



THE PRESIDENTS' ROUND TABLE

MEETING NEW CHALLENGES

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The Presidents' Round Table Participants



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chaired the discussion



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MEETING NEW CHALLENGES

There are some macroeconomic risks that are beyond the control of a company or, indeed, a single country. Nevertheless, it is an important part of the risk management discipline and of business strategy to identify them and assess their potential impact on your business and the environment in which it operates. This was one of the key messages at the April 2008 European presidents' round table discussion.

This discussion encompassed a wide area, in the first part covering both macroeconomic and microeconomic risks. Globalisation, climate change, political risks and the accumulation and interconnectivity of risks were among the topics covered. It is clear that the term 'new risks' has to embrace not just something completely new, such as nanotechnology, but also existing risks that are taking on a new aspect and presenting potentially greater impact.

There was also some recognition that companies have been quick to grasp the benefits of globalisation without fully appreciating the risks involved. Rather than turning a risk into an opportunity, they could well find that an opportunity has transformed into a risk!

The fast pace of change and the linked need to react quickly are also producing risk management challenges. In order to meet these, risk managers have to have a fast incoming flow of accurate information.

In contrast, the second part of the discussion focused on specific issues raised by individual participants. There was an illuminating debate on the value of the procurement department's input in relation to buying insurance. And there was consensus that buying insurance –



and calculating its value – is rather more complex than most other corporate purchases.

There was some discussion too on the pressures produced by the need to comply with national and European regulations (which sometimes conflict), particularly in relation to a group's internal premium allocations and premium tax.

Insurers' claims management performance and AIRMIC's drive to produce an objective index measuring it in the UK was yet another topic

Rarely has a presidents' round table discussion encompassed such a wide range of issues. But we believe that you will find the content illuminating and entertaining!

Sue Copeman, editor, StrategicRISK

Jeff Moghrabi, country manager, ACE France

Kadidja Sinz, head of financial lines for continental Europe, ACE

Companies have been quick to grasp the benefits of globalisation without fully appreciating the risks

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We're also seeing more and more inter-dependency of risks.

MARIE GEMMA DEQUAE

MARIE GEMMA DEQUAE: We have a full agenda. Perhaps I could start with emerging risks and what is happening in that environment, as well as the evolution of risk and what is happening on the insurance side. From my perspective, I see more and more permanent changes to business. That is not only because of globalisation. It is increasingly linked with cost optimisation. We see production shifting to the Asian and Latin American countries. However, we also see that these products are coming back into the more difficult liability zones of the US and Europe, presenting quite a lot of problems on that side.

We are also seeing environmental change. There have been snowstorms in regions of China that have not had snow for 50 or more years. Another element is the increasing outsourcing of production. What can be done about that kind of risk?

We're also seeing more and more interdependency of risks. That was mentioned by the World Economic Forum, which considered it one of the major issues of the near future. And there is the technical side. Is nanotechnology becoming a high risk? What's happening there? What do we think and what's the insurers' viewpoint?

FRANCK BARON: From a risk management standpoint, part of the discipline in companies is to ensure we have the ability to identify the new risks. One of the major mistakes that a company can make at a risk management level is to have a list of possible risks that is too finite. Most of the time, you will find that you are missing the new risks that might have an impact on the company. Identifying new risks is not part of the process but part of the risk management discipline for a company.

MARIE GEMMA DEQUAE: Even in the lower end processes things are changing. For example, we used to produce one of our products for the US market in the US. We now produce part of it in China so we have a changing risk in respect of transportation and warehousing.

We are working in a business environment that is constantly and quickly changing. We have to find solutions to

that which involve treating the risk as well as transferring it.

JEFF MOGHRABI: I'll add an insurance perspective. Insurers always worry about accumulation, and traditionally this is associated with things like earthquakes or floods. However, I think that technology is changing the landscape somewhat. You now have accumulation in many areas. There are logistics, for example. Look at branding, and what is happening to some French companies with the current geopolitical risk of China. These are accumulation risks in my view.

