

# Risk Specialist

Managing risks of  
more temporary  
workers  
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Growing scale and  
risk profile of  
sporting events  
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India's insurance  
market on cusp  
of change  
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## Going up in smoke?

Why fires are disrupting  
more businesses





echelon

# BUSINESS INTERRUPTION LOSSES

MINIMISING YOUR LOSS AND MAXIMISING YOUR CLAIMS SETTLEMENT

With an increasingly forensic approach from insurers, complex policy wordings and lengthy indemnity periods, developing strategies to mitigate and measure the full extent of a business interruption loss can be challenging and time consuming. Our step-by-step guide shows you the key issues to consider and highlights potential hurdles along the way.

To request a copy of the complete guide contact Candy Holland on  
**+44 20 7558 3230** or email [candyholland@echelonccl.com](mailto:candyholland@echelonccl.com)

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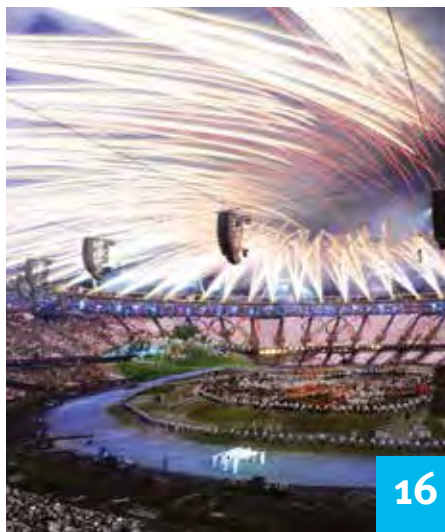


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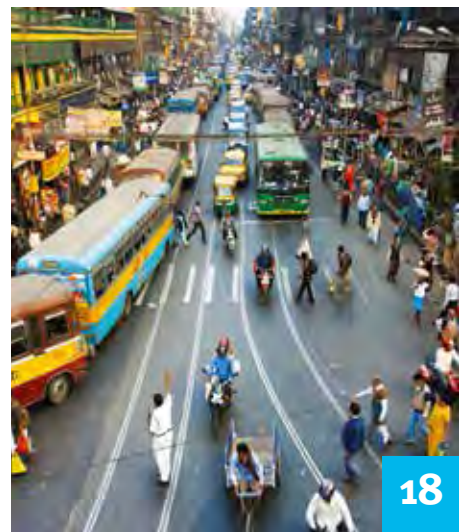


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**“You may have a £5–10 million physical damage event but you can lose £500 million of revenue.”** *Page 12*



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## ‘Go back to basics on business interruption’

When assessing their business interruption (BI), risk management and insurance coverage, companies should go back to basics, ensuring they properly evaluate their exposures and stress test these against their policy to identify any gaps, advised Echelon Claims Consultants at the recent Airmic conference.

Hosted by Candy Holland, Adrian Brennan and Nick Entwistle of Echelon, the workshop considered some of the issues that typically complicate and frustrate the settlement of BI claims, and how risk managers can address these – both prior to policy inception and once a loss arises.

The workshop looked at the differences between BI, CBI (contingent business interruption) and non-damage BI coverages by sharing three actual claims examples and considering the issues that arose on each.

Particular points of interest debated by the attendees included looking at the different policy requirements in terms of ‘damage’ and how insurers typically view what constitutes damage.

“Many claims fall into grey areas of policy coverage and therefore can result in protracted investigations and negotiation, and many claims are not paid at the level they should be,” says Candy Holland, Managing Director at Echelon.

“Clients expect that when they have BI insurance in place, it does what it says – pays for



a company's interrupted business. In practice that doesn't always happen and in our experience this is typically because the cover does not adequately respond to the risk.”

Holland recommends that businesses should address five key questions to ensure their BI policy will respond as expected in the event of a claim:

1. What is their BI exposure?
2. Have they tested how their BI policy will work

in practice in the event of a claim?

3. Is the current BI cover suitable for the perceived risk of their business?
4. Can coverage be obtained from the market to better reflect the BI exposure?
5. Can pre-agreed formulas for claim calculation be developed and agreed with insurers?

For a copy of Echelon's whitepaper on CBI lessons learned from the 2011 Thai floods, please email [candyholland@echelonccl.com](mailto:candyholland@echelonccl.com)

## Insights section launched on JLT Specialty.com

The section provides readers with information on forthcoming JLT Specialty events, sector-specific publications, as well as content from its flagship risk and insurance magazines, *Risk Specialist* and *Whiteboard*.

The section also features several new publications, including two recently launched newsletters – *Cyber Decoder* and *Cargo Delivers*.

The latest edition of *Cyber Decoder* analyses how stand-alone cyber cover has increased by 50 per cent in the first three months of 2015 compared to 2014, and how a legal judgment could have wide-ranging implications for future data protection claims.

Meanwhile, the latest edition of *Cargo Delivers* provides a roundtable by senior cargo underwriters of the cargo insurance market, as well as articles on how to protect large cargo during transit and cyber risks facing cargo.

To see JLT Specialty's *Insight* section, please go to <http://www.jltspecialty.com/our-insights>

## JLT Specialty supports future of risk management

JLT Specialty hosted an academy in June to help develop the next generation of risk managers.

The *FastTrack Academy on Structure and Placement of Insurance programmes* was part of a series of academies being run by Airmic, the UK association for risk and insurance management professionals. The academies are aimed at less-experienced risk and insurance managers and those who are new to Airmic.

The well-attended academy examined the current soft market, the benefits of having a global insurance programme and explained why, when it comes to negotiating an insurance contract, price isn't everything.

The academy also explained companies' duty to disclose every material fact to their insurers and how this applies in practice, and also analysed the possible benefits of 'self insurance' through a captive vehicle.

To request a copy of the write up please email [lucky\\_rai@jltgroup.com](mailto:lucky_rai@jltgroup.com)



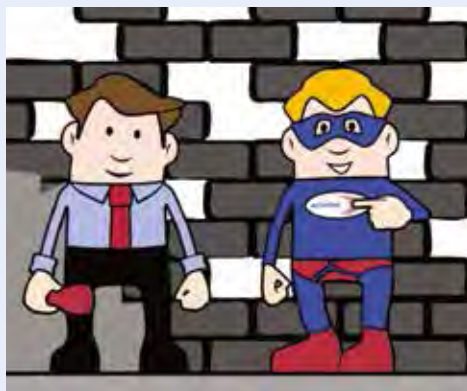
## Echelon releases video on claims process

Claims consultants Echelon has launched an animation that explains how it can save businesses time and money when making a claim.

Using the case study of a business experiencing a flood, the video explains how a business can have to spend a lot of time and money liaising with its broker, hiring contractors, pricing up repairs, engaging with engineers and architects, making payments, recording losses, documenting work, deciphering its insurance policy, assembling the claim and then waiting to receive payment.

The video shows how Echelon's professionals will work with the business as soon as an incident occurs, to minimise the upheaval to their business and maximise the benefits of their insurance policy.

Echelon project manages claims from



the start, guiding the business through the whole claims process, decoding policy small print, ensuring that costs are captured and that the business receives interim payments and all the benefits they're entitled to under policy.

To see Echelon's video, please go to <https://vimeo.com/122299139>.

To find out more about Echelon, please go to [www.echeloncl.com](http://www.echeloncl.com)

## Chance to WIN an Apple watch!



JLT Specialty is offering readers the chance to win an Apple Watch Sport\* by taking part in its latest reader survey. The survey is designed to ensure that Risk Specialist's content continues to be tailored to readers' ever-evolving risk and insurance needs.

The survey is being conducted in July, and gives readers the chance to help shape the content we provide in future by explaining the type of content they would like to receive more of, as well as the format and frequency of that content.

One of the respondents will be chosen at random to receive the Apple Watch Sport.

Please complete the survey enclosed with this edition.

\*Terms and conditions apply.

“Many claims can result in protracted investigations and negotiation and are not paid at the level they should be.”

Candy Holland, Managing Director of Echelon Claims Consultants

## Technology risks put under the microscope

The big challenges facing risk professionals in the communications, technology and media (CTM) sector were debated at a conference hosted by JLT Specialty's Global CTM Practice.

The *Mastering The Risk Landscape* conference in Amsterdam explored how well insurers can respond innovatively to a dynamic risk landscape when rates continue to spiral downwards.

