The interview
Deborah Ritchie speaks to Control Risks' Charles Hecker

News & analysis
A round-up of the latest industry news and views

Risk Management Awards 2022
Call for entries

cirmagazine.com

March-April 2022

Privacy litigation *Whether through the lens of litigation or regulation, the world of privacy is evolving, exposing new risks*

Long Covid *Restrictions may be ending, but the virus' impact on business is only just beginning. Dr Quinton Fivelman writes*

National resilience *Caroline Field explores the need for a new approach that fosters a collective responsibility for resilience*

A breach too far

The crisis deepens

View: "Managing risk in an 'age of reckoning' is much more than reputational risk management"

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Comment

The latest business insights report from the Office for National Statistics reflects a time of considerable transition, as businesses settle into their post-pandemic new normals, manage soaring energy prices, and struggle to find or hold onto talent.

The recent alarming increases in energy prices are of utmost concern for businesses responding to the fortnightly survey of financial performance, workforce, trade and business resilience factors.

Nearly half (47%) of businesses currently trading in the UK reported an increase in the prices of materials, goods or services bought in March 2022, up from 39% in February 2022 – the largest percentage point increase on this measure since comparable estimates began in June 2020.

In comparison, the percentage of businesses that reported an increase in the prices of materials, goods or services sold increased from 17% to 18% over the same period.

It was the accommodation and food service activities sectors that reported the highest percentage of businesses affected by recent increases in energy prices, at 53%.

This at a time when nearly a third of businesses (30%) in the accommodation and food service activities industry reported experiencing worker shortages.

Commenting on the findings of the report, Susannah Streeter, senior investment and markets analyst, Hargreaves Lansdown said: "The problem of overheating overheads is now affecting more than half of all businesses...Soaring gas and fuel prices are the major bugbear, with a quarter of firms reporting that their operations are being hit by higher energy prices. For companies with more than 10 employees, more than a third of firms are being affected by higher energy costs either directly with an impact on production, or via their suppliers.

"Price pressures through the food and drinks supply chain appear to be particularly severe, and are the main drivers for more than half of companies in the accommodation and food services sector reporting a hit to operations due to higher energy prices. Companies are attempting valiantly to try and avoid passing these rising costs onto customers but it's clearly very hard going. More than a third (35%) are managing to absorb the higher charges, with another 9% swapping suppliers to try and get better deals. But after fighting a losing battle against the rising tide of prices, around a quarter of businesses are already passing on costs to customers.

"Demand for now though is still staying resilient, with consumers and business customers accepting higher costs for now, even as outgoings increase across the board. The worry is that once lockdown savings have been eaten into, government loans have been used up and higher bills hit next month, demand could start to dwindle as soaring prices bite more aggressively, particularly with wholesale energy prices staying so stubbornly elevated."

In other developments highlighted by the ONS report, in late February 2022, the proportion of the workforce estimated to be working from home, or another designated workspace, or using a hybrid model of working was 82% – a figure that has increased steadily from 72% in early December 2021, suggesting that the model is here to stay for some firms. But flexible working does not look the same for everyone, or every firm, and by law, employers must consider all individual requests on a case-by-case basis.

Our piece on the legal considerations for employers dealing with flexible working requests (p32) outlines some important considerations in this respect.

Deborah Ritchie

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Deborah Ritchie speaks to Charles Hecker, global research director at Control Risks, about the company's latest thinking on how to succeed in hostile and complex business environments

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A breach too far

The first invasion since 1945 of a European state has shifted the world on its axis. Deborah Ritchie considers the implications for the business risk landscape, from physical security risks to cyber

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A new approach to national resilience

Ahead of the publication of the UK's new National Resilience Strategy, Caroline Field explores the need for a new approach that fosters a collective, shared responsibility for national resilience

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Restrictions in the UK have ended, and the number of new cases is falling, but the true impact of Covid on businesses is only just beginning, says Dr Quinton Fivelman

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Dark spectres

With insufficient capacity and increases in aggregate premium, the cyber re/insurance market is under pressure. And as tensions escalate in Ukraine, the problem only looks set to worsen. Tom Johansmeyer considers the role for ILS in this elevated threat environment

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Shifting sands

Reflecting on the developments of 2021, and further anticipated changes, Hans Allnutt and Eleanor Ludlam are left in little doubt that the world of privacy, whether seen through the lens of litigation or regulation, is evolving quickly, exposing new areas of risk

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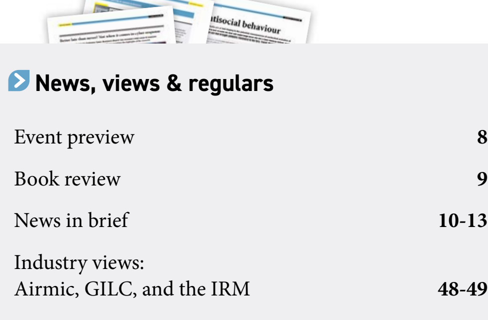
Editorial & features



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Flexible working and the law

As we slowly emerge into a post-Covid working world, it is becoming clear that the general workforce are keen for flexible working to stay but to what extent are employers able to say no to these requests? Chantelle de Filippis outlines employers' responsibilities

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The 2022 Annual Risk Management Awards are open for entries! Choose your categories now.

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Peak peril?

Deborah Ritchie was joined by head of PCS at Verisk Insurance Solutions, Tom Johansmeyer, to discuss political violence, nat cats and Covid-19, which together combine to create an increasingly risky environment in which to do business

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The winners!

The National Insurance Awards winners were announced in March at a Gala Dinner attended by over 350 people. And the winners are...

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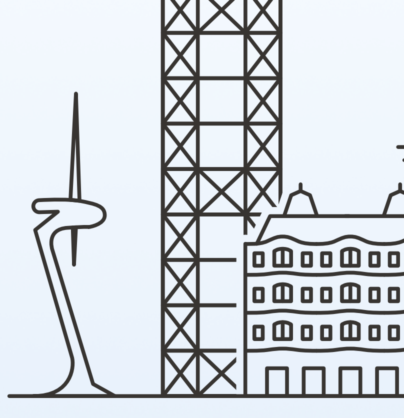

CIR Resilience Series:

Business Continuity in an Age of Disruption

You'll be hearing from speakers including James Crask, Magnus Falk, Julia Graham, Vanessa Podmore and Dr Geoff Trickey, among many others.

Topics for the day include hybrid working models, ESG, supply chain and cyber security.

Wednesday 25 May 2022

DoubleTree by Hilton Hotel London

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www.cirmagazine.com/resilience-series

CIR Resilience Series:

Business Continuity in an Age of Disruption

AGENDA

09:00 – 09:30: Registration and refreshments

09:30 – 09:35: **Welcome address**
Deborah Ritchie, Group Editor, CIR Magazine

09:35 – 09:40: **Chair's opening remarks**
James Crask, Chair, International Organisation for Standardisation Committee

09:40 - 10:10: **Operational Resilience: Views from the Financial Sector**
Paul Williams, Former Head of Division for Operational Risk and Resilience, Bank of England

10:10 – 10:55: **Panel session: Redefining Resilience: How the Pandemic Has Reshaped Business Continuity Approaches**

Panel chair: **Dr Chris Needham-Bennett, Managing Director, Needhams 1834**

Panellists:
- **Paul Mitchell,** Head of Operational Resilience, The AA
- **Warren Owens,** Head of Business Continuity, Network Rail
- **Maria Santacaterina,** CEO, Founder, Santacaterina, Global Strategic Leadership and Board Executive Advisory
- **Geoff Trickey,** CEO, Psychological Consultancy
- **Gianluca Pescaroli,** Lecturer in Business Continuity and Organisational Resilience, Director of the MSc in Risk, Disaster and Resilience Institute for Risk and Disaster Reduction, University College London

10:55 – 11:15: Coffee break

11:15 – 11:45: **In conversation with...**

Robin Smith, Head of Cyber and Information Security, Aston Martin

11:45 – 12:15: **An Independent Review of the Civil Contingencies Act and its Supporting Arrangements**

Kathy Settle, Deputy Leader, Independent Review of the CCA (on behalf of the National Preparedness Commission)

12:15 – 13:00: Lunch break

13:00 – 13:45 **Emerging Cyber Security Risk Trends, Challenges and Predictions through 2025**
Simon Newman, Head of Cyber and Business Services, Police Crime Prevention Initiatives
Mark Hendry, Director, Data Protection and Cyber Security, DWF LLP

- Emerging digital risks: deepfakes, AI, ML and potential new 'sleeping giants'
- New approaches to security in the remote working/hybrid environments
- New laws and regulation on the horizon

13:45 – 14:30: **Fireside Chat:** The Journey to the Future of Work
Magnus Falk, CIO Advisor, Zoom

14:30 -14:45 Coffee break

14:45 – 15:30: **Panel session: ESG: A new Era: Optimising ESG Strategy by Identifying Synergies**

Panel chair: **Vanessa Podmore,** Global Supply Chain Expert and NED, British Footwear Association

Panellists:
- **Julia Graham,** CEO, Airmic
- **Sue Millar,** Partner, Stephenson Harwood LLP

- Defining ESG risks
- Counting reputational impacts/losses relating to mismanaged ESG risks
- The growing litigation risks
- Finding synergies with resilience activities

15:30 – 16:15: **Discussion: Building & Maintaining Supply Chain Resilience in Challenging Times**
Steve Cameron, Managing Director, Cameron Maritime Resources
Shelton Newsham, Information Security and Governance Advisor

- Supply chain disruption and trends
- Linking SCM with ESG
- Logistics in an on-demand world

16:15 – 16:30: Chair's closing remarks

16:30 – 17:30: Networking drinks

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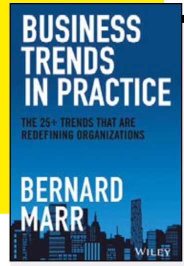
Inspiration for resilience professionals



Business Trends in Practice: The 25+ Trends That are Redefining Organizations

By Bernard Marr
Wiley, 2022
wiley.com

Transformation and disruption are increasingly persistent themes in these pages, and change appears to be happening faster and more furiously than ever before.

As Bernard Marr writes in his book *Business Trends in Practice: The 25+ Trends That Are Redefining Organizations*, the last ten years alone have seen the introduction of numerous groundbreaking new trends that pose novel opportunities and challenges for leaders in all industries – and will at the same time profoundly alter risk profiles and dynamics.

As well as being a renowned futurist, recognised speaker and business strategist, and adviser to global companies and governments around the globe, Bernard Marr is a best-selling author, and frequent contributor to *Forbes*, writing regularly on artificial intelligence, big data and blockchain.

With his latest book, Marr seeks to help readers stay one step ahead of all this change with this high-level review of the most impactful and disruptive emerging business trends, breaking down the forces underlying these rapidly advancing changes, and their impact on a variety of sectors.

Marr starts by examining the key five global shifts that will shape the organisations of the future, before exploring the 10 tech mega-trends every business leader should know about – regardless of the industry in which they operate.

Key sectors and their impact on business are then tackled, starting with the three trends transforming the energy sector; the seven trends shaping healthcare; the two main shifts in education; and the innovations needed to transform agriculture.

"The last ten years alone have seen the introduction of numerous groundbreaking new trends that pose new opportunities and challenges for leaders in all industries – and will profoundly alter risk profiles and dynamics"

A brilliant chapter on change in the way we make and build things explores the 11 big trends to watch across manufacturing and construction; and how we move people and goods is then put under the microscope as Marr considers the three trends revolutionising transportation. The four shifts that will shape the financial sector round out Part 2 of this fascinating book.

Part 3 considers how businesses might rethink what they have to offer, while Part 4 looks at how businesses of the future are run. This is where most of the practical resilience-related material can be found.

For practitioners looking for realistic scenarios against which to exercise their firms' resilience in the future, *Business Trends in Practice* is sure to inspire.

News briefing

A round-up of the latest industry news

Re/insurers holding large books of East European business were urged to reevaluate their exposures by stress testing portfolios against the threat of cyber attack. But whilst the recent tightening of economic sanctions on Russia could trigger retaliatory cyber warfare and drive up claims, European and North American re/insurers are anticipated to be shielded from large volumes of claims due to exclusion clauses, reductions in limits, and product diversification, according to forecasts from DBRS Morningstar.

Home Secretary Priti Patel convened and chaired a virtual meeting with her Five Eyes alliance counterparts to discuss developments in and around Ukraine. Ministers from the UK, US, Canada, Australia and New Zealand discussed ways in which they might work together to protect domestic resilience and homeland security, and coordinate their response.

Product recalls increased by 25.5% in Europe in 2021 to 9,415 events, as numbers returned to pre-pandemic levels. Pharmaceuticals saw the greatest rise in events – with France the source of most recalls, data from Sedgwick showed. Electronics and medical devices followed. Clothing recalls were up marginally. Toy recalls – mostly of plastic dolls – fell.

Global firms are failing to prioritise ESG risks, creating perilous gaps in the evaluation and mitigation of the mounting hazards, according to research published by Marsh. Environmental law group ClientEarth meanwhile began legal action against the board of directors of Shell, arguing that their failure to properly prepare the company for net zero puts them in breach of their legal duties.

