Risk Thought » Fast Forward

HORIZON

Horizon 2022

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Risk Thought » Fast Forward

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Editorial

The complexity of today´s risk environment is changing at an accelerating pace, making risk management even more challenging. We are therefore pleased to present the first publication of our new magazine "Horizon – Risk Thought » Fast Forward" which addresses these challenges by highlighting underlying systemic transformations and their implications for future risk and insurance management in various sectors.

According to our risk-based approach, we look at risks from a business perspective. We consider the specific business environment, speak our clients' language and understand the challenges they face in their industry sector. For our clients, insurance is not the issue, but it can be a solution. We want to help our clients to properly manage risks in this rapidly changing environment and turn challenges into opportunities before they result in losses.

The world around us is changing rapidly, as a radical paradigm shift has already picked up the pace. The transformation of today´s business environment has predominantly been triggered by the interrelationship of systemic factors and hence a transforming risk landscape. Established business models which rely on and utilise this systemic environment had to be adapted and converted to better manage new risk challenges.

Environment in danger

Everyone wants to go back to nature, but nobody wants to do it on foot. The debate about the impact of human activity on our planet has touched the core of our society, at least in Europe. And thus also the question of what we can do about it. What does sustainable development look like, what does it mean for each one of us, and what does it mean for the insurance industry? Can risk management contribute to more sustainability? Will the achievement of specific environmental, social, and governance (ESG) goals become a criterion for insurability?

Our human footprint has left an impact on the ecosystem. As local events of natural catastrophes and extreme weather conditions have become more frequent, our society has reacted to this wake-up call by realising the consequences of climate change and loss of biodiversity. The severity of the effects seen all over the world, have enforced action at various levels. Following a shifting public perception, governments and corporations now react with more consistency to their green agenda.

The decarbonisation of production processes and supply chains as a measure against climate change, the efficient use of energy and the sustainable and circular use of valuable resources such as land, water and raw materials to preserve biodiversity are crucial. Following the goal of a sustainable circular economy, the recyclability and reusability of raw materials used in the development of new products is a top priority for many manufacturers. The sustainability of the entire supply chain is of central importance. That is why companies are now involving their suppliers in the implementation of their ESG goals.

Looking at the developments taking place in different industries, it can clearly be seen that deliberations concerning sustainability criteria have arrived in the C-suites. Nowadays, there is hardly any company that does not deal with its ecological footprint. Investments in sustainability are among the most important innovation drivers for companies today. They generate additional growth opportunities and thus contribute to increased added value. But what does a company's sustainability agenda mean for risk and insurance management? It is clear that investing in the achievement of specific ESG goals directly impacts on operational risks.

Digital transition

The opportunities that come with digitisation lead to a fundamental change in the value proposition of many industries. Technology interconnects factories, warehouses, data and people in a smart network of flexible value chains which drive the global village. Suppliers need to act as advisors to their own customers and support them in digitising their value chain.

Digital technologies make work processes more efficient, more flexible, faster, and cheaper. At the same time, they open up opportunities for cyber criminals. In day-to-day work, it has become obvious that digitisation is not the solution for everything. Are the risks arising from the digital transformation manageable and where are the limits of digitisation?

Beyond globalisation

The integration of national economies into a global economic system has been one of the most important developments of the last century. This process of integration, often called globalisation, has boosted the growth of trade between countries. The multilateral effects of our globalised world go hand in hand with rising challenges for every state, for our society and economy as the latest pandemic events or vulnerable supply chains have shown. Once on the rise, they have the power to additionally jeopardise the resilience of any organisation.

In light of recent developments and challenges arising from global trade, we need to reflect when will our globalised economy reach its limits? Looking beyond globalisation, what are the potential risks, how will they impact the global value chains?

War for talents

In times of constant change, the requirements for human resources need to be revised and modified. Digitisation is just one driver of such changes. Similarly, changing market requirements, such as regulatory developments, or the social environment of a company play a major role when it comes to the strategic orientation of human resources. On top of that the demographic development with the resulting shortage of skilled workers across all industry sectors limits growth and causes a global war for talents.

To attract and retain the best talents, human resources is challenged to incorporate the employee experience as a central element in its strategy. What does this mean for the way we work in future? How does it influence a company´s employee value proposition? Will future benefits solutions be adequate and fair?

Transforming risk landscape

In anticipation of this system transformation and changing environment, companies are developing innovative business models and creating new opportunities, such as those arising from a sustainable economy, an increased digital customer experience, an optimised global value chain or a newly shaped culture that puts their people first. In addition to the focus on manufacturing high-quality products or providing excellent services, this drives companies to position themselves as integrated system and service providers with value-adding know-how platforms for their customers who themselves need to adapt to changing requirements.

As a result of this corporate evolution the risk landscape of many companies is undergoing a systemic transformation, shifting from a traditionally tangible to an intangible risk landscape.

This transformation includes a shift from just the provision of products and services to data and networks from machinery and equipment to systems and platforms, and from processes to value chains and customer experience. In addition to excellent health and safety standards, an unsurpassable employee value proposition is a must. In the past, quality management was of paramount importance, in the future focusing on ESG standards will be equally important.

Risk management must take these facts into account. Every company's leadership should ask itself the critical question of whether it is paying due attention to the transformation of its risk landscape, using its resources appropriately and working on new solutions to finance these risks, or if it will continue to haggle for percentages at the insurance bazaar every year in an effort to transfer risks that have receded into the background as cheaply as possible.

Changing insurability

Will traditional insurance market cycles become obsolete due to an ever-increasing demand because of this rapidly changing risk environment? Can the insurance market deliver suitable and timely solutions for this growing demand or will it have to deal with disruptions throughout this systemic transformation?

The current situation on global insurance markets not only pushes the costs for the transfer of traditional risks, it has affected the insurability of former insurable risks - at least in part. Given the enduring hard market environment, only an adequate risk and insurance management approach can significantly contribute to the management of the transforming risk landscape.

For example, investing into sustainability is key for a climate-neutral economy. It would therefore appear to be increasingly important that such sustainability investments are recognised as a risk-reducing measure for policyholders. The notion that companies with ambitious ESG goals pose a better risk to the insurance market must gain traction. Initial announcements indicate that dedicated capacities will be made available to companies with a strong ESG performance. Sharping the view on sustainability will be an important component of a future-oriented risk management strategy and an essential element of a sustainable economy, allowing everyone to do their fair share.

We are risk specialists. Our overall vision is to create value and to contribute to our clients´ objectives in the most efficient and effective manner. Preparing our clients for the transformation of their risk landscape and guiding them through the challenges of a rapidly changing environment is our mission. In doing so, we develop progressive models to increase the resilience of our clients and support them with innovative solutions in risk and insurance management on their way to a sustainable future.

We follow a tailored risk-based concept. This requires a performing team of selected specialists with profound industry knowledge who understand the needs of their sector. Our dedicated experts have therefore made every effort to provide a value-adding publication that illustrates the great passion and enthusiasm that we deploy in managing our clients´ risks as their trusted and loyal partner.

We hope you will enjoy reading this magazine!

