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A return to contingent commissions?

MOVES ARE AFOOT to remove the 2005 ban on contingent commissions charged by large brokers in the US. And this could be very bad news for risk and insurance managers worldwide.

Contingent commissions are fees paid by insurers, based on the volume and profitability of the business that brokers generate for them. Identifying a clear conflict of interest between the major brokers and their clients, some five years ago New York's then state attorney Elliot Spitzer investigated the issue. His actions resulted in an $850m settlement with Marsh and agreement from Marsh, Aon and Willis to stop taking these commissions.

US supporters of contingent commissions suggest that they provide an incentive for intermediaries to be selective in the risks that they submit to companies. 'That seems pretty nonsensical,' says Carl Leeman, chief risk officer, Katoen Natie, as brokers who are in the business of placing risks don't have a great deal of say on the risks' quality.

In September, the state of New York indicated that it was looking at steps to regulate contingent commissions, suggesting that it intended to relax or even lift the ban on the 'big three'. A major consideration in this move seems to be the fact that smaller brokers don't have the same restriction. New York regulators have submitted new contingent commission regulations to the

Carl Leeman, chief risk officer, Katoen Natie

> “the reintroduction of contingent commissions will add another expense layer into the cost of buying insurance”

governor’s office for review, stipulating that intermediaries must disclose their commission agreements with insurers if requested by a client.

Arthur J Gallagher & Co, the US fourth largest brokerage, has already agreed with Illinois regulators to end a ban on contingent commissions as from 1 October. The company estimates that lifting the ban will generate about $10m in additional annual revenues.

Last month, Reuters reported that Marsh, Aon and Willis are lobbying US regulators to overturn the ban. The brokers’ incentives are significant if the ban is lifted, for example estimated, as well as the additional $10m income for Arthur J. Gallagher, a possible extra $254m for Marsh.

Risk management associations were quick to respond to the Illinois decision. The US Risk and Insurance Management Society (RIMS) was the first to give its verdict on the new ruling. It said that contingent commissions can be, and were in the past, ‘manipulated to the detriment of the insurance consumer’.

FERMA said it was ‘disappointed’ with the decision. The fear is that the ruling could have implications across the industry, in that insurance regulators elsewhere could consider allowing similar practices. Once one big broker decides to accept contingent commissions, the fear is that others will have to follow suit.

And herein lies the rub. Regulators and brokers seem to be taking the attitude that if there’s transparency – and a broker tells its client that it is accepting contingent commissions – everything will be OK because the client can make its choice of broker based on this information.

However, Leeman points out that in this case transparency does not equal choice. ‘In practice it won’t. There is only a handful of brokers with the resources and know-how to arrange multinational programmes. If they are all committed to receiving contingent commissions, buyers will face a fait accompli.’ And the reintroduction of contingent commissions will add another expense layer into the cost of buying insurance.

Chase enforces global village concept

Greg Chase, president & CEO of Aon

The FERMA Forum’s theme of ‘Global village: the future of risk management’ was enforced by comments from Greg Chase, president and CEO of Aon . ‘The risks in the European environment are similar to the ones we see on the global stage,’ he said.

In an interview with StrategicRISK, Chase stressed that global economic slow down has put tremendous pressure on businesses around the world. ‘It makes the efforts around risk management and risk leadership even more important,’ he claimed. There is a clear view that the pressures that are being put forward are common around the world.

Chase referred to the Aon 2009 global risk management survey. ‘Talking to risk managers across Europe, it was clear that they ranked economic slow down as the number one issue accompanied also with the potential disruption of the supply chain. Also cited was the impact of a pandemic and other traumas on the supply chain.’

What suggestions could Chase give on the ways that risk managers might manage these risks? He responded: ‘We believe the role of risk leader/manager has never been more important. It is at the heart of how clients earn money and therefore is a major concern for the way their companies grow and develop. Building the capability to manage, quantify and mitigate all risk to the balance sheet’s added volatility is key, and companies need to be able to continue to retain that capability. We believe that risk assessment is critical and will continue to innovate to come up with some solutions.’

On the subject of enterprise risk management (ERM), Chase said that European companies have been very much at the forefront but once again he stressed the global perspective. ‘No group of companies around the world – wherever they are – has universally adopted ERM across the board on a broad basis. However, many of our European clients have done an exceptional job in developing elements of ERM. They appreciate the concept of understanding risk in very specific and comprehensive way with a very clear view of the actions that they need to take to reduce it.’

Chase did not predict any imminent hardening of the current ‘flat’ insurance premium rates. ‘At the start of 2009, we saw a decline in capital of the primary insurers and, to a lesser extent, that of the reinsurers. Those reductions were not due to the normal types of losses but mainly on the asset side of balance sheets. Over the course of the summer we have seen a significant replenishment on the asset side of balance sheets. Rates have been fairly flat, down slightly in retail and up slightly in reinsurance. We see that trend continuing in 2010.’

Finally, Chase gave his views on the thorny subject of contingency commissions. ‘In the US and across Europe and Asia the whole contingency commissions issue is secondary. The primary issue is transparency – making sure clients know what they pay for and the value they get for it. It’s essential and critical to have this transparency and it’s not often provided in the global broking world. With transparency, there can be different forms of remuneration but clients can have a full understanding of these.

He said that Aon does not currently take contingent or secondary commissions. ‘In the US there are multiple agreements in place that preclude us from doing so.’

Bigger investment in RM?

Investment in risk management initiatives will increase in 2010 as businesses try to focus on what is important to avoid unexpected outcomes whilst improving business performance. The message of a survey published last month by Open Pages is that 89% of respondent companies expect GRC (governance, risk and compliance) spending to stay the same or increase next year.

‘Companies will be looking to integrate disparate risk management activities into a common set of processes supported by a single technology platform to reduce costs and improve efficiency,’ said Open Pages.

Other key findings were:

- 82% of those polled expect new laws and regulations to be introduced next year in an effort ‘to improve corporate risk management oversight’
- 62% said that the current financial crisis has increased the priority of enterprise wide risk management and nearly 62% said that the crisis is making them re-think their approach to risk management at board level
- 53% of respondents have a siloed approach to their IT risk and compliance management activities in relation to their GRC programme, yet 93% stated that within two to three years they are likely to converge or coordinate this with GRC.

The state of the market

What's the state of play in today's European insurance market – and is it well placed to meet clients' needs in the future? Sue Copeman talks to David Furby, president, ACE Continental Europe

'I see a marketplace that is still competitive – but it has been a fascinating year,' says David Furby. As an example of the 'fascinating' aspect, he cites the significant erosion on the asset side of insurers' balance sheets in the fourth quarter of 2008 and the beginning of 2009, followed by a fairly quick recovery. 'This was aided perhaps by a clarification of accounting standards relative to unrealised losses which together with more stable international credit markets has enabled insurers to regain some of their loss capital without having necessarily to go to the capital markets. Whilst the cost of capital has gone up in the marketplace balance sheets remain relatively strong,' he adds. As a result, there is plenty of capacity in the insurance market place – which means continued competition.

'There are no immediate signs of a hardening market,' states Furby. However, he warns that this may be a temporary state of affairs. 'If you look at recent insurance companies' results, one conclusion you would draw is that generally speaking accident year loss ratios in the industry are deteriorating and the contribution from prior year favourable development has diminished. And that signals a tightening of margins for insurers.'

