The interview
Deborah Ritchie speaks to
WTW's John Merkovsky

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

ERM Roundtable
Highlights from
CIR's latest event

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Q4/2022

CIR
CONTINUITY INSURANCE & RISK

Strategic risks *Against a challenging economic backdrop, there can be no better time to draw on risk management expertise*

M&A insurance *An uptick in third-party claims points to an increased threat of litigation against corporates*

Organisational resilience *Worrying threats and stretched resources are challenging national resilience in the UK*

Down or out?

Global energy insecurity accelerates

View: "We live and work in a turbulent world, and the turbulence is showing no sign of calming down"

Comment

As this issue of the magazine goes to print, the 27th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, better known as COP27, is well underway in Egypt's Sharm El-Sheikh resort, and the tone is urgent.

In his opening address, UN secretary-general, António Guterres, said this year's session is being held as the planet's population is nudging eight billion, as greenhouse gas emissions are growing, and as global temperatures continue rising – a set of circumstances he described as a "highway to climate hell with our foot still on the accelerator".

It is six years since the Paris Agreement was signed, and Guterres is now calling for a new, historic pact between developed and emerging economies – a Climate Solidarity Pact that would see all countries making extra efforts to reduce emissions this decade in line with the 1.5 degree goal, and one that would see wealthier countries, and even financial institutions, support developing countries with their own transitions. This new pact would also end dependence on fossil fuels and the building of new coal plants – phasing out coal in OECD countries by 2030, and by 2040 elsewhere.

The COP27 Egyptian presidency wants to radically accelerate the delivery of countries' climate pledges, following the failure of developed countries to hit the US$100bn target set for 2020.

For the UK, COP27 was an opportunity (albeit one taken at the last minute) for Rishi Sunak to reaffirm the UK's commitment to supporting countries on the frontline of climate change, as the new prime minister announced a major international climate package, including £65.5m for green tech innovation and significant clean energy investments in Kenya and Egypt; and a new Forests and Climate Leaders' Partnership pledging more than £150m for the protection of rainforests and natural habitats, including the Congo Basin and Amazon.

Handing over the baton to Egypt on the opening day of the summit, Sunak referred to the existential threat that climate change is already posing around the world – from catastrophic floods in Pakistan to drought in Somalia – pledging to triple funding for climate adaptation, from £500m in 2019 to £1.5bn in 2025.

These announcements are part of wider Government plans to facilitate green innovation and energy transition in the UK and globally, which, in addition to helping the drive for net-zero, aims to reduce the global demand for oil and gas that is funding Russia's war machine.

The emphasis at this year's summit was very much about *avoiding* rather than *adapting to* climate change. A similar urgency was conveyed by the Institute and Faculty of Actuaries and The Climate Crisis Advisory Group in a joint report that warned of an impending 'ruin scenario' for global society, even under the targets set out in the Glasgow Pact of 2021.

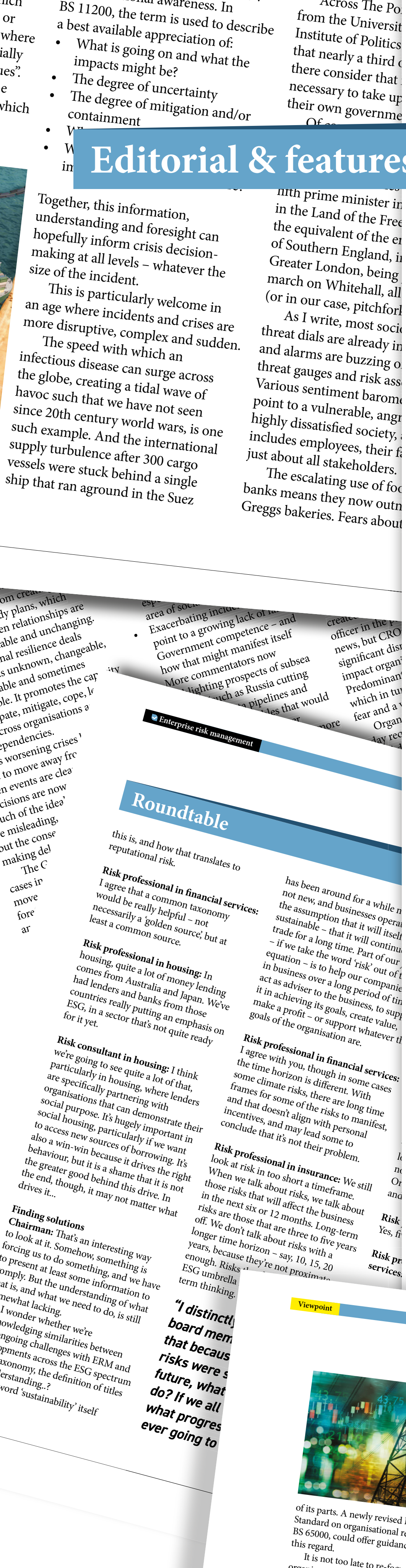
The report calls for policymakers and stakeholders to take a risk management approach to identify, measure and mitigate the effects of further temperature rises, supporting the broader effort to build resilience and climate adaptation into national and international systems, as extreme events become more frequent.

As Gillian Davidson writes in this issue of *CIR*, large-scale disasters have affected every continent of the world in the last twelve months, including unprecedented flooding across Australia, China, Pakistan and South Africa, and one of the strongest hurricanes ever recorded in the US.

This issue, we also look at a report which examines how extreme biodiversity loss, widespread pollution and over-consumption of natural resources are presenting direct challenges to business and industry, and suggests new tools and frameworks for their assessment.

Deborah Ritchie is editor of CIR Magazine

COVER STORY



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Power sector facing "entirely new" risk landscape

Risk management professionals in the power sector face an entirely new risk landscape brought about by war in Ukraine, global inflation, the energy transition and climate change, according to a report from WTW

Risk managers in the power sector must tackle an entirely new risk landscape brought about by war in Ukraine, global inflation, the energy transition and climate change, according to the 2022 *Power Market Review* from WTW.

The challenges for the sector range from the technological to the geopolitical, and include the management of physical and transition risks, ways that modelling can support the risk process, directors' potential liabilities arising from climate change, and the introduction of hydrogen as a fuel for gas turbines.

As power insurance prices continue to rise, risk managers will need to manage all these emerging risks, and at the same time ensure that current, correct and sufficient asset and business interruption valuations have been determined amid rising global inflation – a challenge that many will be facing for the first time ever in their careers.

Most power insurers have eliminated Russian exposures from their portfolios, and many have reduced or eliminated cover for coal-fired plants and other risks which they deem to emit unacceptable levels of carbon. This has introduced an increased appetite for other power risks, according to the report.

Total global theoretical insurance capacity for power risks is approximately US$3.5bn in 2022, with the realistically deployable level in the region of US$1.5bn, the report's authors estimate. For coal assets the total falls to just US$250m and is significantly less for new coal risks.

A new landscape in the power sector

WTW's *Power Market Review* highlights an entirely new risk landscape for risk professionals in the power sector, with challenges ranging from the technological to the geopolitical, including:

- The management of physical and transition risks;
- The role of investors in the energy transition;
- Directors' potential liabilities arising from climate change;
- Changes to modelling approaches;
- The impact and management of geopolitical crises; and
- The introduction of hydrogen as a fuel for gas turbines.

The frequency of individual losses in excess of US$1m is trending upwards and reached a three-year high in 2021. Total loss costs are set to equal or exceed total premium income for power risks in 2022, with a dozen losses in excess of US$20m already reported.

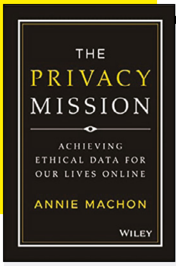
As a result of rising losses, rating increases of at least 2.5 per cent and up to 20 per cent can be expected in Q3 2022 for all but a handful of risks with a clean loss record and all assets located in areas of low nat cat risk.

"One issue above all is of immediate concern to our clients: determining correct asset and business interruption values," says Graham Knight, global head of natural resources at WTW. "Our message to the industry on this topic is quite simple: it is vital that a more transparent understanding of how insured values are calculated is communicated from buyer to broker to insurer. When this is achieved, buyers will see greater price stability. Better valuations will reduce the likelihood of repeating the large price swings between hard and soft market conditions that we've experienced so often in the past.

"In the meantime, power insurance markets continue to harden still further, for two fundamental reasons. First, the sector still suffers from a disappointing loss record. Second, the pool of leading insurers remains relatively limited compared to previous underwriting eras. The following market is generally more willing to accept their terms, but momentum is insufficient to reverse the market's overall upwards rating trend."

Access this report in full at https://www.wtwco.com/en-GB/Insights/2022/09/power-market-review-2022

Inspiration for resilience professionals



The Privacy Mission: Achieving Ethical Data for Our Lives Online

By Annie Machon
John Wiley & Sons, 2022
wiley.com

The subject of data ethics and privacy, and how the digital world impacts on the basic rights of individuals has never been more critical. Grappling with important questions around who can spy on us, who can hack us and who can data farm us are issues for everyone – businesses and individuals.

This is the topic of Wiley's latest book, *The Privacy Mission: Achieving Ethical Data for Our Lives Online*, in which author Annie Machon explores the concepts and principles of this increasingly urgent topic, and offers solutions for organisations, academics, researchers, policymakers and individuals as they grapple with the known threats, and future proof themselves against emerging ones.

A former MI5 agent, Machon is now an international public speaker, writer, media commentator and political campaigner. She is a director of the World Ethical Data Foundation and European director of the drug reform organisation, Law Enforcement Action Partnership.

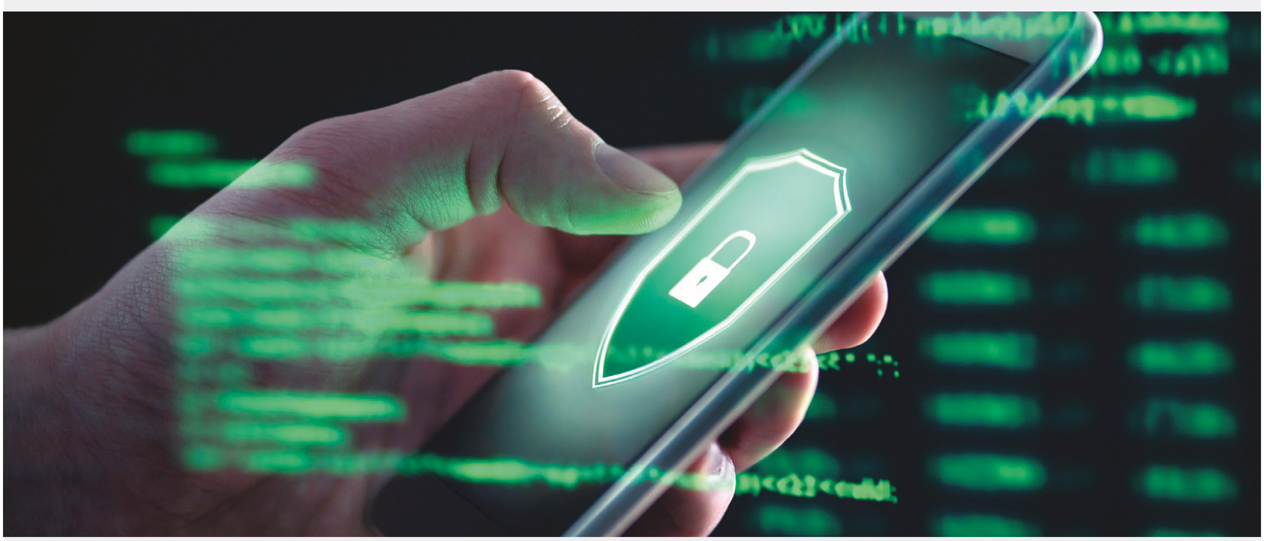
Drawing on her experience in the field, Machon charts a number of major historical developments that have shaped today's data ethics, and shines a light on the trends that are likely to affect the privacy landscape. She explores the question of which democratic, social and personal threats we need to meet, mitigate and respond to, and whether corporations can help protect us in a way that advances their bottom line at the same time. She also presents some fascinating perspectives on the Universal Declaration of Human Rights, and the more recent Declaration on Digital Rights and Principles.

"What does the term 'digital rights' mean to you?" Machon writes. "Have you ever stopped to consider your rights in the online world and what those might (or might not!) be? Do you equate them with your human rights? If not, then now is the time to start, because there is no such thing as just digital rights. The lines between our physical and digital selves have blurred and that means our rights in a digital world are simply our human rights. You cannot separate the two; they are intrinsically linked."

"The lines between our physical and digital selves have blurred and that means our rights in a digital world are simply are human rights. You cannot separate the two; they are intrinsically linked"

From copyright law to the inseparability of corporate and state power, criminal hacking enterprises, and media censorship, Machon unpicks the issues that have a noticeable and direct impact on all of us.

This book will make both fascinating and useful reading for anyone looking to learn more about, or influence the conversation around privacy, digital transformation, technology and data.