Yours,

Georg Winter
Chief Technical Officer
GrECo Group

Contents

Rebellion of the intangibles

How to manage a transforming risk landscape

Over the past decades, the value of intangible relative to tangible corporate assets has steadily increased. According to the Ocean Tomo Intangible Asset Market Study (2020)[1]*, the relative aggregate value of intangible assets of corporations listed in the S&P 500 has continuously risen from 17% in 1975 to 90% in 2020. Managing the risk exposure of intangible assets is therefore critical for shielding corporate value from threats.*

This article focuses on the multiple and diverse challenges to the risk management of intangible assets given their structural differences compared to tangible assets. However, it must be emphasised that risk exposures of tangible assets have neither disappeared nor become less relevant. On the contrary, they might interact with and be superimposed by new types of threats in relation to intangible assets.

Tangible vs. intangible assets

Tangible assets, by definition, are physical and thus geographically confined, relatively easy to identify and value in contrast to intangible assets. Most intangible assets are not listed on the balance sheet of corporations. Their ownership is difficult to verify. Typical examples are reputation, goodwill, brand recognition, R&D investments in joint ventures, or confidential information about customers. Intangible assets and their value are likely to be globally interdependent across corporations, industries, and with the public sector due to, for example, supply chains, social media, cyber threats, and other forms of interconnection.

Above all, tangible assets often interact with intangible assets. Environmental contamination and damages can lead to substantial reputational losses of a corporation that, in turn, might critically reduce sales and profits. The loss or theft of confidential data can cause similar reciprocal effects that are at times hard to identify separately. The rapid shift in public perception and judgement of corporate social and environmental responsibility exerts reputational and regulatory pressure on corporations to invest in, sometimes, premature technologies and products that involve risks that are difficult to anticipate. Social media plays a crucial role in amplifying those effects by its potential to spread news and information globally within a very short period of time.

Emerging risks threaten the value of both tangible and intangible assets. Their amplifying effect on risk exposures of intangible assets, however, is likely to be much larger due to their global interdependence. Emerging risks are difficult, if not impossible, to anticipate, to identify, and to value. The risk profiles of emerging risks change dynamically. There is little, if any, historical experience and data, and causal effects are hard to identify. Emerging risks typically impact globally and affect many industries. The interaction with emerging risks thereby increases the difficulty of identifying and valuing intangible assets.

Intangible assets in risk management

The challenges in identifying and valuing intangible assets directly translate into difficulties in the subsequent step of the risk management process: managing the risk exposure of corporations through risk avoidance, risk mitigation, and/or risk transfer.

The functioning of risk transfer mechanisms through corporate insurance and derivatives contracts crucially depends on the feasibility of writing contracts that are enforceable by courts. As intangible assets are difficult to identify and to value, and their ownership is hard to verify, writing such contracts for the transferring of risk exposures is challenging, if not impossible. Ambiguity about the contract's enforceability ex post impedes risk transfer and its value-added ex ante.

Global interdependence between intangible assets and thereby between their risk exposures constitute further challenges. These interdependencies can lead to strongly correlated and globally clustered risks. Consider, for example, cyber and pandemic risks. The capital costs to insure those clustered risks through private insurance markets at a reasonable solvency level might just be too high. Moreover, interdependencies are often the result of contagion effects between the risk exposures of multiple companies across industries, sometimes between the private and public sector. Contagion effects are inherent in supply chains, reputational risks, and cyber threats.

The challenges to the identification and verification of ownership of intangible assets in combination with external, contagion effects of their risk exposure pose difficulties for and reduce the willingness of corporations to commit to risk management strategies aimed at avoiding and/or mitigating their individual risk exposures. This commitment problem can lead to an inefficiently low level of investment in risk avoidance and/or mitigation.

The role of insurance brokers

What are possible responses and solutions to meet those challenges to managing risks of intangible assets? If the capacity in the private insurance sector is too limited to insure highly clustered and interdependent risks, then the public sector with its authority to tax and possibility to issue government debt can expand the capacity and even transfer and share those risks across generations. The private insurance sector can contribute to this public and private partnership with its expertise in risk underwriting and claims handling.

Insurance brokers can play a leading role as risk experts and consultants in transforming emerging risks into insurable risks by developing knowledge about new threats and their underlying structure. This expertise enables the identification and valuation of risk exposures and the establishment of risk standards, which consequently facilitates risk avoidance, risk mitigation, and/or risk transfer. However, even if insurance contracts are difficult to enforce ex post, brokers can expand insurance capacity for those risks by their power to move their book of business to a competing insurer. If this threat is credible, then insurance companies will settle reasonable claims, even if they are not legally bound to do so. In turn, insurance companies have in interest in equipping their brokers with such power as it enables them to charge the appropriate insurance premium ex ante for the voluntary but credibly enforced settlement of those claims.

Within a network of interdependent risks with contagion effects, insurance brokers can act as coordinators by demanding the commitment of associated companies to avoid risks and/or invest in risk mitigation. In addition, brokers can facilitate efficient insurance solutions based on those commitments. If the entire risk network is too complex and external effects too opaque, brokers can still focus on the closest "neighbours" of their client in the network, analyse the external effects on their client, develop and demand risk standards for their "neighbours", and thereby increase insurability and insurance capacity.

The above serves to highlight the relevance for corporations to manage their risk exposures related to intangible assets, the structure of which differs in various dimensions from the one of tangible assets. These differences pose major challenges and raise many questions related to risk management. Future research is needed to develop innovative solutions for effectively shielding corporations against those threats.

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1 https://www.oceantomo.com/intangible-asset-market-value-study/

Environment in danger

The ESG agenda revolutionises risk and insurance management

When the average baby boomers – now at around retirement age – look back on global threats that occurred during their lifetime, they will be happy to have survived the danger of mass extinction by nuclear warfare and nuclear catastrophes, cancer and pulmonary diseases due to air pollution and acid rain or IT breakdowns or even mass diseases.

It is thanks to mankind's spirit of invention and unwavering determination that these threats were overcome, challenges tackled, and problems solved. For the average baby boomer, the fear of global warming and population growth has been equally present during all this time. Still, there is no solution in sight yet, despite good intentions and declarations made at big conferences.

Global warming has already turned into climate change, accompanied by temperature increases and drastic events: atmospheric phenomena, windstorms, heavy rainfalls, snow blizzards, desertification, wildfires or the slow but steady rise of sea levels. Leading industrial nations, the EU, and even the USA now seem to be willing to act. According to the new Paris Agreement[1], the global temperature shall be kept at 1.5° C above pre-industrial era levels. Better education and social perspectives are aimed at contributing to a slowdown in demographic growth and solutions to feed the world's population in a healthier and more sustainable way.

Green targets

These targets have been included in the scope of ESG measures introduced by both the European Union and the new Biden Administration. The EU has implemented the Taxonomy Regulation[2] that demands a commitment and a special legislation to decarbonise and clean up Europe until 2050 from all member states based on the following objectives:

- climate change mitigation
- climate change adaptation
- sustainable use and protection of water and marine resources
- transition to a circular economy, waste prevention and recycling
- pollution prevention and control
- protection of healthy ecosystems

It is obvious that these targets can only be reached if everyone – citizens, enterprises, decision makers, and authorities – changes one´s behaviour. Whether this requires huge technical innovations or less consumerism remains to be seen. We will probably need both.