We are very concerned about these issues. We see a lot of what I call double trigger events coming from fraud and technology. There is an IT risk in banks, but it is not the obvious ones we read about in the newspapers so perhaps fraud and technology products have to be combined. Fraud can come from the individual, with or without the use of technology, or it can come from the outside. There is a very thin line between classical fraud risk and what might be called IT provoked fraud risk, which might be the use of the internet for procurement, logistics or things of that sort.

I also see growing employer's liability (EL) risk in continental Europe. EL is an old risk but new aspects are emerging. Stress, for example, is a big issue in France today.

All of these in some way will create accumulation risk. Therefore, insurance companies and risk managers for the larger groups have to have a broader view of the accumulation of risk, whether physical or from a liability aspect. The world is getting smaller.

GERARD LANCNER: I would like to mention some areas where we see emerging risk. It might not be new risk but it is increasing.

The first is consumers and inflation. We have an economic crisis around the world and there are risks attached to that. There is increased cost. Sales are declining. Distributors are reducing. The cost of raw materials, transportation and production are increasing. We are faced with a new model. And risk is attached to all of that. France is also faced with increasing inflation, which we have not had for the past five or 10 years. All of those things are creating emerging risk. Some of our business models must be reviewed quite quickly in certain circumstances.

The second area is liabilities and the pressure of liabilities attached to companies by the public sector. Companies are having to bear more and more liabilities, such as social, environmental, product, service and financial liabilities, with the authorities bearing less and less. The authorities are transferring risk and the consequences of risk, the liability, to the companies. From a legal and a financial point of view, that is the changing environment in which we have to do business.

HANS GOREE: It could also be an opportunity. This is not

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as negative as it sounds. You can calculate the liabilities in your price.

GERARD LANCNER: I was referring to the pressure from the media, consumers and stakeholders regarding the liabilities that you, as a company, have to face. There are increasing claims and a move towards class action regulation around the world. There could be an opportunity but at present I feel that we're facing the negative consequences of this.

As Marie Gemma says, there's also globalisation, and the risk attached to that. Once we were manufacturing and selling in France or another individual country – and that was fine. Today, we are manufacturing and selling all around the world. We're making a profit but we have a lot of emerging risk as a result. We have to change. We have to adapt our supply chain model. We have to work with new suppliers. We were used to working with certain European suppliers. Now we work more and more with Asian suppliers – which is also an opportunity. We have to work and produce locally; we have to be closer to the market. We have to redefine the risk mapping of suppliers, transportation, manufacturing and legislation. We have a new business model for risk.

KADIDJA SINZ: Is there another element to add to all these topics concerning sustainable development? We see many companies now who are exercising control over their principal suppliers to ensure that they produce using elements in the manufacturing process which meet certain criteria of ecological compliance. That has to have an impact. There is a corporate social responsibility promise to stakeholders and customers, and there is increased element of risk if you are unable to fulfil it.

There is a second element which is where something goes wrong in a plant, such as a fire or a stoppage in production. You have to re-establish the operation in a different way. You have an increased potential change risk mixed in with the business interruption calculations. This goes back to your point about regulation, consumer expectations, class actions, etc.

GERARD LANCNER: It's a situation where you've been used to working with some suppliers and have established some confidence and understanding with them. Therefore, there are two solutions. They either follow you where you have to manufacture or sell, or you have to find new suppliers locally. This redefines the risk. Can the new suppliers produce to the style and quality we've been used to in other countries? Do they have adequate resources? Can they support you in respect of liabilities and follow you in case of claims?

RALF OELBNER: I find this conversation to be unsettlingly positive! I'd like to throw a spanner into the works. With the exception of globalisation, we have only talked so far about the microeconomic risks. These are the ones you can actually control, or where you have handles to control



them as a company. However, there are so many other macroeconomic risks out there. Some of them are actually interdependent. We are facing a shortage of food – consider that in connection with climate change. We can see in Australia that rice production has dropped to zero. That is certainly a risk.

There is an increasing lack of drinking water, an increasing lack of energy. There are terrorism and industrial espionage. There is illegal immigration. There are so many macroeconomic risks out there which a company as such cannot really control. However, they are still risks to the company. One should be aware of a lot more risks than the microeconomic ones.

MARIE GEMMA DEQUAE: That brings us back to the World Economic Forum, which is in fact suggesting a country risk manager to look at these macroeconomic risks.