Typically, a continuation of current trends will shortly, and in some cases already, result in underwriting losses, ultimately eroding capital. 'The capital loss has to be remedied and results have to be put into a favourable position.
That only happens with a change in market underwriting conditions whether in terms of higher premiums or more restrictive terms and conditions,' warns Furby.

He points out that there are a few exceptions to the flat or even softening state of most sectors of insurance business. 'An area where premiums are increasing and where capacity is arguably less readily available is directors' and officers' liability, professional indemnity cover and errors and omissions coverage for financial institutions.'
Although ACE does not have a significant presence in the credit insurance market, this is of course also an area where premiums have increased significantly
'But we're not seeing a real change in the other areas of business,' emphasises Furby.

Serving clients

In an economic climate where almost all companies – including insurers – are under financial pressure, can insurers meet the needs of customers who themselves are focused on reducing their costs? Especially since corporate cost cutting may extend to risk management initiatives.

Furby responds: 'Insurers put a great deal of emphasis on the risk management that companies apply across their business. They rely upon their major corporate customers' risk management expertise to help manage and mitigate potential risks. Clearly, the extent that risk management suffers as a function within corporates will be a consideration that insurers need to look at fairly carefully. But I am not seeing signs of erosion of care and detail of risk management.'

> "In the current environment, risk managers have been able to negotiate reductions in their insurance spend through negotiations with insurers. I believe the market has been very responsive in responding favourably to risk managements' budgetary issues."

He points out that insurers have obviously got to be ever mindful of the pressures that their clients are under. 'In the current environment, risk managers have been able to negotiate reductions in their insurance spend through negotiations with insurers. I believe the market has been very responsive in responding favourably to risk managements' budgetary issues.'

He warns, however, that this may not continue in the future. 'There will be a point inevitably when the market will have to change because insurers will start losing money and will have to repair the damage to their balance sheets. Whether that happens during the current economic crisis at a time of considerable budgetary restraint or afterwards is still uncertain.

'Assuming that the market does start to turn and there are continued pressures on insurance buyers – and this is quite a sensible assumption – we as insurers need to be very mindful of those pressures and have to be flexible in the way they tailor our products. This means achieving a balance between meeting the clients' demands for protection of assets and, meeting insurers' requirements for adequate risk premium for the businesses they are writing.

'That is where real underwriting comes to the fore. The underwriter has to be able to understand coverage, the value of deductibles and coverage extensions, and to be able to price and tailor the product not only to meet the needs of their customers but also the budget with which they are operating.

Furby also points out that both insurers and risk managers need to take adjustments into account when they come to renew coverage. 'For many businesses, the effects of the recession mean that insurance values are going down in certain areas such as business interruption and cargo values. Redefining these values will obviously have an impact on the insurance price.'

He concludes: 'Insurers need to be very transparent. There has been a lot of volatility in terms of insurers' balance sheets. Risk managers have to be mindful of the strength and security of the counter parties they are dealing with. While there has not been a huge flight to quality, buyers are more concerned about the financial security of the counter party insurers they are working with and consequently insurance companies need to be more transparent in terms of the state of their balance sheets.'

Sue Copeman is editor, StrategicRISK

Personalise risk management

Bureaucratic management systems that enable executives to take risks without responsibility are largely to blame for the economic crisis, according to a new study funded by the UK Advanced Institute of Management Research (AIM Research). Poor risk management was at the heart of the sub prime meltdown in 2007, it can be blamed for Lehman Brothers' failure and it continues to haunt the banks today.

'Imagine a plane, where the decision about whether it is safe to fly is taken not by the pilot but by the airline boss and you get an idea of how some financial institutions are managing risk,' says Julian Birkinshaw of the London Business School.

He points out that in the years leading up to the credit crisis, financial institutions focused unduly on the formalisation and externalisation of risk management. Risk was evaluated through bureaucratic procedures. Validation was handed over to a bureaucracy of outside regulators and credit-rating agencies. This, he says, allowed individuals to detach themselves – legally and morally – from the system in which they worked.

The study argues for a shift towards greater personalisation of risk management, particularly in large firms – a system where the individuals who make the decisions take personal responsibility for evaluating the risk and for the consequences of their decisions.

It is not that formal procedures and outside agencies are redundant. The best-managed firms balance formalisation and externalisation of risk management with a personalisation approach. This means that there is true ownership of the decision to underwrite a risk by the manager, who has the appropriate level of expertise and information. There are formal systems for setting the limits for exposure to the types of risks that the organisation will tolerate. And, periodically, external agencies are brought in to validate and quality assure the internal processes.

Professor Birkinshaw cites the example of JP Morgan Chase, which is one of the major players unaffected by the crisis. It has a highly cohesive top team that takes ownership of its risk-management agenda. In 2006, they saw early warning signals of the credit risk on mortgages and reduced the bank's level of exposure to mortgage backed securities.

By contrast, the large banks had hundreds of employees working in risk management, using procedures so carefully defined that they could no longer see the bigger picture. They have borne disproportionate losses, says the report

It is not just in the financial sector where rigid bureaucracies have undermined performance. Firms and organisations across the board could benefit from personalising risk management.

However, personalisation of risk is not straightforward – a corporate culture is required that is both conducive and supportive. In line with AIM Research's objective to impact on management practice, the research outlines several basic principles that firms can apply:

- Develop high quality information, effective analytical tools and the competence to interpret this information.
- Ensure that rewards are linked to decisions taken
- Avoid situations where the decision maker is too far removed from the action to feel responsible
- Build a supportive culture that includes a commitment to a set of non-financial objectives
- Refuse to simplify the big picture.

The dangers of complexity

A paper published last month argues that traditional approaches to risk management have become too complex, thereby undermining the value that a broadly-balanced board can bring to a company.

The UK Business Continuity Institute's discussion paper – 'Risk management is dead, long live risk management' - looks at how risk oversight and transparency can be improved for non-executive directors and shareholders through applying business continuity management practices.

It suggests that there is a need for a corporate impact policy that considers the dependencies and vulnerabilities of a business around the seven areas of disruptive impact which include reputation, finance, supply chain and people. The paper also covers the case of a financial institution, Euroclear Bank, that applied business continuity management to successfully weather the collapse of Lehman Brothers.

In short, if used effectively, business continuity management helps the board focus on some key questions:

- **the company's business and operating model**
- **key value creating products and services**
- **key dependencies such as critical assets and processes**
- **how the company will respond to a loss or threat to any of the above**
- **what the main threats are today and what is on the horizon**
- **evidence that the resulting business continuity plans will work in practice.**

Lyndon Bird, international and technical director at the BCI, commented: 'The failure of risk management systems was only a single contributor to the financial crisis – broader issues of internal control and remuneration systems also played their part. Whatever the causes of the crisis, this paper asserts that more complexity is not going to solve the problem. Complexity is the enemy of understanding. Companies need to pause and reflect on what information is needed at board level before simply investing in more tools and specialists.

'The business continuity management framework has the advantage of simplicity and provides non-executive directors with the tools to ask the right questions. The development of a corporate impact policy would provide a much clearer direction to the company's underlying businesses and provide easier oversight at board level.'