The role of the insurance sector

The insurance sector has adopted the ESG targets with every company developing an ESG strategy. The sector is particularly affected by climate change, since a rise in temperature means more energy in the atmosphere and thus more natural catastrophes (Nat Cat) such as storms, tornadoes, and floods. The average cost of insured claims due to Nat Cat currently amounts to about 70 billion USD per year, with peaks exceeding the 100 billion USD mark. Reinsurer Munich Re expects claims to soon reach the "mid-three-digit million Euro range". The growing percentage of Nat Cat claims because of atmospheric events increasingly depletes the premium generated in the entire property insurance portfolio, leaving less room for paying classical fire and explosion claims. The answer may be to increase the total premium. Nonetheless, once a certain point is reached, the risk becomes uninsurable – as we have seen with the pandemic risk. Another example are the wildfires, seen in many regions this summer and caused by another climatic scenario – drought due to stable high-pressure areas and a disturbance in the global wind circulation system.

Insurers are challenged to pursue their own sustainability policy, using three methods of leverage:

- their own corporate behaviour,
- their investment policy,
- and their underwriting policy.

The first focuses on infrastructure (office buildings, car parks) and digitisation (less office space and business travels, working from home, which may enhance social governance as well). The second will result in huge support for innovation projects and green measures taken by both public and private business as insurers have to invest their reserves to be able to pay future claims. The decision where to place this money has to be driven by security aspects (for this reason there is a relatively big share of public investment) and with a long-time perspective in mind. Added to this is the increasing focus put on sustainability and the ethical value of projects, measures taken, and targets set by companies or public entities for creating financial products for clients and for placing the insurer's own assets.

Ecological underwriting

For the insurer as a risk carrier the underwriting policy plays a major role with regard to the sustainability strategy as mentioned above. In an effort to contribute to decarbonisation targets, major insurers have taken the first steps by deciding to stop the underwriting of coal risks in their entirety (production, refining, fuelling, transport). The newly founded Net-Zero Insurance Alliance will provide new industry leadership to carbon-neutral underwriting.

Besides the ban on coal, other bans, for example on excessive meat production, soya or palm oil farming, could follow suit. At the same time, green companies could be encouraged with a higher insurance capacity at a better price or a bonus for new installations that increase sustainability.

However, insurers as risk carriers always look at the so-called quality of the risk, i.e. at the (mathematical) probability of loss linked to the risk. For instance, when considering to offer a client a premium discount for replacing an old oil heating system with modern solar panels on the home´s roof, the insurer, although he may be happy that the client is taking this step, must calculate which one of the two heating methods would cause less claims.

This causes a dilemma because not all innovations will produce better results for the client's risk portfolio. Statistics about fire claims caused by (bad quality) solar panels or by car batteries prove the point. The technical hull premium for a fully electrical vehicle must be higher than that of a traditional car of comparable size. Then there is the old underwriting principle: Do not insure prototypes! No one knows whether they are harmless or not. At this point in time, insurers face the predicament of either bad experiences or none at all with fires and Nat Cat risks of solar panels and windmills, new food production methods, crop Nat Cat exposure, and so forth.

Risk engineering is the key

The solution to overcome this dilemma and foster new, green industries and insure new risks at an acceptable price is called risk engineering and risk dialogue. A close investigation of new projects, technical procedures and industrial sites should enable insurers to find a good balance between the opportunities and risks presented by new technologies. The results may indeed be positive – for instance, when old coal furnaces are replaced with electricity generated by wind farms, when explosive chemical processes become obsolete and undesirable, or when human factor risks are reduced because excessive overtime working has been banned.

Finding the right balance between opportunities and risks will be the focus of new, so-called ecological underwriting. Purely price driven underwriting will cease to exist as better risk concepts, evaluations, and simulations mirror a company's changing situation. By giving clients coverage for new risks, insurers will contribute to reaching the ESG targets set for the entire economy.

The broker's role is changing as well. In the past, the broker was a service provider who advised clients about existing insurance solutions and negotiated the best cover and price. He is now increasingly involved as risk manager and risk engineer in his clients' change management projects. More than ever, the broker will focus on mediating between his innovative clients and conservative insurers. They, however, are now more open-minded when it comes to contributing to the success of green progress.

Globally, the initiatives to prevent climate change present an opportunity to invest the money generated in the past few years. The outlook is optimistic as new and innovative industrial methods add tremendous value to finding new ways of tackling climate change.

Andreas Krebs
Head of Insurance Mediation Services

1 https://www.un.org/en/climatechange/paris-agreement

2 REGULATION (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment

Digital transition

Technology rises a new paradigm of risks and opportunities

Marie, a sales agent in the year 2025, orders a car for a meeting across town via her smartphone. She feels adventurous today and decides to switch the car into active rather than self-driving mode. The chosen route is shared with Marie's insurance platform. Immediately she receives a calculated premium for an insurance based on the likelihood of accidents as well as her insurance rating considering her vital signs, age, tiredness, and emotional stress level.

This scenario for a digitised insurance solution may seem far-fetched, but in fact all the required technologies already exist. Technologies such as these allow us to streamline our work processes and be more efficient in the way we work.

Digitisation has already taken over many aspects of public and private life. Let's take the email as a perfect example: While hand-written letters still dominated day-to-day work in the late 1990s, in 2021 approximately 4 billion email users worldwide send some 300 billion emails and receive an average of 200 emails every day.[1] Email symbolises digitisation at its best: It is cheap, fast, convenient and environmentally friendly.

Computerisation and networks are constantly expanding to areas of production, transportation, science, administration, and the home. This creates great opportunities. Processes become infinitely reproducible, more accurate, safer and, in general cost-effective. This gives us more time for the things we cannot digitise, such as creativity or human relationship management. Besides that, it accelerates innovation.

1 https://techjury.net/blog/how-many-emails-are-sent-per-day/#gref

The digitisation project

In light of the above-described opportunities, most C-level executives are faced with a big task – the digitisation strategy for business transformation. It is a top priority, yet efforts are stalling.

We have interviewed Dominik Lindner, a partner at ADISON. His company specialises in the development of digital business models:

Which business areas of an industrial company are most affected by digitisation?

Lindner: We experience a tremendous impact on each and every business field of our clients. Either direct or indirect. It is therefore difficult to name particular areas. Since it is such a broad term, we tend to use the term "digital transformation" rather than digitisation, which is quite often related to a technical approach only.

Where are the stumbling blocks when it comes to digitisation projects?

Lindner: First, we consider it imperative to define clear objectives for a digital transformation. Whether it is about managing customer experience, developing new business models or simply optimising business processes – a clearly defined goal guarantees a useful outcome. At the same time, we recommend that all those areas that should not necessarily be digitised be defined as well. This helps to eliminate unnecessary technological gimmicks.

Second, we focus on the needs of our clients' customers. At the beginning of a project, we want to understand the expectations, desires, concerns and fears of those customers. That is where we tap in to create added value and a guideline for the next steps. This applies to both external and internal clients.

Third, we remind our clients that there is no such thing as a Swiss army knife that solves all issues with only one fully integrated software solution. Rather than wasting time and money on such an impossible all-in-one solution, we take small steps, test prototypes, get feedback from potential customers and focus on a fast implementation of smaller applications that have the potential to create real customer value. For example: It is easy to implement an automatic short text message about a delivery status at the right time. Dozens of interviews have shown that this is what customers really appreciate.

How important is digital transformation for industrial companies and how might this change by 2030?