News briefing

A round-up of the latest industry news

Russia's invasion of Ukraine immediately slowed the recovery from the Covid-19 pandemic and set the global economy on a course of lower growth and rising inflation, according to the OECD. In its latest economic outlook, the organisation forecasts global growth to decelerate sharply to around 3% this year and 2.8% in 2023 – well below the recovery projected in the previous outlook issued last December.

A study conducted by the Chartered Institute of Internal Auditors found that the war in Ukraine, coupled with the cost-of-living crisis, significantly changed business attitudes on the risks they face, with geopolitical tensions exacerbating and intensifying a wide range of business-critical risks.

Despite extreme inflation, rising interest rates, asset slumps and burdens related to the war in Ukraine, research from Munich Re projected in October that the reinsurance sector could grow between 2% to 3% over the next two years.

The Health and Safety Executive launched a country-wide study to better understand respiratory virus transmission risk in the workplace. The Wear-It Study aims to better understand and control the risk of transmission of SARS-CoV-2 as we adapt to living with the disease.

A Financial Conduct Authority review of business interruption claims handling applauded insurers for quickly paying out interim payments, reallocating resources swiftly, and proactively communicating with policyholders to help them with claims, following last year's test case judgment handed down by the Supreme Court.

Mortality in the third quarter of 2022 was found to be 9% higher than in the same quarter of 2019, before the pandemic, and higher than in any third quarter since 2010. This contrasts with the first half of 2022, which had similar mortality to 2019.

Professors at the Toulouse Business School and Audencia observed a direct link between CEOs' exposure to abnormally high temperatures, and the decrease in carbon emissions from their companies. Professors Alexandre Garel and Arthur Petit-Romec's analysis builds on an emerging body of research on the 'local warming' effect.

A survey of investment professionals conducted by WTW found that carbon metrics on their own lack the necessary forward-looking insights for a full assessment of the financial risks and opportunities of transitioning to a low-carbon economy.

Mott MacDonald teamed up with the Coalition for Climate Resilient Investment to develop a tool that aims to help asset owners and investors understand the exposure of critical infrastructure to climate risks.

Marsh launched a re/insurance facility that provides dedicated capacity for new and existing green and blue hydrogen energy projects. Developed with Liberty Specialty Markets and AIG, the facility provides up to US$300m of cover per risk for the construction and start up phases of hydrogen projects.

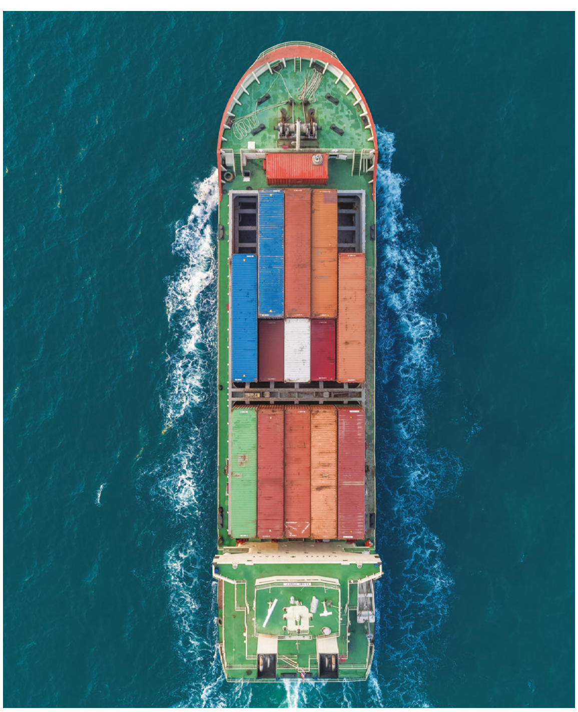
The International Underwriting Association and the UK Government's Department of Levelling Up, Housing and Communities developed a new model insurance clause for residential tower repairs.

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

Global geopolitical tensions, macroeconomic developments and climate change are boosting demand for risk protection, according to Swiss Re, as it outlined possible implications for renewals. It said the re/insurance industry needs to focus on modelling and contract certainty to ensure pricing is adequate for the risks taken, thereby increasing its capacity.

A new professional indemnity insurance scheme for EWS1 (external wall fire review form) assessors was made available, after many months in development. Initially announced in February of this year, the new scheme is delivered by MGAM through an insurance provided by SCOR UK, and reinsured by the Government.

The Department for Levelling up took the first step in legal action against Grey GR Limited Partnership, a freeholder of a fifteen-storey tower block in Stevenage, which was given 21 days to commit to remediating the tower's fire safety defects.



Amid concerns that electricity and other sources of energy could become scarce in Europe this winter, companies were advised to draw up thorough plans to address any threats to business continuity.

The confluence of secondary peril losses, geopolitical turmoil and reset macroeconomic fundamentals led to a US$46bn reduction in capital at 1H22 and a projected year-end decline for the first time since the global financial crisis, according to a report from Howden.

A report from risk intelligence firm Verisk Maplecroft warned of the rising risk of civil unrest, as governments, businesses and societies grapple with the impacts of inflation on the price of food and energy.

After more than a decade of counter-piracy operations, the shipping industry removed the Indian Ocean High Risk Area. Measures enacted to secure the waters by military, political, civil society and the shipping industry were found to have reduced the threat of piracy; and no attacks against merchant ships have occurred off Somalia since 2018.

News briefing

A round-up of the latest general insurance news

Rising energy prices and more widespread economic turmoil have shifted insurance needs among UK companies, according to a study carried out by RSA. The insurer's inaugural Broker Pulse survey of more than 200 brokers from across the UK highlights in particular the risk of underinsurance for businesses in an era of inflationary pressure.

Research carried out by insurer Ecclesiastical meanwhile found that 72% of brokers polled believe underinsurance among high net worth clients to be an increasing cause for concern. The brokers questioned said they felt underinsurance was a bigger risk than burglary or theft.

The British Insurance Brokers' Association teamed up with loss adjuster QuestGates to create a guide to valuations for the trade association's members. It is the second in a series aimed at tackling the ongoing issue of underinsurance.

Russell Higginbotham, CEO of Swiss Re Solutions, was elected president of the Chartered Insurance Institute. Taking up his post on 1st January, he succeeds Peter Blanc who is CEO of Aston Lark. Ian Callaghan, insurer relations director at Kingfisher Insurance, will become deputy president.

As the cost-of-living crisis bites, consumers are looking for claims to be paid faster, and want to feel "more in control" during the claims process, according to the Chartered Insurance Institute's latest Public Trust Index. The quarterly insight into consumer and SME experiences of buying, renewing and claiming on insurance products, revealed that the speed of claims rose from the seventh highest priority for consumers in July 2021 to the third highest priority in July 2022.

The Financial Conduct Authority issued a 'Dear CEO' letter to set out its expectations of firms across the insurance industry, as customers find themselves facing increased financial pressures from the growing cost-of-living crisis.

Allianz Commercial recorded a significant surge in subsidence claims in September, with volumes some 140% higher than in the same month in 2021. Following one of the hottest and driest summers that England experienced since Met Office records began, parched clay soils are the main factor, with drain or sewer leaks that wash out granular soils a close second.

DAS UK Group launched a bespoke offering for Admiral Insurance to provide end-to-end claims handling on its family legal protection product as well as offering a dedicated landlord and tenant claims hub. Admiral has more than 1.4 million home and landlord customers, and the deal will provide personal legal protection insurance for their policies.

Construction insurance specialist Focus teamed up with insurer NIG to launch a contractors liability facility designed for smaller contractors. The scheme, which is now available to Focus's panel of brokers nationwide, offers public and employers' liability insurance to contractors with turnovers of up to £5m, in addition to contractors all risks.

US insurtech Lemonade formed a long-term strategic partnership with Aviva to launch its contents cover in the UK. Lemonade was established in 2015 and is a Certified B-Corp. It now offers cover to customers in the US, the UK, France, Germany and the Netherlands.

Software provider Open GI developed its partnership with data intelligence provider, Percayso Inform, to include household data as part of its enrichment service for UK brokers. It is hoped that the move will give brokers a fuller picture of customers at the point of quote.

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

Consolidating broker Aston Lark published its results for 2021, reporting revenue of £160.1m, up 75% on the previous year. The broker made 32 acquisitions in 2021 across retail broking, employee benefits, Ireland and the London Market. It has since been acquired by Howden Group.

Howden subsequently acquired Swiss intermediary Born Consulting AG. The firm was established in 2003 and works with national and international clients in both the private and public sectors. Days later, Howden acquired Paris-based commercial insurance broker Théorème, which specialises in motor fleet, property and casualty, and employee benefits.

AUB Group Limited completed the acquisition of Lloyd's wholesale broker Tysers after satisfying all the relevant conditions precedent, including regulatory approval. The acquisition was announced in May of this year.

Technology driven consolidator, Acrisure, acquired CRK Commercial Insurance Services Ltd. CRK specialises in providing commercial schemes in the manufacturing and engineering space and will continue to operate under its own brand and as part of Acrisure UK Retail.

The Chartered Insurance Institute is seeking to attract develop and retain talent in the insurance and personal finance sectors with the launch of its Professional Map competency framework. It was developed with the input of more than 200 technical and regulatory experts and practitioners, learning and development specialists, and human resources professionals.

Insurance provider Coalition onboarded its first UK customers, which it said were struggling to find cyber cover in the market. The provider said its Active Risk platform enabled it to risk profile companies and generate the information needed to offer cover where others may not.

UK-based Stubben Edge Group received investment of £5.6m, adding to the £10m it secured last year. In the past year, the firm acquired Lloyd's broker Genesis Special Risks, established Guernsey entity 1Edge and purchased SME focused media titles from Bonhill plc.

DAS UK Group teamed up with MA Legal Funding UK, which is part of MA Financial Group, to provide an after-the-event product that provides funding for legal disbursements – the expenses a solicitor has to pay out on behalf of a client.

Aviva launched a standalone insurance product to cover electric vehicle charging points. The insurer said it was responding to demand from brokers for a specialist all-risks policy for both installers and operators. It said there were now nearly 34,000 public charging points across the UK, up by 34% in the past year.

Axa UK Retail created a digital-only brand, Moja. It is aimed at customers who buy products or use services via their smartphone or tablet and will initially offer motor insurance both direct and through Compare the Market.

Duck Creek Technologies expanded the functionality of its Duck Creek Producer product to enable it to serve the UK and EMEA market. The software product seeks to make it easier for intermediaries to work with insurers and offers quote, billing and claims handling tools as part of its proposition.

Fintech infrastructure provider FintechOS announced that its platform is powering the new digital pet insurance product launched by Admiral. The two firms began discussions at the start of the year and brought the product to market in early September.

The Interview

Deborah Ritchie met with WTW's John Merkovsky at Ferma's European Risk Management Forum in Copenhagen to discuss how his team is using advanced analytics to improve risk management outcomes

As head of risk and analytics and global large account strategy in WTW's corporate risk and broking segment, John Merkovsky leads a team whose goal is to help clients enhance their understanding of risk using a range of analytical tools.

The 500-strong team offer actuarial and analytical services, claims, forensic accounting, alternative risk and captive management in 16 countries, having grown at a double digit rate since its inception in 2015.

John's mission is to modernise the risk management industry, leveraging advanced analytics, machine learning and technology across a broad range of risk types and professional disciplines – forward-looking approaches that he believes will help make the world a more stable place by enabling organisations to better understand and manage risk.

Energy risks are hugely topical, with the climate transition, the global energy price crisis, and cyber risks to energy infrastructure all making regular headlines. How can, and should, the sector improve its approach to risk management against this fractious and fragile backdrop?

We have recently met with several energy companies to have important conversations about risk management. Each of them have a number of unique opportunities to make better use of data for improved risk outcomes. The clients we talk to today are sophisticated users of analytics but they use it to analyse separate verticals.

Our portfolio approach allows them to bring all these into the one picture, to help them visualise dependencies. Whilst they have a certain amount of their own data, many of these organisations can benefit from the scale that we can provide by taking a big data approach. We can also bring in smart algorithms to help them make more sense of the information. We also improve the overall picture for clients through a range of visualisation techniques. Most people need to visualise data in order to use it, and to make the right decisions from that point. This brings some quite advanced finance concepts into the conversation, although we will take different approaches with different industries.

With cyber risks specifically, the greatest challenge is that the dynamics are changing so fast, that whilst you might think that defences will stand up to any number of historical threats, they won't necessarily offer protection against the next new threat vector. The spike in ramsomware incidents during the worst of the pandemic shows how this can play out at scale.

"Our portfolio approach allows client to bring separate data into the one picture, to help them visualise dependencies"

In seeking to support clients in the oil industry, for instance, we look to gain an understanding of the threat horizon by developing a set of scenarios that mirror the types of events that are likely to destroy value in that organisation. The next step would be to take them through a very traditional risk management process, incorporating quantification using our own tools and analytics.

They can then decide whether they want to allocate capital to the risk or build in responses. It remains the case that actuaries have relatively little data for these kinds of risks, and, as we all know, capacity in cyber has been pulled recently, and I don't see it coming back any time soon. Industry is understandably worried about this, and the situation appears to be getting worse – to the point where it could potentially become a systemic risk.

