSUITS

Meanwhile, employers in Canada may be facing a surge in lawsuits charging that they mishandled widespread layoffs during the Covid-19 pandemic, according to a local attorney.

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Parliament Hill, Ottawa: the Ontario government has provided some relief for employers with regards to constructive dismissals

Layoffs in Canada, which are generally governed by rules that specify under what conditions employees can be let go and how long temporary layoffs can last, were uncommon before the pandemic, said Devan Marr, an attorney with Strigberger Brown Armstrong. But the volume of layoffs during the pandemic that ignored laws on how they are to be handled have sparked concern that employers will see a growing number of claims from disgruntled workers, he added.

Speaking at the Rims Canada 2021 Virtual Conference, Marr said the Employment Services Act that governs workplace standards in Ontario, where he practises, stipulates that temporary layoffs are allowed only if they are specified within an employment contract, are commonplace in the employer's industry, or the employee consents to being laid off.

"That brings us to the pandemic," Marr said, "because if you don't have one of these three exceptions, you can run into problems."

When businesses closed during pandemic lockdowns and because of the sagging Canadian economy, layoffs were widespread, Marr noted. "That's the problem – just because you want to lay people off doesn't mean you can. Usually what that can trigger is something called a constructive dismissal [if none of the three exceptions are present]," he explained.

Constructive dismissals can create significant payment obligations for employers, Marr explained. And employers could be facing a deluge of claims for those payments because they are accused of improperly letting workers go during the pandemic, he said.

A move by the Ontario government has provided some relief for employers but it may only be temporary breathing room. The government introduced regulations that reclassified layoffs due to Covid-19 as "infectious disease emergency leave", said Marr. Employers are now able to argue that employees who were laid off were never constructively dismissed, but instead placed on leave, he said.

> **"Just because you want** to lay people off doesn't mean you can. Usually what that can trigger is something called a constructive dismissal"

The regulation was retroactive to the beginning of the pandemic and will end on 31 December this year unless it is extended, Marr noted. "Everyone is holding their breath to see who's going to bring claims when this period ends, and there have already been two cases that have been litigated," he said.

The cases, both of which Marr said are subject to appeal, were a split for employers, with one deciding that the new regulations altered common law and the other finding for the plaintiff that common law should be applied.

"These claims are coming," he said, as the period allowing infectious-disease emergency leave comes to an end and questions arise around employees' work status.

The claims could hit employers' D&O coverage, as Ontario's Employment Standards Act stipulates that directors of an organisation can be named in employment practices claims, risk managers were warned.

Trouble ahead

Risk managers with interests in Latin America have been reporting another tough year for the region, with the risk of political violence high on the agenda

Social unrest engulfed Chile in late 2019

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Global companies are finding it ever harder to buy coverages for political violence in Latin America, after a spate of episodes of social unrest in the past couple of years.

Countries like Chile and Colombia have gone through a period of polarised politics that have been exacerbated by the Covid-19 pandemic, and insurers have reacted by restricting coverages accordingly.

"In Chile, after the troubles of October 2019, the cover for vandalism acts has disappeared," said David González, chief insurance officer at Spanish construction group Sacyr. "It is the consequence of a punctual incident but it shows that we are in a period where some covers have been restricted to an extent that they are no longer available for some Latin American countries."

González referred to a series of episodes of social unrest that engulfed Chile in late 2019, which quickly evolved from protestations against price increases in Santiago's metro system, to broader protests against social injustice and economic inequality that often turned violent.

The violent nature of the protests caught the insurance community by surprise, as Chile was widely seen as the most stable Latin American market.

Early this year, another market darling, Colombia, was also overwhelmed by episodes of social unrest, as millions of people took to the streets to protest against social inequality. The protests also often deteriorated into violence, affecting the ability of buyers to purchase the covers they need.

"For several years we have purchased a specific strikes, riots and civil commotion (SRCC) cover for our businesses in Colombia. It is included in our terrorism policy and covers social disturbance and other events. Social unrest covers that were available in P&C policies don't provide the scope of coverage that we need," said Jorge Neto, insurance manager at Portuguese retail group Jeronimo Martins.

"We have also noticed the hardening of the market for those covers. We have been able to purchase the same wording as before but with a higher price," he added.

The proliferation of episodes of social unrest has reinforced a trend among property and casualty insurers to exclude such risks from their policies, forcing buyers to go to specialty markets, where prices tend to be higher. Buyers have therefore had to look for covers in the specialty market, often buying SRCC standalone covers, or extensions to political violence and terrorism policies.

