Switzerland

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Risk managers battling to keep up with rapidly-changing risk profile

Continual change in corporate risk profiles is a huge risk in itself, said a group of Swiss risk managers talking to **Liz Booth** as part of the Risk Frontiers Europe 2022 survey

◇ MARKET

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The war in Ukraine has proved to be yet another example of why risk management is so important, and yet again displayed the uncertain nature of business at the moment, agreed a group of Swiss risk managers.

Taking part in the *Risk Frontiers Europe 2022* survey, the group, who were expressing their own views rather than a company position, said the war has highlighted ongoing business interruption risks, among others.

Patrick Thomazeau, risk manager for Europe and Latin America at Mondelez International, said: "We had a lot of business in eastern Europe and it has created some issues because of the sanctions. We have had to navigate our way through those."

A big fear was that the Ukraine war would result in a potentially catastrophic cyberattack. So far, so good because that this risk has yet to materialise, but the threat highlights growing aggregation around cyber risk.

Steffen Bergholz, managing director for Nacora, part of Kühne + Nagel group, is concerned that some business-critical risks, such as cyber, may not remain insurable in the future.

"Policies have an increasing number of exclusions," he said. "We don't really know what the insurance sector will be prepared to cover when renewal comes, so for us the emphasis has to be on risk management."

One of the few who is not so worried about cyber risk is Jurrit Herber, head of risk at Evoisys.


Sabrina Hartusch

"All our lines can keep operating without any form of internet connections for at least two weeks. All they need from us is the production order – they work on a two-week lead time so we would have two weeks to sort any disruption out at head office. Honestly, we could continue with just a carrier pigeon – this is just the production facilities though and not head office where, of course, we use the internet," he explained.

OTHER RISKS

Other risks on the radar right now, said Thomazeau, are acquisitions and ensuring the right talent is maintained within changing business profiles. This takes up risk management resource, he said.

"Every time there is an acquisition we have to have one of our team on the M&A team and that reduces our resource. Changes have to be made – in a good way – but it does require our time and attention," he said.

His concerns around talent were echoed by Sabrina Hartusch, global head of insurance at Triumph and president of the Swiss Association of Insurance and Risk Managers (Sirm).

"We are facing an employee market rather than an employer one, and that brings challenges for us. The short-term concerns are how you as an employer make yourself most attractive to younger people," she said.

She has had challenges in finding the right person to fit into her own team. Hartusch has cracked this problem now but it woke her up to the wider issues facing all departments and businesses.

Port of Basel, Switzerland

Claude Breutel, director of insurance and risk management at Alcon, also worries about resources.

"These are risks in almost all dimensions: human resources, material resources, energy, transportation and product/supply resources. All are under pressure, which could get worse over the coming year(s)," he said.

Breutal said there is a growing instability, making market access and production planning more difficult.

Bergholz added that the state of the economy and uncertainty remains a challenge. Inflation, gas prices and the conflicts in may have an effect and impact on consumption and consumer behaviour, he said.

"In general, there are a number of factors and that might manifest itself in terms of the way our consumers behave. This should be taken into consideration when renewing policies, to ensure insurance costs do not become a burden to companies in times where the economic playing field can change quickly. We do observe trade credit insurers monitoring deceasing export volumes and increasing risks. It is necessary to keep a firm eye on how the economy changes and the insolvency risks," said Berholz.

"Switzerland itself is weathering the challenges well, but much of our business is conducted outside the country and that is where we need to monitor the development," he continued.

Breutel agreed. "We will see higher impacts and tight management of foreign exchange risks. Highly leveraged companies that have to re-finance under higher interest levels will see their financing costs increase," he said.

"During Covid-19 and in its aftermath, transport routes have become more vulnerable"

"Signals are contradictory and trends are difficult to reconcile. The job market is tight and an expert workforce is difficult to recruit. Succession planning for an important baby-boomer cohort moving to retirement is a challenge. Demand remains sustained in all major markets, while many are under an important inflationary pressure," he added.