Managing health and risk benefit costs

'Many employers are experiencing substantial pressure on expenditure in the current economic climate. A range of cost reduction strategies are available for employee healthcare and other insured benefits, and can be implemented quickly with immediate savings, says Steve Clements, a principal in Mercer's health and benefits business:

Mercer's five top tips are:

1. **Compare the current market.** Conducting a competitive market review of benefit providers can reduce premiums and, by using brokers' preferred provider discounts, these can be reduced by up to 50%.
2. **Benefit remodelling.** Decreasing the income protection benefit payment term from the age of 65 to a limited term of five years can reduce premiums by up to 40%. In addition, reducing the claim escalation on income protection could cut premiums by up to 10%.
3. **Commission/fee structure.** Ensuring that fee and commission arrangements are fully transparent, and incentivising the desired outcomes will help to control costs and avoid unexpected expenses.
4. **Benefit funding.** Sharing the cost for private medical insurance with employees by introducing a co-payment or claim excess can potentially reduce costs by up to 20%. Removing or reducing paid dependant cover could potentially yield even greater savings.
5. **Managing benefit usage.** Limiting ineligible membership will help manage costs. Employers should benchmark benefit entitlement and review internal eligibility procedures to ensure that only eligible employees and dependants are covered.

Steve Clements, Mercer

HOT TOPIC Directors' and officers' liability

If there's one subject that grabs the board's attention it's directors' and officers' liability (D&O) with the potential threat to their personal assets. Here's a rundown of the latest news from the market

Aon's view

US financial institutions (FI) saw premium increases of 15% on average in Q2, according to Aon's quarterly D&O pricing index. Its UK counterparts experienced similar increases. However, renewals have been mixed and will continue to depend on specific risk factors and financial performance.

The analysis finds that pricing increased 4.07% in the second quarter as compared with the second quarter of 2008. Current rates in the S&P financials sector (banks, diversified financial, insurance and real estate) are up 14.77%. The economic turmoil means rates are increasing significantly, capacity is constricting and coverage terms are tightening.

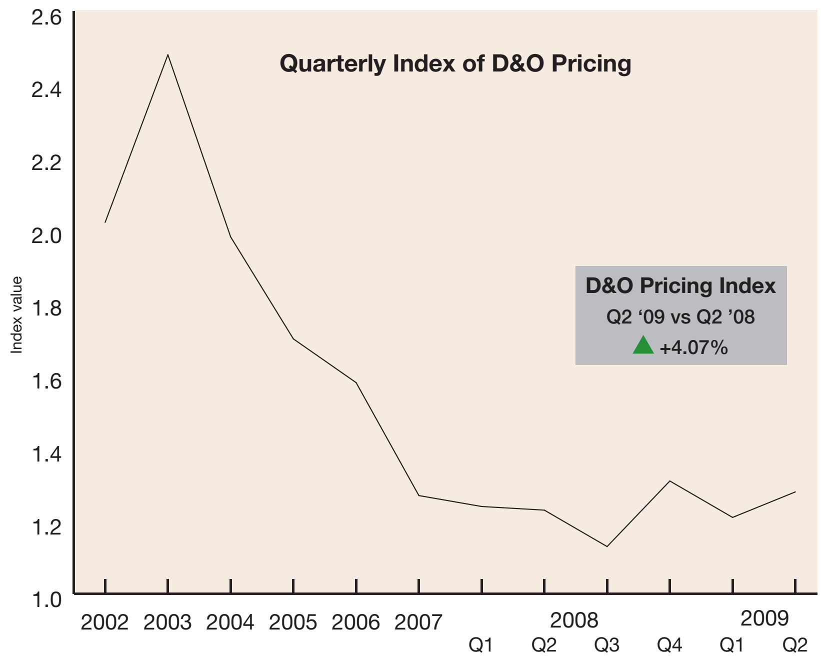
Meanwhile, all other S&P sectors (service, manufacturing, technology, etc) were flat, marking the first time in more than three years that rates did not decrease. Exceptions seen in the commercial realm stem from industries rife with bankruptcies. But in the UK, abundant capacity for most buyers means that those prepared to shop around can still find bargains in the market. This is more so in the excess than the primary market as new entrants fight the established players for market share.

Motor sector varies

One notable difference in cross-Atlantic premiums is in the automotive sector. While the US has seen two very high profile bankruptcies in the second quarter, the UK D&O market has not experienced the same challenges. Pricing in the related sector in the US is up nearly 44% (consumer discretionary). In the UK it is flat with premium reductions available in certain instances.

Adam Codrington, executive director at Aon's financial services group, comments: 'There has been a definite rise in UK claims activity but mostly confined to the primary layer of programmes. We anticipate that this will lead to frictional erosion of margin for primary players, while excess players continue to be relatively unencumbered by non FI related claims.

'As such, we are seeing attempts to increase premiums in many incidents but they are being held up by competition in the market.'



Source: Aon's Quarterly Directors and Officers Pricing Index

Conclusions from AIG's seminar

At AIG UK's 12th annual corporate governance seminar, respondents to an 'on the spot' survey said that they believe investigations by official bodies will be the most significant driver of D&O claims in the coming year.

Increasing shareholder action and the sharply rising level of insolvencies were seen as the next most significant. Least worrying to the respondents were actions from staff claiming discrimination, despite the fact that Robert Wardle, partner at DLA Piper and ex director of the SFO – who was speaking at the conference – felt that disgruntled employees who had lost their jobs were increasingly likely to blow the whistle on their former employers

Seventy percent of respondents also said that corporate governance was more important today than it was a year ago. Sir Geoffrey Owen, Senior Fellow at the Department of Management, London School of Economics spoke about the challenges to corporate governance after the credit crisis and the sort of fresh thinking that boards should apply in this rapidly changing environment. He also said that it was important that shareholders seriously consider more on-going engagement with the companies in which they invest.

Despite the recession, conference attendees were clear that the amount spent on D&O cover had not fallen victim to corporate belt tightening. The vast majority, 84%, of respondents said that the amount they spent on D&O insurance had increased, or at least remained the same in the last two years.

Willis notes resistance to rate increases

The commercial sector continues to resist the sharp rate increases for D&O insurance seen in the financial institutions sector, with the average premium for commercial business falling 5% in the second quarter, according to a new survey from Willis Group Holdings.

The 5% reduction is for commercial clients with strong risk profiles. Reductions are smaller for those more directly impacted by the financial downturn or with highly leveraged balance sheets, and some may even be seeing slight increases in premium. This compares with double-digit percentage premium increases levied on financial institutions during the second quarter, as the fallout from the credit crisis continues.

Based on feedback from the London market, Willis expects the commercial sector will see continued small reductions over the next three months.

Julian Martin, executive director of Willis FINEX Global, commented, 'Owing to the economic downturn, we are experiencing an increased level of scrutiny and underwriting analysis, meaning that is essential for renewal negotiations to begin early in order to deliver timely renewals. Despite this, policy coverage remains broad and the wealth of information now being requested of clients should be given particular attention and the specifics thoroughly analysed. When it comes to renewal business, we would urge that all forms of no claims declaration should be avoided.'