As far as climate risk is concerned, nat cat events are becoming more severe and more frequent, to the point that insurers' historical models may no longer be valid – or at least that they no longer want that risk. We're taking very traditional nat cat models, but overlaying climate-related risk over a multi-year window, to reimagine the horizon without the same amount of capacity. The current

"We look to gain an understanding of the threat horizon by developing a set of scenarios that mirror the types of events that are likely to destroy value. The next step would be to take clients through a very traditional risk management process"

John Merkovsky, head of risk and analytics and global large account strategy in WTW's corporate risk and broking segment

situation in the state of Florida is an early glimpse of what the future could look like as far as insuring climate risks is concerned.

We are currently working with a number of different carriers to explore the role for insurance-linked securities vehicles as a solution to these enormous challenges in placing both cyber and climate risks.

Everyone is talking about ESG, but to what degree are companies really engaged with it? To what degree would you, in your conversations about the quantification of risk more generally, press the ESG issue?

Just about every D&O submission that we make to the market has at least a number of questions related to ESG. They want to see directors and officers taking some responsibility for it. The companies we speak to are in very varied places on their ESG journeys, but we work with many firms that we find are doing a good job with the things that they say are important to them.

More generally, what I perceive when it comes to the ESG piece is something of a mismatch in that some companies *talk* well about what they're doing, but don't *do* so well; and that others might *do* well, but don't necessarily *talk* well about it. In terms of the way they are perceived externally, this can lead to some surprises – not always of the good kind.

Interview by Deborah Ritchie, Editor, CIR

A new approach to risk management

We need to think about risks on a longer time horizon

There's a fundamental tension here: many businesses operate by quarterly earnings periods, but risk planning must go beyond such short time horizons. This can be a challenge, but it's critical to coming up with the right solutions.

Taking a long-term view of risk needs a change of culture. You can't just think about exposures or make a list; rather you need to consider risk every single day.

Doing so enables organisations to move beyond battling crises in firefighting mode, and instead to a place where they anticipate risk, prepare fully for the unexpected, and are ready to respond when risks become real.

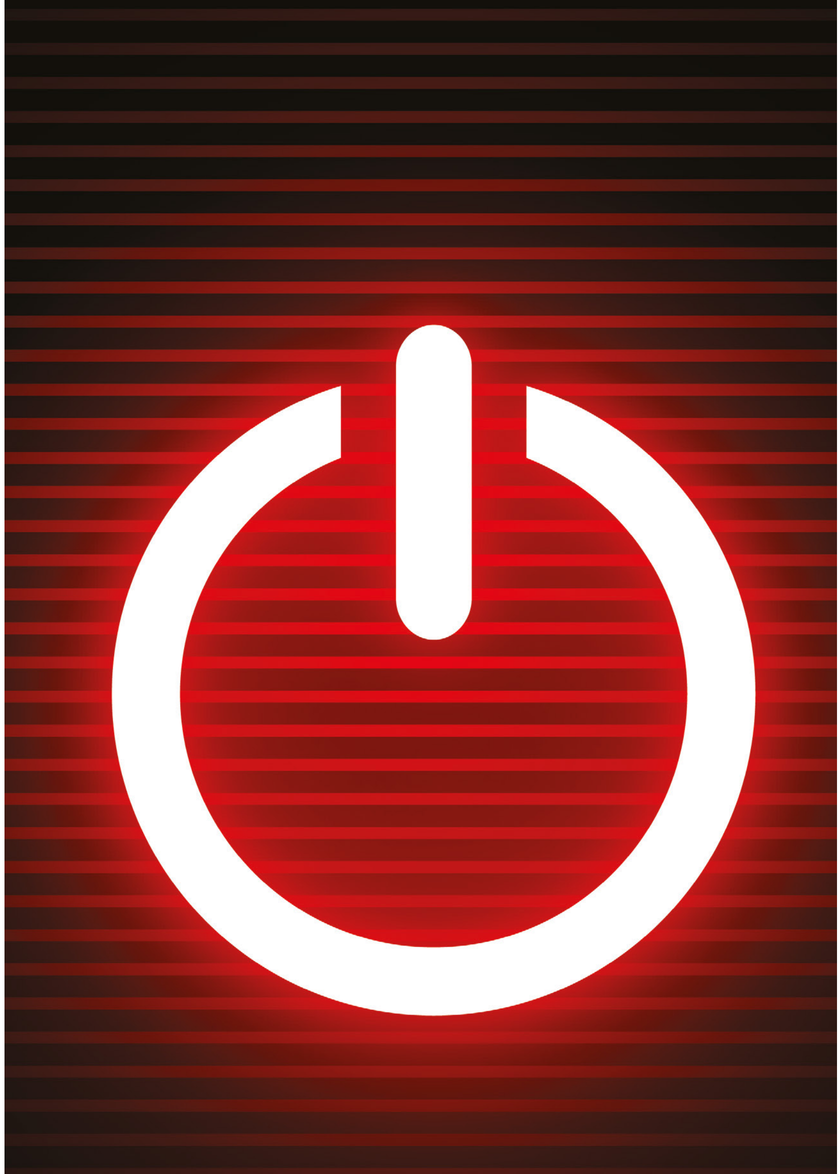
We need a common language for identifying risks right across an organisation

Some risks, such as hurricanes, are well understood in terms of their frequency, severity, and how much they affect us. But the risks that are the best understood and analysed, the most obvious ones, shouldn't necessarily be the highest priority.

Within organisations, there are a variety of functions, experts and specialists who speak different languages and use different performance indicators to understand the risks in their own areas. Establishing a common language and creating a shared view of risks is needed to ensure the top risks are identified and managed.

One approach may be to use statistics as a common language. Doing so can allow easier comparisons between risks and reveal the optimal balance of efficiency between the costs of managing a risk and the potential damages.

Down or out?



The war in Ukraine has led to an energy crisis on an unimaginable scale, as global prices are pushed high by both surging demand and restricted supply. Martin Allen-Smith reports on the challenges facing business, and the hope for a positive long-term outcome for the planet

While the war in Ukraine brings into focus the very real horrors of conflict to those most closely affected, some of the broader repercussions can reach far and wide. At the time of Russia's invasion of its neighbour, global energy prices were already on an upward trend, as manufacturing continued its post-pandemic recovery and looked towards a return to business as usual.

Since war broke out in February, the EU's significant reliance on Russia as a major supplier of its energy – providing around 40 per cent of its gas requirement up to this year – has prompted widespread concern over continuing increases to already sky-high energy prices, and even the risk of possible blackouts in some regions if supply falls short of demand.

The findings of a recent survey of 200 large businesses by energy firm npower show that 77 per cent of organisations cite energy as their biggest business risk, and that 82 per cent believe the Government needs to do more to protect businesses from wholesale market volatility.

In addition, almost half of businesses consider that the current energy crisis will harm net-zero progress – something that alarms businesses and their investors, both of which groups have increasingly become geared towards a more sustainable future, and one that is more energy independent. For many, to backtrack on that no longer feels to be instinctively the right path for the long term.

A long winter

With no sign that the war in Ukraine is set to end in the short term, the turmoil over energy looks set to continue for a considerable time. Qatar's energy minister, Saad al-

Kaabi, has warned that Europe could face a much worse energy crisis next year, particularly if there is a harsh winter. Acute problems, he warns, could extend into the middle of the decade if the war continues and gas supplies from Russia are not resumed. The *Financial Times* reported that Kaabi – who is also head of the state gas company QatarEnergy – said that because storage capacity is currently full, that this coming winter would be fine, but that unreplenished reserves will create an issue for next year.

One country most directly affected by reduced access to Russian energy is Germany, which has relied on this source for decades. A recent survey by the Association of German Chambers of Commerce and Industry, DIHK, found that around 82 per cent of 24,000 businesses cited energy prices as a significant business risk – a higher proportion than at any time since the group began gathering such data in 1985.

In response to rapidly rising prices, nearly one in five energy-intensive industries in the country have scaled back production or their offerings, while eight per cent are considering shifting production elsewhere – in particular companies in the automotive industry, at 17 per cent.

"We're hearing quite often from firms that they are looking for or eyeing locations that fit their portfolio in terms of energy, which at the moment is the United States," DIHK's Ilja Northnagel says.

"The International Energy Agency suggests that the global energy crisis has led to profound and long-lasting changes that have the potential to hasten the transition to a more sustainable and secure energy system"

Widespread sanctions against Russia – compounded by the Kremlin's own actions in reducing gas supplies to Europe – have forced governments to take a diverse range of measures to attempt to find a solution. Some have acted to bring back online previously decommissioned fossil fuel power plants, or halt programmes aimed at scaling back nuclear power operations. It is being seen as a huge blow to efforts to combat climate change and a major setback to hopes of reaching net-zero by 2050.

However, in the latest edition of its *World Energy Outlook*, the International Energy Agency suggests that the global energy crisis has led to profound and long-lasting changes that have the potential to hasten the transition to a more sustainable and secure energy system.

The context for this is an energy crisis that is delivering a shock of unprecedented breadth and complexity. The biggest tremors have been felt in the markets for natural gas, coal and electricity – with significant turmoil in oil markets as well. With unrelenting geopolitical and economic concerns, energy markets remain extremely vulnerable, and the IEA's report warns that the crisis is a reminder of the fragility and unsustainability of the current global energy system.

New global measures

Alongside short-term measures to try to shield consumers and businesses from the impacts of the crisis – including huge price increases and the risk of potential blackouts, many governments are now taking longer-term steps. Some are seeking to increase or diversify oil and gas supplies, and many are looking to accelerate bigger structural changes. The most notable responses include the US Inflation Reduction Act, the EU's Fit for 55 package and REPowerEU, Japan's Green Transformation programme, Korea's aim to increase the share of nuclear and renewables in its energy mix, and ambitious clean energy targets in both China and India.

According to the IEA WEO's stated policies scenario – based on the latest policy settings worldwide – these new measures would help to propel global clean energy investment to more than US$2 trillion a year by 2030, a rise of more than 50 per cent

"The environmental case for clean energy needed no reinforcement, but the economic arguments in favour of cost-competitive and affordable clean technologies are now stronger – and so too is the energy security case"

from today. As markets rebalance in this scenario, the upside for coal from today's crisis is temporary as renewables, supported by nuclear power, see sustained gains. As a result, the forecast shows that a high point for global emissions is reached in 2025. At the same time, international energy markets see a major reorientation in the 2020s, as countries adjust to the disruption of Russia-Europe flows.

Fatih Birol, IEA executive director, says: "Energy markets and policies have changed as a result of Russia's invasion of Ukraine, not just for the time being, but for decades to come. Even with today's policy settings, the energy world is shifting dramatically before our eyes. Government responses around the world promise to make this an historic and definitive turning point towards a cleaner, more affordable and more secure energy system.

"The environmental case for clean energy needed no reinforcement, but the economic arguments in favour of cost-competitive and affordable clean technologies are now stronger – and so too is the energy security case. Today's alignment of economic, climate and security priorities has already started to move the dial towards a better outcome for the world's people and for the planet."

Wholesale reset

Russia has been by far the world's largest exporter of fossil fuels, but its invasion of Ukraine is prompting a wholesale reset of global energy trade, potentially leaving it with a much-diminished position. All of Russia's trade ties with Europe based on fossil fuels had ultimately been undercut in previous forecasts by Europe's net-zero ambitions, but Russia's ability to deliver at relatively low cost meant that it lost ground only gradually, as budgetary realities in many countries ensured a cautious approach to switching energy policies. Now the rupture has come with a speed that few imagined possible. Russian fossil fuel exports never return (in any of the scenarios in this year's IEA report) to the levels seen in 2021, with Russia's refocus towards Asian markets particularly challenging in the case of natural gas. Russia's share of internationally traded energy, which stood at close to 20 per cent in 2021, falls to 13 per cent in 2030 according to the stated policies scenario, while the shares of both the US and the Middle East rise.

In the Northern Hemisphere, winter promises to be a perilous moment and a testing time for EU solidarity, but it could just be that in the longer term, one of the effects of Russia's actions is that the era of rapid growth in gas demand draws to a close.

"Amid the major changes taking place, a new energy security paradigm is needed to ensure reliability and affordability while reducing emissions," Birol adds. "As the world moves on from today's energy crisis, it needs to avoid new vulnerabilities arising from high and volatile critical mineral prices or highly concentrated clean energy supply chains."

Martin Allen-Smith is a freelance journalist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The case for prioritising ESG

Prioritising ESG not only makes good business sense, but with imminent regulatory change up ahead, the time for organisations to adopt and embed ESG is now. A new report looks at the landscape

Organisations that embrace environmental, social and governance factors in their business strategy are more likely to create value and accelerate growth, and at the same time minimise incoming regulatory risks, according to a joint report from law firm, Dechert, and global advisory business, StoneTurn.

The report, compiled with input from 114 professionals over a two-month period, suggests that, despite the clear benefits of integrating ESG and continually reassessing ESG strategy, many firms have some way to go to meet increased ESG-related demands.

Fewer than one in three respondents had carried out a risk assessment to identify ESG risks in their supply chain in the past two years, for instance, while 60 per cent failed to integrate ESG due diligence into wider due diligence activities and compliance measures.