Global CTM practice leader Sam Tiltman broadened the agenda to include a range of risk issues impacting the sector from cyber/intangible to the evolution of directors' and officers' liability, as well as contingent non-damage business interruption/supply chain and political/terrorism risk.

One speaker, a risk manager from a Hong Kong-based telecom group, said the insurance industry was failing to keep up with the pace of change being experienced by comm-tech companies, described the continuing fall in pricing as 'scary' and called for more stability around pricing.

Meanwhile, a managing director of one of the large insurers said the



insurance industry urgently needed to improve and increase its use of data analytics in order to better understand the risk exposures assumed in areas such as cyber.

If you would like a copy of the post-event booklet, please email [sam\\_tiltman@jltgroup.com](mailto:sam_tiltman@jltgroup.com)

# Market insight

**Outlook on the insurance market.**

**By John Lloyd, CEO of JLT Specialty**

**T**he London insurance market continues to make money and rates continue to fall. This is despite the market paying more than £140 billion of claims in the last five years, including \$1.95 billion for the 2011 Japanese earthquake and tsunami and \$1.2 billion for the New Zealand earthquake.

Events such as the Deepwater Horizon explosion in 2010 and the Malaysian Airlines tragedies in 2014 have led to a short-term hardening of specific market rates, but they have lasted no more than a few months. Astonishingly, in the 2014 aviation market increased rating was reversed three months after renewal with policies cancelled and rewritten back to expiring terms. This all makes you question whether we will ever see another hard market.

The global insurance market has contended with historic low interest rates but has benefitted from years of reserve releases; claims inflation continues to be a challenge but we have had few significant global catastrophes. Insurers

are largely making money and remain keen to grow their market share, making them more likely to compete on price.

Underwriting remains an attractive investment and new capital continues to pour into the market. New market entrants are increasing competition and further driving down prices in most lines of business.

That said, the London market retains a powerful position, being the largest global market for specialty risk, writing more than £45 billion in gross premiums in 2013 and being 11 times larger than Singapore, perhaps the fastest growing centre outside of London. According to the Boston Consulting Group, key lines of London market specialty business in 2013 included: property (£7.7 billion); casualty (£6.9 billion); marine (£5.9 billion); energy (£2.9 billion); aviation (£1.9 billion).

JLT Specialty is a significant player in each of these sectors. In this article we set out our thoughts on the market with top tips for the year ahead.



## Aviation

**Nigel Weyman, CEO of the Aerospace Division at JLT Specialty**

The total claim value in the airline insurance market has been roughly equal to total premium income for the last few years, meaning that major claims have the potential to

quickly push underwriters' aviation books into a loss. The sector tends to be immune from wider catastrophe claims, however, so it continues to be attractive to insurers looking to spread their risk portfolio. Consequently, capacity continues to come on board, creating competition and driving prices down. So, despite a short-term hardening, as a result of significant claims in the second half of 2014, prices are likely to remain soft in 2015 unless there is an extraordinary level of losses.

### Topical tip for buyers:

Buying long-term insurance policies is a good strategy for clients for two reasons:

1. Primarily it ensures that the price of insurance is predictable, which could have considerable benefits if the market does harden.
2. Airline insurance prices tend to harden rapidly for a short period, after a loss, before stabilising. If your renewal occurs during the aftermath of an incident, you could find that prices are relatively high. Long-term insurance policies remove both long- and short-term volatility.



## Construction

**Alistair Urquart, Head of the Construction Broking Team at JLT Specialty**

Construction has become one of the most global markets in the insurance industry, with active participants all around the world creating strong competition for business.

Capacity is exceptionally high, and new carriers are challenging incumbents to fight to maintain, let alone increase, market share. Only one small market has withdrawn from construction during the last year, so overall we expect pricing conditions to continue to be soft, with rate reductions widely available.

Insurers are generally delivering satisfactory underwriting results, although the absence of major claims has disguised the underlying inadequacy of premium rates and their sustainability over the longer term.

It is likely that 2015 will see the insurance market continue to bump along the bottom of the cycle.

### Topical tip for buyers:

While prices are falling overall, there are three ways that construction organisations can improve their potential for a positive outcome for their insurance programme:

1. If you actively engage with your own risk management process, insurers are likely to offer better support, both in terms of reduced prices and enhanced terms.
2. Locking insurance programmes into long-term agreements while prices are low.
3. Leveraging your entire risk portfolio should also encourage positive interaction with insurance markets.



## Mergers and acquisitions

**Teresa Jones, Partner in the M&A Team at JLT Specialty**

The global mergers and acquisitions (M&A) insurance market has matured over the last five years, with significant enhancements in price, product and process.

Prices have improved as more carriers have moved into the sector, encouraging competition. There used to be only one or two markets available, but there are currently more than ten in London alone.

It is also driving innovation as carriers seek to differentiate themselves. Underwriters are now staffing their teams with former lawyers that have hands-on experience of the corporate M&A process. They are refining policy terms and increasing levels of flexibility for both sides of a transaction.

Process is also improving as the level of experience and expectations rise generally. M&A insurance was a niche product ten years ago but is now high on the agenda at an early stage in discussions.

There is still some way to go before underlying M&A activity returns to pre-2008 levels, but the proportion of deals with seamlessly integrated M&A insurance programmes is far greater.

### Topical tip for buyers:

Examine how new ownership and future strategic plans will affect the insurance programme, and whether it be possible to secure the same terms, conditions and rates. Assess whether insurance valuations and sums insured are up to date and adequate, as it's possible they might have been overlooked in the years running up to the deal.







## Energy

**Rupert Mackenzie, Deputy CEO of Energy Division at JLT Specialty**

Rates in the energy market have continued to be soft, but there are differences between the upstream and downstream sub-sectors.

On the upstream side, claims have been limited over the last few years, natural catastrophes have been relatively benign and there have been no wind losses in the Gulf of Mexico since 2008.

The challenge comes from the industry itself. With the collapse in the price of oil, activity has dropped off incredibly quickly because the economics of drilling has changed significantly. Larger organisations can use their reserves to get them through what is likely to be an exceptionally lean period, but small- to medium-sized operations are going to find that more difficult. We expect merger and acquisition activity as a consequence.

Looking at downstream, the conditions are still challenging but less dramatic. Rates in the sub-sector have been softer for longer, and we would expect conditions to continue.

### Topical tip for buyers:

Given the underlying industry conditions, businesses are looking to drive out costs. The high level of capacity in the market means that insurance can help with this process, but it needs to be managed sensibly and with a view to the recovery when it arrives. Work closely with your broker and insurer to ensure that your insurance programme takes advantage of the conditions in the insurance market but also offers effective risk management and long-term stability.



Economics of drilling have changed since the drop in oil prices



## Cyber risk

**Sarah Stephens, Head of Cyber, Technology and Media E&O at JLT Specialty**

Major IT security breaches have convinced companies around the world that cyber attacks are a question of when, not if. The insurance industry has responded by creating increasingly efficient and cost-effective cyber risk management programmes.

Over the last five years awareness of cyber risk has risen and become a good area of opportunity for insurers. London markets have become particularly active as the complexity of the risk has become clearer. Capacity has moved away from local domestic markets in response to unprecedented corporate security breaches at large global corporations.

Reflecting the concentration of underwriting and insurance expertise, London has a broad appetite and offers competitive pricing in comparison with some local domestic markets.

### Topical tip for buyers:

Cyber risk is relatively new and carriers are still refining their risk models. There are also still some grey areas regarding what is and isn't covered, so it is important to work closely with the insurance markets to ensure that a policy genuinely reflects the risk.

There is a huge willingness to craft bespoke terms and amend standard policies to reflect clients' needs. Emerging and innovative elements of coverage such as system failure and reputational harm triggered by cyber-related business interruption are increasingly available.



## Real Estate

**Peter Doyle, Senior Partner of European Real Estate at JLT Specialty**

The real estate sector is as soft as it has ever been, with carriers being charged by their leadership to increase both profit and gross written premium. This competition is driving down prices and leading to a significant reduction in the price of risk. While falling prices are always welcome, volatility in the sector is not necessarily helpful for landlords.

The market has been soft for around half a decade, and while some underwriters have tried to make a stand and hold their prices, they have lost out because new entrants have picked up the business. This then becomes self-perpetuating as the carriers that took a stand then try to entice back the clients that they have lost by offering lower prices.