In addition to the survey results, the latest Willis Index D&O newsletter features a commentary by Jane Hickman and Ben Rose of Hickman & Rose solicitors on how directors and officers are under increased risk due to tougher action by prosecuting agencies against those deemed 'fraudulent' or 'reckless'. Hickman and Rose argue that the increasingly litigious climate makes it crucial for senior employees and directors to carry their own properly tailored D&O policy.

EL – don't be lulled into a false state of security

Environmental risk ranked lower as a concern in Europe than any other region in Aon's Global Risk Management Survey 2009 – despite the introduction of the EU Environmental Liability Directive (ELD). The global insurance broker and risk adviser is warning European firms at this conference to wake up to the reality that this legislation could see companies held liable for unprecedented costs for clean up and restoration of environmental damage.

Simon Johnson, Aon's environmental director for UK and EMEA, says: 'There is a common misconception that the ELD is just about ongoing operational pollution issues. The reality is the ELD significantly increases liability in the EU for operators that cause environmental damage, regardless of how that damage is caused. The fact that environmental risk ranked 32nd as a concern in the survey is worrying because risk managers are seemingly lulled into a false sense of security, believing they have no exposure or their pollution strategies are under control.

'This ignores exposure to the impact an unpredictable one-off event on the environment could have on the balance sheet. It's about preparing for the low frequency, high severity event by having insurance in place that covers all the risks, While there is a minimum legal transposition of the ELD, some countries have taken this further by introducing compulsory financial security arrangements for the riskiest operators in industries such as chemical production and waste management. Spain has set the precedent and the Czech Republic – FERMA's host country this year – is set to follow in 2012.

Dr Johnson added: 'Risk managers need to review the ELD and their operations in relation to their insurance programmes as there will be gaps. US companies with European subsidiaries are becoming increasingly aware of their potential exposures and in turn we've seen a higher take up for environmental liability insurance. We're encouraging European risk managers to adopt a similar strategy in protecting against uninsured environmental damage.'

Region	Environmental risk ranking
APAC	15th
Latin America	16th
Middle East & Africa	21st
North America	22nd
Europe	32nd

Misaligned and fragmented risk functions threaten performance

Ninety-six percent of organisations believe they have an opportunity to improve their risk management functions. And nearly half say committing additional resources to risk management could create a competitive advantage, according to Ernst & Young's Future of Risk survey, which examined organisations' attitudes toward risk management.

The survey of more than 500 senior executives, predominately those at the C-suite and board level, reveals the downturn is heightening awareness among companies of the need to manage risk more effectively.

Paul Kennard, UK and Ireland head of risk at Ernst & Young, says, 'Although many organisations have boosted the size and reach of their risk management functions, this does not always equate to an increase in effectiveness. In fact, too few organisations can claim that shared reporting, data exchange and coordination consistently occurs among their various risk management functions. In the end, this only leaves the organisation more vulnerable to the threat of risk.'

More needs to be done

Despite improvements in risk management over the past several years, organisations should continue to challenge their approach - especially now when most will be asked to do more with the same or limited additional resources. While only two percent plan to decrease investments in risk management, almost two-thirds (61%) of survey respondents said they do not plan to commit more resources to risk management over the next 12-24 months.

Kennard explains, 'Recent events have forced a maturing of risk management and many companies can take pride in the progress they have made. However, now is not the time to become complacent – leading organisations recognise that the continuing opportunity to improve their risk assessments, enhance monitoring, reduce costs, and better integrate information technology.'

Lack of coordination is a threat

The survey also revealed that the number of risk management functions has increased to keep up with compliance requirements. However, the coverage and focus of these multiple risks functions has become increasingly difficult to manage, and is compounded by a lack of alignment.

Seventy-three percent of respondents indicated they have seven or more risk functions. Furthermore, 67% have overlapping coverage with two or more risk functions. Fifty percent of those surveyed reported gaps in coverage.

Kennard says, "Risk management functions within an organisation often exist in silos that are disconnected from one another and the wider business strategy. As a result, risks identified in one area may not be communicated or recognised by another. Moreover, different areas within an organisation may have different views on the severity or importance of certain risks."

An improved future

The survey demonstrated that companies want improved risk coverage while decreasing costs and improving value. They also aspire to have their risk and control activities aligned and coordinated. The key to making this possible lies between the risk and control functions and the business units. This includes having an aligned mandate and scope, coordinated infrastructure and people, consistent methods and practices and common information and technology.

Survey respondents clearly recognise that risk management provides significant benefits to their organisations beyond better identification and understanding of key risks. Most respondents also report benefits from improved business performance (99%), protection of business value (98%), better decision making (98%) and improved compliance with regulations (98%).

Kennard concludes 'Leading companies are creating a competitive advantage by using the economic downturn as an opportunity to make practical yet valuable improvements to the way risk is managed. More than ever, organisations need to have a comprehensive and coordinated risk management approach with strong executive oversight and board of director governance. The opportunity to make those changes is now.'

Cutting Costs Doesn't Mean Killing Innovation

Today's tough economic circumstances offer some opportunities, suggests J Michael Barrett

It has become commonplace to observe that the world economy is in a period of unprecedented flux, that the predictability of bygone eras has been replaced with something bordering on chaos, and that yesterday's marketplace realities are no longer adequate predictors of tomorrow's economic drivers. Though much change is indeed afoot, however, it is important not to overstate the current climate of uncertainty and unpredictability, nor to overreact to it. While this crisis continues to claim many of yesterday's most venerable firms, those firms that judiciously steer away from being over-burdened by yesterday's cost centres and instead invest now in tomorrow's centres of economic growth will emerge as tomorrow's leaders.

The fundamental truth is that we are experiencing much more than a typical downturn which will result in a return to the old tenets of business as usual. There will be a new normal, one that is predicated on such lasting trends as the impact of a truly global workforce, mass diffusion of technology, and increased regulatory oversight throughout the capital markets of the developed world. Risk will be more warily watched and productivity will again regain importance as the underlying creator of economic gains.

And yes, the economic dislocation will be painful as jobs are lost, careers are disrupted, and entire industries painfully transform into new and more effective means of production. But in the longer term the global economy will prove itself resilient. The world's private sector will bounce back, as it has done so many times before, because capitalism is ultimately an effective means of rewarding those firms that are well positioned to absorb the impacts of change, to adjust to new dynamics, and to come out stronger by adapting to new economic realities.

But if there is light at the end of the tunnel, what should global executives be doing now to be optimally positioned for the inevitable return to economic growth, if not economic resurgence?

The primary objective for today's global senior management is to identify ways not merely to cut costs across the board, cutting overhead and lowering capabilities evenly across all operating areas, but rather to strategically trim away overhead from non-productive areas and shape the organization in the direction of future growth. This is a time of change, and therefore peril, but it is also one of numerous golden opportunities for those who can identify and rapidly capitalise on emergent realities. Leaders who can foresee the direction of the new paths ahead will be well served in terms of taking market share from others who are less adept at using this period of change to cut certain costs while simultaneously shoring up capabilities in areas ripe for future growth.