Market response

The joint report highlights how a failure to embrace and embed ESG into an organisation's strategy and processes could have serious financial and reputational consequences, which may include litigation, regulatory action and the restriction of access to capital as lenders start to charge higher premiums and interest rates to organisations with poor ESG risk ratings.

Markets are also responding, with stocks that have positive ESG ratings driving share price and dividend growth.

With tighter regulation coming into play and stakeholder and activist groups demanding increased ESG accountability, the report emphasises the need for companies to

Regulatory horizon scan

Initiatives such as the EU's Corporate Sustainability Reporting Directive will soon require large companies to publish annual audited reports on how their activities impact environmental and social factors, with other mandatory and voluntary standards emerging around the world. The CSRD has a long reach, requiring certain non-EU companies active in the EU to also report on their ESG footprint. This highlights the need for organisations to have a global overview of up-and-coming regulation.

Laws imposing a duty on directors to ensure that corporates meet their ESG objectives and integrate supply chain due diligence into their corporate strategy are on the horizon and are likely to become law in the EU. Activist shareholders are becoming more vocal in demanding change and are bringing ESG legal cases against companies and their directors for failing to meet statutory duties and adequately mitigate ESG risks. Keeping up with emerging regulations – and reporting on impacts like Scope 3 emissions and modern slavery – remains a challenge.

In the US, the SEC is proposing rules to enhance and standardise climate disclosures, including consideration of environmental issues and diversity. Also in the US, there are proposals to open up ESG investments to pension funds, while NASDAQ-listed companies must now provide details on their board composition in a push to increase diversity.

Source: *Are You Ready For ESG as a Critical Business Imperative?* Dechert LLP and StoneTurn

"With tighter regulation coming into play and stakeholder and activist groups demanding increased ESG accountability, companies must demonstrate real action now on issues including sustainability and supply chain due diligence"

demonstrate real action now on issues including sustainability and supply chain due diligence.

"Integrating a clear and robust ESG strategy will go a long way to ensuring that businesses do not run afoul of tighter regulations, thereby minimising the potential for litigation, as well as meeting the demands of both stakeholders and activist groups for increased accountability," says Matthew Banham, a partner at Dechert. "This should result in better governed organisations that will preserve their value and ensure their viability in years to come."

The importance of culture

The report identifies a number of key considerations for maximising the success of ESG business commitments, including emphasising that a values focused business culture permeates an organisation to enable a positive environment for change. The report's authors recommend:

- Strong direction, a robust tone from the top and ethical commitment from business leaders, reinforced by aligned corporate governance support businesses in delivering sustainable priorities.
- Rethink corporate purpose and the enabling culture of the organisation, so that everyone is clear about what is the 'right thing' to do. Only 43 per cent of the professionals polled for this report said this was the single biggest driver of change, which indicates that over 50 per cent see ESG as only a compliance or regulatory initiative.
- Navigate and identify the evolving regulatory landscape as the scope of reporting expands to cover areas such as environment, nature, anti-corruption and bribery and diversity – within organisations and across their stakeholders and value chains.
- Shine the ESG spotlight on all relationships: parent, subsidiary and contracting third parties. "Although courts are traditionally reluctant to 'pierce the corporate veil' and find a parent liable where it was not a party to the contract in question, recent case law indicates that, when the facts are right, courts will be more willing to extend potential liability to parent companies," the report points out.
- Integrate ESG into existing risk and compliance frameworks, and establish accurate and reliable data gathering processes for essential ESG-related metrics.

"Culture and good corporate governance can make or break an organisation's ability to deliver on their strategic ESG priorities," says Tracey Groves, a partner at StoneTurn. "Engaging the whole business in not just what needs to be done, but why it matters and how it aligns to the values and purpose of the organisation, will be critical to securing buy-in and commitment to doing the right thing from all stakeholders. An enabling and empowering culture does not happen by default, it must be designed and shaped with intention and purpose."

Access this report in full at https://www.dechert.com/knowledge/publication/2022/9/are-you-ready-for-esg-as-a-critical-business-imperative.html

Averting the climate 'ruin scenario'

A new report is warning of an impending 'ruin scenario' unless a risk management approach to escalating climate change can be rolled to out identify, measure and mitigate the threats

Even under the current climate targets set out in the Glasgow Pact, global society is heading towards a 'ruin scenario', according to a new report from the Institute and Faculty of Actuaries and the Climate Crisis Advisory Group.

The joint report is calling for policymakers and stakeholders to take a risk management approach to identify, measure and mitigate the effects of further temperature rises.

It says this will be vital to support the broader effort to build resilience and climate adaptation into national and international systems, as extreme events become more frequent.

"Human caused climate change has run down the clock, and we are fast running out of time to keep the critical 1.5 degrees hopes alive," says Sir David King, chair of the CCAG. "But whilst this may seem daunting, we have the science at hand to reduce emissions and stabilise the climate. What this report clearly shows is that even at 1.5 degrees, serious mitigation and risk management will be required alongside a strategy of 'reduce, remove and repair' to deliver a manageable future for humanity."

"What this report shows is that even at 1.5 degrees, serious mitigation and risk management will be required alongside a strategy of 'reduce, remove and repair' to deliver a manageable future for humanity"

Key recommendations

The report sets out a number of key findings, including a recommendation that climate change now needs to be seen as a risk management problem given that catastrophic outcomes are now inevitable.

The report's authors say policymakers need to have a degree of climate and risk literacy as they plan for an uncertain future.

They also warn that carbon budgets should be treated with caution when planning for long-term sustainable investment, adding that large margins for error and 'no surprises' assumptions are a source of undue confidence in carbon budgets, which have only a 50 per cent chance or less of hitting the 1.5 degree target.

The CCAG's recommendations come in the form of what it calls its 'RRR strategy': reduce emissions urgently, deeply and rapidly, while ensuring an orderly transition; remove CO_2 from the atmosphere in vast quantities; and repair broken parts of the climate system, starting with the Arctic, to try to reverse local changes and stop the cascade effects of those changes through global climate systems.

"Climate change is a risk management problem on a global scale," says Sandy Trust, former chair of the IFoA Sustainability Board. "Policymakers must act now to accelerate climate action to avoid catastrophic impacts on society. We have underestimated the pace of climate change, as well as the level of risk associated with 1.5 degrees of warming. We need to prepare for further climate impacts, as well as reducing emissions rapidly. However, we have the solutions required, and it is within our collective capabilities to steer our future back onto a safe course."

Access the report in full at https://actuaries.org.uk/media/gebdhxzi/climate-emergency-final-report.pdf

No time for inaction

Worrying threats and stretched resources are challenging us like never before, at a time when no formal National Resilience Strategy has yet been published by the Government. Peter Power writes

As we attempt to absorb the huge array of fast moving and often existential threats now blinking away on our corporate radars, I am reminded that crisis management is not so much about good versus bad, but more about preventing the bad from getting worse.

This is precisely why, when a group of consultants and I worked with the UK Government to write British Standard BS 11200 on Crisis Management, Guidance and Good Practice, we were so keen to include the detail that "crisis decision-making is typically characterised by ill-formulated dilemmas, for which apparent solutions are not right or wrong, but better or worse, and where solutions to one problem potentially generate further problems or issues".

These words can very easily be used to describe the situation in which the world currently finds itself. Worrying threats and stretched resources are challenging us as perhaps never before. Just-in-time, in particular, has left us all with little or no flexibility to absorb any more shocks without robbing one business operation to pay another.

Above all, though, the greatest asset in any organisation, human capital, needs honest support and reassurance in an uncertain world.

So where might we go from here? First, I would recommend we apply some situational awareness. In BS 11200, the term is used to describe a best available appreciation of:

- What is going on and what the impacts might be?
- The degree of uncertainty
- The degree of mitigation and/or containment
- What are the exacerbating issues?
- What might happen in the immediate / longer term future?

Together, this information, understanding and foresight can hopefully inform crisis decision-making at all levels – whatever the size of the incident.

This is particularly welcome in an age where incidents and crises are more disruptive, complex and sudden.

The speed with which an infectious disease can surge across the globe, creating a tidal wave of havoc such that we have not seen since 20th century world wars, is one such example. And the international supply turbulence after 300 cargo vessels were stuck behind a single ship that ran aground in the Suez Canal is another. And now, a 21st century leader with a permanent seat on the UN Security Council is waging a brutal war in Europe, and most recently threatens to use nuclear weapons as he runs out of conventional arms. Quite apart from the humanitarian crisis this has created, the ripple effects of this war are being felt strongly in energy and food security globally.

Across The Pond, a recent poll from the University of Chicago's Institute of Politics seems to suggest that nearly a third of the population there consider that it may soon be necessary to take up arms against their own government!

Of course, the UK has its own problems, with a revolving door at Number 10, as former chancellor Rishi Sunak becomes the country's fifth prime minister in six years, but in the Land of the Free, that would be the equivalent of the entire population of Southern England, including all of Greater London, being prepared to march on Whitehall, all carrying guns (or in our case, pitchforks).

As I write, most socioeconomic threat dials are already in the red zone, and alarms are buzzing on numerous threat gauges and risk assessments. Various sentiment barometers already point to a vulnerable, angry and highly dissatisfied society, and this includes employees, their families and just about all stakeholders.

The escalating use of food banks means they now outnumber Greggs bakeries. Fears about food

insecurity more generally could easily lead to panic buying.

Meanwhile, energy insecurity is rising, as power outages, or at least brownouts, have been warned, as the UK power framework struggles to maintain a constant flow.

Surely then, this is the time for a National Resilience Committee or Minister for Resilience to get to work? But we don't have either. In fact, we don't even have a published National Resilience Strategy.

I have no doubt our relatively new Government would wish it otherwise, but with so many conflicting demands on resources, time and money, it is too easy to put anything that hasn't quite reached disaster proportions into the pending tray. This is despite some important reviews on our national state of resilience revealing a very troubling picture of UK preparedness (including the House of Lords in December 2021, and the National Preparedness Commission in May 2022).

The most recent report was published in October 2022 by a parliamentary committee on the National Security Strategy. It effectively damns the Government for not taking things seriously, especially on the impact of climate change and, as in previous reports, urgently calls for a Ministerial Committee on Resilience and a National Resilience Strategy. Meanwhile, there is an increasing sense of citizen rage across the country as the cost-of-living crisis shows no signs of abating and people have lost faith in the Government's competence.

Regaining focus

Taking a broader focus, the World Economic Forum has quite rightly pointed out that organisational resilience is not a response to risk, *per se*, which can often be quantified, but rather to uncertainty, which most often cannot – therein lies the problem. The Government is still uncertain what the culmination of rising barometers and spinning dials will actually look like when it all erupts. Knowing our reaction to national dramas in the past has depended very much on certainty, which usually occurs well after the optimum time to intervene, it all becomes vastly more expensive. So where does all this leave us?

All organisations should now be firmly focused on organisational resilience that conflates otherwise discrete silos of risk, business continuity, HR, security and so on under a single umbrella with a shared doctrine and objectives where, to quote Aristotle, the whole is greater than the sum

of its parts. A newly revised British Standard on organisational resilience, BS 65000, could offer guidance in this regard.

It is not too late to re-focus organisations to better absorb shocks, support people and thrive in altered circumstances. This means a shift from creating and executing steady plans, which work well when relationships are clear, predictable and unchanging. Organisational resilience deals with what is unknown, changeable, unpredictable and sometimes improbable. It promotes the capacity to anticipate, mitigate, cope, learn and adapt across organisations and their interdependencies.

As worsening crises loom, we need to move away from only reacting when events are clear and measurable. Decisions are now required when much of the ideal information might be misleading, elusive or uncertain, but the consequences of decision-making delay could be disastrous.

The Government, and in some cases industry, particularly needs to move the topic of uncertainty into the forefront of organisational strategy and implementation. In a world where terms like 'black swan' and 'one in one hundred year events' have lost all significance; recent lessons have accelerated the importance of replacing rhetoric and verbal commitments on organisational resilience with tangible action while the list of threats against us mount up.

"Organisational resilience deals with what is unknown, changeable, unpredictable and sometimes improbable, promoting the capacity to adapt"

At a congress held by the Resilience Association in the City of London in October, participants identified the following threats (in no particular order):

- Worsening probability of power cuts, leading to an array of serious/spreading incidents
- Increasing tension indicators of public disillusionment, frustration and anger
- Spreading impact of climate change
- Escalating examples of fake news, especially in the vast/expanding area of social media
- Exacerbating incidents that clearly point to a growing lack of faith in Government competence – and how that might manifest itself
- More commentators now highlighting prospects of subsea warfare (such as Russia cutting energy and data pipelines and communication cables that would seriously jeopardise power supplies and data transfer far more than people realise).
- Fiscal turbulence adding to a growing/profound sense of economic uncertainty
- Putin becoming increasingly belligerent and now uttering ominous threats to use weapons of mass destruction, thus creating a global worry not seen since the Cuban Missile Crisis of 1962
- The terrorist threat level remaining at 'Substantial', meaning an attack is 'likely'
- Diseases showing immunity to antibiotics

About the author

Peter Power is a past member of the UK National Security Commission (IPPR) that produced the report *Shared Responsibilities: A National Security Strategy for the UK*, and has been an international consultant on crisis, operational risk and business continuity for over 35 years. A past chairman of the World Conference on Disaster Management, Peter wrote the first ever *Guide to Business Continuity*, published by the UK Government and has sat on UK Cabinet Office committees writing standards on business continuity and crisis management. He is currently a vice-chairman of the Resilience Association. Peter will be speaking at *CIR*'s upcoming Resilience Series event in May 2023.