### Topical tip for buyers:

Insurance is often not high on the agenda for real estate firms, which can sometimes lead to risks being unmanaged until they become full-scale problems. Deeply embedding risk management and insurance discussions early on in the process can help to avoid problems later on.

And as risk models evolve and underwriters expect more in-depth risk assessments, the early involvement of a broker can considerably enhance the likelihood of a good outcome both in terms of ongoing placement and in the event of a claim.





## Marine

**Sean Woollerson, Partner in the Marine Division at JLT Specialty**

Although it suffered one of its biggest losses in history only three years ago, the soft conditions in the marine insurance market show little likelihood of a change in the short term.

This is the result of a plentiful supply of capacity, and risk management standards in the shipping industry improving significantly over the last 20 years. Technologies such as satellite navigation have reduced navigational claims, and stricter regulation has been adopted globally. This has reduced the frequency of claims, although the claims that do occur are often more expensive than in the past.

### Topical tip for buyers:

The high level of capacity means that owners/operators can secure reductions when presenting good loss records. Fixing for longer periods than 12 months, if possible, provides certainty of costs, protects against any unpredicted upward market trends and demonstrates a commitment to your leaders and capacity providers. A stable relationship also builds understanding between you and the insurer, which tends to translate into better results for insureds in the long term.

Where there is a clear understanding of risk and operations on all sides, the process of a claim can be far smoother.



## Credit, political and security

**Nick Robson, CEO of Credit, Political & Security Risk at JLT Specialty**

Geopolitics has returned in a significant way. We have also witnessed the rise of armed non-governmental groups, unstable macroeconomic conditions, considerable risk of sovereign and corporate default, and instability in sectors such as energy. All these factors are impacting greatly on the political environment and increasing the risk involved in doing global business.

Despite the challenges, the underlying trend in the credit, political and security (CPS) insurance market is for falling prices, although there are relative degrees of softness depending on the sub-sector. Prices are being set very much according to the risk being presented. There is now a great deal of data that can be analysed efficiently, which is enhancing the way that underwriters make judgements on risk.

### Topical tip for buyers:

The current level of risk means that there is a massive amount of opportunity. The key to maximising the opportunity, as ever, is to ensure that your risk is clearly defined and well understood. JLT uses decision-making tools to help you to get the support of the insurance markets, bringing down the cost of risk, protecting your business and its people and increasing the potential access to opportunity.



## Directors' and officers' liability

**Kurt Rothmann, Senior Partner in the Financial Lines Group at JLT Specialty**

Like most other sectors, the directors' and officers' liability (D&O) insurance market is very competitive, with broad wordings available for many parts of a risk. At the same

time, global regulatory changes and a raised risk of litigation against senior members of an organisation have led to companies focusing more on the breadth of cover provided by D&O policies, to ensure it provides adequate protection for its senior management.

This is driving lot of innovation within the sector, with some policies spreading exposure across several Lloyd's underwriters to reduce the impact of any unforeseen regional risks.

### Topical tip for buyers:

There are good opportunities for companies looking to ensure that their senior leadership teams are protected, but you should focus on developing a deep relationship with your counterparties. D&O claims can be exceptionally complicated and having a clear understanding of how a policy will respond in the event of a claim is very important.

With prices at a low ebb, insurers are staying as streamlined as possible. Look carefully at the teams you are working with and make absolutely certain that they have the strength to offer effective support in the event of a claim.



## Property and casualty

**Trevor Young, Senior Partner and Head of Broking, Risk Practice at JLT Specialty**


In many ways the property and casualty market has moved beyond the concept of 'soft' market conditions. Pricing has been so depressed, and continuing to fall over an extended period, that it is now simply the way that the market is. Given the level of competition globally, as well as the relatively benign catastrophe claims environment over the last few years, it is difficult to see when the market will harden.

We have seen a continued influx of 'follow' capacity, as distinct from lead capacity – the latter requires greater insurer infrastructure. Lead markets still face challenges in terms of complexity of programmes, and global administration, but the aspirations and appetites of follow markets to grow into this role have continued to exert downward pressure on premiums.

### Topical tip for buyers:

Look beyond the short-term price and focus on securing genuinely innovative cover. Clearly define what you want to buy and use the competitive market conditions to negotiate what you need. An effective insurance and risk management programme should be customer-led.

Deep-dive into what's important to you as a client. Engage with other internal stakeholders, such as IT and supply chain, and work with them to ensure that the insurance policy is providing genuine support for the risks your company faces.



Clarity over employment terms more important than ever for both employers and recruitment companies

# Changing workforces

As temporary workers become a larger part of the workforce, employers and recruitment agencies must pay more attention to the process and contractual terms to minimise the risks. By **Andrew Don**

**M**any companies' recruitment models are changing. As some economies draw out of the recession, many companies are increasing their number of temporary workers – often sourced through recruitment agencies.

The temporary worker sector was traditionally associated with secretarial and other office jobs, but today temps work in highly skilled areas, including oil and gas, pharmaceutical, healthcare and medical, among many other sectors.

In the UK for example, temporary and contract vacancies across the professional staffing sector rose 9 per cent between May 2014 and May 2015. And in 2014 one in two new jobs were temporary, shows the latest Professional Recruitment Trends report by the Association for Professional Staffing Companies.

"Employers are taking a shorter-term view of their staffing needs at all skill and complexity levels, opting for contractors to give them more flexibility and the specialist resource they need," says Paul Baker, Partner at JLT Specialty.

## Going global

The labour market's increasingly global nature means it is more and more commonplace for global recruitment companies to source specialist labour globally and place the workers outside their country of domicile.

This makes clarity over employment terms more important than ever for both employers and recruitment companies, says Steve Hornbuckle, Company Secretary of SThree, the global recruitment company. "The principle of ensuring that all parties, the employer, recruiter and the contractor, are engaged on a clear basis from the very start of the relationship is now of paramount importance."

For recruitment companies, it is vitally

important to consider the employer's business culture, the suitability of the potential candidate, and all applicable local laws or other requirements when making cross-border placements, says Hornbuckle.

Conversely, employers must have a global understanding of service contracts because standard terms and conditions vary considerably between countries (see box), says Graham Terrell, Technical Advisor at JLT Specialty.

Standards also vary between sectors. "Some sectors, such as oil and gas, have their own standard forms of indemnity requirements that may differ significantly from other sectors," adds Terrell.

## Partnering up

Before partnering with a recruitment agency, employers should consider the agency's global presence, sector expertise, quality of labour supply and overall ability to manage the recruitment process.



## How obligations can vary between countries

An overview of the most typical requirements in service contract insurance clauses and whether or not insurance policies in two example territories can reasonably be expected to include them. Clients can then take an informed position as to whether the requirements of the clause are reasonable depending upon the territory in which the services will be provided.\*

INSURANCE CLAUSE	FRANCE	BRAZIL
Waiver of Subrogation	Yes	No
Additional insured (customer)	Yes	Yes
Employer's liability	Legal recourse now possible by the WC insurer or victim in cases of 'inexcusable negligence' (faute inexcusable) on the part of the employer. Most insurers will include this coverage in the GL policy.	Yes
Contractual liability	Generally excluded if this exceeds statutory legal liability or common law (so liabilities specifically assumed under contract).	No
Cross liability	Yes	Yes
30 days' notice of cancellation	Policies can only be cancelled at anniversary date and 1–3 months' notice is required.	Yes
Primary and non-contributory	Available but only if the policy itself expressly states this to be the case.	Subject to specific individual review by the insurer.

\*BASED ON JLT SPECIALTY'S MATRIX OF INSURANCE COVERAGE AVAILABILITY IN KEY OVERSEAS TERRITORIES

For example, it is important to know how a recruitment agency receives legal advice, advises Paul Baker, Partner at JLT Specialty. "Even recruitment agencies of a similar size might have greatly varying degrees of in-house legal counsel, which can have a significant impact on when and how contractual issues are addressed.

"If an agency has limited access to in-house legal counsel, it is more likely to rely on the legal expertise of its broker and insurer. This approach can work very well, but it can mean that more of the legal input comes towards the end of the recruitment process."

Where a recruitment agency has in-house legal counsel, Baker recommends the agency's in-house lawyers meet their insurers early on in the process to explain how they manage their risk management processes.