PAUL HOPKIN: The UK government has completed a risk assessment of Great Britain and published a report, available for free download from the Cabinet Office. That risk assessment of the country as a whole reflects many things, especially those you touched on, Ralf. It refers to the overall global financial position. Population shift is also a significant issue, sometimes caused by climatic conditions, of course. We have seen it in New Orleans, which is half empty now. However, there is also war and terrorism. There is international organised crime.

I think it is a good report. It does not offer many solutions, but governments do not tend to offer many solutions. However, at least it does map out in some considerable detail and with considerable thought those macro issues that face, in this case, Britain. Many of the issues will be true for countries across the world.

JEFF MOGHRABI: It is true that governments shy away from risk. Take the example of the finance ministers and central bank chiefs of the G7 (Group of Seven) leading economies at their last meeting. They were very prescrip-

Companies are having to bear more and more liabilities

GERARD LANCNER

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We have had terrorism within our country in the Caucasus and other regions

VICTOR VERESHCHAGIN

...tive. They agreed a 100 day timetable for leading financial institutions to come up with a mapping of their risks. That will happen in many other industries. We will get a lot of prescriptive intervention by government. That might even include having some population moving away from coastal areas or flood plains.

KADIDJA SINZ: I think it is great that the UK report is publicly available. It is a pretty bold move. It took the same risk mapping approach as Davos, touching on all the topics. That could be a way to find common ground for analysis. It could mean more consensus on the risk management strategy.

TAMER SAKA: In the past, risk assessment and management took place at company level, then at country level. I think we will start talking about global risk management systems, models or bodies in the future. We should think about how to create a combined approach to managing this global risk. My limits have broadened day by day as a risk manager. I can focus on microeconomic risks and corporate operations, etc, so I can handle my own financial risks – but not my country's. The countries we operate in should manage those. Somebody should also take care of the global interdependencies. That is a key factor for the future of risk management.

GERARD LANCNER: I have a feeling that nobody but ourselves will take care of the global risk. We can have some risk mapping at country level to identify the emerging risks and some intervention from the authorities. But they will not provide a proper solution and will continue to put pressure on companies to solve the problem.

FRANCK BARON: I tend to be uncomfortable regarding the difference between micro-risk and macro-risk. It is up to the risk management process in the company to identify all the critical risks for that company. Some of them may be under the control of the company, some may not be. But it is your responsibility to be at least aware of them

and maybe take them into account in the company's strategy or the business model.

The lack of food and water, mentioned by Ralf, is a key risk for the whole planet. It has specific implications for some food production companies. It affects the business model in terms of approach, in terms of managing things, in terms of reputation, and in terms of image. I believe that there are ways for companies to integrate the risk into their strategy and the management of the business. It does not mean that in your company you can take into account the risk for the entire planet.

There is an additional dimension that is a huge challenge for risk management in companies. This kind of macro-risk means that you have to integrate the long term dimension and thinking in a company. And it is not very easy for the risk manager to sell to the rest of the company's management the need to consider long term risks. It is one of the biggest challenges.

MARIE GEMMA DEQUAE: We haven't talked about political risk. This is something that has occupied me to some extent recently. We have acquired 100% of a company operating in Venezuela and Colombia. Is the political situation a macro risk, with regimes nationalising different industry sectors? It is very interesting business to be in these countries but it is not an easy risk to evaluate or manage.

JEFF MOGHRABI: We have a good example right now. Some French companies in China are being boycotted because of the Olympic Games issue and the protests relating to Tibet. It is very interesting to see how they are managing that. They reacted very quickly. They are saying that they are local employers, they hire locally and buy locally. So it depends how the country concerned sees you. Do they perceive you as just a global player or as a strong contributor to the local economy? It will be interesting to see how this plays out.

VICTOR VERESHCHAGIN: I would like to say something about conditions in Russia. We have the same issues, macroeconomic risk and political risk, and some specific issues. For example, we have had terrorism within our country in the Caucasus and other regions. Another one is the risks and problems concerning gas and energy transportation from Russia to Europe and other regions. There is the relationship between the former Soviet republics and the new independent states such as Georgia and Ukraine. The economic situation is a little better now. We are part of the global economy. We are trying to solve these problems.