For more information, visit https://www.cirmagazine.com/resilience-series/

A recent survey conducted by the Business Continuity Institute found that over 20 per cent of the organisations interviewed have created a new role of chief resilience officer in the past year. Good news, but CROs need to know that significant disruptions don't just impact organisational structures: Predominantly they impact people, which in turns leads to anguish, fear and a worried workforce.

Organisational resilience today requires synthesis, not silos, shared doctrines, not scattered dogmatism. To be adaptive, agile and accessible to new ideas, but above all, realise that human capital is any organisation's single most important asset.

Peter Power FIRM FBCI BA is a vice-chairman of the Resilience Association

Third party claims on rise

An uptick in third-party claims points to increased threat of litigation against corporates, according to Liberty GTS's latest Claims Briefing. Simon Radcliffe writes

The recent publication of the Liberty Global Transaction Solutions *2022 Claims Briefing* identified a number of trends that are likely to characterise the M&A insurance market going into the new year. The briefing looks at M&A insurance claims by industry, by region and by cause, providing data on the types of deals that are most likely to lead to a claim, as well as highlighting current claims. One of the key findings of the report is that the number of third-party claims (as is typically defined in a representations and warranties policy), has increased significantly since 2020.

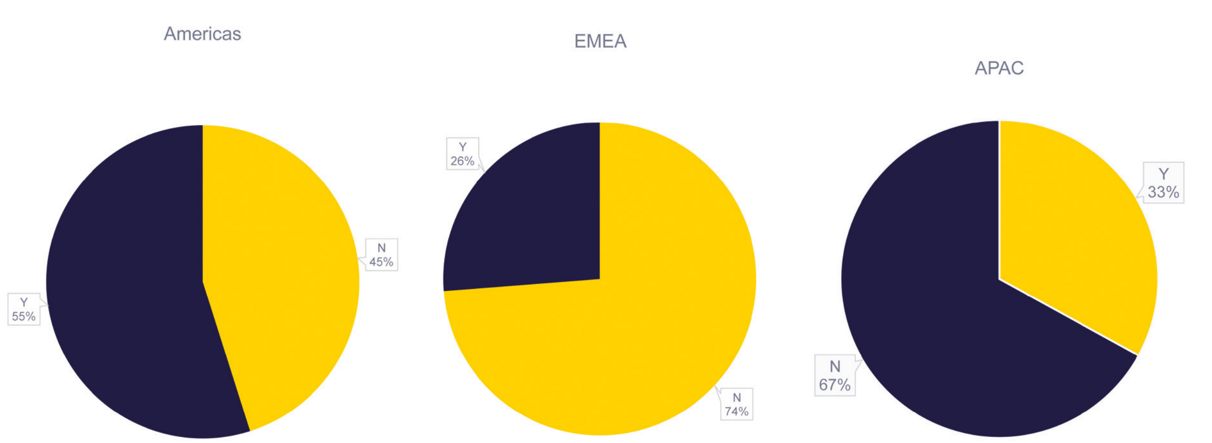
"In the Americas, 55 per cent of the non-tax related notifications since 2020 have involved a third-party claim. In EMEA and APAC, over that same period, the figures are only 26 per cent and 21 per cent respectively"

In 2020, just 28 per cent of the non-tax related notifications involved a third-party claim. This jumped to 48 per cent in 2021 and the number has stayed high into 2022 (at 45 per cent). The reasons for this are potentially varied but are certainly indicative of the increased litigation threat faced by corporations.

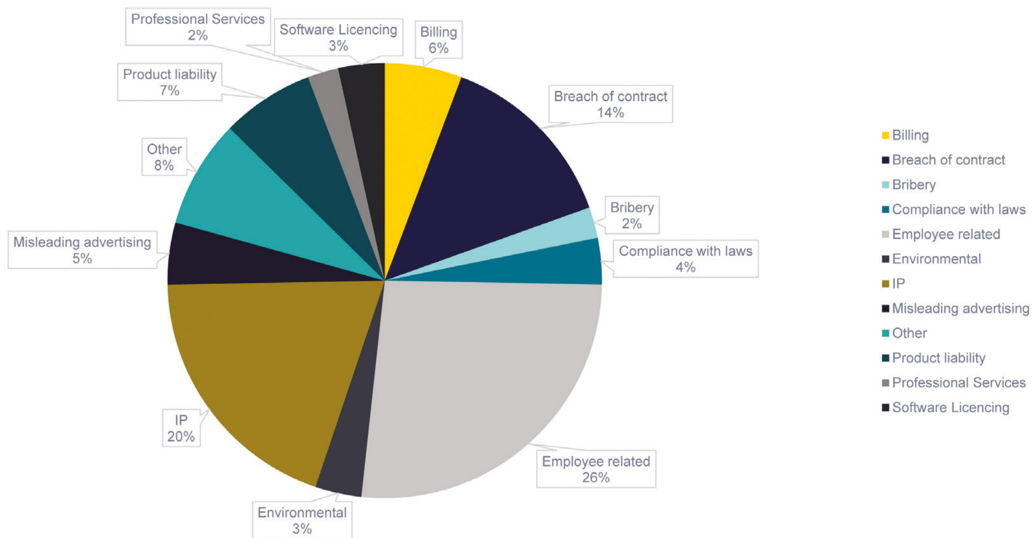
The data shows the Americas as driving this phenomenon. In that region, 55 per cent of the non-tax related notifications since 2020 have involved a third-party claim. In EMEA and APAC, over that same period, the figures are only 26 per cent and 21 per cent respectively.

This development has significant implications for corporates and insurers, bearing in mind that an R&W policy will typically provide cover for, amongst other things, the costs of defending a third-party claim regardless of whether the underlying allegations have any merit.

These costs can be significant, and we are seeing more and more instances of defence costs eroding the entire policy retention or a significant portion of it, even on deals with a relatively high attachment point.



Percentage of non-tax-related R&W notifications involving third-party claims – regional view
[Data based on non-tax related R&W notifications received between 1st January 2021 and 31st July 2022]



Underlying causes of third-party claims
[Data based on R&W notifications received as at 31st July 2022 relating to risks bound from 1st January 2019 onwards]

Many third-party claims are notified more than 12 months after inception of the policy
In many cases, a corporate insured will only become aware of the underlying facts giving rise to a third-party claim at the point that the claim is actually asserted by the plaintiff (or shortly thereafter). This can be many months after signing, and it is not a surprise, therefore, to find that many third-party claims are noticed more than 12 months after inception of the policy. This represents an additional risk factor for insurers when it comes to any policy with a retention that drops-down (usually by 50 per cent) 12 months after closing, which is the norm for most US risks.

A significant number of third-party claims involve employee- or IP-related disputes
The data reveals that nearly 50 per cent of the third-party claims since 2019 onwards involved either employee- or IP-related disputes.

Many of the employee-related disputes involve wage and hour lawsuits. These have become rife in recent years, particularly in the US, and can be surprisingly expensive claims, in part because they can result in additional employee-related tax liabilities as well as an increased wage bill.

They are also seldom covered by the target's business-as-usual insurance and there is also a social inflation risk associated with these claims as they are susceptible to plaintiff-friendly jury awards.

We predict that, as a result, insurers are likely to become increasingly proactive in terms of managing their exposure towards such claims going forward.

"Many employee-related disputes involve wage and hour lawsuits, which have become rife in recent years, and can be surprisingly expensive claims, as they can result in additional tax liabilities and wage bills"

All this said, these claims are typically less severe in terms of potential exposure than are IP-related disputes, which account for 20 per cent of the third-party claims since 2019. These claims can involve a range of issues, but many result from patent disputes. These claims are usually pursued very aggressively and defended vigorously. They often involve factual questions that cannot be resolved easily via an early dispositive motion and usually require significant expert testimony. This can make them especially costly to deal with and it is not unusual to see very large budgets for the defence of these types of claims.

The early notice of a third-party claim is critical
In the last 12 months, we have seen many third-party claims that have been noticed long after the underlying litigation was commenced. While rare,

the delay in notifying a third-party claim, especially when it involves active litigation, can complicate the claims process, especially to the extent that key decisions have already been taken.

While true for all claims, it is particularly important for an insured to provide notice of a third-party claim as early as possible and to then maintain an active dialogue with insurers about its status and any key developments. This is important for both sides in that it allows an insurer to speedily reach a coverage determination and to assess the reasonableness of any strategic decisions or settlement proposal(s).

"With more payments expected for these types of claims, risk managers need to be aware that there will be in a greater focus on the coverage, and litigation risk in general"

More payments involving third-party claims expected

With more payments expected for these types of claims, corporate risk managers need to be aware that there will be a greater focus on the coverage associated for these types of claims and litigation risk in general.

The trend for payments in connection with third-party claims is one that is likely to continue. It will increase the spotlight on the coverage provided for these types of claims by R&W policies. We may even may start to see an increase in retentions, particularly on smaller deals, in order to protect against the risk derived from more third-party claims. We may also see more discussions around the apportionment of defence costs where, for example, the third-party claim involves pre- and-post-closing conduct or a mixture of allegations, only some of which would trigger a breach of warranty if substantiated. We also predict that there will be more scrutiny at underwriting stage around litigation risk in general and increasingly robust positions being taken in respect of any potential exposures that are identified during due diligence, even if it is classified as being a low-risk item. This may mean that insureds may have to look at alternative ways of managing these risks, such as via a bespoke contingent legal risk insurance policy, or one that is designed to de-risk one-off issues.

Simon Radcliffe is head of GTS claims at Liberty Global Transaction Solutions

CIR Risk Management AWARDS 2022

The finalists

Risk Manager of the Year

- Hazel Arthur, Mott MacDonald
- Peter Barr, WSP
- Jemma Boyce, Faithful+Gould
- Emma Coomber, Mitie
- Noelle Douglas, Domestic & General
- Rebecca Gabriel, HS2
- John Greenwood, AECOM
- Tom Hughes, Domestic & General
- Nikos Ioannou, Faithful+Gould
- Addy Mittal, Mastercard
- Simon Motley, Stantec
- Danny Pollard
- Yasmine Sadek, NAB Europe SA

Risk Management Champion Award

- Tom Johansmeyer, PCS
- Ajay Katara, Tata Consultancy Services
- James Lawrence, Peregrine Risk Management
- Richard Newey, AECOM Europe
- Colin Taylor, Howden Insurance Brokers

Newcomer of the Year

- Phil Astridge, Stantec
- Cameron Burton, WSP
- Tom Gillespie, Domestic & General
- Claudia Lewis, Faithful+Gould
- Fraser MacLennan, Stantec
- Pippa Redcliffe, AECOM
- Samantha Ritchie, Faithful+Gould
- Ashleigh Rutherford, Ubiquitous Risk
- Lily Welch, Mott Macdonald
- Jake Williams, Faithful+Gould

Risk Management Team of the Year

- AECOM
- Aviva UK&I Life
- Faithful+Gould
- PCS, a Verisk business
- Simplyhealth
- Stantec
- Zepz

Risk Management Team of the Year - Public Sector

- Devon Audit Partnership
- Financial Services Compensation Scheme
- National Employment Savings Trust (Nest)
- Scottish Water
- Transport for Greater Manchester

Risk Management Programme of the Year

- Faithful+Gould
- Greater Manchester Police & BlackBerry
- Nuclear Decommissioning Authority

Cross-Border Risk Management Award

- Clyde & Co
- Kuwait Petroleum International
- Zepz

Major Capital Projects Award

- HS2
- WSP

Public Sector Risk Management Award

- Devon Audit Partnership
- National Highways and Faithful&Gould
- Network Rail
- Scottish Water
- Transport for Greater Manchester

ERM Strategy of the Year

- Clyde & Co
- Kuwait Petroleum International
- Mitie
- Network Rail
- Zepz

Risk Management App of the Year

- eDriving – Mentor
- HedgeFlows
- Mitie

CIR Risk Management AWARDS 2022

The finalists

Risk Management Product of the Year

- Barnett Waddingham - BW Risk Portal
- Edtesa
- Marsh - Global Program Workbook
- Mitie - Risk Safe
- Optimise
- ORIC International
- Riskoncise
- WSP - Risk Performance Summary

Risk Management Product of the Year - Technology Provider

- CalQRisk
- eDriving - Mentor
- Everbridge - People Resilience Solution
- Fusion Risk Management - Fusion Framework System
- Greater Than - Enerfy Risk Portfolio Tracker
- RiskPal

Risk Management Specialist Company of the Year - Large

- BDO LLP
- Ecclesiastical Insurance
- Fusion Risk Management
- Verisk Maplecroft

Risk Management Specialist Company of the Year - Small/Medium

- eDriving
- KYND
- Optimise
- ORIC International
- Satarla

Cyber Security Product of the Year

- KYND
- PCS, a Verisk business

Best Use of Technology in Risk Management

- Anglian Water Major Projects & AECOM
- Charles Taylor
- Davies
- Mitie
- Peregrine Risk Management - Foresight
- Riskonnect & Arbuthnot Latham

Risk Management Innovation of the Year - Sponsored by Mott MacDonald

- Acin
- Fusion Risk Management
- Greater Manchester Police & BlackBerry
- Mitie - Risk Safe
- PCS, a Verisk business - PCS Global Specialty Retro

ESG Award

- Argo Group
- Domestic & General
- PCS, a Verisk business

Diversity Award

- AECOM
- Faithful+Gould
- Mott MacDonald

International Risk Management Award

- ACCOR
- Kuwait Telecommunication Company (stc)
- Oil and Natural Gas Corporation
- Royal Sundaram General Insurance Company
- SABIC (Saudi Basic Industries Corporation)
- Sharjah Police Headquarter

Public Safety Award

- eDriving - Mentor
- Greater Manchester Police & BlackBerry
- Greater Than

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CONTINUITY INSURANCE & RISK

Emerging challenges in ERM

In association with riskonnect

Roundtable

Emerging challenges in enterprise risk management

CIR's most recent roundtable was held under Chatham House Rule amongst twelve senior risk professionals from financial services, banking, professional services, infrastructure, industry, housing and risk software sectors to explore the emerging challenges in ERM

Chairman: I find it fascinating that in 2022, some – even large – organisations still struggle, culturally, to recognise the value of risk management. Let's explore this in the context of emerging challenges across enterprise risk management. What are your views and experiences of the key issues?