Improvement approach

One useful tool for managing the risks surrounding an uncertain future is derived from the proven process improvement approach called Work-Out. Pioneered under General Electric's Jack Welch, the Work-Out process is predicated on short three month business improvement project cycles that include a broad array of the workforce in developing targeted, measurable objectives then brainstorming how to meet those

This is a time of change, and therefore peril, but it is also one of numerous golden opportunities for those who can identify and rapidly capitalise on emergent realities

objectives in concrete, rapidly-implementable ways. The twin goals of buy-in and measurable success are thus combined with the ultimate objective of reshaping current operations.

While Work-Out was designed to eliminate unnecessary processes primarily within manufacturing, the same concept of taking 'work out' also applies to current products and services organisations. The key variation on the theme that can lead to success for today's uncertainty is to combine Work-Out with Work-Inn, or work innovation, which is focused on combining efficiency gains with investments in specific areas ripe for innovation. Work-Inn mirrors Work-Out and can be conducted simultaneously or in parallel but, while the latter focuses on a firm's internal drivers and processes that can be improved or shed, Work-Inn is more concerned with understanding and mapping exogenous trends and drivers for the future economy as a whole.

By identifying these key drivers and then looking inward and applying a focused three month innovation cycle to developing new capabilities and strengthening current ones, firms can ensure they are making the most of this downturn by optimally orientating themselves to achieve success within the future marketplace.

In the end, cutting overhead and streamlining operations will always be painful. But through creative and focused use of tools such as Work-Inn organisations can at least create virtue out of vice by ensuring today's targeted overhead reductions leave the company better positioned for pursuing tomorrow's profits.

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Crisis in Prague

One of the exhibitors at this year's Forum has a long-established relationship with our host city. Damage restoration company Belfor has been here before in less happy circumstances.

In 2002 the city of Prague suffered from the worst flooding it had experienced in the past 100 years. These floods affected all sorts of buildings ranging from private houses to large companies, hotels, archives, libraries, museums, galleries and other cultural and scientific institutions.

Once the water fell it was impossible to begin rescue works immediately at many places around Prague. Numerous areas were closed and guarded by the police for safety reasons, such as disturbed foundations of buildings, and fear of thefts and looting. As a result, it wasn't possible to begin rescue work immediately, the preferred approach. Instead, as anticipated, moulds and fungi appeared on the backs of books and other records within one and two days, exacerbated by the fact that the weather was hot and humid.

In order to prevent further damage and to give time in order to determine how to proceed, it was decided in accordance with international recommendations that the vast majority of wet documents should be, after cleaning with water, put into polyethylene bags, labelled and fast frozen to approximately –20°C to –25°C. The amount of frozen documents was over 2000 m^3. These frozen documents were stored in high capacity freezers until 2005.

In 2005, Belfor Czechia s.r.o won the tender for the drying of over 1200m^3. With its unique and modern paper drying plant in Jirny just outside of Prague, it was capable of tackling a project of this size. In the following three years it dried 939 m^3 of paper in the vacuum chamber and 253 m^3 in the hot air chamber. In layman's terms, this represents over 16 million A4 size pages. The overall amount of vapourised water was well over 160,000 litres.

When coping with a major crisis like this the vacuum chamber can work non-stop for approximately three to four weeks. After this period a full batch of documents (over eight tons) is dry. The whole technology works on the principle of what is called 'triple point'. In essence, water from the frozen state is transformed into gas (sublimation).

The hot air chamber works on the basis of extremely dry and hot air being pumped into a closed chamber, with wet documents being spread on perforated racks. This extremely hot air absorbs the moisture from the documents before being sucked back into the system and dried again.

The paper drying plant in Jirny is the biggest and most modern facility of this kind in Europe. It can be used to dry and restore not only documents or books from archives of all kinds, but also documents from courts, universities, banks, insurance companies, museums, private sector etc. Sometimes all that's needed is a sprinkler failure to result in the need to dry and restore important documents.

Back to year 2002. Some of Prague's top range hotels such as the Hilton, Intercontinental and Four Seasons were all flooded. Belfor mobilised a 500 strong team to deal with the aftermath. As well as local Czech Belfor employees, at the general managers' behest, over 100 hotel staff including chefs, butchers and housekeepers all helped in the clean up under Belfor's supervision. The hotels' own subcontracted cleaners were also enlisted although it was a different type of cleaning than they were used to!

Initially Belfor had to ensure that the hotels were mud free. This was going to be difficult but there was an innovative solution. The hotels' own fire hoses were used to disperse the mud and wash it out of the buildings. The force of the water from the flood meant that the contents of each room had been severely disrupted and in some cases blocked access to rooms. Because many items were hygiene critical and had been left in the mud for some time, Belfor had to advise the hotel on what had to be disposed of. This included all kitchen equipment: pots, pans, crockery, worktops, ovens, fridges, and the fully functional laundry – all

Among the institutions and records which suffered most in August 2002 were:

- Archive of Architecture and Construction Industry of the National Museum of Technology (unique plans drawn on tracing paper and paper-made models)
- the Central Military Archives (documents from the Second World War)
- the records office of the Municipal Court in Prague (court records)
- the records office of the Ministry of Agriculture of the Czech Republic
- Municipal Library in Prague (manuscripts and rare editions)
- Archives of the Academy of Sciences of the Czech Republic (librarian items, diplomas, photographs)
- the National Library in Prague (editions from 19th century).

sheets, towels,tablecloths, napkins, industrial washing machines, tumble dryers (these were so large a crane was used to remove the machines out of a side window).

Following the mud removal the whole area had to be disinfected to neutralise any bacteria, making it as safe an environment as possible in which to work. Then the deep cleaning took place, and all affected areas were pressure washed with water and sanitised with specially formulated chemicals.

After this the building contractors were allowed in to start replacing tiles, walls, ceilings and doors. On Belfor's advice all toilets and washbasins were removed, pressure washed and dipped in chemicals before being re-installed.

When this was complete the whole area had be sanitised again in case there had been any cross contamination. The final stage of cleaning involved hand scrubbing affected areas where hygiene is critical including kitchens and toilets as well as anywhere the public had access to.

After cleaning, the drying had to be carried out and this was on an unprecedented scale. A technician was employed full time to monitor the drying process. This was particularly important in the congress hall and foyer which was lined, floor to ceiling, with cherry wood. This had been stripped ready for replacement so the walls had to be dried to a certain level to be sure that the new wood did not warp and bend.

Belfor agreed these three stages of intensive cleaning and the drying process with advisors to the Prague government. They were responsible for granting permits to work and overseeing the clean up throughout the city. With strict instructions from the government to ensure work was completed to the highest level, they granted the Hilton hotel their health and hygiene certificate at their first attempt. This allowed them to re-open to guests only six weeks after the flooding, the first hotel in the area to do so.

Profile

Meet Jana Bicanova, chairman, Association of Insurance and Risk Management Experts of the Czech Republic

Jana Bicanova started working for the Czech office of the major European broker Sedgwick (now part of Marsh) in 1992 when the firm decided to establish a presence in the Czech Republic. She was responsible for a wide range of activities and then focused on new business development which, she says, 'enabled me to learn about and understand insurance and broking related aspects.'

'We worked with major companies in the Czech Republic and I was involved in tenders, coordination of programme design and coordination of Sedgwick's local and external resources,' she explains.