Lindner: In our opinion, measures for the digital transformation are among the top priorities of every company in the manufacturing industry. At the same time, we are quite sure that this development will be further accelerated. The digital momentum seems to be unstoppable. By 2030 we will surely see more online sales and digital services, more interconnected supply chains with advanced interfaces, more automation and prefabrication even in industries that today rely on manpower. The pandemic caused a dramatic shift towards remote working. This may stay, at least in part. And yes, there will be applications and business models we cannot imagine today. But what we know from our many interviews with customers is that personal services will have their comeback. The digital solution is not always the best and might threaten established customer relationships.

What do you consider digital transformation risks in project implementation?

Lindner: When we investigate the expectations of our clients' customers we concentrate on their needs and emotions. That means we are interested in desires and concerns in general, and partly at a subconscious level. Personal tastes, opinions or technical preferences are left aside methodically since they are short-term and related to the present situation. In addition, we play the devil`s advocate by also considering direct person-to-person services or an analogue solution. Therefore, we must have good reasons for going digital. The IT experts in our project team help us reduce potential technical risks. They continue to keep an eye on the IT landscape and the IT infrastructure of our clients.

Consider the risks

Like any paradigm shift, intensified networking and digitisation naturally also harbours risks that companies should take into account when planning and implementing their projects:

- **Cost risks:** As outlined in the interview with Dominik Lindner, one of the biggest risks is to approach the digital transformation instinctively without a plan or concept and to want to seize opportunities without considering investments and challenges.
- **Cyber risks:** More online services and digital interconnection means also more exposure to cyber-attacks. Smart devices, computers and networked household appliances are increasingly becoming targets for cyber criminals. There is probably no bigger threat to manufacturing companies than a breakdown in production. Investing in cyber protection systems is a top priority.
- **Data risks:** Extensive digital networks of machines, customers, suppliers, production and distribution processes generate huge data volumes. This data is needed for intelligent software that is based on algorithms. At the same time, this data carries a higher risk for companies. Potentially, every device in a digital network can cause a data leak which hackers can use to attack the company or which competitors can use for industrial espionage.
- **Working atmosphere:** Scientists have shown that the lack of human contact due to an excessive use of social media has caused people to become mentally ill or depressed. Digital transformation also affects personnel. It requires transparency and a heightened awareness of taking responsibility for the workforce.

Conclusion

The Corona crisis as a boost for digitisation has shown us how quickly hybrid and remote working have become possible. As these possibilities have turned into permanent options for employees, company managers are taking their employees' changing expectations into account as they develop new remote working models. In the war for talents, this opens up great opportunities. However, various studies show that working remotely and alone not only massively increases the risk of malicious ransomware cyber-attacks, it also impacts negatively on the team spirit.

Digital transformation is a development process that can no longer be stopped. Companies and managers must therefore face the challenges that come with this development. Those who take advantage of the opportunities offered by digitisation, while being aware of the possible dangers, can successfully lead their company into the future.

Dominik Lindner
Partner
ADISON OG

Stephan Eberlein
Group Practice Leader
Liability & Financial Lines

War for talents

It is more than just work – creating employee experience matters

The continuous digital transformation of workplaces and the acceleration of mobility spurred by the Covid-19 pandemic bring about hybrid work models and new values that shape work environments.

New routines are emerging

The Covid-19 pandemic has had a dramatic impact on global work environments. The way people communicate and collaborate practically changed overnight. Corporations are launching a number of new digital tools and electronic processes to meet the requirements of remote work, thus creating entirely new forms of collaboration for their employees, but also their business partners. However, work environments require more than digital tools and electronic processes. In an ever-accelerating digital change process, learning and development have become an integral part of our daily work.

As people are adapting to new routines and acquiring digital skills, they are becoming more confident with new forms of collaboration. The utilisation of virtual communication tools and the collaboration that is increasingly moving into the cloud, brings people together across geographical boundaries and departments. Thus, work forces are part of a transformation process that has an impact on work environments as well as the communication and interaction within teams. This development entails a change of mindset and leads to a complete redesign of the way people work.

Increased work mobility has given impetus to various hybrid work models which many corporations are currently designing for their employees. Hybrid work models offer the flexibility of working remotely from home, enabling people to find a healthy balance between the requirements of their job and their private lives. While corporations have equipped their employees with modern IT infrastructure to ensure uninterrupted work at home, they are also designing new office spaces that include recreational zones and open space areas for people to interact and collaborate on projects. Employees begin to integrate the new office space and modern office furniture into their work routines, in projects and their day-to-day activities.

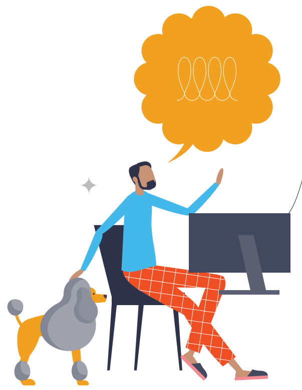
Buzzword diversity

The diversity of work forces is increasing, and more and more teams have a heterogenous set-up. One dimension of diversity is its different generations, as on the one hand people tend to work longer and on the other hand new generations, like the Millennials and the Generation Z, are pushing into the job market. New values are merged with traditional views thus realigning work cultures. Innovative ideas and ways to approach tasks and problems sometimes clash with traditional routines based on job experience. A structured team integration and employee onboarding helps companies overcome these differences and create a common understanding of goals and responsibilities within teams. This is what heterogenous teams are all about. Team members define common values and make room for diverse and innovative ideas. That is why heterogenous teams tend to be more creative and efficient. However, team diversity is not only based on generations, it has numerous facets: gender, culture, educational background, and company affiliation, to name but a few. Corporations are beginning to recognise the benefits and opportunities of team heterogeneity.

The human factor

New forms of collaboration are based on trust, in more than one way.

- Firstly, trust needs to be established within the team, including the trust managers have in their employees.
- Secondly, as decisions are increasingly data-driven, teams also need to build trust in digital tools.



In data-driven work environments activities focus on data protection and new cyber threats, creating new fields of expertise that employees have to deal with. While some employees fear that the use of Artificial Intelligence will take over their jobs and that chatbots will be the end of personal client service, others consider the use of these tools as an opportunity to devote their energy to more meaningful work. Most managers however agree, that more complex work processes will continue to rely on the human workforce.

From an HR point of view the evaluation of personnel data with the help of digital tools like People Analytics requires HR staff to acquire new skills. The challenge will be to find a good balance between the assessment on the basis of digitally generated HR data and conveying a sense of security to employees that continues to focus on the human being. Employee evaluation solely based on data from analytics remains a grey area that still needs some research work within corporations. As HR tools are gaining relevance, the spotlight is on Human Resources to establish a strong position as HR Business Partners to support managers and management decisions.

Digital leadership

In the midst of these changing work environments managers are experiencing a new approach to their leadership role, with the focus shifting from controller to coach. Managers realise that while mobile work provides employees with flexibility, they need to follow a different strategy to ensure communication and team spirit among their employees. As people no longer get together for face-to-face meetings on a regular basis, informal communication takes place less frequently.

The more employees solely focus on work processes and not on being part of a team, the less they feel a sense of belonging to or being part of a corporation. This creates the risk of employees moving from one job to the next more easily, if managers do not succeed in building relationships within hybrid work environments. Managers are challenged to provide open communication and a transparent flow of information that brings people on board in this transition process. Virtual communication reduces social contacts that need to be compensated in another way, for example by informal meetings that might even take place outside office hours, walk-and-talk outdoor meetings or team get-togethers to support team-building and give managers the opportunity to assess the team spirit.