Risk professional in infrastructure: I see a degree of resistance when it comes to engaging the wider business in ERM. They will participate 'if they must'. Perhaps they may not fully understand the value of ERM, as the benefits have never been properly explained to them. I don't think we explain the 'so what?' factor clearly enough.

Risk professional in financial services: I don't think there's a common definition in some organisations as to what ERM is.

Risk professional in infrastructure: That is the challenge.

Risk professional in financial services: For a bank, enterprise risk can drift into prudential risk, as opposed to what many people now think of as ERM, which is really more about resilience for my organisation. Another key challenge is that, because ERM is so ill-defined, anything with the word 'risk' involved can become ERM... and that means that queries from colleagues on, say, country exposure, get directed to ERM as a catch-all solution.

There's no common industry definition, and I'm not even sure many firms define enterprise risk very well – around what it really means for them as an organisation.

This problem is exacerbated if you have consultants working on different projects – all with different definitions for ERM.

Understanding the fundamentals

Chairman: Even though I've been a student of risk management for over 20 years, I believe we still have a long way to go in understanding this subject clearly.

Risk professional in financial services: I have to ask: How different is a risk assessment to an assessment of the business case and commercial benefits of a particular action?

Risk professional in professional services: That is an important consideration. When we look at risk, it is not one solo 'thing'. Risk is part of managing an enterprise. It's part of any project, it's part of management. But still, today, people think about risk only when there's a problem, and then come to us to fix it.

Risk professional in insurance: I recognise that situation!

Risk professional in professional services: I don't think this is a new idea, but I believe that when the message genuinely comes from the top, it becomes naturally embedded in the process. If management understands the benefits of thinking about risk, they will necessarily drive it downwards, and everyone else will start to see the benefits as well.

Risk professional in financial services: Do we think that risk needs a rebrand? Would 'risk and opportunity management', or 'opportunity and risk management' be better?

Risk professional in professional services: I've heard this discussed a lot. Would it be too controversial to ask if we even need to talk about risk at all?

Risk professional in insurance: I don't have risk in my title for that reason.

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My job title focuses on strategy and assurance. I don't think we need to pick out 'risk' per se. We've just started looking at risk culture, but it's not risk culture that we are really exploring – it's the holistic culture of the organisation.

Risk professional in infrastructure: We have a number of enterprise risk managers at our firm and it is hard to articulate clearly what we do. Often our infrastructure public sector clients will ask me how I am managing their risks, and I have to explain to them that they are for *them* to manage. So, in a way, it doesn't matter what we're called. I'm frequently asked, 'can I have ERM?' But you're a project, so, what do you want to do with that?

You can have the best risk management system in the world, but if the enterprise that you work in doesn't have anything, well, it's not ERM.

Risk professional in banking: I think defining ERM is not only good for the business, but good for us as risk professionals. My company recently invited a number of CROs and heads of risk from a fintech to a risk session. When asked about their problems, they cite challenges integrating of measuring risk. That's why enterprise risk, as a concept, was formed in the first place – to solve those inherent challenges.

"Where does ESG fit into the wider emerging risk conversation? In the context of all the other challenges we are facing, how can we now integrate ESG?"

I think there are different challenges that enterprise risk is facing, and that's compounded (obviously as a result of Covid) in the last two or three years. The problem, I think – and I'm being critical of us as risk professionals – is that we still don't understand the business well enough.

The second issue is that sometimes we lack vision and leadership. So many risk professionals are still taking a tick-box approach, and that needs to change so that instead we are ahead of the business, and ahead of regulators. Let's face it, our regulators are not always visionary leaders themselves.

Risk professional in insurance: I agree. We're still very reactive.

Addressing ESG

Chairman: Of course, it's not enough just to highlight problems. So what can we do to solve these issues? And where does ESG fit into the wider emerging risk conversation? In the context of all the other challenges we are facing, how can we now integrate ESG?

Risk professional in insurance: It's quite interesting to see what's happened with ESG, in that, like risk, we've created new job titles for it – rather than integrate it. It's the new thing. It's the new focus. Which is interesting, given the conversation we've just been having about the use of risk and then the maturity of risk. Will we then remove that, and integrate it back into the business, when we think it's mature enough?

It would be interesting to see whether everyone else does similar, or tries to integrate it, across the business. But that's how, typically, we give the focus to an issue – to make it prominent.

Risk software provider: From a software supply perspective, we can see the benefit of having ESG integrated,

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but that's not what customers currently appear to want. We have an ESG capability as part of our integrated risk management solution as we believe that synergy is important to a high-level conversation about all these risks.

Risk professional in financial services: Just as we discussed a definitional problem with ERM, I think there's an even bigger one with ESG. The environment element has been very much in focus for a while, and governance increasingly so, but the social piece became much more important earlier in the year. I also perceive that for some issues there's a balance between the ESG elements, as benefits in one can impact the others.

Measuring impact

Chairman: Where does the conversation about carbon credits come into all this?

Risk professional in infrastructure: From an infrastructure project perspective, I think it's still a very misunderstood concept. Everyone in the room wants to pretend they know what the answer to all this is, but so often ESG is so siloed as to be of little help.

Risk professional in professional services: I think you're right. We are starting to hear a lot more discussion on how carbon can be assessed, its impact measured, and what the scoring mechanism is.

Risk professional in infrastructure: I am beginning to be asked for risk models on carbon, but I don't yet fully understand the question – and they don't really know what they're asking for – but they know they need it for modelling...

Risk professional in professional services: They definitely need it!

Risk professional in financial services: The ESG discussion can potentially be headline-driven. When we talked about the environment when I was at school – which was longer ago than I care to admit – we were told that nuclear was bad, because it produced toxic waste that lasts thousands of years, and adversely impacts the environment. Today, conversations about nuclear are completely different. Now, when we talk about environment, there's much more focus on carbon emissions.

I think people associate the headlines they read with what they think environmental, social and governance issues are, and that's what they then respond to – which is really as you'd expect.

Risk professional in infrastructure: It also depends on what background you have. I have worked in nuclear, and feel more comfortable because of the level of knowledge I have about it. I know that it's more risky for me to take a flight to the US than being near nuclear waste that we have in the UK. It's all about education. Maybe the same can be applied to the discussion about ESG – people don't have enough knowledge yet, and are acting on incomplete data.

Risk professional in banking: Yes, I think there are two other things we could consider when seeing to solve this problem. The first is an operational issue. We should find ways to better integrate ourselves with the ESG team, and establish an agreed taxonomy. As many of us agree, ESG is actually part of risk management, so this is achievable.

The second thing – and this is just my personal opinion – is that I truly think we can, and need, to do a better job in challenging the business, as far as ESG is concerned. Let's take the example of greenwashing. To me, as a risk professional, that's absolutely unacceptable. Risk professionals should be there challenging this kind of activity. We need to actually call them out, and explain what a high-risk endeavour

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this is, and how that translates to reputational risk.

Risk professional in financial services: I agree that a common taxonomy would be really helpful – not necessarily a 'golden source', but at least a common source.

Risk professional in housing: In housing, quite a lot of money lending comes from Australia and Japan. We've had lenders and banks from those countries really putting an emphasis on ESG, in a sector that's not quite ready for it yet.

Risk consultant in housing: I think we're going to see quite a lot of that, particularly in housing, where lenders are specifically partnering with organisations that can demonstrate their social purpose. It's hugely important in social housing, particularly if we want to access new sources of borrowing. It's also a win-win because it drives the right behaviour, but it is a shame that it is not the greater good behind this drive. In the end, though, it may not matter what drives it...

Finding solutions

Chairman: That's an interesting way to look at it. Somehow, something is forcing us to do something, and we have to present at least some information to comply. But the understanding of what that is, and what we need to do, is still somewhat lacking.

I wonder whether we're acknowledging similarities between our ongoing challenges with ERM and developments across the ESG spectrum – the taxonomy, the definition of titles the understanding..?

The word 'sustainability' itself has been around for a while now. It's not new, and businesses operate on the assumption that it will itself be sustainable – that it will continue to trade for a long time. Part of our job – if we take the word 'risk' out of the equation – is to help our companies stay in business over a long period of time, to act as adviser to the business, to support it in achieving its goals, create value, make a profit – or support whatever the goals of the organisation are.

Risk professional in financial services: I agree with you, though in some cases the time horizon is different. With some climate risks, there are long time frames for some of the risks to manifest, and that doesn't align with personal incentives, and may lead some to conclude that it's not their problem.

Risk professional in insurance: We still look at risk in too short a timeframe. When we talk about risks, we talk about those risks that will affect the business in the next six or 12 months. Long-term risks are those that are three to five years off. We don't talk about risks with a longer time horizon – say, 10, 15, 20 years, because they're not proximate enough. Risks that fall under the ESG umbrella require much longer-term thinking.

"I distinctly remember a board member telling us that because some ESG risks were so far into the future, what could we do? If we all feel like that, what progress are we ever going to make?"

Risk consultant in housing: We recently had a conversation around reviewing our risk register, and somebody floated their idea that it should include ESG elements. I distinctly remember one of the board members asking the room that because some of the risks were so far into the future, what could possibly be done? The trouble is, that if we all feel like that, what progress are we ever going to make?

Chairman: Is looking at timeframes not part of what you're doing in strategy? I've reviewed and audited lots of strategy documents – and if anyone is thinking a SWOT analysis is enough for assessing strategic risks, please don't! It has no value! Then the question is: when you're looking at your strategy plan, would it not consider governance in the future? Or your social issues, the environment, and your people?

Risk professional in financial services: Yes, five years into the future.

Risk professional in professional services: Around 10 or 15 for us.

Chairman: So we could have a short, medium, or long-term strategy, which most organisations try to put together now. Earlier we discussed the possibility that 'risk assessment' and 'business assessment' are the same. I wonder if, from a risk perspective, even if we do use the word 'risk', are we really helping people to think about the effect of uncertainties on objectives?

They're already thinking about it, anyway. Whenever a colleague is worried about not being able to deliver at work, they're really thinking about risk. As human beings, we are naturally wired to assess threats and opportunities.

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With this in mind, I think that until we, as risk professionals, are able to stand at the heart of the business and operationalise the technical jargon such that it resonates with others, and not overwhelm colleagues with risk terminologies, then I think we'll start making inroads. The question is, how do we get there?

Risk professional in insurance: We've just completed the process of redefining our purpose to make it really clear that what we are there for is to help the business execute its strategy safely. That's it. That's how we explain what we do now. It's amazing what that has achieved. It makes sense to operations, it makes sense to finance, it makes sense to all departments. And it's clear to them now that we are a part of the overall success of the business, not sat on the sidelines.

It was, in the end, a really simple thing to do – just being really clear about what we're there for. We're not there to tell them they can't do something, we're there to support them in actually doing it.

Chairman: That's amazing! What else can we do? What can we say?

Risk professional in banking: I totally agree with your sentiment, but I think in reality it becomes really difficult, because for risk to actually drive value, we need to be involved in strategy. We can't come in later, flagging a big risk. We need to start being involved from the outset, when they actually devise the strategy.

I go back to my earlier point about risk needing more leaders and visionaries, who can actually have that conversation with the business, negotiate with them, and create a case as to why we need to be involved from the outset.

Risk professional in financial services: I think tone matters here. As risk professionals, are we there to say 'no', or can we instead offer to work together on finding a 'yes', which is how we help facilitate strategy and implement new ideas.