HANS GOREE: In Holland, we recently had the situation of the Dutch member of parliament who made a film about the Koran that stirred up controversy. This morning, there was a Chinese man – second generation and living in Holland – on the radio making controversial comments. There is a new trend, not only affecting Muslims but also

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the Netherlands' Chinese population, which appears to be a wish to divide the people in Holland against each other. This will be a problem in the long term; it happened in Paris a year or a year and a half ago. You have to face it because it can hit your factory or your project.

I was in Warsaw this week, speaking at the POLRISK conference. Poland, together with the Ukraine, is going to organise the UEFA 2012 European championship. They do not yet have the stadiums or infrastructure. They have to change their transport system. There is a lot of work to do. But the lack of blue collar workers in Poland is enormous. They are all in Holland, Ireland, and the UK! The Polish government wants the people to come back from these European countries. However, if they do not come, they will hire people from China. So you could have the situation where Polish workers have gone to Europe to work, and people from China are going to Poland to build a stadium.

JEFF MOGHRABI: It comes very close to home, even in terms of the 'old' European countries. When the new government won in Italy, one of the first things that people said was that this would heighten political and terrorism risks tremendously in the next few months. Things can change very quickly when one government comes in or another goes out, even in a so called stable European country.

HANS GOREE: We're also seeing a return to strikes now. We had no strikes in the last five or 10 years. But now that the economy is going better, people want more cash. Currently, there's the threat of a postal strike by the employees of TNT Post in the Netherlands.

KADIDJA SINZ: Surprisingly, it also happens in countries where companies delocalise. The automobile industry has had a big strike in Romania. You believe that you are saving money by locating in a particular country but you do not save as much as you thought because the workers say that they need to make a living. You might not have the environment that you anticipate.

FRANCK BARON: It is interesting to see how companies have been able to identify the business opportunities in investing in a lot of new countries and regions over the last 15 to 20 years. Now some of these investments are seen as presenting a macro-risk that we cannot manage. The business plan is always too optimistic. Once again, it is part of the responsibility of the risk manager to try to address and balance the vision about business and growth opportunities. Are we over-valuing the risks? I do not know. However, there is a major challenge here for risk management professionals in how we address these risks.

GERARD LANCNER: One of the difficulties is to get the right information in advance and try to anticipate rather than just see the risk later on. Looking around the table, it is very difficult to get an appropriate network of reliable



information about what is happening in Holland, Russia, Turkey, etc, so that we can report properly internally. Competitive intelligence will be an increasingly significant factor in our business - getting the proper information in advance and being able to react to political and social change.

FRANCK BARON: We do a lot of work in our companies on the subject of risk appetite. We promote the idea of risk appetite. We have to take risks. But my perception is that risk appetite, the way people accept or do not accept risk, is always unbalanced. Take the example of the sub prime mortgages. For years these were seen by financial and banking institutions as a business opportunity. It now turns out that the institutions may lose money, because they may have been hiding the weaknesses or may not have seen the potential threats surrounding these opportunities. I firmly believe that we are too optimistic in promoting business plans and opportunities without acknowledging the risks.

GERARD LANCNER: You say that we may have hidden something, but I think we did not get the right information on sub prime risk. The feeling I have is that the banks, the quotation agencies, and the financial authorities did not provide the information we needed.

FRANCK BARON: I do believe that the business leaders who created this were pretty much aware of the whole thing.

JEFF MOGHRABI: The reason it took off is that they abdicated from controlling that risk. For at least 10 to 15 years the originators of all these deals at one point gave them away to the real estate brokers and were no longer controlling them. They abdicated, and we got accumulation and more accumulation. There was no risk selection at all, because at that point the people who were actually up front doing the real estate deals did not care. Therefore, there was no concept of credit control.

You might not have the environment that you anticipate

KADIDJA SINZ

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Maybe we should also increase the benchmarking opportunities between companies

TAMER SAKA

KADIDJA SINZ: This is an example of interdependence, because that has triggered interest rate moves. The latest interest rate moves are triggering problems with energy, which are triggering problems with food. It is how interdependence works in our environment.