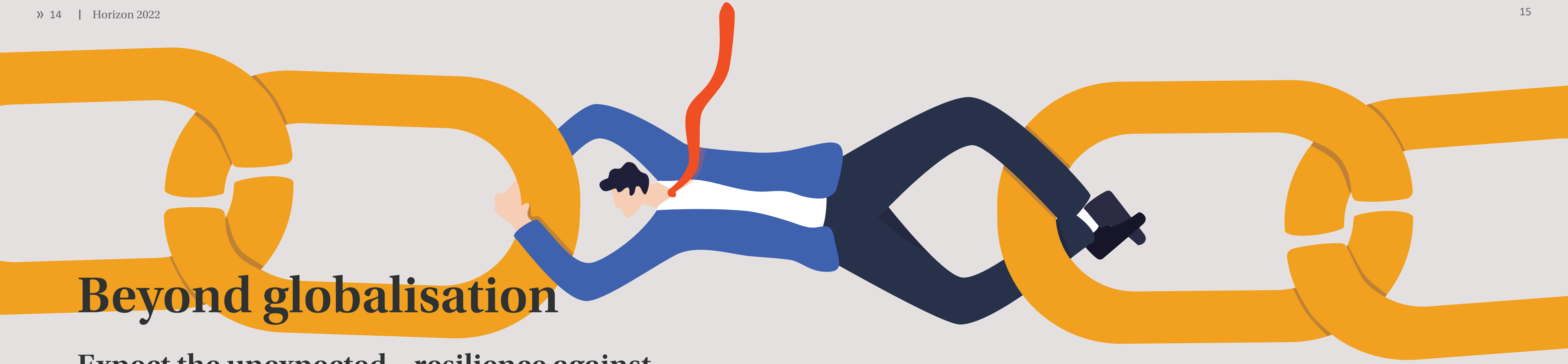
Lifelong learning

Another crucial factor is the development of a new learning culture that integrates learning into the workplace. In the War for Talents the opportunity for further education and personal development ranks high in the list of requirements the new generation of workforce is looking for in their employer. Attractive employers offer a range of training programmes, other than mere onboarding schedules, that open up career paths for talented (and potentially future) employees that do not limit them to jobs that they trained for. Employee development thus also means the opportunity to develop into a different direction and taking over other responsibilities within the corporation. Flexibility and a broader range of tasks enable employees to design their work more freely to create the work-life balance they are looking for.

Work has to give employees more than just the security for their livelihoods, it also has to create experiences and moments that matter. Creating Employee Experience means to recognise talent, encourage active participation and build emotional relationships with people. In other words, it is about building a work culture that puts people first and focusses on individual needs — in teams, in projects, and when it comes to corporate goals and visions.

In this dynamic environment, corporations are rearranging their DNA to create sustainable and secure workplaces as part of their Corporate Social Responsibility. As work forces are adapting to digital change and new work routines, new values are becoming part of the work culture that promotes employee engagement and builds sound relationships between the people and the corporation.

Gabriele Andratschke
Head of Group
Human Resources



Beyond globalisation

Expect the unexpected – resilience against unpredictable disruption

Over last years, several events have disrupted the supply chains of almost all industry sectors, their production and trade, affecting people and professions all over the world. More recently, the Covid-19 pandemic and the global spread of the virus at lightning speed showed us how unprepared we are for this type of threat and how such an incident can quickly disrupt the free flow of goods, people and the services they provide.

Although it is difficult to estimate the economic impact of the Covid-19 pandemic today, one thing is certain: We all need to prepare for such unexpected incidents in the future. At the same time, we must understand that "expect the unexpected" has taken on a new meaning. Having said that, how do we prepare ourselves?

New risks on the horizon

In recent years, new risks emerged that previously did not exist. The Eyjafjallajökull volcanic eruption on 20 March, 2010 in Iceland suspended or at least reduced air traffic across Europe for weeks. More than 100,000 flights were cancelled, and economic losses amounted to over 4.5 billion EUR. Overnight, air transport had to be replaced by road, sea and rail. Not many companies were prepared for this.

In addition to the more well-known risks, the following are new types of risk linked to the exposure:

1. Disruptions due to a global pandemic (e.g. Covid-19)
2. Disruptions due to a strong dependency and market concentration
3. Disruptions due to cyber-attacks

Pandemic disruptions

The Covid-19 global pandemic has had and continues to have a huge impact on the European economy, disrupting supply chains in every sector. At the beginning of 2020, the Chinese market — being the main producer of many goods and components — was frozen. The transportation of goods was frozen as well. Productions almost all over the world came to a standstill. Although the situation started to improve at end of 2020 the effects of the pandemic are still felt in the European and in global economy.

Unpredictability is one of the effects of the rapidly changing pandemic. On 14 February 2021, the German Federal Ministry of Interior changed the entry regulations for drivers from North Tyrol and the Czech Republic without prior notice. Drivers had to present a negative PCR test that was conducted not longer than 48 hours before entering Germany. Major traffic jams only a day later were the result. One of them blocked a stretch of more than 30 km between the Czech Republic and Germany. With tens of thousands of trucks crossing that border every day, the sudden change had a significant impact on all supply chains.

The automotive industry is extremely vulnerable when it comes to supply chain disruptions. An average car consists of around 30,000 parts, from small screws to large body panels, supplied by about 300 different companies scattered around the world. It is not difficult to disrupt automotive production processes. The automotive industry has been hard hit by Covid-19, not only for the reasons mentioned above (suspended transport, disease and disease control in production plants, lower production efficiency due to increased sanitary regimes) but also because of a lack of access to much needed special components.

Disruption due to interdependencies

As from the beginning of 2021, the ready supply of semiconductors exacerbated the problem. A modern car requires about 3,000 semiconductors, i.e. very small chips that control many important functions, including fuel dosing, brakes, lights, entertainment system, etc. The lack of access to these chips came at the worst possible time as the global economy began to slowly recover from the crisis and people wanted to resume traveling. A car was the ideal means because many still avoided air travel. Despite the huge demand for new cars, there was suddenly a shortage. However, the disruption in the availability of chips resulted from the huge demand from manufacturers of smart phones and computers.

Most semiconductors are manufactured in Taiwan. One of the largest manufacturers is the Taiwan Semiconductor Manufacturing Company (TSMC). According to a report published in March 2021 by Roland Berger[1], car manufacturers accounted for only 3% of TSMC's revenues in 2020, smartphone producers for 51%. To understand the scale: In 2019, the automotive industry produced 93 million cars, while smart phone manufacturers produced 1.4 billion devices.

1 https://www.rolandberger.com/en/Insights/Publications/Semiconductor-crisis-in-the-automotive-industry.html

Can this supply problem be solved quickly? Probably not because companies wanting to avoid availability shortages buy semiconductors in advance. Furthermore, the number of smart phones, computers, and game consoles produced each year is still growing at a double-digit rate, and the number of chips mounted in cars is also increasing (especially in electric cars).

Cyber disruptions

About 90% of global trade goods are shipped by sea. When Maersk, one of the biggest shipping companies, was hit by a cyber-attack on 27 June 2017, the shock waves of the attack disrupted worldwide sea transport routes and logistics. Maersk has more than 600 vessels and is responsible for 16% of the global container transportation. Within seconds the malware spread across the company's 50,000 computers in 130 countries. Maersk had to shut down all systems but managed to solve the situation within two weeks at a cost of 300 million USD.