"Overall, all these factors, inflation, supply and workforce, make production more expensive. There is pressure on margins. On top of this now emerges an energy crisis in Europe, with peaking electricity and other primary energy costs. This mix will have a toll on household budgets, facing mounting living costs and defaulting public services. It is an unstable balance, with many tipping points to the bad or the good over the coming months," the risk manager continued.

HURDLES

One risk manager from the aviation sector agreed that trade credit risk is increasing. "Trade credit insurance is already in short supply. It has become an important hurdle for us to overcome," she said.

Breutel said supply chain risk is also elevated. "Certainly, during Covid-19 and in its aftermath, transport routes have become more vulnerable and we have observed claims increasing in terms of frequency and severity. In general, values increase and uncertainty as well. In terms of business continuity, we need to calculate with longer re-purchase times and temporary unavailability of critical components. We have to recalibrate business interruption times and values," he said.

Climate change risk is also high on the agenda of the Swiss risk managers, and adding to worry over supply chains.

Stefan Wyss, senior manager insurance and risk management at RUAG International/Beyond Gravity, was among those we spoke to who cited climate change and ESG as his highest concern. He too made the link between climate change and supply chain disruptions.

Herber, meanwhile, said climate change is impacting business but not necessarily in the most obvious of ways. "If a changing climate impacts the harvest, then that impacts us because we provide the packaging for the food. If there is less corn or tomatoes, that means lower demand for our services," he explained.

Finally, all the risk managers are watching and waiting to see what the ultimate impact of the Ukraine war is on European energy supplies. The question they have is whether this will be an event that triggers further unexpected risks in the year ahead.

The challenges of building risk management teams

Increased focus on risk management has been welcomed across the board but has highlighted the challenges of finding the right talent to build a solid team, warn a group of Swiss risk managers

◇ TALENT

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Coping with a small team and a large workload has become a real challenge for many risk managers, agreed Swiss participants in this year's Risk Frontiers Europe survey.

Expressing their own opinions rather than that of their companies, the risk managers all stressed that their workloads have increased over the past couple of years.

Sabrina Hartusch, global head of insurance at Triumph, was among those who said she faces more and more challenges. But the better news is that she feels risk management has a higher profile within her group because its value has been highlighted by recent uncertainty caused by crises from Covid-19 to the Ukraine war.

> **"I see the insurance and risk management function becoming more collaborative across multiple functions"**

Claude Breutel, director insurance and risk management at Alcon, said the risk management role has evolved alongside major transformations that many companies have experienced and continue to undergo. He pointed to:

- "**Digital transformation:** this has an inward- and outward-looking dimension. Inward-looking insofar as we have been part of internal new system integrations and continued process and data support infrastructure buildups. The outward-facing dimension is the products and services evolution under digital auspices. Product and service offers, now also increasingly both being combined, have become more complex and digitally empowered. Products and services now have an entirely new digital dimension.

- "**A new dimension of multi-focal integration of business processes:** ESG is just one aspect, adding to the pressure for companies to take a holistic approach on how products are developed, marketed and recycled. From a risk and insurance management perspective, we are, and have to be, integrated into these key processes, equally taking a more holistic and flexible, integrative view on how best to protect and support our companies' operations."

Breutel continued: "Overall, I see the insurance and risk management function becoming more collaborative across multiple functions and also more interdependent. For example, you cannot purchase cyber insurance without the support of your IT security. We all are more connected and need to understand more about the respective 'worlds' in which we operate to generate the best value and outcome for our companies."

CHANGE OF APPROACH

Steffen Bergholz, managing director for Nacora, part of Kühne + Nagel group, has seen a shift in the approach to risk management. He said companies realise that in times of higher insurance costs, it is often better to invest substantial funds into risk management and risk prevention, especially in areas such as IT security, IT infrastructure and quality management.