When working together, it's important for both employers and recruitment companies to establish their respective contractual responsibilities, and the potential consequences of different scenarios and their effect on the insurance programmes of both parties – in particular professional indemnity and public liability policies.

Recruitment agencies have a vicarious liability when they provide someone who is not fit for the role, adds Baker. "Agencies are increasingly expected to assume more responsibility in the labour supply chain, as if they were the employer."

For example, the onus is on recruitment agencies to provide adequate background investigations, including criminal record checks

employer's expectations."

### Finding cover

Both the employer and recruitment agency can benefit from seeking expert advice on contracts' indemnities and insurance sections to identify any policy gaps that need plugging, as well understanding different territories' insurance requirements, Baker says.

indemnity) of the temporary worker provided, notes Gary Chambers, who runs the JLT Thistle scheme for approximately 1,100 UK recruitment agency clients.

"Consequently, policies have been adapted to ensure that these insurance requirements can be met automatically, providing the vital protection required by the recruitment agency," says Chambers.

Both parties benefit from using an insurer that is familiar with the recruitment sector, says Baker. "If they know the sector well they will know which aspects of a contract are and are not reasonable and will generally be able to respond to any issues quickly."

The insurance market's continuing soft conditions have enabled both employers and recruitment agencies to make extra cost savings in recent years, but this shouldn't be their main focus, says Baker. "It's even more important for employers and recruitment agencies to optimise their policy's flexibility and to understand it properly." **RS**

**“Agencies are increasingly expected to assume more responsibility in the labour supply chain, as if they were the employer.”**

**Paul Baker, Partner at JLT Specialty**

where appropriate, and to corroborate qualifications and suitability for the job.

"Employers will not necessarily conduct their own independent checks and will rely solely on the recruitment agency," says Baker.

"There can be repercussions if this part of the process is not robust – for example, we've seen issues where employers have asked recruitment agencies to evidence the checks that have been carried out and these have not met the

Insurance tends to be one of the final parts of the negotiation process when a placement is made, so employers and recruitment agencies often require access to brokers that can react quickly to queries regarding these issues, often within 24 hours.

Employers can insist that recruitment agencies carry insurance that covers employer's liability and public liability, as well as the negligent acts, errors and omissions (professional

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**Andrew Don** has written for the Financial Times, The Times, The Guardian and many business magazines.

# Going up in smoke?

**As the global economy becomes ever more connected and companies outsource more of their production to developing markets, a single fire can cause a company crippling business interruption.**

**By Peter Davy**





**P**roperty and business interruption insurance was arguably founded as a response to the Great Fire of London. Three and a half centuries later fires are still causing companies large-scale problems.

Fire and explosion ranks third worldwide in the list of risks concerning businesses in 2015, according to insurer Allianz's annual Risk Barometer survey of 500 risk managers and corporate insurance experts.

It is a particular worry in emerging markets. In China, where a 2013 fire at SK Hynix's semiconductor factory cost insurers an estimated \$1.2 billion (the largest non-natural catastrophe loss of the year), it ranks as the top risk; likewise in Russia, where the Achinsk oil refinery fire caused one of the largest losses in 2014, estimated at \$800 million. It also ranks second in Brazil.

Fire and explosion is not just a major concern in the developing world, however: it was in the top three risks in Spain, and top

before. In the UK, there were 22,200 building fires, excluding dwellings, in 2013/14, almost half the number a decade before, according to figures from the Department for Communities and Local Government.

### Business on fire

This discrepancy is probably down to several reasons. First, many of the losses from fires relate not just to the buildings but their contents, with values at risk increasing over time. Last June, for example, online retailer Asos lost £22 million of stock in a fire at its main warehouse. More importantly, however, the bigger impact from fires is usually from business interruption (BI) losses and supply chain disruption, which have become increasingly difficult to manage.

Tim Cracknell, Head of Consulting Risk Practice at JLT Specialty, says: "The nature of business and industry these days means there is more potential business interruption from physical events than ever before

of trade," says Nick Entwistle, Partner at Echelon Claims Consultants, JLT Specialty's specialist large loss practice.

Businesses suffering a fire face a sudden loss of revenue due to being unable to fulfil orders, together with a surge in costs to make good the damage and potentially set up temporary manufacturing or sales facilities or engage subcontractors. "You get this immediate cessation of income with an increase in expenditure, so cash flow becomes a real problem," Entwistle says.

Any business can be impacted by an interruption caused by a fire, even if indirectly, notes Candy Holland, Managing Director at Echelon. "Consider, for example, the recent underground fire causing a mass power outage in central London, with 5,000 people evacuated. If you were a business looking at your risk exposures around Holborn, Aldwych and the Strand would you ever have come up with that?"

### Falling short

Fires can also cause long-term effects that are not always immediately apparent.

Mobile telecoms businesses are a good example, Cracknell says. A fire that impacts the network may be relatively quickly resolved, but any customers that do move as a result of disruptions are lost for the duration of their new contract, which may be two years or more. Similarly, in petrochemicals, physical losses from vapour cloud explosions in the production of propylene or ethylene – significant financial losses themselves – can be exceeded by the loss of gross profit impact on upstream and downstream production.

Businesses' underestimation of the disruption an event can cause is often reflected in underinsurance. Of companies with BI policies, 40 per cent are underinsured, with an average shortfall of 45 per cent, according to a study by the Chartered

“There is more potential BI from physical events than ever because of how assets are accumulated.”

five in the US, France and Italy.

Claims data suggests fears are not misplaced. Allianz's analysis of 11,000 business losses of more than 100,000 between 2009 and 2013 shows fire second only to vessel grounding (infrequent but expensive events, as the grounding of the Costa Concordia showed) in terms of the value of losses.

This is despite a continuing fall in the number of fires in many countries. In the US, the National Fire Protection Association records 487,500 fires in all types of structures in 2013, compared with 526,000 ten years

because of the way that assets are accumulated and interact with each other. You may have a £5–10 million physical damage event but you can lose £500 million of revenue.”

In fact, BI and supply chains were the top risks in the Allianz survey across every region – Europe, Middle East and Africa (EMEA), Americas and Asia Pacific. Among the major causes of BI, fire and explosion was the most commonly cited.

“The greatest issue for business immediately after a significant fire is typically the survival of the business and maintenance

Institute of Loss Adjusters in 2012.

Maximum indemnity periods (MIPs) are a particularly key issue, says Holland. "You may have an indemnity period that covers lost business for one year, but the impact ends up being much longer than anybody foresaw. It is absolutely critical for businesses to consider potential loss scenarios, plot out what might happen and how long the impact on the business might last in order to arrive at adequate MIPs."

Similarly, companies often fail to consider financial penalties and damages resulting from a failure to be able to fulfil orders, which need to be explicitly covered in any policy, adds Holland.

### Broken chain

Similar complications surround the closely related issue of supply chains.

Supply chain risks have been highlighted in recent years by natural catastrophes, particularly the Thai floods of 2011, which exposed the fragility of complex, globalised supply chains relying on just-in-time deliveries and components and materials sourced from all over the world. Such events put supply chain resilience on the agenda for many businesses, as well as insurers, whose losses came to \$12 billion, much of it from business interruption and contingent business interruption (CBI) claims, according to reinsurer Swiss Re.

Sonia Caamano, Senior Partner for property, casualty, mining and power at JLT Specialty, says: "People would hear there was a catastrophe in a territory and think they had come away loss free because they didn't have any assets in that region, but actually they then find out they have exposures to customers and suppliers based there who have been affected."

The cause of disruption, however, can just as easily be a fire as a storm or flood, and the reliance on overseas suppliers is likely to be another reason why declining incidents of fire in the Western world have done nothing to reduce losses.

The 2013 SK Hynix plant fire in China, for example, prompted \$300 million of CBI claims from US computer manufacturers alone. An explosion and fire at the Evonik Industries chemical plant in Marl, Germany, in 2012, meanwhile, went largely unreported until automotive industry executives met weeks later to discuss shortages of a key chemical used to make a resin in braking and the fuel systems, of which the plant was a key producer.

## Prevention and mitigation

Fire and explosion risks are well understood owing to their long history.

The first step in managing the risk is stopping a fire from beginning; the second is stopping it from spreading as quickly as possible, says Jon Woodman, Managing Director at Paragon Risk Engineering.