Risk professional in professional services: It's going back to the word, challenge, isn't it? I see that we're there to challenge, but it's how to challenge. If you go in with 'I'm here to challenge', then as soon as you walk in, they are thinking 'oh no, it's the risk lady again!' I'm supposed to be there to help, but the challenge is actually to help. So, how do we change that rhetoric?

Risk professional in infrastructure: I think the situation in infrastructure is improving, but only through learning hard lessons. There's an appreciation now that I need to be there in the initial set-up, not two months down the line.

That way, they can appreciate the value of our role, and we can challenge quite comfortably, because we've been there from the beginning, instead of someone who's just turned up and is then expected to fix things through some kind of consultancy.

Risk professional in banking: I think there needs to be a balance, though. Let's not forget that we just came out of a global financial crisis.

There's a reason why we provide the challenge and the oversight, and there are regulatory regimes to support that. So, let's not forget that in regulated industries, we've got an important role to play there.

"Do we lack the academic rigour or the quality of thought in the field of risk? You cannot be a CFO without being a chartered accountant, but there are a lot of CROs that are no part of any risk fraternity"

Risk professional in financial services: If I'm involved at the start of a discussion, I can challenge without it coming across badly. The dynamic is improved if you are conducting more of a scenario analysis in that meeting.

Risk professional in infrastructure: Yes, we don't want to come across as the 'fun police'. We actually want the business to do well.

Chairman: I think that's the point. We need to be able to convey that we want them to do well. How do we present the perception that we're there to help?

Risk professional in housing: I have a legal background, and solicitors and lawyers have the same reputation of saying 'no, you cannot do that' – without explaining why. I think there's been a bit of a transformation there, though, that's improved their reputation, by finding ways to add value.

Chairman: What's your experience of the use of the term 'control' in risk management? It kind of conveys a sense of supervision or monitoring, which puts people off. But how can we put ourselves in the middle of commercial or strategic deals – even if we're not invited?

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Risk professional in infrastructure: I think we need to convey that we can add value. Then they let you come into the conversation. I like it when I get a phone call saying, 'so, I've done this or that, or I'm thinking about doing this... could you just look over it?' They're prepared for your opinion, once they've seen what you can do, once you've demonstrated your worth, and shown them that you're not there to just criticise.

RISK SOFTWARE PROVIDER: I think when you get buy in from the top, from the CEO, that message is easier to drive home.

Risk professional in financial services: I think that coming from the CEO is even more powerful than it coming from the CRO. If they are seen to be holding risk up as a standard that's important to them as a CEO, that's far more powerful.

Risk professional in banking: For me, good governance is how we press home our messaging. In capitalism and as business individuals, there will always been a group of people who run after the money, who try to cut corners and controls. The way we shift that culture or mindset is by getting the basics right, which means getting the initial governance right. If the chairman of a major banking group sends an email to all, saying no-one can travel or come out of their homes, whilst he's actually taking a private jet and cruising around, or attending Wimbledon, that's the wrong tone to set. And there's still a lot of work to be done in that regard.

GRC

Chairman: What has happened to GRC?

Risk professional in housing: In housing, GRC is emerging as something that is now being embraced by the sector, and is now gaining momentum, as opposed to the other way around.

Risk professional in insurance: That's not my experience in the insurance industry. It's not something we use regularly anymore.

Risk professional in infrastructure: In infrastructure it's not something I really have much to do with.

Risk professional in professional services: The same for us.

Risk professional in banking: We go through cycles in the financial sector. For the last three years there was no talk of GRC, but now we are trying to bring it back. I think the challenge we see is that GRC systems are meant not only for risk, but also for compliance, internal audit, vendor risk management and third party analysis. Normally, risk will own it – the development and the implementation – and that creates a disconnect, because that doesn't satisfy internal audit, so, I think there needs to be some kind of joint ownership.

The second challenge we see is around configuration. With Archer, or IBM Open Systems, for instance, they can be configured, and that phase takes about three quarters, but by the time you reach Q4, the business has changed, the risks have changed. There needs to be a flexibility in implementing those GRC systems.

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Risk professional in financial services: I've perhaps got a different experience of GRC systems, in that it was not owned by risk. It wasn't owned by any second line function. It was the DNA of the organisation in the way they ran, and how they did everything.

They didn't call it GRC, though. It was just the way they managed and ran the business.

Looking ahead

Chairman: Considering all these issues in the round, what do we want to see happening in the next few years?

Risk professional in infrastructure: Do we not use the word risk and instead go for resilience? Because that's future proofing, or dealing with knocks? I've had discussions before about whether it is risk, or if it's resilience that we're actually trying to create in our companies.

Chairman: Do we lack the academic rigour or the quality of thought in the field of risk? I say this will all respect: you cannot be a CFO without being a chartered accountant, but there are a lot of CROs that are no part of any risk fraternity.

Risk professional in financial services: I'm not sure that qualifications really do qualify you to be a CFO or a risk professional, or anything else, when you get to that level of seniority.
The best risk people I know all take the initiative, and have diversity of experience and views that they bring to the table, and actually, in times of crisis, an element of reassurance.

Risk professional in insurance: We've tried to define our capabilities, and some

of it is the soft skills element, and some of it is more technical. So, we split it into two, and I think there is a place for both.

I come from an office background. I've got people who work for me who come from an audit / Big Four background, and it's that mix of experience and different techniques that actually creates the best team. What I find that we miss are such tools and techniques as war-gaming scenarios. We perhaps have a lack of engagement with the research and the academic side of things.

Risk professional in infrastructure: I have two people on my team with risk management degrees. The best risk professionals in our teams have been something other than a risk manager.

Chairman: From what I am hearing, the word 'risk', the reputation, branding or the image of the risk professional or department, is still a problem.

We're still struggling with the idea of dropping the word completely; and to start considering the term as part of the normal day-to-day running of the business, and considering all the effects of uncertainty on our activities.

We are facing a considerable challenge when it comes to ESG – how to define it, how to talk about it, and over what timeframe.

And then there's the issue of governance, and the role of risk as part of it.

Then there are concerns about how much we know the business. As risk managers, it seems worthwhile to consider carefully whether or not we should position ourselves to be seen differently, and how we might offer thoughts, ideas or suggestions more proactively.

And is a risk register really risk management? Or do we need to be looking at heat maps? Are those tools really useful? Can we get into a place where the risk register can be used side-by-side for decision making?

These are really important questions that are worth careful consideration.


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Changing course

At a time of great flux, the need for resilience, and an ability to adapt are the lifeblood of the loss adjusting profession – and the individuals that drive it forward. Dr Marc Sweeney writes

Our present, almost daily, experience is one of constant flux and change. Everyone is growing weary of hearing about these 'unprecedented' times, but when we consider everything the loss adjusting profession, insurance industry and society in general have been through, we can safely say the pace and complexity of change is greater than it ever has been. Change is now regular and ubiquitous.

We're familiar with these challenges at the Chartered Institute of Loss Adjusters, as we hear from our members – thousands of claims professionals from across the country, about how they are dealing with these challenges every day – both personally and on behalf of claimants. Through this, we have seen that our members have become adept at managing change. It's always been part and parcel of their day job, but they have continued to adapt, thrive and fulfil their obligations these past few years, regardless of what the world has thrown at them.

"Our members have become adept at managing change. It's always been part and parcel of their day job, but they have continued to adapt, thrive and fulfil their obligations these past few years, regardless of what the world has thrown at them"

That listening was part of a strategic review we recently undertook, and one of the key pieces of feedback was the need for CILA to improve its ability to anticipate and respond to members' needs, particularly as they are rapidly evolving. After all, equipping our members to be responsive, knowledgeable, empathetic and engaging professionals is what CILA is all about. But what are those needs and how can we fulfil them?

In many ways, for claims professionals, it is *plus ça change* – a claim is still made under a contract of insurance by a party that wants to be indemnified for a loss, a claim that must be investigated. So what's new?

People expect loss adjusters to be accountable, responsible and empathetic towards them, particularly when they may be in a vulnerable or precarious position. A loss adjuster needs to be adept at investigating and managing a loss, but also at managing people, often in a highly stressful environment. That's no easy task and building trust is a key skill for claims professionals to develop.

A loss adjuster may have several face-to-face meetings a day, covering the full spectrum of human emotion – from those who see the value of their support to those who may be stressed or even angry at the adjuster's findings. Empathy and an ability to de-escalate situations is crucial.

On top of managing those stressful situations, the loss adjuster also needs to manage themselves. As a Chartered Work and Organisational Psychologist (as well as a Chartered Loss Adjuster), I know that psychological well-being is made up of several dimensions involving autonomy, mastery of one's subject matter, positive interpersonal relationships, purpose in life and self-acceptance – a delicate balance that can be easily upset.

For loss adjusters, this balance needs to be maintained and managed, making personal resilience a highly valued skill, underpinning, as it does, the ability or capacity to withstand life's pressures and to bounce back, rather than dwelling or ruminating on them.

Strong technical ability, empathy, psychological insight, resilience and an ability to think under pressure are all key skills for the professional loss adjuster. For one person to have all these attributes is rare – making the recruitment of people into the profession even more difficult. But they are crucial skills and the public needs and deserves the best. Delivering on that need and helping loss adjusters acquire and develop these skills is a key part of our role at CILA.

But we must recruit the people first and loss adjusting, in common with other professions, faces challenges in attracting new talent, particularly when there are so many more, new career options available today.

To tackle that, perhaps we might start by changing the language we use. Loss adjusting is often referred to as a challenging role because it certainly can be, very often in fact. But most challenging situations, particularly in loss adjusting, offer an opportunity for reflection and growth that is hugely rewarding. When we are reaching out to the next generation of talent, we can better engage them by talking in terms of rewards rather than challenges; variety rather than technical requirements; and we could focus more on the human rather than the insurance issues we resolve every day.

For those whose energy is generated from seeking variety, loss adjusting provides that in abundance. When I joined loss adjusting over twenty-five years ago, I envied the specialisation, the deepening of expertise in a particular practice and being 'in charge' of one's own portfolio of claims that I saw senior adjusters enjoy. Yes, there were hurdles along the way, such as becoming professionally qualified (ultimately it was hugely rewarding!) but achieving the professional qualification changes your view of the job and how you act in the world. Being qualified is not merely a destination, it's about evolving as a person and a professional.

That process will look and feel different to each individual but collectively, as a profession, we have a huge amount of expertise, experience, and empathy, all of which we can share with each other for the benefit not just of ourselves, but in attracting talent too. Few careers are as attractive as a profession that has a strong community of practitioners.

"Self-Determination Theory tells us people are proactive with their potential, have an inherent tendency for growth and development, but that this does not happen spontaneously. People need their environment to support them"

"When reaching out to the next generation of talent, we can better engage them by talking in terms of rewards rather than challenges; variety rather than the technical requirements; and we could focus more on the human issues we resolve"

How do we create that community? By sharing our struggles and our successes? By sharing what tools and practices we use to get through tough situations? So-called 'war stories' (which loss adjusters are great at telling) can be a very powerful method of learning and developing in our profession. Get that right, and we and prospective adjusters can see ourselves as we truly are – equal parts vulnerable, technically competent, and sometimes heroic – human, basically.

While loss adjusting might, on the face of it, not be an attractive profession for new talent and those switching careers, I suspect they might not be aware of just how intrinsically motivating the job can be. One of the key attractions to a career for new talent is the ability to think for themselves and operate under their own steam. The days of employees accepting constant monitoring and micro-management are long gone.

Loss adjusting offers that self-determination and need for self-motivation in spades. Self-Determination Theory tells us people are proactive with their potential, and have an inherent tendency for growth and development, but that this does not happen spontaneously. People need their environment to support them, such as leaders in the workplace, which must be a key consideration for any loss adjusting firm looking to recruit.

When leaders consider how to create the right conditions for their colleagues' development, they need to think about the three core needs for competence:

- Designing their work so that they can be satisfied by it
- Autonomy, whereby people can make their own decisions and exercise some control over their work
- And relatedness, meaning that we all have a need for belonging and meaningful relationships.

Loss adjusting measures up well, I believe, in meeting these needs and creating and maintaining workplaces where professionalism is required and can be acquired. Operating within certain legal and regulatory frameworks and balancing the competing demands of our personal and professional lives, can be managed well in a career as a loss adjuster.

We loss adjusters can often live a solitary working life and sometimes all the focus is outward, at the end-customer, with little attention left for us. At Davies, where I am a director, we work hard at being an open, trusting and welcoming workplace, and we'd like to do even more. By engaging more with our peers, and even competitors, we can show prospective new talent that the loss adjusting profession is not only a rewarding career choice, but also an exciting one.

Dr Marc Sweeney is president of the Chartered Institute of Loss Adjusters, and director of strategy, innovation and organisation development at Davies Group

Leveraging strategic risk management in a downturn

Against such a challenging economic backdrop, there can be no better time to leverage the potential contribution of the risk management function. Addy Mittal writes

As companies across the globe face escalating risks, both traditional and novel, boards will do well to heed the lessons of countless companies before them that missed or mismanaged strategic risks to their detriment, as was the case with Kodak and Blockbuster, as many will remember well.