After four years with Sedgwick, Bicanova was approached by SPT Telecom, the state telecommunications company, which she joined in 1996. Her work started with setting up a risk management and insurance department. She has remained with the company, now privatised and called Telefónica O2 Czech Republic, a.s., since then.

Currently, Bicanova is the corporate insurance supervisor ; she also has a coordination role as the company has a subsidiary in Slovakia, and helps to deal with insurance issues for that Slovakian subsidiary.

As chairman of the Czech risk management association, Bicanova acts on behalf of the association and represents it externally. 'But I think once again, when we formed the association a couple of years ago, that my main role was a "start up" one. Before then Czech risk and insurance managers had been holding informal meetings and forming the association was a natural development.'

Now Bicanova focuses on the association's work in providing assistance and a networking opportunity for its members. 'We have about five seminars and workshops each year and, in addition, there is the same number of less formal meetings for insurance and risk managers.'

She is looking forward to the FERMA Forum. 'The association has been working to support the conference organisers as much as we can.'

Growing interest

Risk management is developing rapidly in the Czech Republic. Bicanova cites a survey conducted earlier this year by the consulting company RPIC-ViP on the state of risk management in the Czech Republic. 'There were 89 respondents and the results were quite interesting.

'Seventy one per cent of those participating said that they did apply risk management. Out of the 29% that didn't manage their risks, 22% of them were considering introducing risk management in the future, so only seven per cent of the companies surveyed did not profess an interest in risk management.

'I think Czech companies have done quite a lot in the field of risk management. The FERMA Forum should provide us with new ideas and approaches that our members will be able to build on. It's a very important event for the risk management and insurance market in the Czech Republic. The programme is full of very interesting topics. Also, the Forum is a great opportunity to share thoughts and experiences with fellow risk and insurance managers,' concludes Bicanova.

Around the Exhibition

Surviving with AGCS

Allianz Global Corporate Solutions has adopted 'Different views, different risks – We help you put it all together' as the theme for its stand here at the Forum.

Generic issues which the insurer believes are key in the market right now are:
- financial downturn and financial stability
- how to maintain underwriting discipline in tougher markets
- the increasing importance of directors' and officers' liability throughout Europe
- managing international insurance programmes.

Tina Rocholl, the company's head of marketing, will be attending the AGCS stand throughout the Forum while experts from all the insurer's business areas will be present on a rotating schedule. If there's a particular area you want to discuss, let Tina know so that she can arrange a meeting with the appropriate person.

AGCS' 'coolest' giveaway is its survival kit, a handsomely packaged carrier containing bandages, a sewing kit, refreshment wipes and other aids the global traveller needs in the field.

Crawford rebrands its European claims management

Corporate Claims Solutions, Crawford & Company's UK third party administrator (TPA) service, recently launched the Broadspire brand in the UK. It is now rolling out the Broadspire brand across Europe, launching its new European brand at this conference.

Broadspire will use Crawford's existing European claims management operations. Over the next year, the company will be gradually re-branding its local TPA operations under this new name, working with each country to prepare a local launch of the Broadspire brand and emulate the success that it has had in the UK. The change is designed to demonstrate how importantly Crawford views the TPA market and understands how its drivers differ from those in the traditional loss adjusting arena.

With a network of offices covering 25 countries and totalling over 150 staff, Broadspire offers local claims expertise and administrative services for motor, liability, property, medical and travel claims to both insurers and self-insured entities. It will have its own European website (www.broadspire.eu) and its own marketing collateral.

The new European brand takes its name from Crawford's US TPA Broadspire which has been a leader in this area in the US for many years.

Guernsey Finance capitalises on 'recovery'

Guernsey Tourist Board

Guernsey Finance's presence here is part of the ramping up of promotion of its finance industry in a bid to capitalise on what it believes to be slowly emerging global economic recovery.

Peter Niven, chief executive of Guernsey Finance, said: 'The economic downturn has impacted on the business flows that we have seen coming through our usual pipelines but importantly during this difficult time we have been keeping in very close contact with all our key introducers of business to show we are with them through thick and thin. Now, in the final few months of the year, we are stepping up our activity levels once again to ensure that we are in pole position to capitalise on the slowly emerging global economic recovery.'

New launches from Aon

Aon is using the occasion of the Forum to launch a range of new products and services. These include:
- its global risk management survey – the top 10 risks keeping European risk managers awake at night
- an enterprise risk management survey - how successfully is ERM being implemented across organisations and geographically to create business value?
- a risk technology survey - what are the benefits of using technology for risk managers and what is the return on investment?
- a crystal ball report – based on FERMA's theme of 'the future of risk management', Aon predicts the world of risk management in 10 years time
- Aon's 'Client Promise' including the Global Risk Insight Platform that tracks all of Aon's placements globally, from submission to quotes and binding.

The broker also invites you to relax and meet in Aon's ClientWorld café and meeting space at the Corinthia Hotel Prague, available during exhibition hours.

Finance Malta gets it done

www.istockphoto.com/MichaelUtech

Finance Malta has taken its exhibition stand theme for this conference as 'The culture of getting things done'. It is highlighting the key features in Malta's captive insurance framework, namely: EU passporting; PCC legislation, insurance management expertise; company redomiciliation, and IFRS reporting standards.

It expects its discussions with risk managers to particularly focus on concerns related to the current financial crisis – counterparty risk, credit and solvency risk, financial stability issues and the like.

It also sees one of the key issues in the market as being the implementation of Solvency II and the need to ensure that captive insurance companies in Europe are fairly and proportionately treated when it comes to balancing solvency risks with the workload that needs to be done to meet the regulation. The Malta Financial Services Authority has been engaged in this debate during the last few months and has had discussions both within CEIOPS and with industry bodies such as FERMA, ECIROA and the CEA on this issue. The discussions are aimed at finding solutions aimed at managing solvency risk within captives in the most effective and cost-efficient manner. Another hot issue, says the Authority, is the move from offshore to onshore domiciles being considered by many captives in the wake of the financial crisis.

Malta Finance promises some interesting and useful give-aways but says that risk managers will have to visit its stand to discover what these are!

CNA keeps you in the picture

CNA Europe is inviting delegates to its stand (35) to discuss products and services with its senior European experts. As well as property and casualty considerations, possible topics for discussion include marine, financial lines, renewable energy, technology, group personal accident and travel, claims and risk control.

Attending CNA's stand during the Forum are Dominique Depondt, general manager, continental Europe, Francoise Nyssens, commercial underwriting manager, financial lines, continental Europe, Steve O'Gorman, European marine manager, Paul Dowling, director of renewable energy and construction, and Jacob Ingerslev, European technology manager.

Keeping you in the picture in more ways than one, CNA is inviting visitors to enter their business cards in its prize draw and have the chance of winning a digital camera.

Wells Fargo competes with the 'big boys'

Wells Fargo Global Broker Network is expecting to be challenged by visitors to its stand on how it can compete with the well known large major brokers. Well, the network is now one of the largest broking organisations in the world, with more than 11,000 team members and local coverage in over 135 countries. So Wells Fargo network's marketing and compliance manager Deanna Hyndley, its COO Grahame Weatherley and a variety of international members of the network look forward to meeting you and to explaining how the network can bring an alternative view to your global insurance and risk management needs.

Visitors to Wells Fargo's booth number 45 can also enjoy some popcorn and walk away with a useful pen light.