The total damage worldwide was about 8.5 million EUR. This shows just how vulnerable we are to supply chain disruptions today and how big the losses can be, if just one key company is hit by a cyber-attack.

Expect the unexpected

The European market is subject to many different threats that have only just emerged in recent years. Because of that risk management and supply chain management go hand in hand as both are key to keeping businesses up and running — irrespective of their sector. Only companies that are well prepared for the unexpected will be able to survive unforeseeable ensuing crises. New challenges need new ideas and new solutions. That is why risk awareness, coupled with an open mindset and the aim to reduce risks, is even more important in every organisation. Such an approach to risks will help businesses to better prepare themselves for the unexpected. It will help them to survive.

Finally, and despite increasing automation and digitisation, only one aspect will not change: people and their role in organisations. It will be the future teams of experts that will be instrumental in supporting businesses to prepare the solutions they need.

Paweł Paluszynski
General Manager
GrECo Poland

Changing insurability

Can insurance keep up with the rapidly transforming risk landscape?

Insurance markets all over the world are subject to price cycles. During soft market phases, there is an oversupply of insurance covers and prices are relatively low. During hard market phases, the exact opposite happens. Key drivers are the individual insurers' competitive growth and profitability strategies, the development of claims payments as well as costs and capital gains which have a direct bearing on the insurer's profit.

From soft to hard market

The past 15 years in the business insurance sector were characterised by a soft market phase: a drop in premiums, broad coverage, and some tough competitors vying for big insurance business. Industrial companies, their board members and those responsible for insurance received the red-carpet treatment in form of many different individual solutions and enough capacity. Booming sector products such as D&O or cyber insurance undermined growth. The fact that the volatile business insurance sector made a loss every now and then and was cross subsidised by the private client and retail business was accepted by all insurers. Numbers always added up in the end. The additional revenue generated via capital gains ensured that the underwriting results, which yielded hardly or no profit at all, were widely accepted as well.

Given the enduring low-interest phase and an increasing number of claim compensations, insurance executives changed their mindsets over the last couple of years. Business insurance became their problem child: unprofitable, too volatile, too customised, difficult to manage internationally, too exposed. Not surprisingly, the price cycle started to turn around in 2017/2018, followed by a hardening market. At the time, it was a moderate market limited to a few risky and costly insurance sectors. The beginning of the pandemic accelerated the turnaround. All of the sudden, businesses with a favourable claims history faced drastic price increases. Besides that, capacities were reduced across all sectors. The bigger and more global the company, the stronger the effects. All that happened during the worst economic crisis since World War II.

How was that possible and what can be learned for the future? Which risks will businesses and the market behaviour of insurers be able to control? Which countermeasures can businesses take?

Two issues must be kept in mind when answering these questions: the mindset and operating principles of insurers as well as the current and future risk landscape.

The mindset and operating principles of insurers

Insurance balances risks, collectively and over time. The task of the corporate insurer and his underwriters is to assess the individual risks of a business and price them accordingly in order to safely take over these risks. The better the risk assessment, the better the price, and respectively the capacities that will be provided. Some of these risks may later result in claims and damages. Insurers put the spotlight on possible risks and claims every day, which is why they always consider a glass to be half empty (negative), rather than half full (positive).

With the onset of the pandemic – which was hardly considered a risk itself earlier on – the entire risk landscape changed. In addition to typical insurance claims following works and firm closures or even event cancellations, the pandemic had a huge impact on other areas as well: disruptions in global supply chains, the threat of increasing insolvencies as well as cyber-attacks. Insurers were also concerned about an increasing number of management mistakes because nobody had to previously navigate a pandemic. With the ensuing downturn in capital markets insurers lost a major source of revenue. The entire insurance industry was in a doomsday mood. It was this mood that caused the above-mentioned changes in business insurance.

Today, we know better. The world still exists, and the pandemic even yielded some positive results for the insurers' business. Automotive insurance serves as an example. Given less mobility during lockdowns there were significantly fewer claims. At the end of the day, the glass was half full and insurers still achieved positive results. These could even be stepped up during the first half of 2021. So, is all well that ends well?

The future risk landscape

If one believes the insurers, the answer is "No". The glass in the industrial insurance sector is still half empty. Positive results again derive from the private client and retail business, and changes affecting the risk landscape are long-term. As you will read more about these aspects in this magazine, here is an overview of the most significant changes and their impact on the industrial insurance market:

- **Digitisation:** risk of cyber-attacks, more cyber claims
- **Climate change:** risk of natural hazards, more natural disaster claims
- **ESG criteria:** risk loss of reputation, e.g. if climate-damaging industries such as coal are insured
- **Globalisation:** risk of pandemics, more claims due to a pandemic
- **Capital market:** low interests and volatile capital gains, therefore more focus on insurers' underwriting results
- **Regulatory changes:** risk of management mistakes, more D&O claims

Given these changes, industrial insurers will continue their chosen path. Hence, the hard market phase is not over yet and will continue to be a real challenge for property, D&O and cyber insurance.

How should companies respond?

Recent months have shown that insurers tend to increasingly focus on corporate risk management. Whereas in the past mere statements of intent to effect risk-minimising measures sufficed companies nowadays are practically obligated by the insurance sector to implement them. This trend, which used to be typical in the fire protection sector in the past, now extends to natural hazards (caused by climate change) and other areas, such as cyber security or preventive measures against liability claims. Reports of individual risk assessments, improvement measures that have been implemented and future development steps have become must-haves for companies to receive any insurance quotation and to secure the required capacities.

Risk management has become the magic word. Companies that devote special attention to their risk issues will be able to leave the hard market phase much earlier.

However, this focused attention on one's own risk management comes with a positive side effect: Some of the risks will only have a limited insurability (e.g. natural hazards, pandemics, cyber, D&O) or none at all (e.g. blackouts) in the future. Therefore, boosting a company's internal risk management will not only become a game changer in industrial insurance, it will also change the game in the market environment of industrial companies.

Andreas Schmitt
Member of the Executive Board
GrECo Austria

Ready for the digital age?

The agent-based business model has been a distribution king in the insurance industry for over three hundred years. However, its splendour is starting to fade. Digitisation accelerated by Covid-19, new generations of Millennials and Z clients gaining purchasing power, digital platforms like Google, Amazon, Facebook, Apple integrating more and more economic activities, InsurTech challengers emerging - all those trends have spurred a new energy and an innovative approach to the insurance industry.

Welcome a new King

Today, a new king is crowned – the customer, expecting personalisation, simplicity, transparency, and fair value for money, provided in the right place, at the right time and in the most convenient way, a digital way.

The latest hottest word used by insurance professionals in their everyday vocabulary is "Embedded Insurance". It offers added value relevant to a customer at the point of sale when risk is a top priority. Embedded Insurance is becoming part of a smooth digital process where insurance is bought, not sold, contextually linked to the main purchase of a product or service. A shift from one-stop shopping to one-click shopping is taking place. Advanced technologies, mainly APIs, enable any third-party product or service provider in any sector to seamlessly integrate innovative insurance solutions into their customers' journeys. Embedded Insurance is estimated to be worth 3 trillion USD by 2030, more than 50% of the worldwide gross written premium today.

What does embedded insurance solve?

All insurance players – insurers, affinity distributors like banks, retailers, manufacturers, subscription service providers, digital platforms, and technology companies - should carefully assess this fast-emerging opportunity and define strategies of where to play and how to play because it can solve many issues. Embedded Insurance creates a "win-win-win" situation for the distributor, the insurer, and the customer.