JEFF MOGHRABI: I believe Franck is right. In the early '80s many of these risks were being talked about. There is one fundamental difference now, which is speed. When you get that trigger today, everything happens at a tremendous speed. You are obliged to react.

GERARD LANCNER: I am sorry to repeat myself, but we may be able to adapt our reaction to speed if we get the information at the right time. However, we do not get the information in time. It is sometimes too late.

MARIE GEMMA DEQUAE: That depends on the network within your company. One of the issues is that you have to involve a lot of different departments – not only financial or legal, but also technical and strategic. Therefore, you really have to build a network of information that comes to you, and helps you to change your risk treatment model. On a practical point, it depends on how your group is structured. You can organise it in a centrally structured group. It is much more difficult to organise in a diverse group.

JEFF MOGHRABI: You have to be aware that there are big obstacles to moving information in big groups. Look at data privacy laws, for example. It takes time to agree what data you can transfer, where you can transfer it, whom you have to advise. That slows down the risk management process. Compliance in many ways also slows down the risk management process.

FRANCK BARON: A key dimension of our job today in terms of risk philosophy is the way we treat risk. I'm thinking of a recent example where certain corrective action plans were put in place that actually created even

higher risks although from a different kind of exposure. It is very difficult in this fast and complex world to have good visibility of the benefits of the treatment you are going to put in place. Maybe that also applies to the pitfalls, the cost, and the negative consequences of the treatment.

MARIE GEMMA DEQUAE: You really have to look at the whole process from different angles.

FRANCK BARON: Yes, but you have to do it very quickly. That is not that easy.

TAMER SAKA: Maybe we should also increase the benchmarking opportunities between companies. Most of us face different kinds of risks. And most of us have different kinds of risk management solutions. I think we need to enhance communication between us and maybe exchange best practices within Europe and even across the world.

MARIE GEMMA DEQUAE: That is one of the goals of FERMA and IFRIMA – to create a network that risk managers can use to benchmark. We carry out the benchmarking survey, which provides information and figures. However, if you want more detailed and individual information from a company, you can run into another problem which is anti-trust legislation. We will have to work on that.

HANS GOREE: As we've said, we live in a very fast moving world. We get information every day via e-mail, newspapers, television etc. It is almost too much for one person. And we have to respond very quickly. In my opinion, this introduces a new risk, namely that you may respond too quickly. For example, one of your board members may be telephoned and asked if they can do a project for €1.5m. They immediately agree, and then, when you get the contract two days later, you see that you have unlimited liability.

GERARD LANCNER: However, if you do not respond quickly, a competitor will answer in your place. This is taking a risk to get an advantage.

MARIE GEMMA DEQUAE: I think that this has given us a lot of points to reflect on regarding risk and risk management. I'd now like us to move on to discuss some of the specific points relating to insurance that have been suggested by some participants. Paul, can you start here, please?

PAUL HOPKIN: I suggested three points, looking to see where similar trends and concerns are emerging. The first is insurance procurement. There is an increasingly well established trend in the UK towards having procurement officers getting involved in the purchase of insurance for the company. This reflects the view that the thing that matters most is the bottom line price.

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I saw this in a previous role with a public body where the procurement of insurance was governed by EU procurement requirements. This meant that the insurer or broker that was appointed was almost invariably selected because of a lower price. I believe that this reduces the role and the professional input of the risk manager, with the potential to reduce the status of the risk manager. It is also bad for risk management within the organisation. Risk managers know and understand the extra services they get from a broker or from their insurance company, particularly loss prevention support and services. The procurement department will probably have no understanding of that.

FRANCK BARON: I just want to clarify something. Is insurance procurement forced by UK legislation, or is it a trend among UK companies?

PAUL HOPKIN: In the public sector generally, I believe that the EU procurement requirements apply. However, it is driven by cost control in the private sector.

MARIE GEMMA DEQUAE: Yes, the process is quite well defined in the public sector.

You can reduce the price of an insurance contract as low as you want as long as you do not look at the services you will get.

TAMER SAKA: And the consequences of the wording!

MARIE GEMMA DEQUAE: I do not think that procurement officers are very well focused on all the service and contract issues.

FRANCK BARON: I have a question for ACE. How much on average do you think companies are spending on insurance costs as a percentage of the turnover of the entire company?