A study from the Chartered Institute of Internal Auditors suggests that boards are not taking culture seriously, despite the visible impact it can have on reputation, public trust and damage to long-term sustainability. Almost two thirds of practitioners polled as part of its study believe the Financial Reporting Council should act by further strengthening the UK Corporate Governance Code.

Ongoing supply chain issues and operational disruptions are the main concerns across the global construction industry, a new report from Allianz showed. The insurer's 2022 *Risk Barometer* ranked business interruption as the top risk for construction companies worldwide, with the consequences of a natural catastrophe event ranking a very close second, and fire and explosion third.

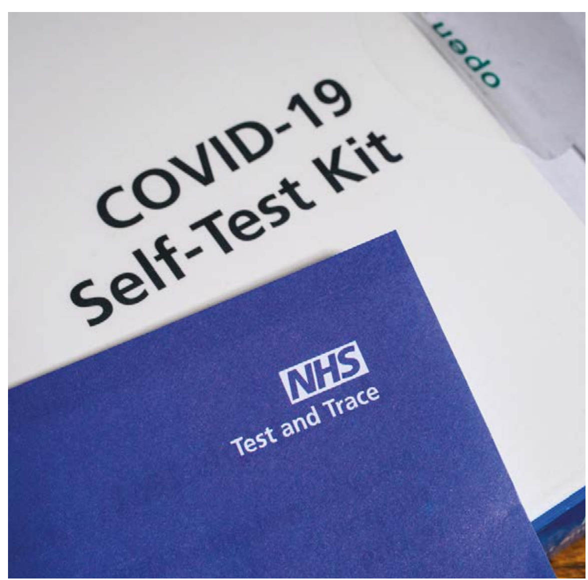
For the full story behind all these headlines, visit **cirmagazine.com**

The rising cost of building materials is leaving properties 'significantly' underinsured, according to a study carried out by Towergate, which urged businesses and homeowners to carry out fresh property valuations. The broker said it believes that as many as 90% of commercial properties in the UK are insufficiently covered.

The transactional risk insurance market surged amid record M&A activity, as private equity firms, corporations and strategic investors around the world increasingly turned to the cover in 2021 to reduce deal risk. Transactional risk insurance limits placed globally by Marsh Specialty in 2021 totalled US$81.1bn – an increase of 73% over the previous year.

Insured losses due to wind from Winter Storms Dudley/Ylenia and Eunice/Zeynep were estimated to range between €3bn and €5bn, with Germany, the UK and the Netherlands expected to bear the brunt. These estimates, calculated by Verisk Extreme Event Solutions (formerly AIR Worldwide), reflect wind damage to commercial, industrial, agricultural and residential properties, and vehicles.

The UK government announced plans to remove the current guidance on voluntary Covid-status certification in domestic settings from 1st April 2022. From that date, it will no longer recommend that certain venues use the NHS Covid Pass. Health and safety requirements that compel employers to explicitly consider Covid-19 in their risk assessments will also be removed.



These are among the changes announced by the government as part of its 'living with Covid strategy', which will also see the removal of free universal symptomatic and asymptomatic testing for the general public in England. Business group, the CBI said the strategy lacked necessary detail on employer liabilities, and urged the government to add further guidance on issues such as sick pay and employer liability to avoid the risk of a legal vacuum.

Pool Re completed the placement of its retrocession programme with more than 50 international reinsurers. Providing £2.5bn of cover, increased from £2.475bn, the placement is led by Munich Re with Hannover Re and Fidelis providing significant capacity. The retrocession covers property damage arising from CBRN, cyber-triggered terrorist losses and conventional terrorist acts.

Economic Secretary to the Treasury John Glen set out plans to reform Solvency II, a move he said would unlock "tens of billions of pounds of investment by slashing red tape". Speaking at the ABI's annual dinner, Glen promised the changes would "unlock growth and unleash investment in UK infrastructure", adding that the plans would "further deliver the benefits of Brexit".

News briefing

A round-up of the latest general insurance news

Lloyd's of London fined Atrium Underwriting a record £1m for bullying and misconduct, the largest fine of its kind to be issued by the insurance market. It issued a notice of censure in response to misconduct that took place at the managing agent. The public censure details three charges, to which Atrium has admitted.

Terrorism reinsurer Pool Re completed the placement of its second ILS cat bond, which was issued through UK domiciled special-purpose vehicle, Baltic PCC Ltd. The bond increased in size to £100m from the first bond of £75m issued in 2019. The risk spread was reduced to 5.5% compared to 5.9% under the 2019 issue. Meanwhile, Pool Re members endorsed the Treasury's five-yearly review of the government-backed reinsurer. Members voted unanimously in favour of the review.

Motor insurer and distributor Abacai Technologies teamed up with Synectics Solutions to use its database of cross-sector customer risk intelligence across point-of-quote, point-of-sale, and point-of-claim customer interactions. Abacai said the partnership would allow it to make faster, more accurate decisions with fewer verification processes.

Members of the Association of British Insurers pledged to double the number of apprenticeships across the insurance and long-term savings sector to 2,500 by 2025. The stated goals are to boost socio-economic diversity at entry level across the industry, to increase career opportunities around the UK and to increase access and inclusion. Separately, the ABI was confirmed as an official accelerator of the UN-backed Race to Zero campaign. In this role, the ABI will encourage members to join the campaign and work to raise awareness of the initiative.

The British Insurance Brokers' Association teamed up with MI Commercial Risks to launch an extension to its flood scheme that protects SMEs against the financial impact of a flood. The product is only available to BIBA members.

BIBA, the ABI and Flood Re together published a directory of 18 specialist flood insurance providers to assist people struggling to find cover. The move comes after a government review, published last year, recommended a means of providing easier access to suitable and affordable insurance products for those living in flood-prone areas.

New Financial Conduct Authority rules came into force restricting the amount claims management companies can charge. The limits are set as a percentage of the redress due to individuals, ranging from 30% for awards of £50,000 and above, down to 15% for awards of £1,499 and below.

Axa UK&I said home insurance customers can accommodate Ukrainian refugees without impacting their cover and without requiring insurer approval. Business insurance customers with hotels or guest accommodation can also support refugees under their current insurance policy but will need to inform Axa that they are going to offer this support.

RSA Insurance Group reported a profit before tax of £4.3bn for the year ended 31st December 2021, of which continuing operations contributed a loss of £228m and discontinued operations a profit of £4.6bn (£17m loss and £500m profit respectively in 2020). The disposal of the group's operations in Scandinavia and Canada accounted for a £4.4bn gain in the results.

For the full story behind all these headlines, visit insurancetoday.co.uk

Swiss Re announced a group net income of just over £1.0bn for 2021, in comparison to the loss of £656.4m it announced for the previous year. It published a net income of £1.6bn for its property and casualty reinsurance business, turning around the loss of £184.7m announced for the previous year. Its P/C reinsurance combined ratio improved from 109% (2020) to 97.1% (2021).

Direct Line Insurance Group announced a profit before tax of £446m in its preliminary results for the year ended 31st December 2021. This was down from the £451.4m recorded the previous year. Gross written premium dipped by 0.3% to £3.17bn for the year, while in-force policies also nudged down by 0.3% to 14.6 million.

Gallagher acquired a specialty and facultative reinsurance business in the Dubai International Finance Centre to support clients across the Middle East and Africa. It has taken a 51% stake in ACE Re Ltd. MIG Group retains the remaining 49% of the shares. The ACE Re team and clients will move into the new business and trade as Gallagher going forward.

MGA and Lloyd's coverholder Loadsure raised almost £8.5m in Series A funding through a round led by MMC Ventures alongside Crowley, a global maritime, energy and logistics company, and existing investor Insurtech Gateway. Loadsure offers clients cover through a transactional cargo insurance platform supported by an automated claims process.

Claims and technology solutions provider Charles Taylor released InHub, a cloud-based platform giving users access to third-party software as well as all of the solutions offered by Charles Taylor InsurTech. The InHub framework and architecture was developed in conjunction with Microsoft and Oracle.

County Group, which is owned by Global Risk Partners, acquired Cardiff-based community broker PG Insurance. The deal completed for an undisclosed sum on 1st March and extends GRP's footprint in South Wales. PG Insurance will continue to trade under its existing brand.

Digital insurance broker Simply Business announced a new partnership with RSA to extend its offering for tradespeople. RSA will join Simply Business's panel of tradespeople insurance providers and provide products to Simply Business's customers via both its RSA and More Than brands.

Verisk acquired UK-based insurtech, Automated Insurance Solutions. The acquisition includes AIS's flagship solution, BAIL. The automated motor claims liability assessment solution provides assessors with accident information including Google Maps integration for location and weather at time of incident, local highway code, case law and imagery, together with a forecasted liability outcome.

Motor insurer Equity Red Star, which is part of IQUW Group, renewed its partnership with rehabilitation services provider, Corporé, which is part of Handl Group. The new contract means Corporé will continue to provide case management and treatment services across the full range of ERS's third party personal injury claims.

Hastings Direct implemented the use of geographic location technology what3words into its motor claims handling process, helping it improve the speed at which it responds to customers needing assistance. The technology provides a unique reference for accident or breakdown locations, promising a faster, more certain response.

Risk in a time of flux

Deborah Ritchie speaks to Charles Hecker, global research director at Control Risks, about the company's latest thinking on how to succeed in hostile and complex business environments

We may be ready to say farewell to the omicron variant, but the feeling is not entirely mutual. The UK is in the midst of a second omicron peak; other parts of the world are either seeing dramatic increases in case rates or anticipating them soon. Still others seem to have put the variant past them. Whatever the trajectory of the virus, pandemic management restrictions are dropping almost everywhere. But even when the end is in sight for the global pandemic itself, COVID-19 will be with us for some time to come, its effect ongoing on companies in a variety of sectors and parts of the world. CIR spoke to Charles Hecker about the evolving threat landscape against this backdrop.

What does your own work and research reveal about the situation at this point?

We are quite cautious about referring to the 'end of the pandemic'. There is a persistent and significant risk of a new variant, as a result of the number of unvaccinated people globally. And whilst it is generally the case that variants are weaker than predecessors, when millions of people become ill and are at the very least unable to work – the disruptive force of omicron or subsequent variants remains considerable. Companies ignore this at their peril. Moving forward, pandemic has to be on the risk radar permanently.

Ongoing vulnerability to the endemic phase will depend very much on geography and sector. Travel and hospitality is particularly at risk of course, as some restrictions continue to be in place outside of the UK.

Outbreaks near ports, such as have happened in China and other parts of the world, will continue to have knock-on effects throughout supply chains and logistics. And if the virus becomes endemic near energy or mineral deposits in parts of Africa, for instance, we need to rethink our ability to extract or transport those going forward.

We'll also see what happens to state resilience in places with Long Covid – as it's not just people that can get Long Covid – countries can too...

Generally speaking, no government has had a 'good' pandemic. The pandemic created a great deal of political instability – weakening the bond between government and governed. As far as the impact on trust is concerned, upcoming elections will be telling.

In terms of the way we work, right at the beginning of the pandemic, some held the view that we would never go back to the way things 'used to be'. Others thought we'd snap back to all our old work patterns and habits. Neither of these forecasts was entirely right. Some of us still believe that staff work more effectively when they're together, but, either way, the new normal is all about negotiation with new rules of engagement in the workplace.

"The pandemic caused something of a crisis of confidence in risk forecasting. Rather than trying to make a long list of every possible thing that can go wrong, we recommend taking a strategic view of how the world is going to look over a certain time horizon and then stress-testing your business against a variety of future scenarios"

What risks should companies have on the radar, and how differently should they approach horizon scanning?

The pandemic caused something of a crisis of confidence in risk forecasting. Rather than trying to make a long list of every possible thing that can go wrong, we recommend taking a strategic view of how the world is going to look over a certain time horizon – say five, 10 or 15 years – and then stress-testing the business against a variety of future scenarios.

Those scenarios will now look quite different to what we might have anticipated just a few months ago. The strategic implications of the Russia-Ukraine conflict will likely be with us for years to come. Countries and companies around the world are now having to re-draw how and where they source energy; talk of the energy transition, for the short-term at the very least, has turned to talk about energy security. We are now learning how to cope with looming food scarcity, and what that will mean for political stability and civil unrest in countries that can ill afford food price inflation or even shortages.

Companies are having to comb through their footprints in Russia, checking for sanctions exposure,

Charles Hecker, global research director, Control Risks

"Whilst it is generally the case that variants are weaker than predecessors, when millions of people become ill and are at the very least unable to work – the disruptive force of omicron or subsequent variants remains considerable. Companies ignore this at their peril. Moving forward, pandemic has to be on the risk radar permanently"

while understanding that an escalation in sanctions is a significant threat.

All of this is taking place in a world already in a state of considerable geopolitical flux. The US had been hoping to spend more time dealing with domestic issues, or at least directing its attention to matters in Asia. As a result, the world is losing its traditional sheriff – the country that essentially designed the global 'terms and conditions' of how countries and companies interact. For the moment, it remains unsure who, or what, will design a newer global order.

This will have economic implications throughout 2022 and beyond, as a potentially multi-polar world begins to emerge. That's a level of uncertainty that companies generally don't like.