Willis reminds us of the challenges

The theme of Willis' stand is 'the Willis gallery'. Its stand features a photo exhibition of world and major loss events. These include powerful images that capture the challenges that today's world is facing. The gallery includes photos of hurricane damage, employment queues, aircraft crashes, etc – images that were also featured at the recent AIRMIC conference.

Willis expects visitors to its stand to focus on some of the main questions and areas of discussion that risk managers have been concentrating on in the last year:

- Can and should we retain more risk during the recession so as to keep more cash in our business?
- Do we need to amend our counter party risk strategy and what is best practice?
- Is the market going to soften or harden during the next 12 months?

Providing answers are representatives from Willis business units and specialty areas. If you would like to talk to people about specific issues, tell John Carter from the Willis international management team who will be managing the stand and will arrange this.

Innovative solutions from XL

XL Insurance's main topic at the Forum is 'innovative solutions for complex business risks'. Specifically, it is focusing on risk prevention measures in the areas of marine risk engineering (supply chain risks) and product recalls in the food and beverage industry, as well as risk solutions that respond to specific exposures to regulatory changes, especially environmental insurance.

As regard the key issues in the market, on the operational side the insurer believes that loss prevention remains high on the agenda. The changing needs and expectations of risk managers as a result of the current economic climate will also be an important topic.

XL's stand is being manned mainly by senior underwriters from different lines of business, as well as its country managers. In addition, XL underwriters are available for individual presentations at 'XL Place', its meeting and presentation area in the Holiday Inn next to the conference centre. Here some of its underwriters will be holding presentations on topics such as the exposures to a company's supply chain, how to mitigate product recall risks and the impact of the European Environmental Liability directive as well as meeting clients and brokers.

To make up for the lack of an exciting give-away, XL is promising a 'great party' tonight at the Lobkowicz Palace.

Czech Tourist Board

What's on today – Monday 5 October

PLENARY SESSIONS

09.00–09.30 **Opening of the FERMA risk management Forum 2009**
Peter den Dekker, president of FERMA

09.30–10.30 **KEYNOTE SPEAKER (ST)**
Global business economic outlook: managing the crisis
Daniel Thorniley, senior vice-president, Economist Group

10.30–11.00 **Coffee break and visit to the exhibition**
Sponsored by Wells Fargo Global Broker Network

11.00–12.00 **KEYNOTE SPEAKER (ST)**
The challenge of being a leader and a manager in a shifting climate
Paul Bridle, leadership methodologist

12.00–14.00 **Buffet lunch open to all delegates**
Sponsored by Lloyds

14.00–15.30 **WORKSHOPS**

1 Emerging insurance markets: Brazil, India and China in the spotlight
Submitted by DVS/BfV – Germany
Moderator: **Harry Daugird**, president, Komposit Risk Consultants, Germany
Speakers: **Grant Elliott**, chief executive officer, Aon Global Insurance Brokers Pvt. Ltd, India; **Max Thiermann**, CEO, Allianz Seguros S.A, Brazil; **Michaelle Zhou**, vice president, Marsh Europe SA, UK

2 Sustainable development: Long-term, future risks, risk trends
Submitted by ASPAR CZ – Czech Republic, and RUSRISK – Russia
Moderator: **Gert Cruywagen**, director of risk, Tsogo Sun Group, South Africa
Speakers: **Tony Cabot**, director of global programs, product development manager, Continental Europe and Asia, XL Insurance, Switzerland; **Andrey Elokhin**, head of risks analysing department, Lukoil, Russia; **Petr Holecek**, risk and environmental manager, Plzensky Prazdroj, a.s., Czech Republic; **Dr Cliff Warman**, EMEA environmental practice leader, Marsh, UK

3 How to optimise a merger/acquisition or restructure a transaction in today's radically different market
Submitted by BELRIM - Belgium
Moderator: **Marie-Gemma Dequae**, board member of FERMA, Belgium
Speakers: **Paul Schiavone**, global head of mergers and acquisitions and private equity group and CUO management liability insurance, Zurich Global Corporate, UK; **Jean-François Vendenberghe**, partner, Baker & McKenzie CVBA, Belgium

15.30–16.00 **Coffee break and visit to exhibition**
Sponsored by Wells Fargo Global Broker Network

16.00–17.00 **WORKSHOPS**

4 Working with procurement for insurance tendering
Submitted by AIRMIC – UK
Moderator: **John Hurrell**, chief executive, AIRMIC, UK
Speakers: **Andrew Cornish**, partner, Lockton, former chairman of AIRMIC, UK; **Paul Hopkin**, technical director, AIRMIC, UK

5 Health and safety for the future, risk trends
Submitted by APOGERIS- Portugal
Moderator: **António Fernandes**, secretary-general, APOGERIS, Portugal
Speaker: **Sandra Maria Dias**, safety and health office, Sonae Sierra, Portugal

6 ISO 31000: An incentive or a constraint for implementing risk management in an organisation?
Submitted by ANRA – Italy
Moderator: **Marco Terzago**, risk manager, SKF Industrie SpA, Italy
Speakers: **Antonio Borghesi**, professor of economics and management of the enterprises, University of Verona, Italy; **Alex Dali**, managing partner, Atlascope sarl, France; **Kevin W Knight**, convenor/chairman, ISO working group on risk management, Australia

ST – Plenary sessions are in English with simultaneous translation in Czech and German.
All workshops are in English

Prove your worth, share your experience

Help StrategicRISK in its search for risk management excellence by telling us about your greatest achievements this year!

Risk management has come under the hammer in the last two years. Banks have failed, some major companies have folded, but we don't think it's all doom and gloom.

We believe that coping with the recession and, in particular, associated budgetary restrictions, has put risk managers on their mettle. Consequently, there will be some great stories coming out of 2009.

Despite the fact that European companies had been cutting costs and their risk management investments had not escaped this cull, the entries for last year's StrategicRISK European Risk Management Awards increased over the previous year. Indeed, there has been a year on year increase since we introduced our awards in 2005, highlighting both the growth in focus on risk management and also, perhaps more importantly, the significant efforts that risk management practitioners are making to come up with innovative and effective solutions to add value to their organisations.

This year, more than ever before in the history of our awards, risk managers have been challenged as the recession continues. Like other corporate functions, they have been asked to reduce their costs and, at the same time, to achieve more. Their service and product suppliers too need to demonstrate real value for money.

In this difficult environment, risk management practitioners have a considerable challenge. Those who have successfully met this deserve not just internal praise but also wider appreciation of their achievements.

The StrategicRISK European Risk Management Awards have steadily gained momentum and recognition since their inception. Our judges look forward to recognising and rewarding excellence in different aspects of risk management in 2010.

We welcome your entries and your nominations of those of your peers that you consider have achieved outstanding success in one of the categories listed.

Good luck with your entry or nomination for the StrategicRISK Awards 2010.