The insurance industry is challenged to rethink its business model and deliver greater value to the market, for the benefit of all its stakeholders. Embedded Insurance provides the answer.

- **"Win" for customers:** Embedded Insurance gives customers a better, more digital experience, simplifies a buying process and ideally matches protection to the time of need. Customers can buy the right coverage at the right time at the touch of a button.
- **"Win" for distributors**: Embedded Insurance can significantly enhance the value propositions for any affinity partner. It helps to attract new customers, increases retention, and creates new revenue streams.
- **"Win" for insurers**: Embedded Insurance provides new addressable market segments that were too risky or not commercially viable in the past with a high margin access. More clients and more data become easily accessible, enabling innovative and personalised offers as well as a better risk selection.

Why is it emerging now?

Embedded insurance is the result of broader market trends.

- **Digitisation** has enabled new digital ecosystems as alternatives to traditional marketplaces. McKinsey[1] estimates that 30% of global economic activity, 60 trillion USD, will be mediated within these ecosystems by 2025. Platforms run by Google, Amazon, Facebook, and other orchestrators of digital ecosystems generate massive datasets and insights in real time about the activities and interests of their users, creating ideal markets for embedding value-adding services for clients.
- **Embedded Finance**: the open banking initiative was a catalyst for developing FinTech, BaaS (Banking-as-a-Service) and neo banks that offered a fully digital customer experience and enabled sophisticated forms of embedded finance.
- **Data** is the oil of the digital age. Despite the pandemic, the world has become more connected thanks to Internet of Things, smart solutions, such as cars, goods, machines, and even humans armed with intelligent, telematic devices. This connectivity, combined with Artificial Intelligence, generates new levels of data that can be analysed to enable insurance to be more accurately embedded.
- **New breed of customers**: in our digital age, young generations of Millennials and Z clients, just like digitally rejuvenated older generations want to buy insurance with just a few clicks.

1 McKinsey & Company, How do companies create value from digital ecosystems?, August 2020

Insurance science dethroned by technology

Some insurance sceptics may say it is too naive to be true – offering customers exactly the insurance they need, at the time they need it, in a way that makes it easy to understand – it is not how insurance works. Yet, new technologies, like Big Data, Cloud Computing, Blockchain, Artificial Intelligence, Internet of Things, Telematics, Blockchain, Machine Learning, have proven that the seemingly impossible is only an innovative idea away. There are several companies that have pivoted their business models, reimagined their product offerings, and embedded insurance as an important value-adding service for their clients.

Big, bold, smart – The pioneers in Embedded Insurance

Technology players and orchestrators of digital ecosystems are best positioned to embed insurance into their platforms because they are fronting the relationship with the customer and controlling its critical pieces, such as customer journey, data, and trust in their brands.

Let us look at a few examples:

- **Tesla** offers pay-how-you-drive automotive insurance at online points-of-sale or Tesla showrooms. Other automotive OEMs (Original Equipment Manufacturers), e.g. Ford or General Motors are following suit and have started to offer their own insurance policies coupled with cars.
- **Amazon** offers smart home insurance together with French insurer Wakam to its customers while they purchase home-related products online.
- **Revolut**, one of the brightest neo banks on the European scene, has embedded several insurance coverages into its account packages for clients. The Belgian Insurtech Qover has made this insurance possible thanks to the integration of its platform with the bank's system.
- **PingAn**, a leading Chinese insurer, is an orchestrator of multiple digital ecosystems created around domains such as Health, Wealth, Real Estate, and others.
- **Uber**, a flagship model of gig economy, prides itself on the simplicity of its user experience, offering flexible, pay-as-you-drive car insurance. It automatically monitors when an Uber driver is "in service" and when not and adjusts premiums accordingly.

Those companies have been mentioned for a reason. A successful launch and maintenance of embedded insurance requires the right mix of affinity partners with large customer databases, digital distribution, relevant products, and technology to make the insurance magic happen.

How can this magic be turned into reality?

All players in the market are challenged to consider building new structures and solutions internally, collaborate with others or create entirely new ventures. There are pros and cons in each case, depending on levels of ambition and capabilities.

Innovative brokers can fill the gaps between long tail needs of underserved affinity partners and insurers who are unable to reach them. The broker can act as originator and coordinator of an end-to-end process of embedding insurance into a partner's digital ecosystems and borrows underwriting authority from fronting insurers, offloads risk to reinsurers, brings technical efficiency to underwriting as well as customer acquisition, claims handling, and policy retention.

Affinity

The international team of Affinity Business provides tailored B2B2C solutions, helping our partners open up the potential for new business opportunities – whether the aim is to increase revenues, ensure one's competitive advantage, gain new and retain existing customers, or increase customer loyalty.

Danuta Zukowska
Practice Leader Affinity
GrECo Poland

System switch to autopilot

The transformation of the automotive industry and global mobility is in full swing. Here are four current megatrends.

Supply chain problems

The worldwide pandemic has left its mark on the automotive industry. Besides a drastic drop in sales supply chains, their worldwide networks became the focus of public attention this year. Recently VW, BMW and Daimler registered their staff for short-time work given the lack of computer chips. The dependency on global supply chains is not a new phenomenon. Whether trade disputes like the ones between USA and China or the threat of punitive tariffs on European cars by the USA, issues related to global export are ever-present. Back in 2019, Thomas Zernechel, who had been in charge of corporate logistics at VW for more than 16 years until 1 January 2021, stated that supply chains must and will be shortened. Reasons include globally limited transport capacities as well as new and expected regulations regarding CO_2 emissions. He proposed a simple solution: Delivery routes will become shorter because suppliers will position themselves closer to car manufacturers. Not so long ago we still spoke of Global Sourcing or China Sourcing. This will change.[1]

It remains to be seen whether a greater environmental awareness, a pandemic-related shifting tendency to more local production facilities or the latest incident when Ever Given ran aground in the Suez Canal will change our mindset about globalisation. From a pure European point of view these effects could be seen positive as German manufacturers continue to register more than 50% of all automotive patents.

Do these changes affect the risk landscape? Whether a new business location in a foreign country or investments are made to expand production sites, decisions like these should be given proper thought. Additional investments can easily be the result of inadequate planning, rapidly changing legal conditions or changes in the company's supply chain. In times of global changes and increasing actions against company managers, major changes affecting a company's orientation should be treated with due caution.

Digitisation in the automotive industry

From automatic distance control to lane-keeping assistance, everybody is already familiar with electronic assistance systems in cars. Not surprisingly, developments like these have not yet been exhausted because their main goal is not an increase in comfort for the driver but the avoidance of human errors. Therefore, electronic systems that detect driver tiredness or an automatic emergency brake assistance will become compulsory for all new car models in the European Union as from 6 July 2022.[2]

The automation levels 4-5 which describe fully autonomous driving should become part of our reality by 2030 latest. The new mobile radio standard 5G further speeds up these developments. Vehicle-to-vehicle communication or even vehicle-to-everything communication are only a question of time. For example, traffic jams can then be avoided if vehicles are able to communicate with each other or if a vehicle could manage traffic lights upon approach.[3]

According to a recent study conducted by Bayern Innovative GmbH, four development scenarios have been identified for the automotive industry until 2030. Only one scenario assumes hardly any changes for today's players who will also remain at the helm in the future. Digitisation and electrification will, however, play a significant role. It might even be possible that software companies will define the automotive industry's way forward, typical Original Equipment Manufacturers (OEM) might become hardware manufacturers, and possibly tier-1 suppliers as well as future development partners, working in tandem with software companies. We may also see more payments being made at filling stations via digital dashboards, new solutions that enable grocery orders being made from one's car as well as new pay-per-use and subscription-based business models. To some extent, the latter are already part of today's data economy, showing us the direction that will be taken in the future.[4]

Which questions and risks arise from such technical innovations? Data protection is one aspect that accompanies us daily, at least since the GDPR was introduced: Who receives information about the routes we took? What about information about speeding or a microsleep that almost caused an accident? Even worse, what if criminals manage to hack my car while I am driving and a ransom note comes with the threat of an accident?

