On the FrontLine
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Grappling with intangibles

IN A RAPIDLY SHIFTING RISK ENVIRONMENT, CORPORATES MUST RESPOND TO THE NEW DYNAMICS IN PLAY

It is now a reality that today's corporates will experience a data breach, or attack and a consequential risk to reputation. As insurers grapple with the challenge of understanding and indemnifying such exposures, some captive owners are using their vehicles to "incubate" the risk, explains Crawford head of global markets Benedict Burke.

The risk environment has changed. Whilst the majority of a corporate's claims will still come from traditional property or liability classes, there are changing dynamics in play. With up to 50% of the value of many organizations consisting of intangible assets - including brand value and intellectual property - today's threats and losses can just as easily emanate from a cyber attack, supply chain interruption or incident, or loss of reputation. At scale, these losses can move share price.

Often, such claims are highly complex and interconnected. Major retail data breaches in the US have impacted directors' & officers' liability and led to a loss of reputation. Similarly, major product recalls have resulted in a significant loss of profits as customers go elsewhere.

Take motor manufacturers. When the news broke over the rigging of US car emissions tests, shares plummeted and there were calls for an EU enquiry.

In an example of what may eventually be deemed a case study in effective crisis management, executives held up their hands and admitted wrongdoing then outlined proactive steps to remedy the situation. Nevertheless, it is another incident which shows why reputa-

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Benedict Burke

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Also in this issue: Interviews with Jo Willaert, Corporate Risk Manager, Agfa-Gevaert NV and Elaine Heyworth, Interim Head of Risk, Royal British Legion

Innovation

Elaine Heyworth

Interim Head of Risk and Insurance at the Royal British Legion

WHERE DOES THE RESPONSIBILITY FOR MANAGING INTANGIBLE RISKS LIE AND SHOULD SELF-INSURANCE BE PART OF THE STRATEGY?

Ekaine Heyworth

How for you is the insurance industry responding to intangible risks? Are these more of a risk management consideration as the value of intangible assets grow within many organizations?
The insurance industry is having to develop products for cyber risk or other intangibles while there is still uncertainty as to where the liability lies. For example, a cyber-related event could just as easily be a public liability or a fraud issue. So for me personally, I view cyber risk as just another risk that goes on the risk register, which should be managed and controlled by the people who know most about it - and that's the IT department.

When I was working at T-Mobile we had something like 35,000 hits on our servers every minute, and of these 98.8% wouldn't go anywhere and it was just the 1.2% we needed to be on top of. So for me, with intangible risk management, I need to establish who the owner is, and say "you are in charge of this because you know more about it than anyone else."

In the long run, if your internal risk management processes aren't good enough, if your internal barriers to denial of service attacks aren't sufficient; you're going to get hit.

Moving forward, I believe that the protection of intangibles will increasingly become the responsibility of the risk management industry, because there is actually nobody else that can do it.

Similarly, reputational risk isn't something that can be protected by insurance. Reputational risk damage is an outcome of managing other risks badly. If we look at VW, and the emissions scandal, as a risk manager, there is nothing I could possibly have done to avert this situation. There's no ISO framework for risk management in the entire world that could have prevented it.

Do you see intangible risks being retained within organizations or self-insured?
They are easier to manage if they are self insured. A captive is a perfect place to put your intangibles because the company can write it the way it needs to be written — and it's your capital that's protecting you. So it's a little bit of a security blanket for your board, and you build up a track record based on what's happened before and what's possible in the future — and, most importantly, you build up your loss data.

According to one statistic around 90% of the world's data has been created in the last couple of years. How is data - both structured and unstructured - improving the way you measure and manage risk?
I got quite excited when we first started talking about Big Data and I read Steven Levitt and Stephen Dubner's *Freakonomics* book. For me that's where Big Data started. I thought big data was going to change the world; but you know what? It hasn't. Your internal data is so much more significant and important. Governments need Big Data, big corporates that expand globally need Big Data, but for your basic SME, charity or one-country located company it's simply not as valuable. But just because I haven't got significant value out of it, doesn't mean that somebody else won't.

Reputational risk damage is an outcome of managing other risks badly

Profession

Jo Willaert

Corporate Risk Manager, Agfa-Gevaert NV and Deputy President, FERMA

HOW HAS THE ROLE OF THE RISK MANAGER CHANGED AND IS THEIR VALUE FULLY APPRECIATED AT BOARD LEVEL?

Jo Willeart

What skills does today's risk manager require, and how has the skillset changed?
The risk manager must be a good communicator — a good listener who can find solutions to meet the needs of people in the field as well as management strategy. Risk managers should be problem solvers, not obstacle makers. We are there to contribute to the success of the risk owners and help them achieve their targets.

The risk manager should be a master of a variety of trades. You are not going to be a perfect risk manager straight out of school — you need a combination of training and experience to have the knowledge and authority to do this job.

It is also fundamental that the risk manager knows about as many aspects of the company's business as possible. And you have to understand the company's culture; every company has its own soul, way of working and mentality, and if you are not part of that culture you are bound to fail.