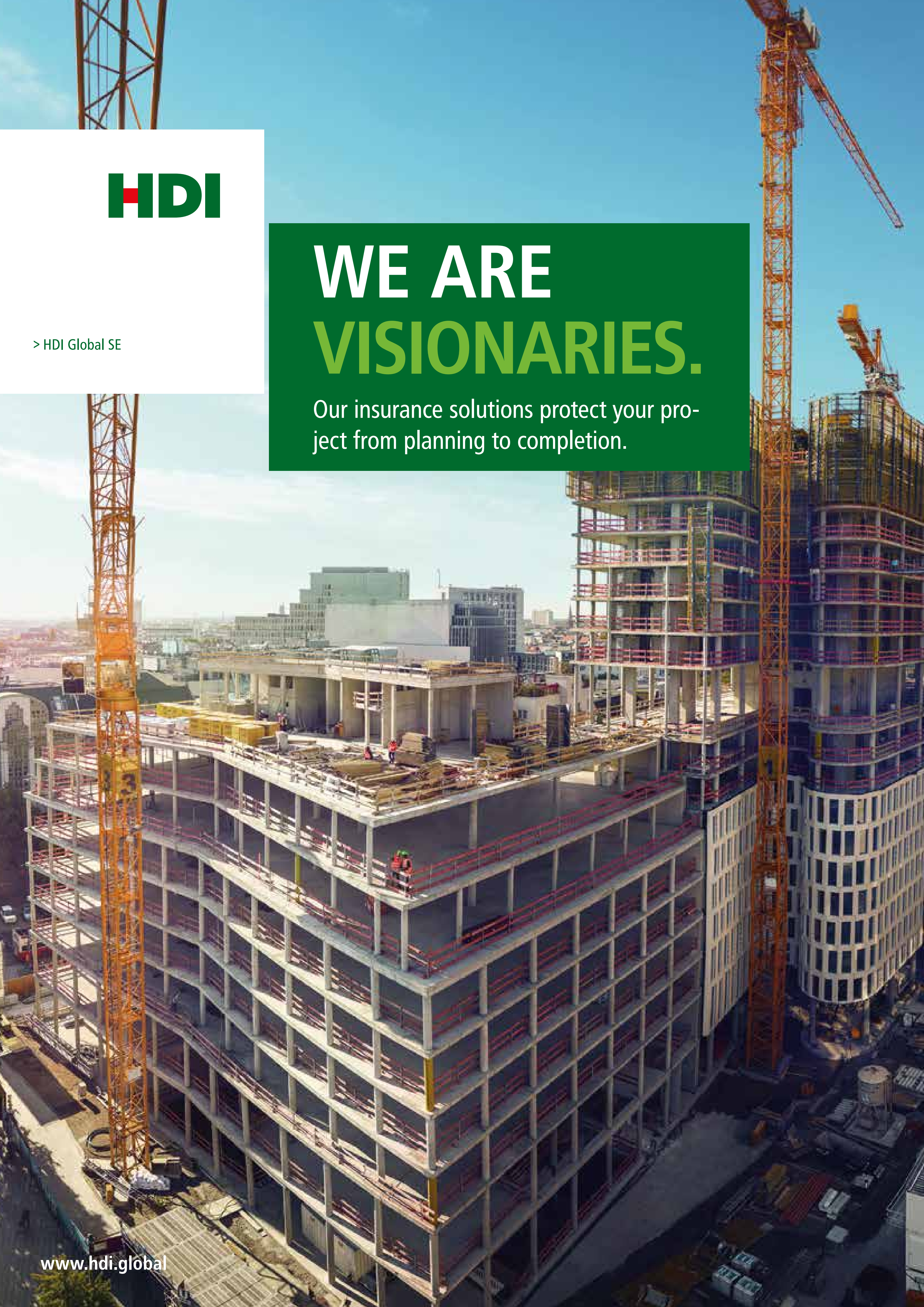
EVOLUTION

It is an evolving market though. Underwriters are constantly fine-tuning their products to respond to fast-changing conditions. Some of the current hotspots for this kind of insurance, such as Chile, did not have a domestic market for the product, and for that reason legislation is still evolving there.

Neto stressed that the difficulties faced by buyers nowadays are a reflex of a difficult market environment that is changing fast.

"The market is dynamic and is getting more responsive. Ten years ago, when there was a big loss event, the answer of the market was diluted in the course of time. But nowadays, the answers are immediate. We feel them in the subsequent renewal," he said.

"Social unrest episodes are complex social events that are hard to understand. We do not have control over them. We must monitor the situation and manage the risk closely; and, if possible, adjust our insurance policies accordingly," Neto concluded.



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