Amsterdam
StrategicRISK 2010 EUROPEAN RISK MANAGEMENT AWARDS


a redefined vision
of service
Photos: Creatas, Photodisc, Enrique Algarra/PIXTAL, DigitalVision, Juliet White/Gettyimages - agence cdg
a **reliable** company
available teams
attentive advice

Viewpoint

Sue Copeman interviews Marie-Gemma Dequae, former FERMA president and now with the Vlerick Leuven Gent Management School, and a risk manager with Partena group

You recently reached the end of a long period of being FERMA president – almost double the normal two year term. It's been a period that has seen some radical changes, most recently global recession and some major corporate failures. Were there any changes in the way that European companies view risk management during the period as president?
In the last four years we've seen some problems with companies introducing an enterprise risk management (ERM) approach in terms of the people who have been involved. It was not necessarily the risk manager or CRO who spearheaded this. The internal audit (IA) function was often closer to the board and to the audit committee so it was often responsible for reporting on risks to the board.

That has not been a perfect solution as the current economic crisis demonstrates. In fact, I believe that one result of this is that a lot of companies have been – and still are - focusing more on short term risks and short term improvements/gains. If companies are really looking to manage their key risks, they have to focus on the long term in order to capture all potential risks. I often say that risk management is a translation of long-term into short term but it's not always understood in that way.

Internal audit departments tend to focus on internal risks instead of looking at the more global picture of the company and its external risks. Globalisation has resulted in many important changes for businesses. These can involve strategy. For example, should a business go into a new market or change its products, as well as issues such as climate change. These issues don't get priority in the ERM approach used by some companies today.

There are also considerable variations in the way that major companies approach their global internal risk management. I see ERM as an important global impact approach that gives comfort to the board but it also has to be the result of integrating the organisation's operational risk management with more strategic and other risks.

Have risk managers changed? Do you think their role and responsibilities are different now to what they were when you first became FERMA president?
Risk management has changed. It has become an important element of board management. It is more focused now than three or four years ago. It is important that risk managers change and we see that in some companies.

Looking at the situation in Belgium, there are perhaps 35-45 % of companies where risk managers and risk management have changed to the ERM approach and have also been involved more in global risk mapping – producing risk registers so that they can manage priority risks. But there's a lot of progress still to be made.

The question perhaps should be – do risk managers have to change or do they have to work more in a team with other managers within the company?

In your term as president, what were your highlights in respect of FERMA?
The first important highlight was the change from a somewhat internal global strategy to focusing on cooperation with the national associations and looking at their needs. A visible highlight has to be our increased liaison with the EC in order to ensure that it implements good acceptable directives.

FERMA is a European federation for risk management but another highlight has been our focus on working with other associations at a European level that are also involved in risk management.

Are there any areas where you felt frustrated or disappointed?
One of the most difficult elements initially was to motivate colleagues and other people to work together and adopt a real team approach within FERMA. It was not easy to begin with but that has changed for the better.

I'm a bit disappointed when looking at the impact of the crisis on some companies. There may be a refocus on insurance and less focus on real risk management topics and may be some loss of context with global management within the company. It is a paradox because the crisis just calls for a broader and longer term approach in risk management but we see a short term reaction of linear cost cutting which is a problem in some companies.

How would you like to see FERMA evolve?
I think it is important that risk management and FERMA are more involved in global management issues like finance and performance management. In addition to the risk manager's division, within human resources we see that performance is linked with risk management. Also internal audit/internal control, are focused on reporting risks to the board. The Eighth European directive on statutory audit asks for better monitoring of these three disciplines. I think it is important for FERMA to continue working with other associations in these areas so that risk management is also integrated in the other disciplines.

What do you see as the key risks for European companies in the next two years?
Credit risk has to be one as a result of the financial crisis. This has a considerable impact on global supply chain risks. These will also become more important if cost cutting means that procurement is only focused on one supplier. What happens if you lose that supplier?

There are also heightened liability risks due to the crisis where everybody is trying to minimise their own share of the risks in contractual agreements. Also getting coverage for liability risks in financial institutions is becoming more difficult.

> "It is important that risk management and FERMA are more involved in global management issues like finance and performance management."

In addition, there may also be new emerging risks due to variations in markets and products.

It is important that these key risks are managed not only in the risk management department but also in other areas of the company. For example, the financial department needs to be managing the credit risk. In this way the different divisions can work together to embed risk management in the organisation's culture.

You've now taken on an academic role? How does this contrast with working for a major European corporation?
My role is in fact to build a platform of risk management within the different academic management departments and I see that as a perfect extension of what I was doing when I worked at Bekaert and also an extension of my former role as president of FERMA. It's a follow up role which focuses on building for the future in a strategic manner.

When I was with Bekaert I was of course only focusing on one company but now I'm looking at a broader risk environment which focuses on all companies. The goal is to identify the variations of risk management in all companies. I'm looking at research studies based on a multidisciplinary approach and bringing the results of these to companies and their risk managers. I want to listen to all partners in the risk management approach – insurers, brokers, risk managers, other colleagues. It is focusing on the changes we see in the economic environment as well as the business internal management environment and learning how risk management has to evolve.

Sue Copeman, editor of StrategicRISK, interviewed Marie Gemma Dequae, former president of FERMA who remains a board member of the association

Ferma in the news

Some of the highlights since FERMA's last Forum in October 2007

28 April 2008 Solvency II and Captives

FERMA called on its member associations to play an active role in developing the detail of Europe's new prudential regime for insurers, Solvency II, so that captive insurance companies are treated appropriately. FERMA said the national risk management associations and their members should take part in the official study on the quantitative implications of the Solvency II Framework Directive by the Committee of European Insurance and Occupational Pensions Supervisors (Ceiops).

1 October 2008 Risk management maturing and diversifying

Risk management is developing and maturing across Europe, according to the results of a pan-European survey jointly conducted by FERMA in collaboration with AXA Corporate Solutions and Ernst &Young. This fourth benchmarking survey showed both an overall increase in maturity and a wide diversity in risk management practices among respondents across Europe.

1 October 2008 Rules and controls are not enough

Rules and controls have diverted attention away from true risk management and helped created the conditions for the current crisis in financial markets. A broad, enterprise wide system of risk management would have been far more likely to prevent the collapse in credit which is now affecting all businesses, leading members of FERMA said at their seminar in Brussels.

6 April 2009 Insurance BER renewal

FERMA welcomed the European Commission Report in favour of renewal of the Insurance Block Exemption Regulation (BER). It said: 'The legal certainty provided by the current BER has fostered cooperation among insurers to create competitive insurance markets with sufficient capacity to meet the needs of large international insurance programmes. A renewed BER in March 2010 will continue to achieve this fundamental objective by exempting joint calculations, tables and studies, and co-(re)insurance pools from EU competition rules.'

23 April 2009 Cautious welcome for Solvency II

FERMA welcomed the vote of the European Parliament approving the Solvency II Directive, the new supervisory regime for EU insurance companies. However, while it believes that Solvency II will improve security for corporate insurance buyers throughout the EU, it does have reservations on the impact Solvency II could have on the insurance market in general, once the provisions of the directive take effect. 'New capital requirements could have an adverse effect on the price of insurance products and the availability of capacity, in particular for long-tail liability risks and catastrophic risks,' said Dequae.

17 August 2009 Concern about contingent commission

FERMA expressed concern about a ruling in the US state of Illinois that allows brokers to resume taking contingent commissions. In Europe, FERMA has campaigned for a voluntary ban by brokers on accepting contingent commissions and for full transparency of compensation arrangements.