A useful way to look at both of these cases is through the lens of strategic risks mismanagement. The financial crisis emphasised the need to consider operational and financial risks, but less focus was placed on strategic risks.

As can be expected, some companies fare better at managing strategic risks than others.

This is understandable as numerous challenges lie within this area. To begin with, effective management of risks including, but not limited to, competition, change and innovation, require a detailed understanding of what the strategy and action plans actually are.

This information can be hard to come by, and even harder to stay on top of, as it is often only the top management that are privy to the details, which are often tightly controlled.

On top of this, with the business environment changing rapidly, new sources of strategic risks are emerging constantly, all of which need to be planned for. Further, linking strategy with risk appetite is fraught with complexity. Often such linkage can be based on subjective views and perceptions, and a lack of dialogue in this area between the risk function

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"Effective controls management, which includes reduction of unnecessary controls and adding them elsewhere with linkage to risk appetite, can help steer the organisation towards less bureaucracy"

and senior management can be costly. Finally, numerous conversations around taxonomy and nomenclature shifts the focus from actually capturing and managing our strategic risks to less important matters.

I would propose a number of ways to address these challenges. Firstly, there is a need for enterprise risk to reintegrate strategic risks into the overall taxonomy and risk framework. The business should emphasise the importance of prioritising these.

To keep up with the changing nature of business, it is important to leave room to incorporate new sources of strategic risk instead of being too prescriptive. At the same time, a more holistic view of the various sources should be considered over the medium and long-term.

The risk function also needs to figure out a way to be involved in strategic decision-making processes early on, so it can enable conversations around acceptance, avoidance and tolerance. Strong credibility with the business via demonstration, better articulation of the value that planning for risk brings, and shifting the mindset to being more of a strategic advisor can help risk professionals get a seat at the table.

A great area of opportunity for first line risk management lies in enhancing its internal controls linked with processes, operations and overall strategy. Effective controls management, which includes reduction of unnecessary controls and adding them elsewhere with linkage to risk appetite, can help steer the organisation towards less bureaucracy.

Thanks to Sarbanes Oxley, most companies will have strong financial reporting controls management, but they may still lack insight into internal controls for other crucial processes. Enhancing controls, which can include automation, reduction and rebalancing can eventually help the company cut costs and generate revenue leading to an overall superior customer journey.

Finally, a more data-led decision making process should take place while operationalising management of strategic risks. Market insights, competitor analysis and decision modelling can all help move towards a more impactful and insightful risk assessment process.

As a parting thought, one should not underestimate the importance of good governance, transparency and debate within the corporate culture as so much of managing strategic risks is linked with understanding opportunities and decision making.

I often wonder if, had Blockbuster put the right strategic risk management process in place, it might not have walked away from the deal of the century to buy Netflix in 2000, pivoting towards its online business rather than worrying about the cost of plastics for its membership cards. And if only Kodak had really executed on its tagline 'share memories, share life' and encouraged digital photo sharing, it might also still be thriving today.

Addy Mittal is head of risk at Mastercard

Industry views

Julia Graham is CEO of Airmic

In association with airmic

When the Wind Blows is a book written by Raymond Briggs, the creator of *The Snowman,* which follows the story of Jim and Hilda Briggs in the days before and after a nuclear attack on Britain. It is shocking, heartbreaking and overwhelming as the couple try to adopt a sense of normality in far from normal times. It's hard to read the story without being moved.

Despite Briggs being known for writing some of the most loved books for children, this is a book for adults. The book and subsequent animated film leant on the style of the Protect and Survive public information films and booklets about survival following a nuclear attack, published by the Government at the time. Today this guidance is generally viewed wryly, but at the time it served an important purpose of providing reassurance to a worried population and, as subsequent research has indicated, some of the advice was more worthwhile than we might think.

And so, whilst the book articulates the fears of the generation that grew up in the shadow of the Cold War, in a more contemporary way the book speaks to our fears today of living in through a challenging and troubling period.

The Airmic Enterprise Risk Management Forum on 6th December adopts the theme of: 'We live in challenging times: what if, what next, what now'. A play on the expression, 'May you live in interesting times', widely reported as being of ancient Chinese origin (although is neither Chinese, nor ancient!), it is the sentiment of these words that is important – we live and work in a turbulent world, and the turbulence is showing no sign of calming down.

Risk professionals are demonstrating their value to the organisations they represent, through exercising their leadership and communication skills, and demonstrating adaptability and agility. In a world without respect for the silos organisations are often more comfortable operating in, risk professionals are great at cutting across these silos and building connected relationships.

We've already experienced a number of 'once in a generation' events over the past few years, and as economic uncertainty challenges cyber and climate risks at the top of the risk charts, just as we thought the green shoots of an economic recovery after the pandemic might be surfacing. This is set to widen the gap between societies that have and those that have not, potentially leading to further social and geopolitical unrest.

It's going to be a bumpy ride, but using the analogy of the Protect and Survive guidance, don't throw away the principles of good risk management. Instead, enhance and supplement these with new practices in managing data in smarter ways and upping the use of scenario and analysis. We might not know which monster is coming over the hill next, but there are ways that you can lessen surprises and take greater control.

Stephen Sidebottom is chairman of the Institute of Risk Management

In association with irm

There is certainly never a dull moment in Westminster. After a series of scandals that culminated in the departure in September of Boris Johnson from Downing Street, and the subsequent appointment of not one, but two new prime ministers since, the furore surrounding Suella Braverman's on-the-go Gmails may seem like small fry in comparison.

Events of the last few years have shown the truth of Murphy's famous first law: 'Anything that can go wrong will go wrong'. It's sometimes extended to add: '…and at the worst possible time'. Despite this, many organisations are not adequately prepared for even the most predictable of risks.

High on the list of known threats that people and organisations still don't take seriously enough is data security. Despite high levels of awareness, many organisations lack the preparation needed to be able to manage defences or respond to cyber attacks and other digital risk events in a robust way.

It's not that organisations don't have good data resilience and cyber infiltration practices – nearly all do. Often, it's how robust those approaches are in anger and how well they are supported by staff discipline and care. It may be acceptable to lead on technology as your primary defence, as long as you are also focusing on risk-intelligent behaviour and effective business practices – the human factor, essentially.

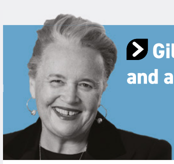
Internal lapses in commonsense practices around data security and device protection remain a major source of access for attack or infiltration. This is particularly the case for high-risk targets with access to valuable information. If these individuals share business content to personal emails or WhatsApp groups, open emails from unknown but superficially credible sources, or use personal mobile phones for work, What's your view? Email the editor at deborah.ritchie@cirmagazine.com

this all exacerbates the ongoing risks. Part of your strategy should address these cultural weaknesses around security. The important thing is to recognise these aren't risks worth taking. There's no business benefit from these high-risk activities that means there's a trade-off that may create value – these behaviours are simply straightforward bad practice.

A good place to start is by reviewing your internal cyber risk management procedures and identifying the opportunities for potential breaches. You will then want to work out how to address these risks. This will certainly include cyber risk mitigation tools and approaches such as zero trust, but you must also strengthen proactive defences and double down on staff education, awareness and understanding of best practice in protecting confidential information.

The IRM can help you think through how new technologies and digital disruption are changing the risk environment and posing new challenges. Its Digital Risk Management Certificate, developed with the University of Warwick, gives insights into the causes, consequences and potential impact of digital disruption on your business. The Cyber Risk Resources for Practitioners guide helps risk professionals and senior executives demystify cyber risk as an issue, and the Cyber Group provides a professional community that collaborates to address and integrate cyber risks into organisations' overall risk approach and activities.

Focusing on the human factor is one of the best ways to build your cyber attack defences. Well trained and disciplined staff will be aware of the changing risks and threats your business faces and learn to behave in a risk intelligent way.



Gillian Davidson is GILC's APAC chair and a senior partner at Sparke Helmore

In association with

GLOBAL INSURANCE LAW CONNECT

The world is experiencing one in 1,000-year weather-related events, and in the last 12 months we have observed large-scale disasters impacting every continent, including unprecedented flooding across Australia, China, Pakistan and South Africa; one of the strongest hurricanes ever recorded in the US; and severe droughts in Brazil, Italy and the US.

Hurricane Ian alone (which swept through Florida and South Carolina in September) has estimated losses of between US$53bn and US$75bn and is one of the most significant natural disasters for the insurance sector in decades.

According to the Aon *Global Catastrophe Recap* of the first half of 2022, global economic losses from natural disasters amounted to US$92bn, of which insured losses accounted for US$39bn.

These continued catastrophic events are severely impacting access to insurance in some of the affected areas, increasing flood premiums and making reinsurance renewals more challenging. Inflation is already impacting supply costs, labour and materials. Catastrophic weather events may put further pressure on premiums, and feed through to the primary insurance market, potentially impacting both property and business insurance premiums. In addition, climate activists are targeting companies that have poor sustainability track records, resulting in litigation, for which policyholders may look to insurers for reimbursement.

Given that climate experts forecast these significant weather events to continue, insurers and businesses need to work together now to lessen their impact. There are several new products that can help to mitigate losses and allow claims to be paid faster. Among them, a recent graduate from the Lloyd's Innovation Lab, is FloodFlash, a type of parametric insurance cover for at-risk locations, which uses a smart flood sensor installed at the insured property to collate data and automatically initiate a claim.

Another business supported by the Lloyd's Innovation Lab, is ICEYE. Its Synthetic Aperture Radar data provider is able to supply fully interpreted and frequent information about flood, fire and hurricane-hit areas via a constellation of satellites, enabling the generation of automated claims.

In the meantime, a number of insurers are focused on resolving disputes with customers, particularly around the extent of coverage available for each catastrophic event. This varies between location and will involve complex expert analysis. The issue of exclusion clauses has been closely examined in Australia following prolonged flooding in Eastern Australia in February and March 2022, which to date has cost the industry US$3.5bn.

Fundamentally, insurers will continue to count the cost of significant weather events. They will need to work even more closely with customers, industry, innovators and other significant stakeholders to advise on flood mitigation, building and infrastructure reinforcement measures, and assist business continuity during weather events.

Insurers cannot do this in isolation, however, and will need the support of governments in terms of climate resilience funds, reinsurance pools for weather challenged areas, increased environmental scrutiny and regulation of industry stakeholders, as well as a sustained and coordinated approach amongst major governments to achieve net-zero carbon emissions by 2050.

Nature risks and economic output

A new report highlights the relationship between economic output and nature risks, such as biodiversity loss, pollution, and overconsumption of natural resources, which are already presenting as material to businesses in some industries

Extreme biodiversity loss, widespread pollution and over-consumption of natural resources present a range of challenges across a number of industries, whilst exacerbating critical climate change-related pressures across societal health, supply chain reliability and food security.

To help address these challenges, a new report from Marsh McLennan, *Embracing Nature: How Businesses can Engage with New Environmental Imperatives*, highlights how nature risks and opportunities are already material to businesses and describes new tools and frameworks for assessment and reporting.

Designed to guide businesses interested in setting a nature-positive agenda and offering recommendations for how organisations can assess their risks and set strategic responses, the report examines recent market and regulatory developments and presents a number of strategies for organisations looking to face these increasingly complex conditions.

Large-scale environmental degradation has been one of the unintended consequences of unprecedented population growth and industrial advancement that began in the early 1800s. And whilst it is not a recent issue, the scale of the challenge has reached unprecedented levels.

"Nature-related risks are material to businesses, with key sectors already negatively impacted. The complex interactions between environmental decline and climate change threaten to bring economies and societies ever closer to dangerous tipping points, with unpredictable, irreversible and catastrophic ramifications," the report reads. "In response, global commitments to tackle environmental degradation are increasing in number and ambition as nature loss is recognised as an issue of national resilience by a growing list of countries. The first signs of a paradigm shift in risk management and reporting are also underway, with nature emerging as one of the pillars of ESG disclosures and increasingly often on the agenda of central banks and regulators."

Key takeaways

Marsh McLennan's overarching recommendations for businesses striving to incorporate nature-related risks in their agendas and capitalise on new opportunities include:

- Integrate nature into corporate risk governance;
- Manage complexities in assessment and align reporting with emerging standards;
- Leverage innovations in risk management; and
- Identify new market and financing opportunities.

"The complex interactions between environmental decline and climate change threaten to bring economies and societies ever closer to dangerous tipping points, with unpredictable, irreversible and catastrophic ramifications"

According to the World Economic Forum, some US$44trn of global economic output is either highly or moderately dependent on the environment. Declining natural capital could place US$11.2 trillion of invested capital worldwide in agricultural assets at risk of stranding, it warns.

Report author Dr Swenja Surminski, managing director of climate and sustainability, Marsh McLennan, said: "It is crucial that businesses embrace complexities and uncertainties by integrating nature loss into their risk governance systems. This includes reviewing the double materiality of risks – understanding how their assets and operations impact nature and how in turn they depend on it."

Access the report in full here: https://www.marshmclennan.com/insights/publications/2022/september/embracing-nature-how-businesses-can-engage-with-new-environmental-imperatives.html

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