"Stopping a fire from happening really involves having good housekeeping, such as not storing waste in the wrong place, tightly managing any contractors on the site, because a lot of fire losses still come from them, and keeping rigorous maintenance and inspection programmes, as the other big cause of fire has always been electrical faults."

Mitigating the risk of fires spreading, meanwhile, inevitably involves compromises. Sprinklers, inert gas suppression systems and other automatic responses are options, but the costs for some businesses are beyond their budgets and they are therefore not widespread.

"They are used in the pharmaceutical sector, sophisticated technology data centres, high-end offices and facilities comprising and containing very high asset values but away from those kind of operations, and particularly outside of the USA, they are less likely to be in place," says Tim Cracknell, Head of Consulting Risk Practice and Partner at JLT Specialty.

"They may be in new building specifications, but they can be deleted as a cost saving when the project would otherwise overspend."

Instead, businesses often rely on human responses. They should therefore ensure alarms are regularly tested, individuals are trained how to respond (so they know how to use fire extinguishers, for example), and, if possible, have discussions with the fire brigade before an event, preferably enabling them to visit the site so they are familiar with it if they are ever needed. They must also plan for continued operation of critical activities through business continuity management programmes should significant damage occur.

Beyond that, however, businesses need to ask to what extent their suppliers are doing the same, says Woodman. "Much of the discussion on supply chains has traditionally focused on massive global corporations, but nowadays pretty much every middle-ranking company has a supply chain exposure."

"Whatever you are making you are probably getting some component or another from the other side of the world. You may be completely dependent on receiving that Monday morning shipment every week but you have no idea because you've not done the research on your supply chain."

### Something's burning

The key difference between natural catastrophes and fires when it comes to supply chains is the geographical spread, with floods and storms capable of affecting entire regions, says Cracknell. Despite some massive events, such as the explosion at Buncefield oil storage depot in 2005, most fires are comparatively limited in scope.

This can make fires more manageable for insurers, says Cracknell. "Natural catastrophes cause insurers more difficulty because they may have an accumulation of risk where they are insuring ten factories in a location that are all affected by the same event. Fires and explosions are typically contained to a single site."

This does not, however, necessarily help businesses, Cracknell says. To ensure the resilience of their supply chains to fire, they have to look at each supplier individually, without the benefit of the mapping solutions used by insurers, brokers and others to determine weather-related risks – such as an area's propensity to flooding or exposure to





If possible companies should enable the fire brigade to visit their sites so they are familiar with them if they are ever needed

hurricanes.

Countries' fire-related regulations may offer some clues as to the regions where the risk is greater, but are poor proxy for two reasons.

First, regulation is largely focused on protecting lives, rather than limiting damage to buildings and their contents, notes Jon Woodman, Managing Director at Paragon Risk Engineering. In the UK, for instance, there have been complaints in the past that regulations allowed building designers to

again put under the spotlight after a beach-sandal factory in Manila caught fire, killing at least 72 people. Though the government certified the factory owner's full compliance with safety standards in 2014, the factory had no fire alarms, no sprinklers and no fire exits. According to a fact-finding team, workers who had been working in the factory for years had not experienced any fire and safety drill conducted by the management.

More important, however, are the limitations

disruption enterprise-wide, found a survey by Zurich Insurance. Moreover, 40 per cent do not insure their losses from supply chain disruptions at all and less than 20 per cent insure at least half of them, found Zurich's survey.

This is despite a soft insurance market. Buyers can often find basic CBI cover included within policy wordings: this would typically apply for only a modest limit and for direct customers and suppliers only. "Wider cover can be secured at competitive rates – provided they can give insurers enough information for them to evaluate the risk of key suppliers and customers," says Chris Stevenson, Senior Partner at JLT Specialty, who finds cover for insurers, reinsurers and direct clients.

If they cannot at the moment, this can be remedied – it just takes time and effort.

"Understanding the risk of business interruption is basically assessing the full 'what if' scenarios", Stevenson says. "Companies need to consider what could go wrong, and if it does, what the impact of that event would be on the business. Focus can be applied to work out if the risks are controlled as well as they can be, and then where risk transfer is required should the financial impact be significant." **RS**

“Whatever you are making you are probably getting some component or another from the other side of the world.”

**Jon Woodman, Managing Director at Paragon Risk Engineering**

substitute shorter escape distances for the use of materials that protect against fire damage and slow its spread.

Second, there continue to be widespread breaches of regulations, according to not-for-profit ethical supply chain organisation Sedex and labour standards NGO Verité. Their research in 2013 identified fire safety as the biggest health and safety non-compliance issue globally, accounting for almost a third of all shortcomings.

For example, in May 2015 the laxity of safety standards in the Philippines was once

of supply chain management generally – part of which is down to resources, says Entwistle. "Small or medium-sized enterprises, particularly, may not have the resources to inspect all their supplier premises, even if they did have the clout to force better risk management strategies or risk improvements on them, which they probably don't."

Nevertheless, companies can do more. Almost three quarters (73.5 per cent) of organisations do not have full visibility of their supply chains, with little more than a quarter coordinating and reporting supply chain

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# Ready for the big event

The high profile, huge revenues and growing complexity of sporting events make their risk management more challenging than ever. Marrying local and external expertise and providing a full risk profile to insurers early are vital. By **Matt Ford**

**M**ajor sporting events are getting bigger, both in terms of revenues generated and media coverage. They are also becoming longer and more complex, with flamboyant opening and closing ceremonies and a more challenging choice of venues, with more athletes and spectators to transit and accommodate.

Billions of pounds can be wrapped up in the successful management of a sporting event. Yet a single man-made or natural disaster can cause third-party or property losses through to business interruption or reputational damage. As sporting events – from the Cricket World Cup in Australia and New Zealand to the Rugby World Cup in the UK – continue to grow in scale, these risks will only increase.

For example, the political tensions in Ukraine and Crimea could lead to more sanctions against Russia, which could have a knock-on effect on the infrastructural development Russia requires in order to successfully host the 2018 FIFA World Cup. Meanwhile, terrorists' increasing trend towards 'lone wolf'

attacks can not only cause widespread casualties, cancellations and financial losses, which are often not covered under insurance policies, but are also, in some respects, harder for security services to neutralise.

"Security costs are continually increasing at large sporting events and, with record amounts being paid for the right to televise events, ensuring continuity of transmission is vital," says Duncan Fraser, Head of Sport, Media and Entertainment at JLT Specialty.

Ongoing concerns about the Ebola outbreak could also affect the accumulation of people at a sporting event – such as the Tour de Faso cycling race, which was cancelled in late 2014 due to fears over the spread of Ebola.

"If a government stipulates to an event organiser that it cannot have accumulations of people for any reason, then that event has to be cancelled – costing a lot of money in lost revenue, ticket refunds and cancelled commercial contracts," says Fraser.

Many sporting events are also exposed to political risks. For example, the 2015 World Handball Championship was hit by 'political

boycotts', when the United Arab Emirates and Bahrain both withdrew from the Championships, allegedly due to the Qatari government's support for Islamist factions in the Middle East. Similarly, the International Aquatics Federation World Swimming Championships late in 2014 were impacted by Egypt withdrawing its team.

## Local and imported expertise

The requirements of hosting any particular sporting event remain fundamentally the same wherever they are held. But these need to be overlaid with the risks posed by the actual location – whether these are natural hazards, political risks, or travel and communication infrastructure deficits – in order to accurately assess and quantify the overall exposure, says Andrew Duxbury, Contingency Underwriting Manager at Munich Re UK.

Event organisers should blend local expertise with imported experience from the international stage, such as international security agencies or professional sports administrators, says Duxbury. "By using recognised experts with





Ensuring continuity of televisual transmission is vital

## Show must go on

On 22 February 2011 a powerful earthquake hit the New Zealand city of Christchurch, killing 185 people and causing widespread damage across the city – just before it was due to hold five pool matches and two quarter-finals of the 2011 Rugby World Cup.

“The emotional reaction from everyone involved was that the show must go on,” says Duncan Fraser, Head of Sport and Entertainment at JLT Specialty. “But the organisers had to look at the damage and ask serious questions about what was possible.”