Some companies and investors thrive in this situation – but only those that have a robust appetite for risk and equally robust mechanisms for managing it.

Control Risks 2022 Global Risk Survey

The Control Risks 2022 Global Risk Survey asked businesses and organisations about the risks that will shape strategies this year.

Completed by more than 300 organisations across the globe, the survey takes an in-depth look at cyber and digital threats, geopolitics, the impact of Covid, climate change and ESG.

More than 80% of respondents consider that the cyber threat landscape will worsen this year compared with 2021. Some 66% of respondents say changes in geopolitics are pushing their organisation re-evaluate strategy. And 16% said they were not ready for the next disruption on a similar scale to Covid.

Find the survey at: https://www.controlrisks.com/our-thinking/insights/reports/global-risk-survey-2022

Your recent Global Risk Survey suggests that 80% of those polled consider that the cyber threat landscape will be significantly worse this year than it was in 2021. What can this be attributed to?
What we've noticed is a real acceleration of a previous trend of the collaboration between state cyber threat actors and criminal cyber threat actors. The blurring of lines between them is much greater than ever before.

We feel that companies are going to be even more exposed to cyber risk as a result, as they tend to want – or expect – to rely on the state to provide a certain umbrella of protection against cyber threats, and that's simply getting more difficult to do.

The threat against critical national infrastructure is getting harder and harder to deal with – especially as managing the pandemic has sapped so much capacity, which was already quite stretched.

Interview by Deborah Ritchie, Editor, CIR

A breach too far

The first invasion since 1945 of a European state has shifted the world on its axis. Deborah Ritchie considers the implications for the business risk landscape, from physical security risks to cyber

Russia's invasion of Ukraine has caused a devastating humanitarian crisis, destroying lives, livelihoods and infrastructure, and throwing the global economic recovery from the pandemic into disarray. Many lives have already been lost, and some three million people have fled Ukraine with more waves of refugees expected.

The OECD estimates global economic growth will be more than one per cent lower this year as a result of the conflict, while inflation, already high at the start of the year, could rise by about a further 2.5 per cent on aggregate across the world.

Commodity prices have risen sharply as a result of the conflict. Russia and Ukraine together account for about a third of global wheat exports and are important producers of fertilisers and metals used in industry, including nickel and palladium. Disruptions to wheat, maize and fertiliser further raise hunger and food insecurity risks across the world, while soaring metals prices could affect a wide range of industries such as aircraft, car and chip manufacturing.

With Russia supplying around 16 per cent of the world's natural gas and 11 per cent of oil, energy prices have jumped alarmingly. Europe in particular is highly dependent on Russian gas and oil. Gas spot prices in Europe are now more than 10 times higher than a year ago while the cost of oil has nearly doubled over the same period. Mathias Cormann, secretary-general of the OECD, comments: "The commodity supply squeeze resulting from this war is exacerbating supply chain disruptions brought on by the pandemic, which will likely weigh on consumers and business for some time to come. In terms of the policy and market response, we need to remain cool-headed. We need both sensible near-term and sensible longer-term action."

Risk landscape implications

The invasion has altered the emerging risk landscape, requiring enterprise risk management leaders to reassess previously established organisational risk profiles.

Matt Shinkman, vice-president of Gartner's risk and audit practice, explains: "Russia's invasion of Ukraine has increased the velocity of many risks we have tracked on a quarterly basis in our emerging risks survey. As ERM leaders reassess their organisational risk models, they must also ensure a high frequency of communication with the C-Suite as to the critical changes that require attention now."

Gartner has identified four major areas of risk for ERM leaders to continually monitor, as part of a broader aligned assurance approach as the war continues:

Talent risk: While the first order of business is the health and safety of employees directly affected by the war, there are many second and third order effects that could impact employee well-being. Employees across the globe could have family and close friends at risk in the region. Internal communications addressing well-being and outlining counselling services will need to be carefully calibrated and distributed.

Cyber security risk: The potential for increased cyber attacks means that the frequency of tabletop exercises should be increased, as well as ongoing reviews of protocols to defend against ransomware or other malware.

Financial risk: In the event of direct financial exposure to Russia, ERM leaders should be in close communication with third-party service providers on how best to provide and receive alternative payments that do not violate current sanction policies. Beyond direct exposure to the region, the war is likely to continue to raise key commodity prices and be a driver of inflation, so financial models for raw materials will need more frequent updates, while currency and interest rate impacts will likely be more volatile this year.

Supply chain risk: ERM leaders should ensure that they have updated supplier contingency plans in place that reflect the current environment. Longer-term, discussions should be initiated on how organisations will cope with the potential for key materials shortages, higher expenses, and assess alternative logistics options for obtaining materials and critical components.

Commenting on the risk implications, Bogdana Sardak, director of risk at Fusion Risk Management, says the geopolitical crisis in Ukraine is multifaceted, making it critical for organisations to assess the immediate and potential

future effects, and take swift action.

"Organisations with offices in or near areas affected by the geopolitical crisis must consider how daily operations will be affected, she explains. "Employee safety and security should be the top priority. Businesses must also consider that government intervention such as sanctions, financial limitations, or government restrictions may hinder the organisation's ability to function as usual."

Responding to the crisis: International SOS

Since the crisis began, we have been working to support impacted clients and their employees. For those directly impacted on the ground we've provided up-to-date, verified information, advice and assistance, including secure internal relocation and evacuation services. We've also provided crisis management expertise and an understanding of the security and medical environment in conflict zones to assist client decision making and planning for support to employees and operations in Ukraine and neighbouring countries. We've focused on providing clear, reliable information about the situation to counter mis- and dis-information, as well as actionable advice and analysis on how the situation may evolve.

Physical security risks have of course been our primary concern. The situation is extremely dynamic and we've worked with client organisations to advise on risks associated with moving across or out of the country compared with staying in location. We've provided medical and security advice to help client employees in Ukraine shelter in place when movement either hasn't been an option or presents higher risks than sheltering in place. Client support has also focused on access to mental health services for those still in Ukraine and for those with family members, loved ones or team members impacted by the situation.

Beyond the borders of Ukraine we've directly supported organisations and their employees with access to verified information, logistics arrangements and medical advice. We've also supported client decision makers whose employees and operations may be impacted by increased refugee flows or other changes in the local environment across the region.

Industries most impacted by the crisis so far include technology, medical and telecoms, professional services, and manufacturing.

Sally Llewellyn, regional security director, EMEA, International SOS

Cyber

Whilst the recent tightening of economic sanctions on Russia could trigger retaliatory cyber warfare and drive up claims, European and North American re/insurers are anticipated to be shielded from large volumes of claims due to exclusion clauses, reductions in limits, and product diversification, according to forecasts from DBRS Morningstar.

Although acts of war are typically excluded from cyber insurance policies, attribution remains a key challenge as most cyber warfare is typically not acknowledged by belligerent state actors.

War exclusions in insurance policies have been updated in the past three years, although insurers and reinsurers are still trying to find a balance between the right coverage and managing accumulation risk.

"Although acts of war (declared or not) are typically excluded from cyber insurance policies, in DBRS Morningstar's view, the current conflict could potentially increase cyber-related insurance and reinsurance claims in Europe and North America, as attribution can be very difficult to determine in cyber incidents," says Marcos Alvarez, senior vice-president and head of insurance. "Nevertheless, we expect that insurers and reinsurers will continue to clarify their cyber war exclusions to face the new realities of state-sponsored cyber attacks."

The Russia-Ukraine conflict has already increased the number of cyber incidents, but they mostly remain unsophisticated distributed denial-of-service attacks.

Investor confidence

Analysts have warned of a severe impact on investor confidence since the invasion. A survey conducted by Hargreaves Lansdown shows that confidence in all global sectors has plummeted, with confidence in Europe suffering the worst fall in March, plunging by more than a third as events unfolded. Worries about the repercussions of higher oil and grain prices for global emerging markets are also likely to be behind the 26 per cent fall in confidence for this sector.

Confidence in the UK has dropped by more than a fifth (22 per cent) with investors assessing the ricochet effect sanctions will have on industries across the board, as they grapple with higher food and transport costs, and a hit to consumer spending power.

Susannah Streeter, senior investment and markets analyst at Hargreaves Lansdown, comments: "There has been a severe jolt to investor confidence since the invasion of Ukraine, as sanctions have been slapped on Russia, and commodity prices roared upwards. Investor confidence in the UK has dropped back to levels not seen for 18 months at a time when the country was still reeling from pandemic restrictions, before vaccine breakthroughs dramatically lifted sentiment."

Deborah Ritchie is editor of CIR Magazine

A new approach to national resilience

Ahead of the publication of the UK's new National Resilience Strategy, Caroline Field explores the need for a new approach that fosters a collective, shared responsibility for national resilience

The world is becoming more volatile, uncertain, complex and ambiguous, and over the past couple of years this has been amply illustrated by Covid-19, supply chain disruptions, energy and worker shortages and the increasing effects of climate change. In each of these, gaps in our national resilience have been exposed. And now we have Putin's invasion of Ukraine that will again stretch our collective resilience.

The national resilience strategy, due for publication at the end of March, is a welcome attempt to address these gaps and will call for a 'whole society' approach and a complete rethink of our approach to resilience.

One of the key principles will be investing in preparation (as opposed to prevention). But it has long been a challenge to secure that kind of investment. The fact that the word 'preparation' is used instead of 'prevention' is no accident. There is traditionally much less appetite for investing in prevention – exacerbated by four-year political cycles – leading to a short-term focus. The UK (and most organisations) tends to focus more on responding to emergencies (including preparing to respond to emergencies) rather than mitigating the risk through other proactive interventions.

Disruption and change

Resilience is defined as the ability to prepare for and adapt to changing conditions, and to withstand and recover rapidly from disruptions. The need to be flexible and adaptive to change is often overlooked with a focus on responding to specific crises.

Take, for example, the energy sector, with its dual challenge of severe storms, and the need to address net zero commitments. The problem was recently highlighted by the impact of the three storms in a row that hit northern England. Storm Arwen left over one million customers without power for more than 12 days and some customers for up to 21 days.

This raises the question of what is considered 'acceptable' downtime. There needs to be discussion at a national level about what disruption we are willing to accept and under

"The UK (and most organisations) tends to focus more on responding to emergencies (including preparing to respond to emergencies) rather than mitigating the risk through other proactive interventions"

what scenarios. Setting performance goals is the first step. Only then can we plan how to meet those in the face of increasing risks and costs.

With climate change increasing the frequency and magnitude of storms and the net zero agenda driving electrification, electricity supplies are now at much greater risk. And with the speed of technological change – including electrification – we are potentially exposing businesses to even more vulnerabilities, making resilience an even more pressing issue.

While the impact is of course not focused on just one sector, Covid-19 really served to highlight the lack of resilience in the aviation industry. Coupled with the climate emergency, the imperative to decarbonise and diversify is critical. The magnitude of change that decarbonisation and new technologies require means resilience is key to ensure businesses are not left behind or become obsolete.

Current approach

We urgently need to address the misnomer that resilience costs money. Resilience should be a strategic enabler and deliver advantage, not simply a defensive measure. In 2013, the Centre for American Progress published a report that found that the federal government spent six times more on post-disaster recovery efforts than on helping communities become more resilient to extreme weather. It calculated that for every US$1 invested in pre-disaster mitigation, the cost of damage from extreme weather is reduced by US$4.

During Storm Arwen, power companies desperately needed help responding to the storm and the army stepped in. However, only the local authority can call in the military during an emergency and they delayed this request for several days because they also have to foot the bill. The issue of who pays for the cost of resilience (whether during an emergency or after) often gets in the way of swift action. There needs to be a mechanism to share the cost, and to remove this barrier to resilience.

"The magnitude of change that decarbonisation and new technologies require means resilience is key to ensure businesses are not left behind or become obsolete"

The current regulatory approach in energy also drives a focus on response and recovery rather than investment in infrastructure. It is important to balance the need to keep costs as low as possible for customers with the reality of the massive investment needed to upgrade and future-proof the energy network (and making sure that it is resilient as it transitions).

A new approach

We need to broaden our national resilience to a fully integrated, systems-based approach which reflects a clear assessment of risk, impact and benefit.

Systems thinking encourages understanding of the broad purpose and scope of the system, rather than a component-centric siloed view. The 'system' should include people, assets, leadership and operations, and the interdependencies between these.

Too often siloed thinking is the cause of major disruption. Consider the power outage in London in August 2019, when a 45-minute power outage caused significant impacts on the rail sector – in particular, when certain Govia Thameslink Railway trains shut down and became stranded due to the configuration of their own on-board automatic safety systems, which caused other services to be cancelled or delayed for hours.

For a business case to stack up, it must consider 'total value' not just financial outcomes, but other values such as sustainability, community, social and economic benefits, security and reputation.

Combining systems thinking and total value, allows us to prioritise those strategies that deliver most value and provide a robust business for a suite of resilience initiatives that measurably increase capacity and ultimately value delivered. A balanced suite of measures is needed based on this business case – not everything needs to be mitigated, sometimes failure and recovery is the most effective option.