JEFF MOGHRABI: It is probably between half a percent and one percent if you exclude some sectors. I agree with Paul that putting insurance buying through the usual corporate tender/procurement process can be to the detriment of the risk management activity and the risk manager. It has ultimately created a process that is more complex. It has obliged the risk manager in time to unbundle everything, as otherwise too many things were escaping between procurement and legal. It has not always necessarily reduced costs in some sectors because of some of the blunders that occurred. There were some tenders that no-one would participate in for some time so the contracts had to be extended month by month.

FRANCK BARON: These trends occur more or less everywhere in the world. For example, every time we have a newly appointed director of purchasing or vice president of procurement in my company, I know that I will have a visit in the following few weeks, with them asking me how



they can help me and improve the way I purchase insurance.

There are various reasons for this. One is the nature of insurance – you basically buy an expectation or a promise that one day you will eventually receive your money back because you have suffered a loss or a claim somewhere in the world. This is very difficult to value within the company. Secondly, sometimes companies suffer a denial of this promise. It is a great opportunity for certain procurement managers to say: 'You did not have your claims paid, so you had a bad deal'. The third point relates to commission based brokerage. Certain companies do not have good visibility in terms scope of services and expectations. This gives procurement professionals an opportunity to say you did not do a great job.

I do not like or support this trend. This is a very complex process and it needs considerable expertise to manage this kind of insurance purchasing. However, we also suffer from a poor market reputation – not just insurers, but also risk managers and brokers.

KADIDJA SINZ: Risk management topics, on the other hand, are rising much more to board level than they were 10 years ago. The board is asking its various committees for certain information. They see a lot of risks as strategic. On the one hand, certain risks may be driven downwards in terms of the sophistication of buying; on the other, some are driven upwards in the decision making process.

JEFF MOGHRABI: There is a kind of contradiction here. The impression is that when we talk about costs it is almost as if insurance is a commodity. How many kilos can you get and who can get it faster? It is all the same. We realise how complex it is when we look at the risk managers' role. You are trying to predict a scenario while worrying about contract certainty. It is a question of how reliable it is, whether the insurer understood correctly, did the consultant or broker transfer it properly, etc. All these issues get set aside when you come to procurement. It is treated like a commodity, with all the consequences.

We suffer from a poor market reputation – not just insurers, but also risk managers and brokers

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Compliance issues are actually driven to a large extent by insurance premium tax

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MARIE GEMMA DEQUAE: With all the fast business changes, you have to adapt your contract constantly. Otherwise you are in an uninsured situation or in an environment which is not optimally insured.

GERARD LANCNER: There is a definite trend towards having a procurement involvement in the purchase of insurance. However, I do not feel it is detrimental for the risk manager. We have to define what we want to buy before buying. We need to analyse the risk and define the exposures we have to cover. That work cannot be done by the procurement department. Doing the risk analysis and defining what we need to buy in terms of insurance services, assistance, prevention and all the attached services, will all be done by the risk manager. Risk managers have to make the detailed scope of services requirement. There can be some procurement assistance at the last stage, which there sometimes is. There's a parallel with IT – the IT people have to define exactly the services required.

FRANCK BARON: We have to avoid an ivory tower approach to insurance purchasing. That conflicts with the rest of our job – risk management – where we try to open the door to people and help them do things from a different angle. Insurance is not a commodity at the end of the day, so it is not a pure procurement mission. There are a lot of technicalities which the procurement people will leave to us. However, we can learn from procurement as well.

TAMER SAKA: Sometimes it can also be dangerous for the risk manager to handle the whole process alone. A lot of money can be involved and it's good to get another internal view at the final stages. It is not always easy to justify our decision and we don't want someone asking in the future why we chose a certain insurance company or broker. I think we need someone else to be involved in the process to help us make the decision, or at least to agree.

GERARD LANCNER: It is sometimes very useful to ask the

procurement department to carry out a review of the process used – conditions of selection, definition of need, and final selection. I completely agree with Franck that they will be lost at the beginning. There will be a large number of business technicalities which they will be unable to understand precisely. However, it can at least provide quality control. It is a nice way to say – I have done it properly, and now the procurement department can review what I have done.