Without access to stadium facilities, and the infrastructure required to get competitors, staff and spectators to and from them, the games had to be re-scheduled elsewhere in New Zealand. “Although detailed contingency plans were triggered, the earthquake was a prime example of when even the most experienced teams are challenged by something completely outside their control. It proved the need for insurance to support organisers to explore the most viable alternatives, cover the significant additional costs necessarily involved in relocating a number of games and to ultimately help ensure that the event proceeded,” says Andrew Duxbury, Contingency Underwriting Manager at Munich Re UK.

The earthquake also illustrated the importance of making sure emergency plans have named spokespeople in place, to allow organisers to talk to the media quickly, and that very good records are kept. “Event companies disband after an event so, if you have an ongoing claim, it can be very hard to get proper information without access to good records,” says Fraser.

previous international experience, organisers can avoid some of the talent weaknesses inherent in firms that need to scale up and scale down fast for a particular event.

“When it comes to the insurance programme, if the underwriters and brokers have seen similar risks before then their input can be sought immediately on the risk transfer mechanisms,” says Duxbury.

It is important to quantify and settle any incurred losses as quickly as possible: organising bodies generally have a limited constitution, as their expertise quickly moves on to other sporting organisational challenges, Duxbury adds.

### Early engagement

Though there are a lot of off-the-shelf insurance policies available for event organisers, many will have exclusions for some of the growing perils that event organisers face. For example, most insurance policies exclude claims arising out of any communicable disease, or from the threat or fear of a communicable disease, such as

Ebola, which leads to the restriction in people's movement, as imposed or issued by a national or international body or agency, explains Fraser.

When buying insurance, companies should engage with the market early, advises Duxbury. “When underwriters are faced with incomplete knowledge of a risk they usually either increase premiums and deductibles, narrow coverage or, in the worst scenario, decline the business altogether.”

The best coverages are tailored to suit insureds' specific contractual liabilities, Duxbury says. “Contrary to potential organisers' concerns, the more underwriters know about an event, the possible risks and exposure and contingency planning undertaken, the better the coverage, commensurate risk pricing and available capacity will be.” **RS**



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# India on the cusp

Modi's India is open to business. With foreign participation set to rise, insurance regulation under reform and demand for specialty coverage increasing, Indian clients can expect to see a more competitive and innovative insurance market in the years to come.  
**By Antony Ireland**



**U**nder Prime Minister Narendra Modi, India's economic growth story is expected to re-gather momentum, with increased foreign investment set to drive development in key sectors such as infrastructure and energy.

The effects of Modi's pro-business approach are likely to be felt in the country's \$9 billion insurance sector too. Economic growth is set to boost insurance volumes, while legislative reform and increased participation from global insurance markets are expected to increase variety, competition and sophistication in the local insurance industry.

Meanwhile, Indian corporate risk profiles are evolving. Indian companies are expanding globally while international firms continue to establish operations in India, driving improvements in risk management and demand for more sophisticated insurance products.

JLT joined forces with Sunidhi Group in December 2014 to launch a new specialty

broking operation – JLT Independent – to meet the demands of Indian corporates.

The Indian insurance market has historically been seen as something of a sleeping giant, with limited foreign involvement, restrictive policy wordings and compulsory placement with state-owned carriers leaving India

relatively isolated from global capacity and lacking product sophistication.

But the landscape could change quickly in the coming years, with Indian insurance regulation set for an overhaul after an amended Insurance Bill was approved via Ordinance at the start of 2015.

One of the key features of the reformed Bill is a relaxation of foreign ownership of Indian insurers. Foreign companies could previously own up to 26 per cent of Indian insurers, but this has risen to 49 per cent with the new Bill's implementation.

"This should make the Indian insurance and reinsurance market more attractive for foreign investors," says Rory MacLeay, Managing Director of JLT International Network, noting that the new rules would ease the financial burden on local carriers by allowing their foreign partners to absorb more cost in the early years of the partnership.

"At the moment India's insurance market is tightly regulated with the state insurers still holding an overbearing influence, though it's

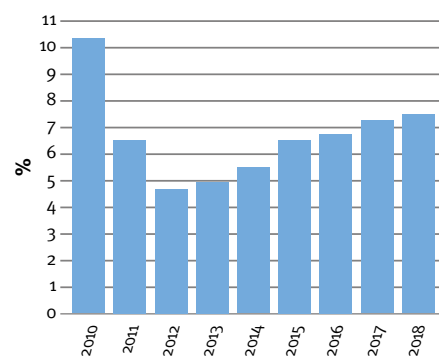
## Direct premiums 2012/2013

Accident & health	23%
MAT	3%
Other non-life	13%
Property	9%
Motor	52%
<b>Total 2012</b>	<b>\$8.9bn</b>

SOURCE: LLOYD'S



### India GDP Growth


(SOURCE: IHS GLOBAL INSIGHT)

“The expectation is that Modi is pro-business and growth will improve – this is a positive story for India and should drive insurance growth.”

Rory MacLeay, Managing Director of JLT International Network

unclear whether that will continue. If the state looks to sell off these insurance companies it will be much a much more significant step than increasing the cap on foreign ownership,” he adds.

Sanjay Radhakrishnan, CEO of JLT Independent, notes that the new Insurance Bill would also allow reinsurance companies to set up full operations in India rather than just branches. The most high-profile implication of this is the Lloyd's market's intention to set up in India, which would bring a significant influx of capacity and specialty expertise. “This could lead to India becoming a reinsurance hub like Singapore or Dubai,”

he says.

The new law would also allow free up capital-raising channels for insurers. With more capital flowing into the insurance market, both domestically and from abroad, capacity will increase, the specialty market will develop and competition may drive prices down for clients.

However, says MacLeay, the biggest impact on the insurance market is likely to come from Modi's broader policies to drive economic growth. “The expectation is that Modi is pro-business and growth will improve. This is a positive story for India and should drive insurance growth,” he says. “For

example, an increase in foreign direct investment will help fund infrastructure development, mining, oil and gas ventures and road building, which will increase demand for sophisticated insurance solutions.”

It is also expected that under Modi, there will be less bureaucracy and increased harmonisation of legislation across India's numerous states, making it less onerous for foreign players to establish themselves. “Off the back of that, the risk profiles of clients will change within those territories, which will have an impact on the nature of their insurance,” Rory adds.

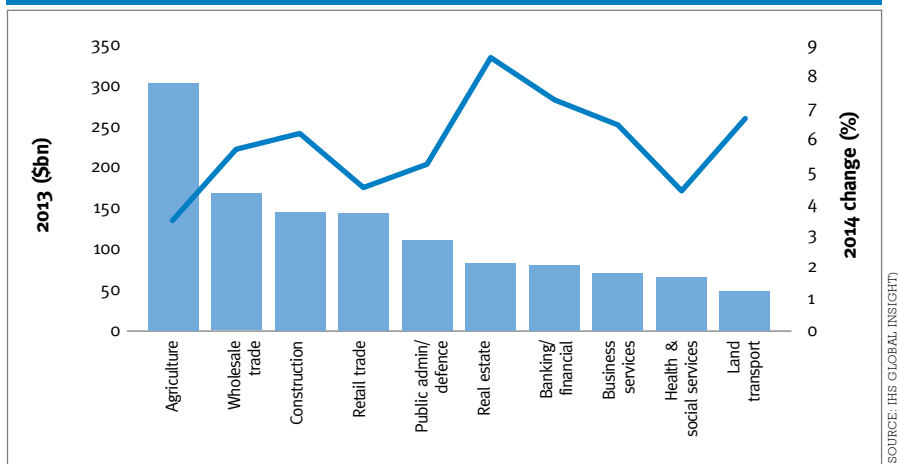
“At present, inter-state legislation is not harmonised which can make it very difficult for companies trying to establish an insurance programme to really understand their risk.”

### Indian opportunity

The path ahead is not without challenges. Modi does not fully control India's Senate, and it is possible that inter-party politics could hinder progress. Yet the opportunities are vast according to Radhakrishnan. Modi has already reignited momentum in the economy by taking



## India top 10 sectors by GDP



steps to mobilise projects that had been put on hold due to bureaucratic hold-ups under the previous government.

"There is likely to be investment of \$250–300 billion in the infrastructure space over the next five to ten years. The insurance industry should be a direct beneficiary of that as demand for coverage grows," he says, adding that risk management levels are on the rise among Indian corporations.