By conducting an evidenced-based assessment, providers can clearly demonstrate the business case for investing in a balanced suite of resilience measures that include preparation and prevention. It is also important to understand that by preventing disruption, providers will be better placed to meet their business goals and so secure competitive advantage. By setting it out in this way, senior leaders will be more receptive to the case for investment.

To enable this approach, the government needs to promote a collective, shared responsibility for national resilience, which means sharing resources and data and developing the tools and approaches to facilitate this.

Caroline Field is a national resilience expert at PA Consulting and RAE Visiting Professor of Structure and Infrastructure Resilience at Loughborough University

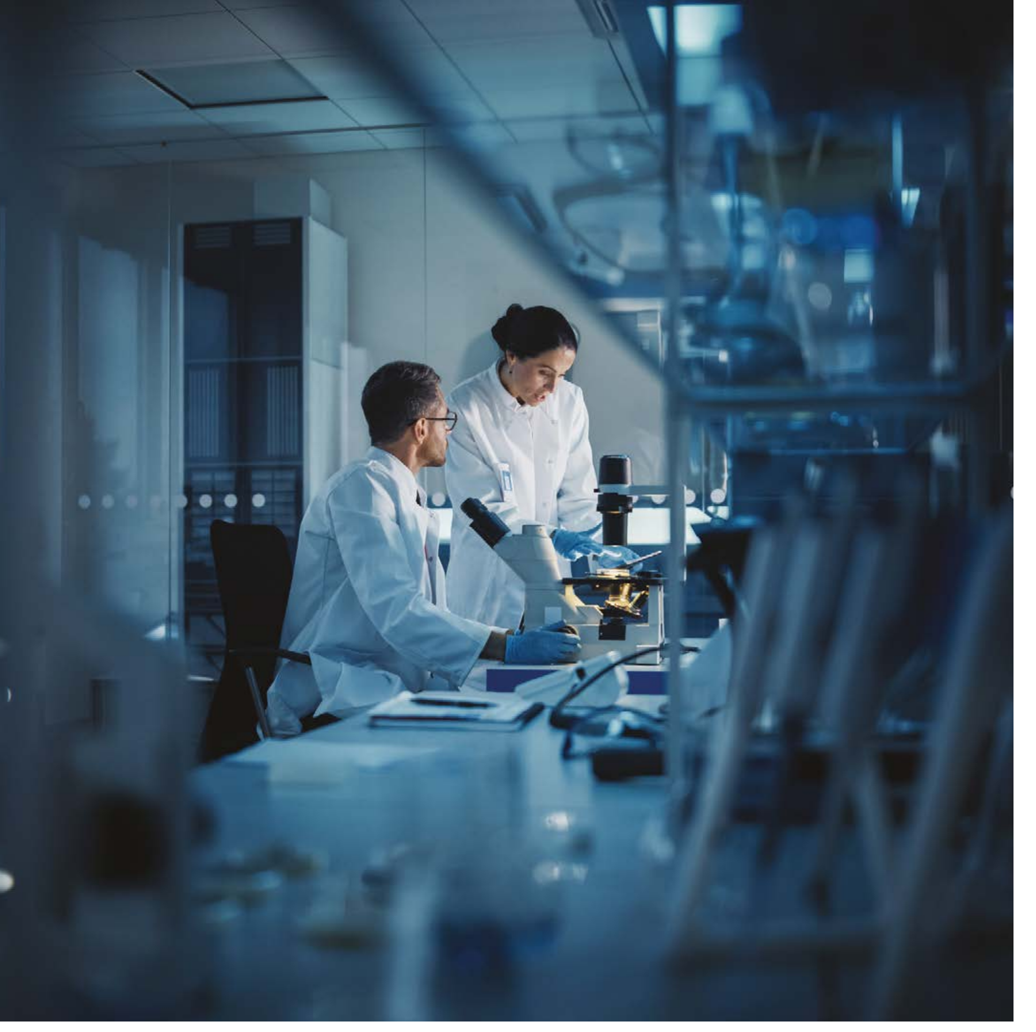
Covid: The aftermath

Covid restrictions in the UK have ended, and the number of new cases and deaths are falling – but the virus' true impact on businesses and insurers is only just beginning. Dr Quinton Fivelman explains

There is mounting evidence that up to 30 per cent of people who contracted Covid-19 could develop some form of PASC (Post-acute sequelae of coronavirus), commonly known as Long Covid. This has a huge significance for businesses as they seek to manage staff illnesses, and for their insurers.

Many individuals who caught Covid have gone on to develop long-term symptoms that have impacted on their quality of life, and reduced their performance at work – in a development that could cost the NHS millions.

It is also very difficult to predict who may be worst affected, as there is currently no detectable correlation between the severity of the initial illness and the onset of PASC.



Managing significant numbers of people who are either off work ill, or who have returned to work but are unable to perform their full duties, looks set to be a challenge for businesses that will continue for some years.

There are an estimated 1.3 million people in the UK currently suffering from Long Covid symptoms, according to the government's Office for National Statistics. While 1.3 million sounds like a large number of people, it is in fact only around two per cent of the population. Our concern, however, is that evidence is mounting that the true number of long-term sufferers will be much higher, particularly if we see another surge of infections.

A study conducted last year by the University of Washington found that in a random group of Covid patients (over 80 per cent of whom were out-patients and never hospitalised for the virus), around 30 per cent reported persistent PASC symptoms for as long as nine months after illness.

It is also likely that many people are either not reporting ongoing symptoms or are experiencing new health problems and not associating them with what seemed to have been a mild Covid-19 illness some months previously.

Long-term symptoms in some PASC patients may be due to consequences from organ or tissue injury, or associated clotting or inflammatory processes during Covid-19.

A recent overview published in the journal *Frontiers in Microbiology* highlighted PASC symptoms as including fatigue; muscle weakness; insomnia; palpitations; congestion; taste disorders; chills; sore throat and headache.

Of even greater concern, a new study published in *Nature* in March shows that, even after a mild infection, the overall size of the brain had shrunk slightly in the majority of Covid-19 cases. Overall brain size in infected people had shrunk between 0.2 and two per cent. There were losses in grey matter in the olfactory areas, linked to smell, and regions linked to memory. Those who had recently recovered from Covid found it slightly harder to perform complex mental tasks – likely to be a cause of the continuing 'brain fog' that many people experience post-Covid, which can last for months after their other symptoms have apparently gone. This could well translate into some staff not returning to their previous performance levels for some time.

The Covid-19 virus spreads through the airways into the heart, brain and almost every organ system in the body, and can lead to significant problems from chronic fatigue and difficulty standing upright.

A study printed in the *Annals of Neurology* in December, found multisystem abnormalities in the cerebrovascular, respiratory, neuronal, and autoimmune systems in people suffering from PASC. Inflammation of small vessels is thought to play a role in this. A South African study found circulation problems associated with microscopic blood clots. These tiny clots may form during an infection but might persist in Long Covid patients and block the fine capillaries that carry oxygen to tissues throughout the body.

What should employers do to aid Long Covid sufferers?

With anything up to 30 per cent of its workforce absent, or back at work but facing one or more of the symptoms outlined here, businesses will have to adapt.

The Chartered Institute of Personnel and Development says 26 per cent of companies report Long Covid as a main cause of extended absence. In a survey of 804 businesses, 46 per cent had employees that had experienced Long Covid. CIPD says that 45 per cent of employees suffering from Long Covid said that they were working reduced work schedules and 22 per cent were not working at all, due to their health condition.

Similarly, a Trade Union Congress survey of 3,557 workers with Long Covid, found 57 per cent had returned to work fully with 16 per cent returning to reduced hours. It is worthy of note, too, that the TUC is calling on the government to strengthen the Equality Act 2010 by specifying that Long Covid is a disability.

Despite these numbers, CIPD says only 19 per cent of employers provide guidance for their employees about managing health conditions while at work. Looking at these numbers, companies can't simply turn a blind eye to the impact of Long Covid on their employees and on their bottom line. Adjustments will be needed to an employee's work or work pattern, both from the point of view of helping staff successfully return to work, and under health and safety legislation to help employees manage the impact of Long Covid on their work life.

Long Covid is a particularly difficult illness to manage because on some days the affected individual might seem well, while on other days their symptoms can be worse, and they may need to be off work again.

Businesses and their managers are in a difficult position. Fear of a job loss or any sort of backlash could prevent staff from seeking the help they need. Managers will need to define an appropriate level of work, any downtime needed, and any adjustments staff need to make to their role while they recover. Communicating Long Covid sufferers' problems to the wider team can help plug the gaps, but by law, managers need their employees' permission to share any medical data.

According to the Advisory, Conciliation and Arbitration Service body, ACAS, if an individual is off sick with Long Covid, their employer should agree how and when to make contact during any absence, make sure their work is covered or shared out appropriately while they're off, and talk about ways to support them as they return to work where and when possible. As a patient returns to work, the following will need to be discussed:

1. Getting an occupational health assessment.

2. Making changes to the workplace or to how the employee works, such as different working hours.

3. A phased return to work.

4. What they want to tell others at work about their illness.

Increasing problems

While it is clear that Long Covid is a genuine, physical problem that can become a chronic illness, it cannot be denied that it is such an unspecific illness with so many potential symptoms that it is often difficult to medically diagnose and treat.

There has also been a rise in

people taking sick leave because of Covid rather than directly due to it, such as general fatigue or depression rather than Long Covid specifically – not that people without Long Covid are not suffering, but this is generally a specifically psychological, rather than physiological, problem often due to anxiety or stress related to the pandemic as a whole.

This does not mean we shouldn't address the elephant in the room. Since the pandemic, 40 per cent of workers are said to be considering changing jobs, so there is certainly an increased malaise amongst the working population.

A small minority may also simply use Long Covid as an excuse for absence. The problem here is that there is no specific test for Long Covid. Only certain specific symptoms, such as breathing difficulties, can be measured.

Another significant problem for businesses is deciding what to do when a member of staff never returns to full fitness and their role cannot be adapted to their new capacity levels. If an employee becomes unable to do their job due to an illness such as Long Covid, despite a period of adjustments or support, a capability issue may arise.

ACAS says businesses should make sure they have done everything they can before considering a capability procedure. If an employer dismisses an employee without first carrying out a full and fair disciplinary or capability procedure, there may be scope for the employee to make a claim of unfair dismissal.

Insurance considerations

Long Covid presents insurance problems both for staff and employers. Long Covid is a chronic condition, which, according to Aviva, means it's not covered by private medical insurance, although that policy should cover them right up to the diagnosis of Long Covid – including eligible tests to determine the cause of their symptoms.

According to the Association of British Insurers, Covid has had a considerable impact on business insurance already, with carriers expected to pay around £2 billion in business interruption Covid claims from 2020 alone, out of an anticipated £2.5 billion in Covid-related claims across all insurance products, including travel and life.

However, in a Dear CEO letter issued to insurance firms, the Financial Conduct Authority wrote: "It remains the case that most SME business insurance (BI) policies are focused on property damage and only have basic cover for BI as a consequence of property damage, so are unlikely to pay out in relation to the Covid-19 pandemic and its effects."

It is that final clause that is key here. The effects of Long Covid can be very damaging to a business. For example, what happens in the case of an owner of a small business who is unable to properly run their company because he or she is suffering from Long Covid? That is just one of the problems the condition has created.

A testing problem

The medical profession has reacted incredibly swiftly to the arrival of this new virus. At London Medical Laboratory we introduced a wide variety of new tests for Covid, to detect the presence of the coronavirus, and to meet the government's ever-changing travel regulations. We also introduced an IgG antibody test, which provides 100 per cent sensitivity in detecting Covid-19 antibodies in people 14 days (or greater) after a confirmed illness. Determining Covid-19 antibody levels is the most effective measure we have of the level of immunity a person has built up to the disease. We also provide a wide range of blood tests which can help diagnose many of the symptoms attributed to Long Covid.

The fact remains though, that no comprehensive test for Long Covid currently exists, and such are the wide variety of symptoms reported, that a comprehensive Long Covid blood test seems unlikely to ever be developed. That places both businesses and insurers in a difficult position, and one that is likely to persist for some time to come.

Dr Quinton Fivelman is chief scientific officer at London Medical Laboratory

Assessing the risk of claims

John Lezemore and Derek Adamson take a look at the potential for Covid- and Long Covid-related claims due to exposure to coronavirus at work, and outline considerations for insurers as the situation develops

Over 93,000 workers suffered from Covid-19 in 2020/21, which they believe may have been from exposure to coronavirus at work, according to data from the Health and Safety Executive. The Industrial Injuries Advisory Council is also investigating alleged workplace-related Covid-19 for deciding whether Covid-19 becomes a prescribed disease for benefits purposes. This is an issue that businesses, and particularly their insurers, need to be better prepared for, as there is a possibility that we could see an avalanche of Covid, including Long Covid claims.

Long Covid involves lingering symptoms of the virus for more than a month after infection. It is currently a poorly understood condition with sufferers reporting tiredness, breathing difficulties, a loss of smell, and problems concentrating. It has also been linked to an array of other symptoms like joint pain, nausea, insomnia and depression. It is thought that at some point the organic explanation will become less significant and for cases with enduring symptoms, the question will be whether a psychological process is in operation (somatisation) and insurers may need to approach such cases in the same way as they deal with other somatic illness cases.