"A large degree of uncertainty remains in terms of available insurance markets, underwriting appetite and covering the scope for cyber risks, and so the emphasis has moved towards loss prevention measures. We have seen more in the way of risk engineering and in identifying risk areas of the business," he said. However, Bergholz admits there is still more work to be done.

Jurrit Herber, head of risk at Evoisys, believes a big challenge is that business culture has become extremely risk averse.

"As a result, if I suggest something, I am immediately tasked with getting it done. That is not a bad thing, in fact it's a good thing, but it does take us back to our conversation about resources and the ability to recruit the right staff to build a strong risk management team around us," he said.

THE ESG PERSPECTIVE

All of the group are seeing an increased focus on ESG, as Claude Breutel, director insurance and risk management, at Alcon, explained: "I am perceiving this again from two sides: one is obviously from the insurers' and reinsurers' increased scrutiny of our ESG efforts and rating. But within our company, it is recognised that we have a share in our ESG performance through our physical risk management activities and the insurance governance.

Jurrit Herber

"It takes us back to our conversation about resources and the ability to recruit the right staff to build a strong risk management team"

"We can also broker certain services and data that are relevant both internally and between our companies and the insurance world. ESG may currently have an attention peak, but the issue will not go away and will maintain its high relevance in company and insurance governance."

His words were echoed by Hartusch, who said her company has a dedicated head of sustainability working separately to the risk management function. She explained that the company had a strong CSR ethic, so the transition to ESG has been relatively easy and she plays a part by collaborating with the sustainability team.

Again, she stressed, much of this comes down to resource and the ability to find the right people.

Kühne + Nagel has a dedicated head of sustainability and the company is putting a huge focus on reducing its carbon footprint, while working with customers and suppliers to help them achieve the same. The company has developed a number of alternative and CO_2-neutral logistics solutions, including supporting the use of sustainable aviation fuels for logistics services, said its risk manager Bergholz.

The company's subsidiary NACORA has developed a programme to protect biodiversity in collaboration with the not-for-profit Marine Megafauna Foundation.

The Marine Megafauna Foundation is engaged in projects to preserve biodiversity through scientific research and fight against plastics polluting oceans. It is also engaged with local communities and governments to create conservation areas for giant sea species.

Kühne + Nagel supports such projects, funded through cargo insurance that can be booked with its logistics service. A proportion of insurance premiums for cargo cover offered to its clients are used by insurers to protect biodiversity.

"We want to see tangible results; it is important to show what concrete projects are supported and how what impact do they make," stressed Bergholz.

The Swiss risk managers also discussed the way in which ESG is being approached and the increasing demands from others, including insurers, to understand what each business is doing.

Herber said he is seeing more evidence that insurers want ESG reporting.

"But you can't just come up with a report. It needs to be fully justifiable and properly embraced internally. There is a lot of liability coming from greenwashing and we need to make sure that everyone in the firm understands those risks. You have to substantiate whatever claims you are making," he said.

A risk manager from the aviation sector added that ESG is becoming important across her business and not just in terms of insurance. "What we are doing in terms of ESG is becoming increasingly important for securing financing with banks, for example," she said.

Risk retention critical as insurance market remains tricky

◇ RENEWALS

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Swiss businesses are retaining more of their own risks as insurance rates rise further and insurers continue to lose appetite for business.

Speaking as part of the *Risk Frontiers Europe 2022* survey, a group of Swiss risk managers agreed that it is now key to manage risks internally as well as possible, before moving to the traditional insurance markets for risk transfer.

Patrick Thomazeau, risk manager in Europe and Latin America at Mondelez International, said: "We have to retain more and more risks. We have a captive and are increasingly using that."

> **"We have to ask** ourselves whether, for the cover that we are getting, it is worth spending all that money"

He pointed to cyber insurance as an area of particular difficulty. And he wonders whether the traditional market will even offer cyber cover into the future. "We have to ask ourselves whether, for the cover that we are getting, it is worth spending all that money," he said.

Jurrit Herber, head of risk at Evoisys, has just taken his business through the renewal process and said things were tough but not as bad as past years.