"The overall risk landscape in India is changing," says Bidhan Saha, Head of Energy and Commercial Practice at JLT Independent. "New tier risks like cyber risk, IPR and crisis management are emerging, so people want advice on how to tackle and transfer these risks. Today's evolved clients are looking for people who understand their business and can advise them on what coverage best suits their risk profile.

"There are many more companies in India with dedicated risk managers whose sole purpose is to manage, identify and mitigate risk than there were even five or six years ago

– risk management is improving drastically," he says.

As risk understanding grows and companies increasingly seek out bespoke insurance solutions, demand for specialty products is likely to rise. With teams of experts across all specialty lines, from aviation or energy to construction or political risk, as well as years of experience constructing sophisticated global programmes, Radhakrishnan firmly believes

**New tier risks like cyber risk, IPR and crisis management are emerging.**

JLT is well positioned to help Indian firms as they evolve.

"As clients in India mature and become more sophisticated, not only in scale but as legislation worldwide and domestically forces them to take a more sophisticated approach to risk management, they will think much more deeply about what coverage they have in place, and how they can tailor a programme to their risk profiles. We have experience dealing with multinational clients that have specific risk exposures, and tailoring wordings to fit those risks," says Radhakrishnan.

India's insurance sector currently lacks innovation, but MacLeay believes that will almost certainly change. "We see a change in the market – a new era of opportunity where people are looking to add value and find a product that provides the cover they need, rather than just seeking out the cheapest

price," he says. "Indian multinationals are touching the world more than they ever have done before, and their insurance procurement and risk management strategies will have to evolve."

Meanwhile, under Modi, clients should expect a greater choice of insurers and products. "Insurance companies will win additional capital, and with their foreign partners having more skin in the game they will be able to bring expertise and products prevalent in other parts of the world to India," says Radhakrishnan.

However, for the insurance market to truly evolve in line with corporate risk profiles, MacLeay says India must expand its policy wording tariff, under which there is currently only one policy wording (with the exception of for mega-risks). "Once the wordings are free, the real test of the ability of the broker will come to the fore and this is where we feel that the JLT Independent team would be able to differentiate and deliver the specialty advice to the client apart from delivering on the

best price available in the market," he says.

"Deregulation of the tariff would bring a huge sea change to the Indian insurance broking industry. It will lead to the development of new products, further access to international products and brokers can show their skill rather than just being commodity players."

There is plenty of work to be done to ensure India's insurance market keeps pace with the evolution of its corporate sector. But with Modi's vision for a more open Indian economy beginning to be realised, the country is already on the path towards a more vibrant, dynamic insurance sector. **RS**

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**Antony Ireland** has edited magazines on various emerging markets, including India and MENA.

## 2013 Net premium (\$bn)

New India	1.87
United	1.72
National	1.7
Oriental	1.22
ICICI Lombard	1.14

SOURCE: LLOYD'S





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# Total recall

Product recalls increasingly involve reputational risks that are amplified by the growth of social media. The nature of companies' response and insurance is critical to customer retention and the recall's possible impact on share price. By **Liz Booth**

**P**roduct recalls are at an all-time high due to strict regulation, companies' complex global supply chains and more onerous customer contracts.

Public awareness around recalls has historically centred around food and beverage as well as motor. Just in May 2015, three Japanese carmakers (Honda, Nissan and Toyota) recalled millions of their vehicles feared to be fitted with faulty airbags – an incident that has weighed heavily on the manufacturer's reputation, share price and profits. Also in May 2015, four of the UK's largest supermarkets (Morrisons, Tesco, Sainsbury's and Waitrose) recalled potato products because of suspected metal contamination.

Such events have shown companies how a slow or mismanaged recall can quickly destroy consumer trust and loyalty that took years to build.

With the ever-growing use of social media and growth of 24-hour news, reputational damage around recalls has been increasing in many other industry sectors as well. A single bad review that goes global is capable of costing a company millions of pounds or dollars without any actual risk to consumers.

## Tailored protection

Many companies understandably choose to recall early rather than face the potential wrath of the regulator or the general public, says Mark Hutton, Head of Recall UK and Ireland, XL Catlin. "Alongside quicker recall responses, more companies are exploring the protection available through insurance.

"Ten years ago product recall insurance was a niche product, but today boards want to protect their balance sheet from the cost of

materialises. Not only can the company use PR specialists to help mitigate bad press, it can also reduce the financial cost to the business, which can often dwarf the cost of the recall.

Product recall insurance has evolved over the past ten years, but perhaps the biggest change is yet to come. The increased frequency of recall events has caused insureds to review the relevance of recall and contaminated products insurance, specifically

**“Boards want to protect their balance sheet from the cost of a recall and also the subsequent loss of sales.”**

a recall and also the subsequent loss of sales," says Hutton.

Many companies are also looking for crisis management support as a risk management tool, adds Kiran Nayee, Partner at JLT Specialty.

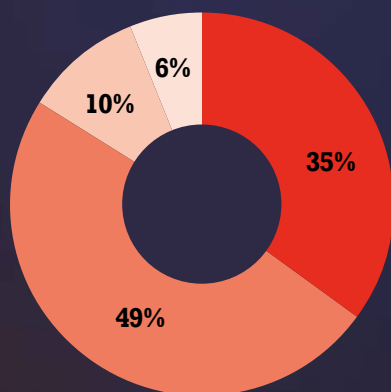
Insurers have recently introduced hotlines. XL Catlin, for example, provides 24/7 help for insureds, who can call on the advice and support of a range of experts before a claim

in relation to recent high-profile events which have fallen foul of traditional wording exclusions. Until now most policies required a physical trigger to pay a claim: a policy would cover a company for the costs of a recall and for lost revenue, but the claim was dependent on the risk of physical harm to consumers.

In direct response to these growing pressures on insureds, JLT Specialty has developed Pre-Empt. This allows clients to



## Breakdown of costs involved in a product recall



- Recall costs
- Business interruption
- Product rehabilitation costs
- Extra expenses, pre-recall, etc.

## Most common non-food product categories notified



**28%** Toys



**23%** Clothing, textiles and fashion items



**9%** Electrical appliances and equipment



**8%** Motor vehicles



**3%** Childcare articles and children's equipment



**3%** Lighting equipment

(SOURCE: RAPID ALERT SYSTEM ON DANGEROUS CONSUMER PRODUCTS (RAPEX))

## Big trouble for food and beverage?

Food and beverage was one of the first sectors to have product recall insurance, and is one of the sectors where products are most heavily scrutinised – as indicated by the fact that the European Union has the Rapid Alert System for Food and Feed, separate from the Rapid Alert System on Dangerous Consumer Products. “It carries the biggest risk because of the implications if products are not cleared off the shelves,” says Simon Lusher. Product recall issues for food and beverage companies include:

- Bacteria or another contaminate getting into food remains the highest risk.
- Ingredient manufacturers are exposed to third-party recall risks in the event their ingredients contaminate their customer's finished product.
- Incidents involving food are highly emotive, as the horsemeat scandal demonstrated.
- Supply chains are global and highly complex.
- Brand loyalty can be destroyed by one bad incident.

The Perrier recall of 1990 is an example of how a global brand can be overtaken by its competitors thanks to a badly handled recall. The growth of social media and rapid communication of news stories have

exacerbated the problem and left food company balance sheets more exposed to adverse publicity. While insurance can cover the costs and expense associated with some of the issues above, any prudent company must focus on prevention through good risk management. The emphasis has shifted for food companies from quality assurance to food safety and this is being reinforced by legislation, retailer audits and industry best practice:

- Hazard Analysis and Critical Control Point (HACCP), required by EU food hygiene legislation, for managing food safety and protecting consumers.
- More control and traceability in the supply chain. Food companies are looking to simplify supply chains to ensure the provenance of raw supplies. Pressure to keep food prices low remains a factor but the horsemeat scandal demonstrated that multiple links in the supply chain increase the opportunities for food fraud.
- Good crisis management can mitigate the effects of brand damage even as a recall event is occurring. Consumer confidence can even be strengthened in a product by a company that deals decisively and honestly, and communicates well with its customers.

buy a policy and consultancy expertise aligned to their market sector but, most importantly, has the potential to go beyond conventional coverage levels in contemplating extended policy triggers with the potential to cater for adverse publicity, brand damage and reputational losses. “To put that into perspective, elements of the horsemeat scandal that were largely uninsurable back in 2013 could now be covered under a Pre-Empt policy,” explains Nayee.