In theory, the skills of a risk manager have not changed over the years. However, they have become more crucial for the execution of the function. These days, risk managers have taken on a greater role in governance and compliance. In a rapidly-changing world the impact of risk managers on the decision-making process in their companies is becoming more important.

What challenges do risk managers face in gaining the attention of the C-suite?
Risk managers should have the support of the C-suite and board and be recognised as critical to C-suite strategy. Only recently — in the last five to ten years — has risk management been considered as important as some other functions. The challenge is to demonstrate that risk management can help the C-suite make better decisions and meet their objectives.

Risk managers have a huge advantage over most other employees in that we add value. We take care of the risk, offer advice and help. We make people's jobs easier. To make sure the C-suite know what we do and how we interact with them, you have to get to know the business, the culture of the company and also the members of the C-suite.

Tell us about FERMA's professional certification project and why it is important?
Led by its vice president Michel Dennery, FERMA started the European Certification for Risk Managers programme to help define and raise the profile of the role of the risk manager. Outside the financial sector (where risk management is regulated), there are many definitions of a risk manager, and it is sometimes hard to differentiate the position from other positions within an organization. As a result, risk managers may not receive enough support from top management and may have to explain or justify who and what they are.

Certification is very important. It demonstrates that the individuals responsible for a company's risk management are skilled professionals, and this can be built into company infrastructure. We hope that within a couple of years, certification will become a requirement for professional risk managers, but we are on a journey and there is plenty of work to do in the coming months and years.

These days, risk managers have taken on a greater role in governance and compliance tional risk so often tops the list of concerns for today's risk managers and their C-suite.

In a more interconnected world, where information is shared instantly across media and social media, the reputational fallout from an event, can be catastrophic. Brands built up over decades can be quickly undermined when negative stories go viral.

Costly cyber attacks and data breaches have hit multinational brands. While the ripple effect from catastrophes, such as the recent Tianjin explosions in China, impact global supply chains.

Commercial insurers have come a long way in responding to these emerging risks, with products including cyber liability and contingent business interruption now well established. However, brand and reputation can be more difficult to quantify and indemnify.

Many long-standing products cater to elements of reputational risk, including product contamination and death, disability and disgrace, but they are not holistic solutions. Others include "reputational risk" as an add-on, such as is the case with most traditional cyber insurance policies. However, many of these products cover only the cost of crisis management and PR campaigns, rather than loss of profit.

Only a handful of specialist markets offer reputational risk insurance on a standalone basis where the policy indemnifies for loss of profit. These products are structured in a similar manner to traditional business interruption coverage, and triggered by a list of agreed "perils", which can range from product quality issues to loss of custom resulting from negative publicity.

Partly as a result of improving ERM frameworks and reporting, it is becoming easier for risk and insurance managers to isolate the impact any one event has had on the company's balance sheet. And where mainstream insurance solutions are not available, or deemed inadequate or too costly, there is the option of putting some of these more esoteric risks through their captive insurers.

In its annual benchmarking report, Marsh noted the use of captives for non-traditional risks grew by more than 11.26% from 2013 to 2014. By "incubating" these covers within a captive, a loss history can be built up, giving greater insight and data which - when the time is right - can be shared with insurance partners.

Crawford are the global leader in aligned claims and incident management solutions and we stand ready to assist in scenario planning and event resolution.

Young Professional Breakfast

ALESSANDRA CARRILLO WILL MODERATE TOMORROW MORNING'S YOUNG PROFESSIONAL BREAKFAST BRIEFING

Speakers Andrew Kendrick, president of ACE European Group and Enrico Moretti Polegato, CEO of Diadora will offer insight into how they rose up through the ranks in their successful careers.

Ahead of the Young Professional Breakfast, *On The FrontLine* asked Carrillo how the risk and insurance profession can make itself more attractive to young talent and why diversity is important, particularly in an evolving risk landscape.

Alessandra Carrillo is Crawford EMEA Business Transformation and Strategy Manager

"The insurance and risk management world has not historically been overly successful at attracting young people - it's not seen as sexy. But it's a business that can attract a variety of different people from different backgrounds, and that's something that needs to be communicated.

While I'm not a risk manager, one thing I have noticed about the profession is that it has achieved greater recognition within companies in recent years. The position of chief risk officer is very much an established part of the executive management team and they play a key role in helping to develop the long-term strategies of organisations. So, for example, if you can show young professionals the opportunities a role like this can create, there may be more interest and excitement in developing a career in the industry.

It's the same in the insurance and loss adjusting business. The world is changing and in this environment young people can bring a different perspective on the new risks we face compared to the older generation. For instance, everyone is talking about cyber, which is a very diverse risk. To handle a cyber loss, you may need to use people from many different backgrounds because there are so many interconnected components involved and some young professionals may be very specialized in some of those new technologies.

Their perspective on such risks is different because they've grown up with the internet and have a different understanding of how the dynamics and systems which underpin it are interrelated. We are obviously generalising here about the Millennial generation, but there is obviously some truth to it.

It's also about the direct business value they can generate. Having spoken to a lot of business gurus over the years, it's become clear to me just how much energy they bring and also how much of a force for innovation they can be. In my view, innovation and diversity really go hand in hand."

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