Establishing legal causation, meaning proving that the negligence caused the alleged condition (a necessary component of any such claim) will be an issue for any Covid claimant. A Long Covid claimant will have the added complication not just of proving that the initial infection arose from breach of duty but that there exists or remains a causal connection between the alleged long-term condition and the act(s) of negligence.

It follows that, with so many symptoms also associated with other causes, proving Long Covid can and will be a minefield for sufferers.

The potential claim value could be very significant too. Many Long Covid sufferers may not be able to return to their jobs for a substantial period and we do not yet know whether they will ever make a full or significant recovery. That may make such claims attractive to claimants' solicitors.

With employers required by law to insure themselves against liability for injury or disease caused to their employees whilst at work, insurance companies will have to deal with any such claims.

Preparing for Long Covid claims

As with many diseases, there are several unknowns. We are still in the midst of the global pandemic and are still learning about the disease. Post-pandemic, as epidemiological evidence matures, we may see development of the law of causation specific to Covid. We may also see the policy-based exception from the normal rules applied since the early 2000s to asbestos-related mesothelioma claims extended to this arena.

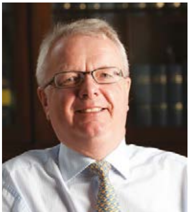
Aside from potentially costly Long Covid claims, insurers could see a raft of fraudulent or exaggerated claims, comparable to fraudulent whiplash and exaggerated somatic illness claims and need to be gearing up for this.

"Post-pandemic, as epidemiological evidence matures, we may see development of the law of causation specific to Covid"

Insurers should take steps now to better prepare. First, it is important to take this seriously and identify a dedicated team to open and process these claims. This team may already exist and, if they are not familiar with the relevant law and medical science, then they need to be taught, and be trained to spot the red flags. Alongside this, they are advised to appoint a law firm with the necessary pedigree to be on standby, and ready to litigate landmark, law-making claims (and the potentially more expensive Long Covid claims) on their behalf.

Insurers would also be advised to monitor developments at the IIAC, as if Covid becomes a prescribed disease for benefits purposes, insurers need to be ready to act if claimants decide to adopt the approach to causation.

John Lezemore is a partner and head of DWF's Chronic Pain Group



Derek Adamson is a partner and head of occupational Health and Casualty, DWF

Addressing disruption

As businesses work hard to recover from the pandemic, continued supply chain challenges throughout 2022 seem likely. George Beattie examines the ways in which supply chain exposures are being felt, and how the issues may be managed

As business leaders considered their strategies for emerging from pandemic-related restrictions into a hoped-for surge of economic activity in 2022, one of the leading concerns for many was continued disruption of supply chains.

As Beazley revealed in its *Risk and Resilience* report *Spotlight on Business Risks*, more than a third (34 per cent) of UK and US business leaders surveyed in early 2021 expected that business risks (which include supply chain, business interruption, boardroom, reputation and employer risks) would be their top concern a year later. Across all industry sectors, the median figure for business leaders that predicted supply chain risk would be their chief concern in 2022 was 29 per cent, with 42 per cent of those in the healthcare and life sciences sector listing it as their number one issue for this year.

"While the UK does have a healthy semiconductor industry, it would have to scale up significantly and rapidly to replace supply from Asia"

Throughout 2021, the widespread impact of supply chain failures was clearly visible in the struggle by a number of industries to manufacture and supply goods and services at a pre-pandemic rate and scale. Supply faltered as pandemic-related movement restrictions and labour shortages caused factory production to slow down, leading to reduced output of key components such as semiconductor chips.

Companies have responded by combining multiple strategies to build supply chain and business interruption resilience. Businesses have sought to increase their inventory of critical products and components while diversifying their supplier base and attempting to bring elements of their supply chain on-shore.

This is a lengthy, complex process, so it comes as little surprise that supply chain was the area where business leaders felt they had the least resilience, with those in the hospitality, entertainment and leisure sectors feeling the most pessimistic about their prospects in 2022.

That supply chain will remain a serious problem throughout 2022 seems likely. Supply chain disruption has featured heavily in company financial reports as a continued constraint on annual earnings, and a variety of measures used for tracking supply chains suggest disruption is at historically high levels. Indeed, the outlook from logistics firms is that the picture in 2022 for supply chain and logistics may be a continuation of the delays, congestion, equipment and capacity shortages and increased costs seen in 2021.

Claims anticipated

As Beazley's research shows, there was already evidence in 2021 that supply chain issues were impacting property insurance claims. There were also concerns that these effects could spill over into the product liability market, with claims likely to emerge for technology products where manufacturers were forced to source components from alternative suppliers.

Taking the tech industry as an example, given that an estimated 83 per cent of the global supply of processor microchips and 70 per cent of the world's memory chip market is concentrated in Taiwan and Korea, the challenge of regionalising or re-shoring production of essential components closer to home becomes apparent.

Unlike the US, the EU does not have a tangible microchip and semiconductor industry to turn to for a localised supply of tech components. And while the UK does have a healthy semiconductor industry, (although its leading manufacturer is no longer domestically owned), it would have to scale up significantly and rapidly to replace supply from Asia, raising the risk of manufacturing problems and possible liability claims further down the line.

"The outlook from logistics firms is that the picture in 2022 for supply chain and logistics may be a continuation of the delays, congestion, equipment and capacity shortages and increased costs seen in 2021"

Solution needed for integrated risks

In the near term, the concern that 2022 may be the year in which supply chain, along with other business risks, 'leaks' across insurance classes, is real and valid. This has the potential to create increasingly complex, integrated risks with greater claims severity.

Against this backdrop, specialist insurers are working with insureds to pool and analyse data from automated supply chains which will, over time, enable us to supplement traditional indemnity products with additional risk management services such as risk analysis, benchmarking and mitigation advice to analyse insureds' supply chain quality and business interruption resilience.

In order to do so, we need to make better use of 'big data' technology such as artificial intelligence, as well as industry intelligence, to support our customers in managing their reputations by benchmarking objectively against their peers. Ultimately it will also help insurers to offer clients greater limits for supply chain exposures.

George Beattie is head of incubation underwriting at Beazley

Dark spectres

With insufficient capacity and increases in aggregate premium, the cyber re/insurance market is under pressure. And as tensions escalate in Ukraine, the problem only looks set to worsen. Tom Johansmeyer considers the role for ILS in this elevated threat environment

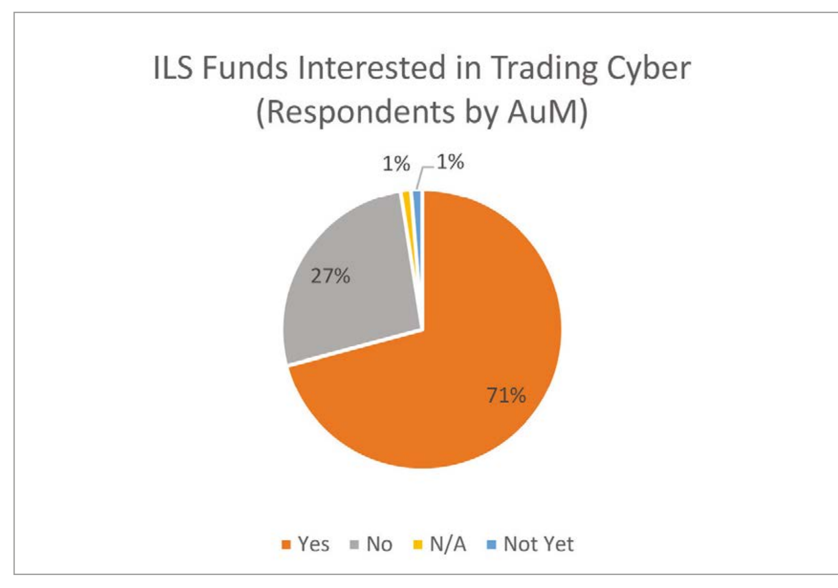
The cyber re/insurance market is already in a bind. It seems there isn't enough capacity to support continually growing demand for protection, and increases in aggregate premium mask underlying dynamics that signal a market that's stalled at best. Meanwhile, the escalating tension surrounding the current situation in Russia and Ukraine could intensify the problem. While constraints on re/insurance capacity at the 1st January 2022 renewal were already likely to reverberate through the insurance market for the rest of the year, shortages could be exacerbated by the ongoing threat of both armed and cyber conflict in Ukraine. The global re/insurance market is watching carefully.

Pre-existing capital constraints

The fourth quarter of 2021 showed the extent of the strain present in the cyber re/insurance market. Underlying rate increases helped grow the affirmative cyber re/insurance market to US$2.9 billion in global premium at the renewal, with the original insurance market estimated at US$5 to 5.5 billion, according to PCS internal research. Premium growth came disproportionate to the amount of overall protection provided to end insureds, according to market sources, which means that insureds likely had to pay more for less cover. Aggregate premium may have been up, but the amount of protection in the market didn't grow.

Some re/insurers simply ran out of capacity, and without additional capital allocations, they couldn't write more business. In other sectors, reinsurers would turn to the retrocession market for capital relief alternatives, but cyber retrocession is limited at best, and it is bespoke. Further, per PCS internal estimates, most premium is concentrated among the four largest reinsurers in the sector, which account for 72 per cent of the total. The fourth largest cyber reinsurer has nearly three times the premium of the fifth. Seeking retrocession from each other wouldn't solve the concentration risk problem, and smaller cyber reinsurers are too small to provide meaningful support.

More capital needs to come into the cyber re/insurance sector to break the current logjam. The availability of retrocession would provide relief up and down the risk and capital supply chain, and it would be a natural entry point for the insurance linked securities market. Our own research shows us that at least six have transacted in cyber re/insurance in the past, and several more have expressed an interest in doing so in 2022. So far, though, the ILS market's engagement with cyber re/insurance risk has been fairly limited. To make a worldwide difference, ILS funds should become comfortable with both the risk and the instruments used to transfer it. The latter is already in the works. We have spoken with ILS funds around the world about different structures for



Source: PCS, a Verisk solution

"To make a worldwide difference, ILS funds should become comfortable with both the risk and the instruments used to transfer it"

alternative risk transfer, and learned that deals are currently being negotiated. The risk that the Russia/Ukraine conflict could involve cyber attacks, though, may challenge the former.

The spectre of another NotPetya

Russia has been at the epicentre of the cyber threat for at least five years now. While ransomware has pushed insurance industry loss ratios higher since 2018, the first major warning signs came the year before that – with the WannaCry and NotPetya cyber events. Both originated in Russia and led to significant insurance claim volume. WannaCry is believed to have impacted more companies and potentially to have caused greater economic losses, but NotPetya was far more significant for the insurance industry. It originated with an attack on a popular Ukrainian business software solution and ultimately spread around the world, becoming the first cyber catastrophe event to generate at least US$250 million in industry-wide insured losses, with the affirmative cyber tally ultimately exceeding US$300 million and aggregate non-affirmative cyber losses roughly ten times that, according to our own data. No single cyber attack since has caused commensurate industry-wide insured losses, and the events currently playing out between Russia and Ukraine have many worried about another such incident.

Many re/insurers have begun to talk about whether the current situation involving Russia and Ukraine could lead to another round of offensive cyber operations. Cyber operations can be conducted quietly in the background during ostensible efforts at diplomacy. Further, cyber operations are not as people-intensive as traditional military strikes. The spread of COVID-19 in Russia – where the WHO reports

"No single cyber attack since NotPetya has caused commensurate industry-wide insured losses, and the events currently playing out between Russia and Ukraine have many worried about another such incident"

10,000 confirmed cases per 100,000 population – may make cyber operations a more viable near-term alternative, leading to concerns about a repeat of the 2017 NotPetya cyber catastrophe within the re/insurance industry.

How ILS can respond

Another NotPetya-style event would probably seem like an impediment to the entry of fresh ILS capital into the cyber re/insurance system, especially given the increase in insurance penetration over the past five years and the upward creep of loss ratios over the past three. Upon closer examination, though, the increasing threat environment may address one of the market problems that kept ILS capital from entering earlier.

ILS funds tend to offer collateralised protection, which can require higher rates than traditional re/insurance because each dollar of capital can't be used several times, unlike with traditional re/insurance. Low rate on line deals can thus be problematic for the ILS market, because fund managers can't generate sufficient returns on them for end investors. Capacity shortages were sufficiently acute by the fourth quarter of 2021 to bring scale to ILS market entry discussions through the 1st January 2022 re/insurance renewal, to include a narrowing in the gap of price expectations. That alone is likely to fuel a wave of new alternative risk transfer transactions in cyber this year. The heightened risk environment may make it an even smoother process.

The elevated threat environment could help justify increased ROLs for cyber ILS transactions. The key is to find entry points that justify sufficient ROLs while staying remote enough that deal pricing doesn't become too expensive to clear. Low expected losses would likely keep ILS capacity providers above the fray, and their support could provide the capital relief necessary to enable more risk transfer among insurers and reinsurers – and insurers and their end insureds. For the ILS funds new to cyber risk, striking this balance will likely be crucial to helping them get comfortable with the risk and ultimately increasing capital allocations and even taking more aggressive positions over time.