Bespoke product recall products are increasingly important as the type of recall challenges can vary greatly between sectors, says Simon Lusher, Food and Agri Practice Leader at JLT Specialty. “It is key to understand the risks faced by each sector and to address the particular needs of the industry.” **RS**

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# Renewable energy's changing landscape

While the number of renewable energy projects continues to grow, prudent risk management and early identification of risks is vital in order to secure finance, find the most suitable insurance and deliver better returns on investment.

By **Gail Rajgor**

**T**he world's energy production passed a turning point in 2013. Renewable electricity capacity increased by 143 gigawatts compared with 141 gigawatts of fossil fuel plant.

By 2030, more than four times as much renewable capacity will be added according to Bloomberg Business. Wind power and solar will continue to see most growth, with emerging markets set to be key growth areas, says Aaron Daniels, Consultant at project management company Modern Energy Management Co.

But while global investment in clean energy increased 16 per cent last year to \$310 billion, according to Bloomberg New Energy Finance, competition for available finance is highly competitive – particularly in emerging markets.

"To lenders and investors only projects demonstrating convincing returns on investments and a high degree of sophistication regarding the transfer of a project risk will secure favourable financing," says Poul Hansen, Head of Renewable Energy at JLT Specialty.

## New money

Renewable energy projects can potentially benefit from the current influx of new investors. Whereas previously some projects were backed by consortiums comprising of up to 30 lenders, more institutional investors are now entering the sector, says Gemma Claase, Head of Sales Operations and Strategic Insight at JLT Specialty.

But for project owners to attract these new forms of investment, they must focus on their risk management and transfer mechanisms even more rigorously than before.

"Institutional investors typically have more restrictions on the type of investments they can make, so they have smaller risk appetites and tend to want as much risk transferred as possible, even if it reduces rates on return," says Claase.

The management and transfer of a project's risks could ultimately determine whether it delivers a good return to investors. "Insurance could be a small budget item, depending on the project's size, but if you haven't planned for a major loss, the impact of such a loss could be substantial," says Claase.

As the investor landscape changes, it is more important for developers, engineers, brokers and other parties to 'mirror' investors' language and employ financial terminology – such as 'net present value' (NPV) – when discussing projects.

"Lots of investors will need to be confident that a project will provide a certain rate of return, so projects should be explained in these terms to investors, because these types of ratios and calculations determine whether an investment will take place," says Claase.

## Up-front planning

Sometimes it might be considered best for the project owner to manage insurance for the entire project, while for other projects it might be best for specific suppliers to manage their own insurance needs. "Either way, project risks need to be clearly quantified and allocated so that there are no gaps in coverage or uncertainty regarding who is liable for what," says Claase.

Simply having an EPC contract is not enough, adds Daniels. "An EPC contract allocates the risk but does not necessarily



Interest in renewable energy is only likely to increase in years ahead



“Project risks need to be clearly allocated so that there are no gaps in coverage or uncertainty regarding who is liable for what.”

**Gemma Claase, Head of Sales Operations and Strategic Insight at JLT Specialty**

effectively manage it. To ensure there are no gaps in insurance coverage, you need project managers with experience in the industry who can think creatively about what the project specific risk profile is.

"Some risks, like serial and latent defects in turbines, are well known in wind projects and should be planned for in every contract. However, less-experienced developers in emerging markets may not realise this," notes Daniels. "Insurers are not going to absorb all of that risk."

Claase recommends assembling a team of experts with different backgrounds – ranging from project finance to legal and engineering – and stress testing different types of scenarios and modelling those scenarios' impact on the project's cash flow.

"Everything – contract, strategy, project

execution, project planning and insurance – has to be prepared thoroughly before you even issue a tender for a supply contract," Hansen adds.

Risks relating to developers, the market and technical issues need to be assessed and catered for in contracts and insurance products to ensure successful project completion to time and budget.

"This way, when a claim occurs, developers can focus on getting projects back on track and built on time, rather than three to six months lost in arbitration or legal proceedings," says Hansen.

### **Growing competition**

It's a good time for the renewable energy sector insurance-wise, as more insurers are gain experience with different types of projects

and the technology involved, and there is more historical data to base their underwriting on, says Claase.

Moreover, developments in the traditional energy market due to low oil prices, have made offering insurance for renewal energy projects seem more attractive. "This has led to more traditional energy market insurers looking to transfer their expertise into the renewable energy space, so there should be more options for buyers," Claase adds.

Despite the likely increase in premium capacity, it's important for project developers to partner with a broker that can help 'pitch' their risk to insurers, says Claase. "Brokers can help clients to understand and address insurers' red flags, and help them to expediently navigate insurers' likes and dislikes. In a fast-changing sector, this can make all the difference." **RS**



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## Thinking ahead



# Planning for data protection changes

With the European Commission's data protection regulation in the final stages of approval, companies should revamp their internal response strategies and take advantage of competition in the cyber insurance market. By **Sarah Stephens**, Head of Cyber, Technology and Media E&O at JLT Specialty

**T**he slow progress of the European Commission's General Data Protection Regulation (Regulation) has led some companies to believe that they can wait until after the Regulation's implementation before making substantive changes to their cyber risk management.

But this will be leaving it too late. For many companies the Regulation will require wholesale changes to incident response and risk transfer strategies, which they should start making immediately.

Though the exact size of the fines that could be applied to companies that are found to negligently incur a data breach (the amount of the fines are a topic of much debate among the three parties which

Much will be determined in the coming months as they finalise how strict the final regulation will be.

### Risk of harm?

But how is 'risk of harm' quantified? Companies could only be able to evaluate whether a breach poses a 'risk of harm' if they have detailed documentation of their data and who it belongs to, and have appropriate processes in place that enable them to quickly and accurately assess the scope of the data breach.

Yet this is often not the case. Even large organisations don't always know how many customers they have, the different payment methods they use, or where the data is kept. Consequently, if there is a data breach, many companies won't know

thereby helping to minimise reputational damage.

### Now's the time

As companies seek more specific insurance coverage for data protection and other cyber incidents, they will likely need to draw more on specific cyber risk underwriting and will be able to depend less on traditional insurance policies. Buyers shouldn't assume that cyber insurance policies are not 'fit for purpose' or don't work in practice, as sometimes seems to be the suspicion. Cyber insurance has been around in various forms for more than 15 years, and has paid hundreds of millions of pounds in claims.

Ultimately, the better companies understand their own risk profile – in particular their cyber exposures – and the better their internal systems, the more tailored and better priced cyber insurance they'll be able to buy. Insurers in this space must price for uncertainty, so companies that come to market with more detailed pictures of their risk mitigation strategies are best placed to secure top-shelf cover.

Insurers see cyber as a high-growth market. Competition among insurers is therefore high and increasing, and they are keen to build good relations with customers and for their products to be perceived favourably, especially as there are still some buyer concerns over the practical utility of cyber policies. As a result, claims response is quite collaborative between insurers and insureds in this space, and new products are being created regularly.

Consequently, now is the time for buyers to fully map out their internal cyber exposures and to seek specific cyber cover. With the Regulation around the corner, and insurers vying for new business, there might never be a better time. **RS**

**“Now is the time for buyers to fully map out their internal cyber exposures and seek specific cyber cover.”**

must agree the final regulation later this year, ranging from 2 to 5 per cent of annual global revenue, with a maximum cap between €1 million and €100 million), companies' management of third-party data will undoubtedly come under far greater scrutiny.

Moreover, the Regulation will introduce mandatory data breach reporting in Europe – which currently only applies in limited industries and geographies – in the event of a data breach that poses significant 'risk of harm' to data subjects, or a serious violation of their rights. The final round of negotiations have just begun between the three parties – the European Commission, the European Parliament, and the European Council – that must agree on how to harmonise their competing versions of the regulation.

how much data has been breached or how many customers/third parties have been affected, and won't necessarily be able to quantify the short-, medium- and long-term impact of the breach.

Record-keeping of customer/third-party data should therefore be far more precise and cyber incident response plans should be stress-tested to ensure they're fit for purpose. It is vital that incident response and crisis management plans include key stakeholders from across the organisation as well as senior management, to ensure that they are quickly and consistently applied across the company. As well as helping to minimise business disruption and the chance of data breaches going undetected, this can also help to ensure that a consistent, well-considered message is delivered to the public –



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