"It is highly dependent on the line of business. Our directors' and officers' (D&O) cover costs were down 40% but our property line was up 25%," he said.

However, overall his firm found the cover it needed and the process was simpler than in the previous two years.

Claude Breutel, director insurance and risk management at Alcon, agreed: "Cyber is a disappointment as conditions deteriorate and limits offered are reduced while pricing is very aggressive. D&O has stabilised at a high level. Other lines are manageable for us and markets remain liquid.

"For coming renewals, I would hope that D&O readjusts to a sustainable level for both parties – insurers and insureds. However, the value proposition for cyber insurance needs to be reassessed. If there is a further negative market trend, we might get to the tipping point to disengage from this insurance line," he warned insurers.

Steffen Bergholz, managing director for Nacora, part of the Küne + Nagel Group, said it is important to manage each risk and corresponding insurance cover differently. He has specific concerns around financial lines and cyber cover but has yet to receive quotations for the year ahead.

"I think everyone was exhausted by the renewals of the past two years and this year it has been much quieter. I think the expectation will be that, this year, rates will be flat overall, but it does depend on what you need and on how your company's loss history is performing," said Bergholz.

Sabrina Hartusch, risk manager at Triumph, also wants stable insurance cover but said there have been some "grotesque" behaviours from some insurers during the last few years.

"We make a point of knowing our insurers well and engaging with them at head office, not just locally, so that we can maintain relationships through tough times. We have a foot in the door and we make sure we know who we should be talking to," she said.

Bergholz agreed: "We are looking for long-term relationships with insurers that provide continuity and also the robustness to deal with larger claims. In the past two years, we saw an increased decentralisation of decision making at insurers and a much higher focus on HQ-driven underwriting discipline, affecting both insurance premiums and risk appetite from insurers. In such times, a good working relationship with your key insurer is essential."

ALTERNATIVES

Discussing the use of captives, Breutel said: "We do not have a captive. We have looked into setting up a captive, but under Solvency II the economic benefit is difficult to establish. The high capital requirement at startup is a hard sell with a treasurer and CFO.

"A captive does not replace risk transfer. Captives are only on-balance-sheet risk mitigation vehicles. I buy into the concept as long as captive engagement is in the working layers where risk transfer is probably not economic. However, if captives eat into the mezzanine and excess risk levels, it raises questions, in my opinion, whether this was the intention of running a captive," he added.

"I certainly see that many captives are overcapitalised and can easily expand into assuming more risk. But some fundamental questions should be asked about whether this is the right thing for us to do," he continued.

"While insurance buyers have gone through material change in the last ten to 20 years... the commercial insurance industry has remained stagnant"

And Breutel also said insurance needs to keep pace with evolving risks or it will lose relevance.

"If the insurance market continues to make risk transfer unattractive, and there is not only the price but the quality of the insurance products at stake, then it is difficult to convince a CFO providing a budget to purchase insurance," he said.

"So we have to take care of insurance keeping pace with the evolving risk landscape. Insurance policies are not adapting to modern times. More care has to be invested in updating insurance products to better meet the needs of economic players. I regret the missed opportunities for making insurance products better fitting current risks and insurance needs. At the same time, I observe that there is almost no real competition in the corporate insurance market. It may be that this sector just lacks the critical mass for investing more," he added.

"We need a contemporary insurance toolkit to meet actual insurance needs. While insurance buyers have gone through material change in the last ten to 20 years, as have global and consumer markets, the commercial insurance industry has remained stagnant," Breutel continued.

On the subject of pools and state intervention as a risk transfer solution, Breutel said: "I see the collaboration between the state, the economy [and insurance as part of it] and the public on topics like climate change, for example, along an interdependency and complementarity approach: each one should focus on what it can do best and has the highest leverage."

"The state has to invest in managing the climate change consequences. This will be predominantly infrastructure and resource management. Hand in hand, the insurance industry must find ways to adapt its offers to help companies and individuals coping with climate change," he added.