Regardless of the outcome of the situation in Ukraine, the cyber re/insurance market needs outside capital to help facilitate more consistent and reliable risk transfer. Without it, the sector may struggle to return to its prior growth trajectory. With demand for cyber insurance continuing to grow rapidly, the resulting potential gap would reveal a salient societal vulnerability. The exacerbation of that situation by the potential for cyber and non-cyber hostilities in Ukraine shows the potential consequences of that societal vulnerability, but it may also contribute to a near-term solution. If ILS funds can find the right entry point relative to expected losses, then the imminent threat today could be the stimulus that brings meaningful amounts of risk capital into the market for the future.

This article was written prior to the Russia/Ukraine conflict

Tom Johansmeyer is head of PCS at Verisk

Shifting sands

Reflecting on the developments of 2021, and further anticipated changes, Hans Allnutt and Eleanor Ludlam are left in little doubt that the world of privacy, whether seen through the lens of litigation or regulation, is evolving quickly, exposing new areas of risk

The world of privacy litigation developed on a number of fronts in 2021, with the courts' approach to individual claims and class actions crystallising, and a new wave of so-called cookie litigation creating risk in an area not typically identified as generating exposure for businesses previously.

In terms of individual compensation claims for breaches of the UK GDPR and Data Protection Act 2018 across the last twelve months, the courts clarified that data breaches deemed sufficiently low risk and low value should be transferred to County Courts and allocated to the Small Claims Track, thus significantly reducing the costs recovery position for claimant solicitors' firms. Alongside this, in recent years, class actions seeking compensation for a loss of personal data had grown in number in the UK. This was seemingly as a result of a greater awareness of data protection rights following the roll-out of compulsory breach notification under the GDPR in 2018 and the significant regulatory fines which had been widely publicised in the press.

Importantly, the landmark decision of Lloyd v Google in November 2021 curtailed the prospect of further data protection class actions, although did not entirely rule them out. The Supreme Court refused permission for Mr Lloyd, a consumer rights champion, to proceed with his £3 billion 'opt-out' representative action against Google. Lloyd alleged that Google breached its duties as a data controller under the Data Protection Act 1998, when it collected and used the browser generated information of 4.4 million Apple iPhone users during 2011 and 2012.

Lloyd had claimed that there was no need to set out any distress or financial loss for each of the claimants, arguing that they had all suffered 'damage', simply by virtue of each claimant having 'lost control' of their personal data because of Google's actions. The Supreme Court disagreed and determined that a breach of the 1998 Act was not evidence of damage itself. However, the door was left open for future actions to proceed if they could be bifurcated. In essence, a class action could be permitted to proceed as a two phased process: the action would first establish a legal breach had occurred, leaving each claimant to set out the distress or financial damages they had suffered. However, the Court noted that this may make such class actions financially unviable as there would be no spoils to share for those funding the first phase of the litigation.

Another important development

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in 2021 was the wave of litigation we saw being brought in relation to alleged infringements of the Privacy and Electronic Communications Regulations' cookie rules. Whilst various European data protection regulators had stated that PECR infringements were a strategic priority, little had been seen by way of individual compensation claims being brought. Essentially, complaints focused on the placement of non-essential cookies on users' devices without appropriate consent being obtained.

In tandem with the PECR litigation which flowed, in September 2021, the Information Commissioner's Office called on G7 data protection authorities to collaborate in overhauling cookie consent banners. Shortly after, the European Data Protection Board established a cookie banner taskforce to coordinate the response to circa 450 cookie banner complaints filed with European data protection regulators by Maximillian Schrems' privacy campaign group, None Of Your Business.

The impact of Lloyd v Google on PECR litigation remains to be seen, given the clear statement in that judgment that a mere breach of data protection legislation was not sufficient to merit compensation. In the majority of cookie claims we have seen, the claimants seek to argue that the mere infringement of PECR (by placing non-essential cookies without consent) triggers a right to compensation, but they go on to say that distress is caused by the collection of personal data via those cookies which, they assume, is transferred to the US given that the likes of Google and LinkedIn are headquartered there. Irrespective of the evolution of cookie claims, it is clear that there will continue to be regulatory scrutiny over the use and classification of

non-essential cookies and associated controls.

Finally, in September 2021 the government announced a consultation on reforms to the UK's data protection regime which will apparently include a review of the current breach reporting requirement under Article 33 of the UK GDPR. As many readers will know, Article 33 requires an organisation to report all breaches save for those where there is likely to be no risk to individuals' rights and freedoms. However, the government is concerned that the low threshold results in over-reporting of data breaches to the ICO triggering increased costs to both businesses and the ICO.

We expect further scrutiny by key stakeholders as to whether to increase the threshold so that organisations must report breaches unless the risk to individuals is not material. However, we are mindful that any change in UK reporting thresholds will present problems with international breaches given the existing EU GDPR threshold and the gap that will be introduced if the UK threshold changes. This poses a further question as to whether any material deviation by the UK from the EU in relation to the data breach reporting threshold may cause issues when it comes time to renew the EU's adequacy decision which lasts until June 2025.

Hans Allnutt is a partner at international law firm DAC Beachcroft

Eleanor Ludlam is a senior associate in the cyber and data risk team at DAC Beachcroft

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Flexible working and the law

As we slowly emerge into a post-Covid working world, it is becoming clear that the general workforce are keen for flexible working to stay but to what extent are employers able to say no to these requests? Chantelle de Filippis outlines employers' responsibilities

There is no doubt the Covid-19 pandemic has accelerated modern ways of working. Flexible working has been among the big changes. Flexible working allows employees to flex their working patterns around their specific needs. This may be through a reduction of working hours, altered or staggered start and finish times, compressed working days, job sharing or working from locations away from the office. Flexible working does not look the same for everyone and so employers must consider all individual requests on a case-by-case basis.

An employee does not have an automatic right to work flexibly but employees with at least 26 weeks' service have the right to request to work flexibly. An employee may only submit a formal flexible working request once a year. An employer may only refuse a flexible working request if it can identify one of the eight statutory reasons listed in the Employment Rights Act, or ERA. Therefore, it is not acceptable for an employer to impose a blanket refusal towards flexible working because, for example, it does not fit with the business culture.

An employer has a legal obligation to deal with all requests in a 'reasonable manner.' This means that an employer must carefully consider any request, discuss it with the employee and consider other options if it is not possible to grant the request. An employer should aim to respond to the request within three months, but this timeframe may be extended by agreement. If the request is granted, this usually results in a permanent change to the employee's terms of employment. However, an employer may grant the request on a trial basis to ensure it works for the employee and the business.

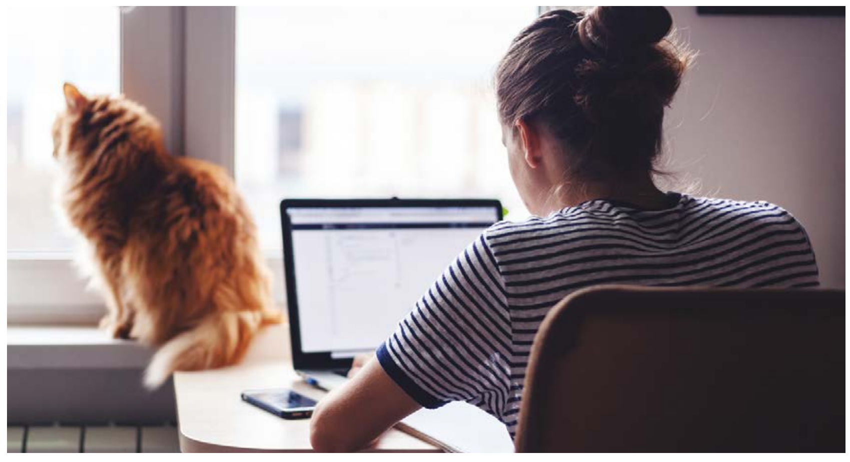
An employer may legitimately refuse a flexible working request if it can demonstrate that one of the eight statutory reasons applies, such as where granting the request would result in a financial burden on the business, for example where the business is required to pay other employees' overtime to back-fill hours. Requests could also be refused where flexible working results in an inability to reorganise work amongst existing staff, perhaps due to lack of general expertise of existing staff, or where the request has a detrimental impact on the quality of work.

The legal position has not changed since the pandemic, but blanket implementation of flexible working practices in response to the pandemic mean it is often more difficult for employers to demonstrate that flexible working affects their ability to perform their role. Therefore, it can be difficult for businesses to rely on some of the prescribed reasons that may have been the case before.

Future proposals

The government announced it intends to allow employees to request flexible working from day one of employment, rather than waiting until 26 weeks service. If introduced, it would entitle an additional 2.2 million employees to request flexible working.

Whilst this proposal is likely to increase the general expectation of flexible working amongst the workforce, the government are aware that there are cases where it may not be possible to accommodate flexible working. Therefore, employers will still be able to refuse a request if they



have sound business reasons to do so. Historically, employment tribunals have been reluctant to tell a business how to organise itself so, provided a fair and reasonable process is followed when dealing with requests, it is unlikely that employers will find themselves in a position where flexible working is forced upon them. But they will need to take care, both due to the risk of claims and wider employee relations issues.

Risk of employment tribunal claims

Employment tribunals have seen a 52 per cent increase in the number of flexible working claims in the past year. Whilst a breach of the flexible working regulations alone is not a lucrative claim to bring, these claims are often brought alongside discrimination claims, which can attract uncapped compensation. Employers are at risk of incurring significant costs if a flexible working request is not dealt with correctly, particularly where a request relates to a protected characteristic such as gender or a disability.

Where failure to grant a request disproportionately impacts someone with a protected characteristic, the employer should ensure it considers the request very carefully and does its best to accommodate it, even if they could otherwise rely on one of the prescribed reasons for rejecting a flexible working request.

There is lots of evidence suggesting the pandemic has particularly impacted women's careers and requiring employees to work in the office for set working hours may have a negative impact on certain groups of employees, such as women with childcare responsibilities. As such, this may amount to indirect discrimination unless the employer can objectively justify its refusal as a proportionate way to meet a legitimate aim.

Another common claim arises where an employee is disabled. An employer is under a duty to make reasonable adjustments for disabled employees, which may include flexible working arrangements, such as varied hours or working remotely. Where such requests are refused, this may in itself amount to an act of discrimination.

Embracing flexibility

There is no doubt flexible working offers a range of benefits to both employers and employees. During the pandemic, employees found flexible working a useful means to ensure work/life balance, and autonomy over working patterns has been reported to improve motivation and productivity.

Many employers have embraced flexible working patterns and, as a result, it has become expected for many candidates, with some considering it just as important as financial perks. Many businesses run the risk of long-term employees leaving if their flexible working requests are refused, particularly if competitors offer more favourable working terms. It is no secret that certain sectors are struggling to recruit at present and by offering flexible working, businesses will remain attractive to prospective candidates.

Further, flexible working has a positive impact on increasing employment opportunities for certain demographic groups, such as those with caring responsibilities, childcare responsibilities, disabled employees and those heading for retirement. Therefore, adopting more flexible working practices will ultimately play a crucial role in creating a successful and diverse workforce across all industries.

That said, flexible working practices will not suit every business model. For example, the retail sector generally requires set shifts and hours to be covered to meet customer demand and, historically, has struggled to offer certain roles flexibility for this reason. However, leading UK retailers have previously engaged in programmes such as the Retail Pioneer Programme which aimed to maximise the productivity benefits of workplace flexibility and diversity moving forwards. With the ongoing push for flexible working to remain, programmes like this will likely continue with the possibility that job sharing will become more prominent in the retail sector.

Finance and technology industries were historically office based but were amongst the quickest sectors to adapt to flexible working during the pandemic. A report published by KPMG and the Financial Services Skills Commission reported that 78 per cent of staff were able to work remotely during this time and, moving into a post-Covid world, these types of working practices are likely to remain, at least part-time.

Ultimately, it is down to each business to decide the extent to which flexible working is right for them, but there are some clear advantages to embracing flexibility where possible. With an increase in the number of flexible working requests being made, and with this increase likely to continue, employers are encouraged to introduce flexible working policies to ensure all requests are dealt with consistently and employees are aware of their statutory rights. Indeed, employers that embrace flexible working may find that this helps in relation to both recruitment and retention.