FRANCK BARON: I would like to link this topic with one of the first that we discussed – globalisation, outsourcing and subcontracting around the world. This is my way of collaborating with the procurement people, the sourcing people. I am supporting them through the liability and insurance clauses in the contract. For example, we have a project with the head of procurement where we are arranging insurance pooling in China and India to help the new suppliers we have selected to get a decent level of coverage. We are transforming insurance into a business collaboration with them, and it's working.

GERARD LANCNER: We can use procurement to secure our purchases just as we use the legal department. We do not need to work one against the other. We have to drive the purchase and be the head authority. However, we have to get some benefits from legal, procurement etc. There is the issue of taxes as well – we need advice there.

FRANCK BARON: I would like to avoid the knee-jerk reaction of saying that you want to look at our buying activity, and you are not allowed to. I would rather try to convince them that this is a very complex process which is why your added value is minimal compared to some other functions.

RALF OELBNER: I absolutely agree with you. You cannot hide behind closed doors at this stage of risk management. You cannot run a closed shop within your company, because you would expect the same openness from any other department's production or administration process. You can bore them out of your room with a complicated cover or whatever, but you have to leave the door open.

I have seen no company where procurement is part of the risk management committee. You have your legal people, your finance people, your controllers, your internal auditors, and your insurance people. So far, procurement is not part of a risk management committee.

TAMER SAKA: It is in my company!

PAUL HOPKIN: Hopefully, the second point I bring to the table is somewhat less contentious. That is the increasing focus on compliance issues. Again, I'd like to ask whether it is the shared view and experience of other FERMA members that there has been a huge increase in concern over the last couple of years over compliance issues for insurance programmes. Why has it happened now? Why

are some of the very big insurers now saying they can offer a fully compliant global insurance programme? That begs the question of what they were offering before.

That seems to be a strong trend. These compliance issues are actually driven to a large extent by insurance premium tax and the notional allocation of premium around the world. Therefore, individual countries are saying – and the best example is always directors' and officers' liability – that if you have a policy that protects the directors and officers in Italy or wherever, some of that premium must relate to your Italian operations. Therefore, the tax on a proportion of the premium should be paid to the Italian government.

That has certainly become a high profile issue in the UK, both among insurance companies and risk managers. This is coupled with the admitted and non admitted issue where it seems that there is now a much greater likelihood for the broker or insurer to say they cannot do it. They do not have a presence in that country or territory and cannot offer a policy. Therefore it's on a non-admitted basis. Insurance premium tax on non admitted policies seems to be something of a contradiction. Nevertheless, some countries will try and charge you that. It is illegal in other countries.

(A period of off-the-record discussion followed)

JEFF MOGHRABI: I think the compliance world is the modern version of the Inquisition. The entrepreneurial world probably deserves it with all the scandals that have happened. Authorities have tended to resort to extreme measures.

Tax harmonisation in Europe is a nightmare. When there seemed to be a little liberalisation, we all – insurers, brokers and risk managers – felt we could deal with Europe as one economic entity. We tried to make it all very simple and centralise the premium. However, we did not look at all the other aspects. We did not look at intra company exchanges in terms of cost allocation, nor at the claim flows and whether the insurance programme was coherent with the organisation and its inter company allocations. There is no perfect solution. EU directives are often still contradictory to local laws, particularly on insurance. As insurers, we have to try to ensure that the programme is as coherent as possible for the structure of your organisation and how you want the premium, tax and claim flows to go.

TAMER SAKA: I think that risk managers for global companies should be in a position to know all the details around the world. We usually hire the global brokers for this reason. They should know what is required from them and it would be good to be able contractually to transfer the responsibility to them.

JEFF MOGHRABI: How many brokers or companies have asked you when you set up your programme how you will ultimately transfer these costs into your company and



where you want the indemnification to go? How many have asked you to show them your legal structure in other countries? The answer is probably none. And that's where the problem starts. They were not looking at a scenario and how, after a claim happens, it is going to flow through the organisation.

TAMER SAKA: They will learn which questions they have to ask us if we try to start transferring the liabilities to them! They do not have any motivation to learn otherwise.

MARIE GEMMA DEQUAE: I think we can go for the third question.