Claude Breutel

SPONSORS

Putting people first as risk grows

Managing people risk and having the right team is vital for an insurer and its customers, says **Marc Luginbühl**, HDI Global Switzerland country manager

HDI GLOBAL

Without doubt, people are the greatest threat and opportunity for any corporate, including insurers, says Marc Luginbühl, HDI Global Switzerland country manager.

Speaking to *Commercial Risk Europe*, he explains that retaining talent, and attracting the right people in the first place, has become a key topic for the insurance sector in the post-Covid world and, as such, has also become a risk for insureds too.

"We need to have the best underwriters, the best claims and loss adjusters, the best risk engineers and the best servicing specialists if we want to serve our clients as we should," says Luginbühl.

Without the right people on board, it is impossible to understand insureds' businesses and to properly underwrite their risks and provide added value, he adds.

For HDI Global's Swiss operation, the talk has been supported by action. In January, for example, the branch announced it will move its operation into Zurich's Prime Tower this December.

At the time, the firm said: "As one of the leading industrial insurers in Switzerland, HDI Global is thereby accelerating the transformation of its workplace culture to the challenges of today and creating ideal enablers for hybrid working and virtual teams. At the same time, the industrial insurer is ensuring short pathways to its customers, brokers and business partners through the central position and outstanding transport connections of its new location."

Marc Luginbühl

CHANGING TIMES

Luginbühl is keen to stress that times are changing, along with the type of workforce needed.

"With digital transformation, we need people who understand how it will work, how the transformation will impact customers and how it will change the risks they want to transfer.

"But it is not just about technology. For example, if we want to offer the best D&O insurance to our clients, then we need talented lawyers who understand the market and the threats," he says.

Adding: "As an insurer, we have developed a team of experts, all knitted together by an understanding of the risks that our clients face, enabling us to provide them with advice, consultancy support and, of course, the right risk transfer mechanisms."

Luginbühl points out that risks are becoming so much more complex and interwoven.

"Our risk profiles have changed in a post-Covid world. The risks facing a company now are completely different to those facing us all five years ago," he says.

The silver lining for risk managers is that risk transfer has become a c-suite issue. It is now essential that top management is not only aware of the risks their organisation might face, but also the risk transfer options available.

"They have to be prepared for more volatility and more uncertainty," Luginbühl says, pointing to the Ukraine war and subsequent energy crisis, which, in turn, is fuelling rampant inflation across Europe.

The c-suite is also being encouraged to develop more worst-case scenarios and to have these tested more frequently. Again, says Luginbühl, the Ukraine war is an example of the unexpected and connectivity of risk.

The end result, he admits, is that claims costs are on the rise. "Customers are experiencing inflation and so are we, in terms of both our own costs and also on claims. We have to be very close to our customers to ensure they understand the situation," he says.

This inevitably means premiums are likely to be affected at upcoming renewals, he adds. As always, HDI Global will set premiums on a case-by-case basis, depending on the customer's risk profile, says Luginbühl,

"In the last couple of years, we have parted ways with customers who did not want to invest time and money into risk dialogue and risk prevention. We don't want to be pushing them again now, but we need to understand what we are all facing. We are anticipating another phase of rate increases," he warned.

RENEWALS

Luginbühl says renewal conversations have started much earlier than in recent years and are already well underway with the majority of insureds. He confirms that brokers are exploring captive options with some of HDI's mutual clients and looking at higher deductibles with others, in a bid to minimise any price rises.

HDI Global in Switzerland is also increasing its risk consulting approach, working with clients to better understand their changing exposures.

Luginbühl points to the industrial internet of things as an example of this push. "We are a first mover on this, helping our customers with solutions and helping them to understand new but also known risks," he says.

The industrial internet of things can ensure companies receive an early warning that maintenance is needed somewhere in a far-flung location, reducing the risk of, say, an electrical fire.

"By using such a system, the company has a proactive solution that reduces its overall risks. We are shifting from risk transfer to predict and prevent," concludes Luginbühl.

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