Chantelle de Filippis is an associate at Stevens & Bolton LLP

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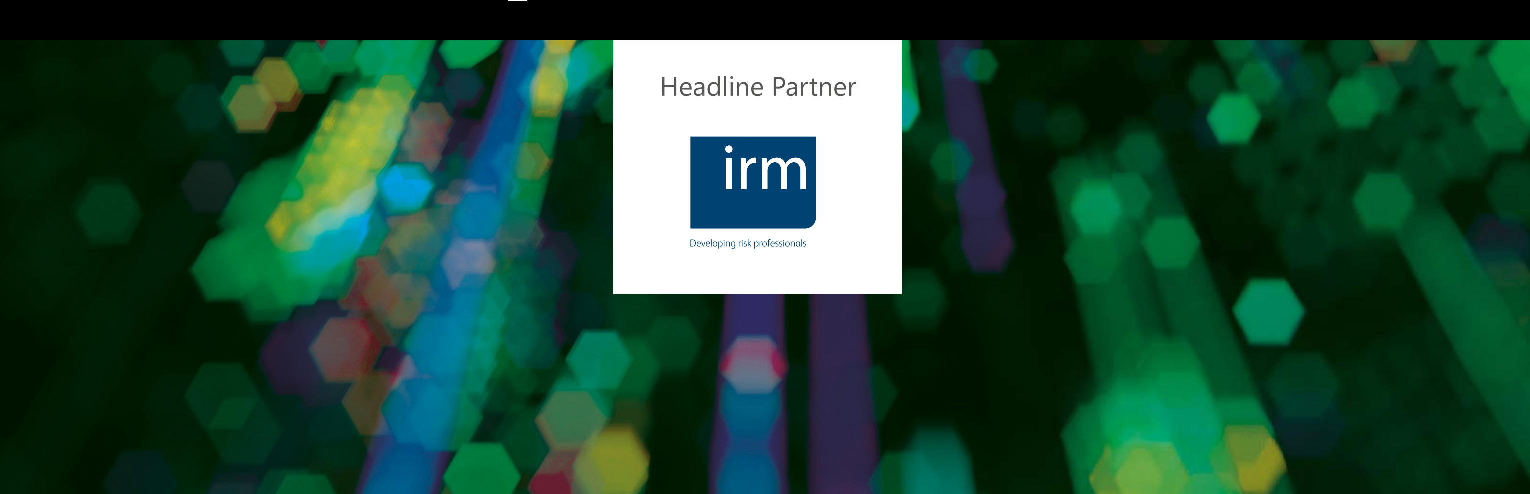

The Categories

INDIVIDUALS AND TEAMS

1. Risk Manager of the Year
This award is the hallmark of outstanding performance by the risk management professional who has accomplished most in the past 12 months in reinforcing their organisation's risk management framework, inspiring their team and offering creative thinking to the risk management community as a whole. Risk professionals in organisations of all sizes and sectors are all potential contenders for this award.

2. Risk Management Champion Award
This award will be presented to the individual deemed to have contributed most to the world of risk management in the opinion of the judges. Your entry should include:

- Who you are nominating and their position
- Your details (name, job title, contact details)
- Why you have nominated this person and your connection to them
- What this person has done to advance risk management or champion its principles
- What it is that is exceptional and beyond the normal
- How this has had a major impact on the sector
- A high resolution (min 300dpi) photograph of your nominee

3. Newcomer of the Year
This award will be granted to the risk management professional with fewer than five years' industry experience. They may be from another discipline or have just started their career. Entries must be able to demonstrate the impact this individual has had upon risk management within their organisation or the sector.

4. Risk Management Team of the Year
This award will mark the best collective achievement in risk mitigation teamwork within an organisation. Contenders will be able to demonstrate that ideas and efforts that individual team members have contributed towards the group's achievements. Entries will be accepted from teams of businesses of all size – from small teams to those of major multinationals.

RISK MANAGEMENT PRACTICE

5. Operational Risk Award
For teams, individuals, consultancies or companies, this category recognises the operational risk programme that has created increased security within financial operations. Both innovation and original thinking will be rewarded. We acknowledge the potentially sensitive nature of submissions, and we will also allow descriptive rather than technical detail within nominations.

6. Risk Management Programme of the Year
This award is designed to recognise a sustained single programme with risk management at its heart. This might be designed to reduce accidents within a fleet or on a construction project, or to mitigate

The Categories

exposure to the various risks posed by climate change. If there is one particular aim of this programme and it can be demonstrated to have achieved results, then it is eligible. The judges will seek evidence of success against a clearly defined target.

7. Cross-Border Risk Management Award
This award will be presented to the organisation that can demonstrate how it has built a risk management function capable of operating across multiple business and legal jurisdictions that are geographically diverse (across international boundaries and cultures), including from within the UK. Entries should outline the organisation's risk management programme, the development, scope and achievements of its team(s) and the way in which it communicates the risk message to the wider company – and how all of these align with local conditions as well as overall organisational goals.

8. Major Capital Projects Award
Robust risk management is essential in ensuring that major capital projects are delivered on time, to budget and safely. With many different parties involved, coordination is also a major element. This award recognises a project that has successfully met these criteria and can be considered a major project in its scope

9. Public Sector Risk Management Award
This category seeks to reward the team that has tackled the inherent risks of operating within a public sector environment. The winning team will be able to demonstrate best practice from which all organisations can learn. In a period where many teams have suffered major cuts to budgets, this award is especially well deserved.

10. ERM Strategy of the Year
This award will be presented to the company which has best demonstrated the implementation of an enterprise risk management programme. Entries will describe the embedding of ERM into the culture and operations of the business, to solve real-world business problems, current and emerging, and which may include pandemics and climate change.

PRODUCTS AND SERVICES

11. Risk Management App of the Year
This award will be presented to the company or team responsible for the creation (or significant development in the past judging year) of an app designed to address a range of pertinent risk management challenges, such as pandemic risk, climate reporting, travel risk management, and so on.

The app may have been developed for internal use, or offered to the market. In addition to innovation and ease of use, judges will be looking for evidence of successful implementation and proof of use. Submissions must include screen shots and may

The Categories

include an online demo. Where applicable, customer endorsements are encouraged, and will be accepted in addition to the main entry wordcount.

12. Risk Management Product of the Year
This category will acknowledge the product or solution that has delivered real value to user organisations over the past judging year in their management of the full spectrum of risk challenges. Evidence of successful implementation, and of the product's benefits must be provided in the entry. Customer endorsements are encouraged, and will be accepted in addition to the main entry wordcount.

13. Risk Management Specialist Company of the Year
This award will be presented to the company that is dedicated to providing effective risk management solutions to its clients. Entries should detail products, services or projects undertaken and how success was achieved. Judges will award innovation and quality as well as customer service and satisfaction. Customer endorsements are encouraged, and will be accepted in addition to the main entry wordcount.

14. Cyber Security Product of the Year
This award will be presented to the company whose product most successfully demonstrates their advanced skillset in dealing with the growing threat of cyber risk.

Successful submissions will demonstrate the providers understanding of the diversity of this risk, and scalability to respond to the threat as it evolves. Customer endorsements are encouraged, and will be accepted in addition to the main entry wordcount.

GENERAL CATEGORIES

15. Best Use of Technology in Risk Management
This award will reflect the ability of an organisation to proactively use technology to deliver recognisable benefits in its management of risk, whether from a vendor or developed in-house. Evidence of implementation over the past 12 months should be provided in the entry. This category is designed to acknowledge implementations and their successful outcomes. Where applicable, customer endorsements are encouraged, and will be accepted in addition to the main entry wordcount.

16. Risk Management Innovation of the Year
Judges are looking for innovation that has been initiated for the first time during the 18 months before the entry deadline, and which has the potential to change the way in which risk management may be approached. This could be a process, or a new way of working with technology, such as artificial intelligence and machine learning. Entries must show evidence of innovation and original thought.

17. ESG Award
This award will be presented to the organisation that

The Categories

has made significant progress in assessing environmental, social and governance risks within their organisations. The judges will want to see strategy, long-term vision and evidence of success so far. Please note, this is a risk award, and we are looking for initiatives to assess, reduce and protect from risks, rather than activities may well be worthy but are not directly associated to the practice of risk management.

18. Political Risk Award
The category for outstanding provision of political risk management expertise. Aimed at honouring the provider of political risk management, and the implementation of such strategies, judges will look for details of the identified risks, and information related to the strategies undertaken to mitigate them.

19. Diversity Award
This award will be presented to the organisation that can demonstrate a commitment to diversity in its risk management activities. Entries should present the organisation's policy towards diversity in the workplace and demonstrate how this policy is implemented practically in the way that risk management staff are recruited, trained and promoted within the organisation. Entries should demonstrate how the organisation supports and promotes diversity in the context of managing risk.

20. International Risk Management Award
This award will be presented to the organisation that can demonstrate that it has built risk management into the very heart of its operations – encompassing the full scope of enterprise risks. Entries should outline the organisation's risk management programme, the development, scope and achievements of its team(s) and the way in which it communicates the risk message to the wider company – and how all of these align with local conditions. Please note: this category is for companies without a UK office.

21. Public Safety Award
This award will be presented to the organisation that has demonstrated the most success in developing a product or innovation of any kind that has as its sole focus the safety of the public. Examples may include pandemic planning or management tools, innovative reporting or warning systems, safety solutions for crowded places or security in the built environment, for instance.

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Deborah Ritchie was joined by head of PCS at Verisk Insurance Solutions, Tom Johansmeyer, to discuss political violence, nat cats and Covid-19, which together combine to create an increasingly risky environment in which to do business

A fresh perspective

Peak peril?

Deborah Ritchie was joined by head of PCS at Verisk Insurance Solutions, Tom Johansmeyer, to discuss political violence, nat cats and Covid-19, which together combine to create an increasingly risky environment in which to do business

DR: How have the most recent events redefined the political violence landscape?

TJ: As far up to 2018, for the insurance industry, political violence was fairly straightforward. It took a lot for a major political violence event to cause even a small industry-wide insured loss. Baltimore in 2015 cost insurers roughly US$25 million, and even something as vast as the Gilets Jaunes events in Paris only amounted to about €200 million. The only event that would have reached over US$1 billion, adjusted for inflation, would be the 1992 riots in Los Angeles.

But in 2019, we saw a wave of riots that had significant insurance industry losses associated with them, in particular in Latin America – Chile being the largest with an unprecedented US$3 billion impact to the insurance industry worldwide.

In actuarial and underwriting terms, that was viewed as a one-off… until the following year, as a result of the US riots that followed the George Floyd murder in May. That led to a US$2.7 billion loss for the industry.

A year later, in 2021, a US$150 million loss hit insurers after the riots in Colombia and two months after that, the South African riots amounted to a more that US$3 billion in industry-wide loss.

We've seen a raft of changes in how political violence is covered. Following the Chilean event, a major global retailer had political violence stripped out of its property insurance programme. Several more retailers experienced that after the George Floyd riots. 2021 in South Africa was more characteristic of underinsurance for retailers. It was in industrial and marine where losses were sustained.

Along the way there were a lot of political violence events that just weren't big enough to impact on the insurance industry, including Chicago's Magnificent Mile in July 2021; Philadelphia in October 2020; and the Capitol riots of roughly a year ago.

Then this year, Almaty in Kazakhstan saw significant riots. You might consider that a country with 19 million people, and a low rate of insurance penetration might not be significant to this continuum. The reality is that the largest retailer in Kazakhstan licensed a sophisticated retail AI product – from a Western analytics company. So, if they're making that kind of sophisticated analytics investment, my guess is there's some insurance.

So, my team and I estimated in the range of US$50 to US$100million in insured loss for the Kazakhstan riots (which would have been worse had the extractives been hit). But it's still a big deal. Coming into 2022, it makes you think that we're still in a peak peril environment for political violence.

With political risk events and factors being so varied, and evolving, how are models adapting?

That's a good question but a difficult one to answer! Naturally, modelling benefits from a large and rich historical dataset, which is a challenge when you have a paucity of events. But recently, we've begun to see a large number of events concentrated in time, and some of them even tied to specific geopolitical conditions. Latin America in 2019 is a great example. But of course each of these events have some unique characteristics.

In both Chile and the US, roughly a third of the insurance industry impact came from a handful of large retailers. In South Africa, where retail tends to be underinsured, the BI accumulated mostly from industrial.

The effect on the insurance industry, and the way that underlying programmes would respond to future events is different. There has been some good progress made in political violence modelling, but much of it is regionally focused, rather than global in scope. That's the difficult part, as for insurers, it's a global risk environment.

You need events that are large enough to cause significant insured loss, which means that countries with lower rates of insurance penetration, are either less relevant or are only relevant for larger events. Let's take Kazakhstan for example. To pick that up in a modelled environment is difficult because something small like that would probably evade detection. Even if you could predict a US$100 million loss, in the grand scheme of an insurance company's balance sheet, it's not a major event.

You might consider that Kazakhstan may not be susceptible to a large loss, due to its population and wealth, but Chile wound up with almost US$3 billion in industry-wide insured loss, due to the commercial impact. In Kazakhstan, had the extractives been affected, then the big global ore extractives programmes could have

led to quite a significant loss.

To pick that up with an analytics platform though is tricky, as its more difficult to model.

How has capacity evolved for retailers and industrials as a result?

There's definitely been some pullback in capacity for political violence in the property market. We are aware of a handful of retailers that had around US$500 million property protection each, that saw PV removed. In 2020 they might have got about a third of what they'd had originally. That standalone PV cover in 2020 was totalled by the George Floyd riots.

What I'm hearing now is that the PV market is still robust; there is rate movement. Keep in mind, though, that rates have been low, so even a significant rate increase, similar to what we're seeing in cyber, is still not large.

What can you tell us about your response to Covid-19?

Given our role in the market reporting industry-wide insured losses, one of the things we're susceptible to is the impact of rumour and gossip, because there are a lot of people who use our industry loss estimates as a trigger for alternative reinsurance transactions and catastrophe bonds and so on. So, we've always been sensitive to the importance of accurate information. With the onset of Covid-19 there were a lot of questions flying around the market about whether or not we were going to treat Covid as a catastrophe for reporting purposes.