PAUL HOPKIN: Let me just speak briefly about what AIRMIC is seeking to do with its claims performance index. We have started this initiative already and we are in dialogue with some of the big insurance companies in London. What we want as an outcome is to produce an index that provides an objective measurement of the claims handling capabilities of individual insurance companies. We are looking to evaluate things like the resources they have, the policies and the procedures they follow, including things like escalation procedures, as well as the actual insurance claims reporting procedures, their resources procedures, and their operations. It is a question of how well they actually do in practice in terms of impartiality, accuracy, speed of payment, etc. And this index can be taken into account when you are looking to place your insurance business.

FRANCK BARON: Is it supposed to be a list of points that you have to investigate when you want to select a carrier to manage your claims, or will you actually share the results with your members?

PAUL HOPKIN: We will share the results. We are talking to the rating agencies about whether they feel they could run with this index, as AIRMIC will not have the resources to

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manage it. The rating agencies are in there anyway, asking very detailed questions. Maybe one of them will see taking this on as a commercial opportunity. However, it is very much developmental work at the moment.

GÜNTER SCHLICHT: Are the insurers reacting positively?

PAUL HOPKIN: They are. Some of them are doing so because they feel they have a reputation for never paying claims, and they do not think they deserve it.

MARIE GEMMA DEQUAE: Is it based per line of business? Is it global?

PAUL HOPKIN: We are doing the initial pilot work on property damage claims, because they are immediate and short term. They are easier to evaluate. However, if it is to be valuable it will have to be extended to other lines as well. It is only looking at the UK at the moment.

GERARD LANCNER: Is it purely based on answers from insurance companies without any investigation?

PAUL HOPKIN: There will need to be investigation. However, this is developmental work. At the moment we will look for a self certification and self declaration approach. We will look to improve the approach and the answers ultimately have to be tested.

GÜNTER SCHLICHT: Are you not doing an experience related survey with your members and the buyers at the same time?

PAUL HOPKIN: Not on a company specific basis. We have questions in general terms, such as how many times you have had a claim escalated to senior management in the insurance company? How many times recently have you had a claim not paid in full? The answers that come back indicate quite a high level of dissatisfaction with the way claims are handled, which is no great surprise. It's how

you transform that personal experience into something that's more structured and scientific.

TAMER SAKA: Do insurance companies have to report requested claims by clients to the regulatory authority?

PAUL HOPKIN: I have spoken to the FSA about this initiative. Their initial response was to say that they have nothing in their programme of work about claims. The regulators worry about the ability of an insurer to pay claims. They do not actually seem to worry at all about whether they ever do. Insurers report ratios but nothing about their operational competence abilities or anything of that sort.

FRANCK BARON: I share your concern to improve a significant part of the insurance process which is claims management. The important thing is to ensure that this rating will be relevant and documented. I tend to agree with you that you need to get feedback on how to measure the quality of the claims process in insurance companies.

PAUL HOPKIN: We do not see this as an easy piece of work. However, when you are about to place your business with a new insurance carrier and you ask your broker about their claims handling abilities, the broker will actually give you an informed opinion. They will tell you that the insurer is very good at claims, or you should find a third party claims handler because they are useless. Reasonably well informed opinions are available. However, it is not the same as having a publicly available index. It must be possible to take it to the next stage if they can form those opinions.

GERARD LANCNER: Before this discussion ends, can I ask a question about the 2.5% extra commission? I have heard that UK and German associations have entered into a deal accepting that.

PAUL HOPKIN: I would not say we entered a deal. I know there was talk of this some years ago before I joined AIRMIC. However, our current position is that disclosure and transparency are what matters. However a broker earns his income and however it is remunerated, that must be absolutely transparent to the purchaser of insurance. The FSA have launched a second consultative document about broker remuneration, which is rather better than the first. They are focusing on the middle market.

GÜNTER SCHLICHT: Our first reaction was that most clients, in our view, would not be willing to pay for this. This is still our position. At the same time we advocate absolute transparency. Those are the two things we have said on this subject. There is nothing like an agreement or an acceptance or anything of the kind.

MARIE-GEMMA DEQUAE: I'm afraid that we will have to close the discussion here. Thank you all for an illuminating talk.

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