We did not and will not. There was a lot of speculation on issues around business interruption. There was further speculation around tightening capital bases and what that could mean for retro; and about whether the chaos from the pandemic would increase the cyber threat environment.

With everything that was happening, we found ourselves amassing a lot of really valuable information. We thought the worst thing we could do with it was nothing, so we started sharing a regular bulletin on the evolving issues, and developed a series of webinars on key insurance issues related to Covid.

What our research into vaccination rates showed us was that 75 per cent of the world's seafarers come from the Philippines, which at the time had a single digit vaccination rate. When you think about the impact for available resources to go on vessels during an uptick in shipping, it's easy to see that there's a lot that could go wrong here, particularly for the marine loss environment.

Since then, we've taken a similar look across political violence and cyber.

Managing risk in this new dynamic requires a fundamental rethink in your view, doesn't it?

It does. I recall conversations with clients in 2016 about the types of natural catastrophe risks that they should be thinking about. I remember being told, "we don't worry about wildfire, because wildfire insured losses don't become big". (Big for reinsurance purposes is usually US$3-US$4 billion across the total insurance industry.) Since then, the Fort McMurray wildfire in Canada became the largest in US or Canada, by insured loss, in history. But now, it's not even in the top five.

We've seen numerous billion-dollar wildfire events in the past five years. When we moved into Turkey, the first event we covered was political violence out in the southeast. Even before that, we were told the only thing the Turkish insurance market worries about is earthquake and flood. Well, following the PV event that took everybody by surprise, a year later, a year and a half after that, we saw a large hail event in Istanbul, which was unprecedented.

We've had four or five years now of significant natural catastrophe losses in the US, Canada and Japan. 2018 was tough in Japan, as was 2019, with multiple typhoons across that period. 2017 for hurricanes is one for the books, likewise wildfire and the hurricane threat continues. Ida has all the makings of an extremely complex and long developing hurricane event.

So, if you were to ask me what kind of secondary perils nobody cared about five years ago that are relevant now, I could go on for days. Take the Texas winter storms from almost a year ago, for example. It was the largest winter storm event we have on record, in terms of insured loss. So, the world is certainly becoming increasingly dangerous, and that's without even considering cyber.

This is an extract from our podcast, which you can listen to in full at cirmagazine.com

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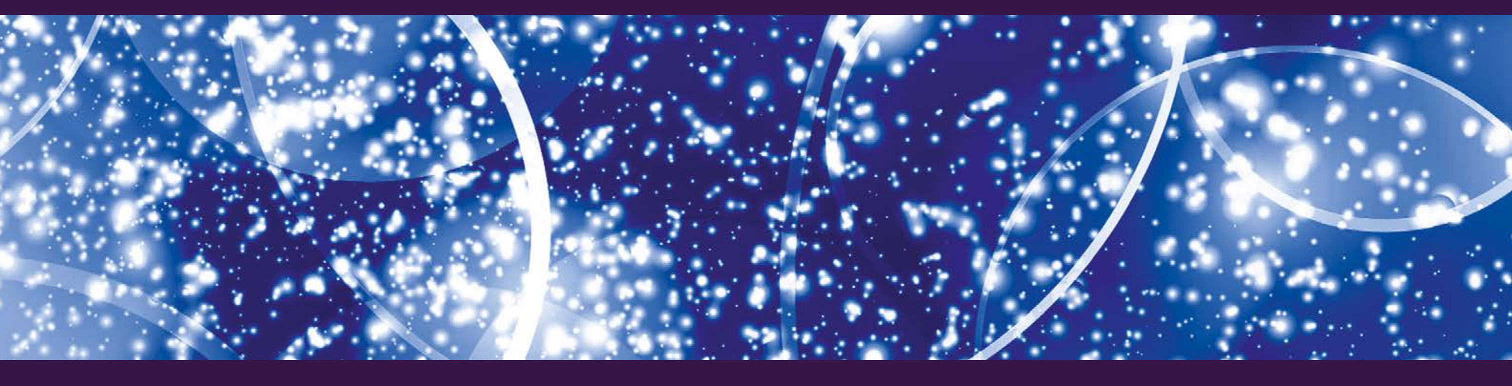

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Industry views

As tempting as it may be to take the foot off the pedal and go into cruise control when the pressure to survive eases, the opportunity to reimagine our world in the wake of the pandemic must not be wasted.

Responses to the pandemic have stimulated technologies to break new ground and societal forces to shift, and many of the effects are likely to be long term. We are more comfortable producing risk registers with heat maps that address what's in front of us – and this has to be done – but gone are the days when emerging risks can be reported with a nod to regulatory compliance and recorded in a glossy 'coffee table' annual report. Unlike the risks in our near future, frontier risks are characterised by unknown impacts, likelihoods, or both. These risks often have a lower pulse and can be hard to detect, yet these are the risks on which our minds should now be focused.

And, as insurer and broker financial results point towards improved growth and operating profits, is there a risk that the pace of change in the industry will slow? The industry is projecting further growth in 2022 with continued investment in digital technology. However, it also faces the multiple challenges of sustained inflation, climate risk, diversity and the retention and recruitment of talent. It could be a bumpy ride.

And where does risk fit? It's all about risk, including the difficult to assess, intangible and long tail risks. We cannot rest on the laurels of its past reputation of excelling in risk transfer for the more traditional risks – it has to have a cocktail of a relevant purpose, an obsession with the needs of customers and effective use of the fuel called technology – the principles of resilience in the post pandemic digital world.

The 2022 Edelman Trust Barometer revealed that trust in businesses exceeds trust in governments and the media. Insurance is built on trust. The industry must understand whether what it does is what the customer really wants or needs and then do this well. If the industry doesn't do this, there are others waiting in the wings that will.

Julia Graham is CEO of Airmic

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The marine insurance industry has become the first line of business to establish a specific methodology to support the target of the Net-Zero Insurance Alliance, where members commit to transitioning their underwriting portfolios to net-zero GHG emissions by 2050. The industry currently accounts for nearly 3% of the global total, according to the International Maritime Organisation. The IMO target for decarbonisation is a 40% reduction in CO_2 emissions compared with 2008 levels. This should rise to at least 70% by 2050, along with a parallel reduction of the total annual GHG emissions by at least 50%, again compared to 2008 levels. It is an ambitious target.

In July 2021, at the G20 Climate Summit in Venice, eight founding members launched the NZIA (Net-Zero Insurance Alliance), among them Axa, Allianz, Aviva, Generali, Munich Re, SCOR, Swiss Re and Zurich Insurance Group. And in December 2021, six of the world's leading marine insurers publicly launched the Poseidon Principles for Marine Insurance. The Principles are a framework designed to quantitatively assess and disclose the climate alignment of marine insurers' underwriting hull and machinery portfolios and benchmarking them against the IMO targets mentioned, in an effort to provide transparency on carbon emissions.

The four Poseidon Principles are: assessment of climate alignment, accountability (the signatories will exclusively rely on the data types, data sources and service providers identified in the Technical Guidance), enforcement (this principle aims to create an equal burden for the signatories to ensure that the appropriate data is provided by shipowners) and transparency (to ensure both the awareness of the Principles and that accurate information can be published by the Principles for the Marine Insurance Secretariat in a timely manner).

Whilst I am delighted to see that our industry and the private sector is leading the way, governments and regulators will also have to take policy action that makes zero-emission shipping and fuel production commercially viable and available to all. We have a long way to go, but progress is underway at last.

Alberto Batini is a board member of Global Insurance Law Connect and a partner at BTG Legal

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What's your view? Email the editor at deborah.ritchie@cirmagazine.com

The day after Russia invaded Ukraine, I was listening to Professor David Olusoga give a lecture at the Guildhall in London on 'finance and the City in the age of historical reckoning'.

Using the stories of three significant City figures who profited from slavery, Edward Colston, Sir John Cass and William Beckford, Professor Olusoga explained the link between Britain's role in the transatlantic slave trade – which contributed 11% of Britain's GDP in the early 19th Century – and inequality and ideas of race that persist today.

A generational shift in the way people think, and a desire to understand why our society malfunctions sits behind the re-examination of this aspect of our history. Many organisations have started to look at their own success and how they have benefitted from the suffering of others. Some reckonings are symbolic, such as the recent return by Jesus College Cambridge of the Okukur, a bronze cockerel looted from the Kingdom of Benin by British soldiers in 1897. Other reparations require much more significant action as we have a conversation about and confront racism.

But many other aspects of our history also still resonate. Putin's aggression can be seen both as a continuation of the Great Game, the intense rivalry between Tsarist Russia and the British Empire that played out mostly in Central Asia and as a desire to recreate the lost hegemony of the Soviet Empire in Central Europe. It was Kenya's representative to the UN who articulated this most clearly, comparing Ukraine to Kenya's colonial legacy. "We must complete our recovery from the embers of dead empires in a way that does not plunge us back into new forms of domination and oppression," he said.

And the 'age of reckoning' goes on. According to the Edelman Trust Barometer only 44% of employees believed their companies were protecting them from Covid-19 in 2020 and 50% thought profits were being put before people. As a result, employees are now voting with their feet; a Lace Partners survey in summer 2021 found that 70% of senior HR directors were planning to leave their current positions, with many citing stress, burnout and feeling less emotionally attached to their organisations since the pandemic as the reasons.

Businesses are increasingly being questioned about how they contribute to a just and equitable society. Social accountability represents a significant change in the way organisations should think about risk. Although risk functions generally focus on external as well as internal risks, the magnitude and potential impact of these externalities is now much greater. It's two decades since *Life* magazine featured a Pakistani child sewing a Nike soccer ball after which Nike's market value plummeted. Since then, Nike has focused on social responsibility in its supply chain but, fairly or unfairly, still ranks low on perceptions of being an ethical company.

Let's just assume that somehow, sometime, all businesses will be held accountable for the impact they have on people and the planet. If that's the case, risk managers should be front and central of the examination of how their organisations work, how their business connects into, shapes and reinforces civil society and uncovering the hidden costs of their business models.

Managing risk in an 'age of reckoning' is much more than reputational risk management; it requires a full and clear-eyed examination of why things are as they are, what that will mean for our collective future and what we are doing now to make things right.

Stephen Sidebottom is chairman of the Institute of Risk Management

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The role of biomechanics in the evaluation of injury claims

Dr Ian M Zeller and Dr Constantinos Franceskides explore how biomechanical engineering can be applied to the investigation of accidents and other events where injuries occur

The application of engineering principles to problems in medicine and biology has attracted growing attention in recent years thanks to progress in bio-fabrication of artificial organs and surgical robotics.

Biomechanical engineers are also uniquely placed to investigate insurance claims where personal injury causation comes into question – bridging the gap between medical science and engineering, and applying knowledge from both disciplines to assess an event and quantify the potential for injury.

Biomechanics is based on the evaluation of the dynamics from an incident, identification of associated injury mechanisms and a determination as to whether or not the forces and motions from the incident would facilitate mechanical failure of tissue which had been diagnosed by a physician as an injury. Between these processes the biomechanics technique is uniquely qualified as a means of evaluating the link between an incident and a claimed injury as it quantifies the mechanics of the incident.

The scope of a biomechanical analysis is not to dispute a diagnosis – that is for a physician to determine – rather it is to identify which rendered diagnoses are related to an incident and which are not consistent with the forces and motions associated with an incident.

The scientific methodology of a biomechanical injury consistency analysis revolves around several basic steps that include quantification of the forces and movements associated with a particular incident, and establishing the known injury mechanisms associated with a claimed injury. This analysis can include a calculation of the speed change and associated forces involved in a vehicle accident, the motions resulting from a trip and fall, as well as the forces resulting from contact with a falling object.

The methodology of examining biomechanics is particularly suitable for identifying injuries that resulted from a particular set of traumatic circumstances in addition to identifying which are more likely the result of degenerative processes, or predated an incident.

Some injuries do have quite complex mechanisms requiring an analysis of multiple forces, moments and possibly abnormal body positioning. One of the final steps in the process of biomechanical analysis is that which determines whether or not each known injury mechanism of the reported injuries was consistent with the dynamics of an incident.

While biomechanics generally focuses on the consistency of injuries, it is also possible to use a well-documented injury as evidence to validate the claimed incident as reported. For injury reconstruction, this strategy can sometimes be used to determine the order of events, and body positioning and orientation prior to an incident.

The role of biomechanics in claims evaluations is one that is sometimes not well understood, and for that reason this type of analysis is often underused in claims evaluations. The overall goal of a biomechanical analysis is to evaluate the evidence from an incident, determine the associated forces and movements from that particular event, evaluate the motions, orientations and mechanisms associated with the claimed injuries, and finally compare those claimed injuries with the mechanisms that dictate how they occur. The end result is an evaluation as to whether or not an injury is consistent with a particular event based on the evidence available.

Specifically, biomechanics is not about making diagnoses; rather it is about determining the root cause that led to the diagnoses given by physicians in the context of a mechanical event.

Dr Ian M Zeller is a biomechanical engineer and Dr Constantinos Franceskides a forensic consultant, at Rimkus Consulting Group

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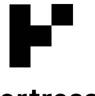

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