Drive systems

In April 2021 the EU stepped up its climate targets. There is no doubt that e-mobility will play an important role in achieving this goal. According to the German Association of the Automotive Industry, car manufacturers in Germany will invest about 50 billion EUR in e-mobility until 2024.[5] However, where there is light, there is also shadow: extracting lithium requires plenty of water that is already very scarce in the resource-rich countries of South America. Cobalt, needed for the cathodes of batteries, is mostly found in South Congo. Besides a significant pollution of ground water, labour-law issues as well as political concerns were raised in this formerly stable region.

Finally, there is the question about battery recycling. New solutions must be developed as every battery contains highly inflammable fluids which can hardly be separated from the other materials contained in its cell. That is why the focus of development is not only on e-mobility but also on other clean fuels and drive systems, such as hydrogen or synthetic natural gas.

Changing behaviour and new types of use

Increased environmental awareness, changes in our daily routine through remote ways of working as well as the question whether a car can still be considered a status symbol. Car manufacturers as well as entire industry sectors must tackle these questions to find out how citizens will change their user behaviour in the next couple of years.

In the 1970s, people informed drivers with a thumb up gesture that they were hitchhiking. Nowadays, online platforms promote a more modern way of "ride sharing", especially for longer distances. In urban areas and smaller communities, the number of car-sharing service providers increased significantly in recent years. This implies a change in user behaviour. The heightened awareness of the costs of car sharing avoids, for example, spontaneous trips. In Germany, a VCÖ study conducted in 2018 showed that car-sharing users take a car 40% less frequently and rather choose public transport (19% more often) or a bicycle (plus 14%).[6]

These megatrends include connectivity, autonomous driving, sharing, electrification, and digitisation.[7] Another topic is "vehicle-to-grid" or "vehicle-to-home". According to "The Mobility House AG" an electronic car remains unused for an average of 23 hours a day. In the future, electronic car batteries could be utilised as a temporary storage for surplus household electricity, which is then re-used if more electricity is needed or even used to stabilize the power grid by feeding the surplus into the public network. To make this happen, special bidirectional chargeable vehicles are needed which not only draw power like most electronic cars but can also feed electricity back into the grid. The Renault Zoe is a prime example which has gained recognition beyond the Portuguese island Madeira through the Smart Fossil Free Island Porto Santo project. Instead of burning 500,000 litres of diesel and two million kilograms of oil each year, the battery storage capacities of e-cars should be used as from 2022 to continuously supply the island with electricity obtained from the sun, even in bad weather.[8] Who will be held responsible if the lights on Porto Santo go out due to a power outage? This has not yet been reported.

1 Interview „DVZ - Deutsche Verkehrszeitung", 18 June 2019

2 REGULATION (EU) 2019/2144 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019

3 HELLA GmbH & Co KGaA.

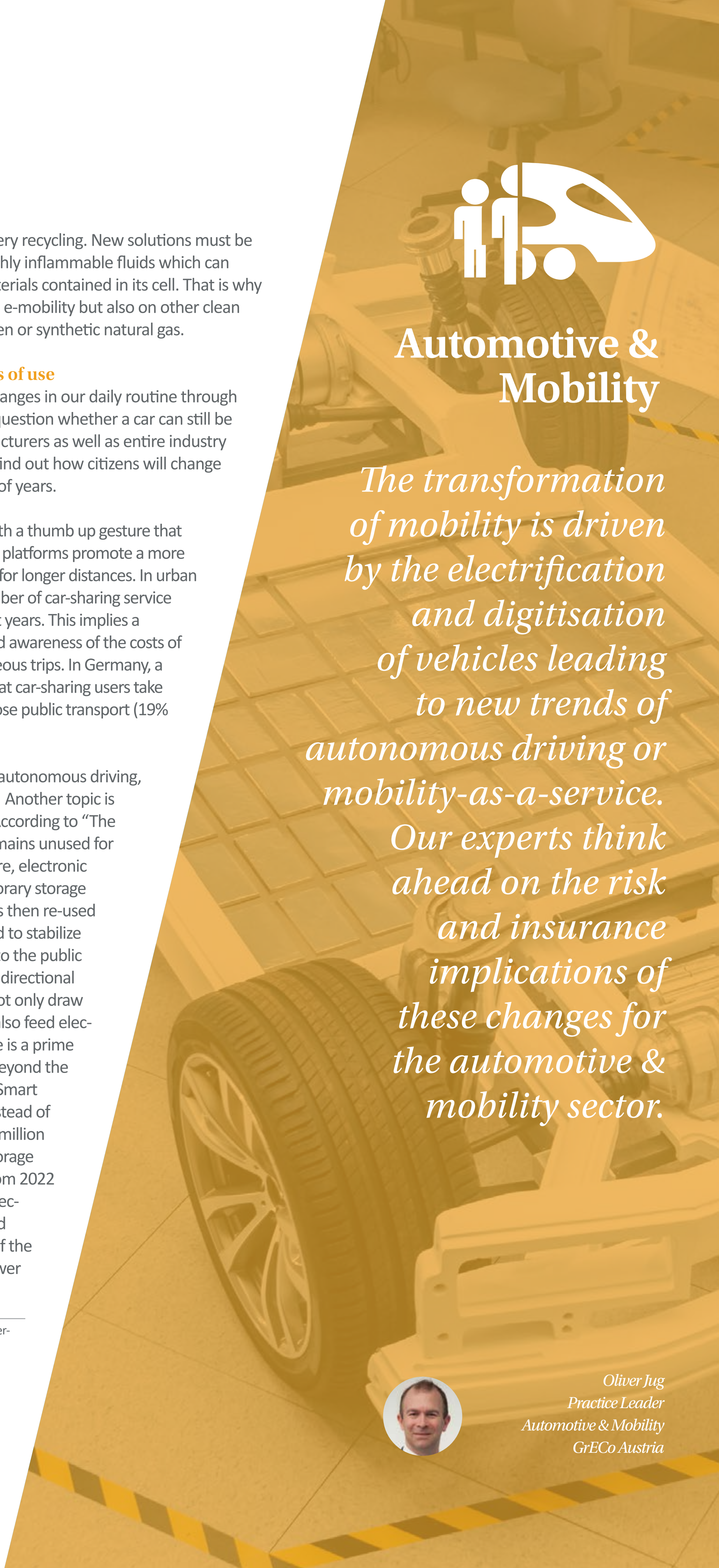
4 2030 I Automobilindustrie in Bayern, Bayern Innovative GmbH

5 IG Europe GmbH

6 „Großes Potenzial für Sharing und neue Mobilitätsservices", VCÖ - Mobilität mit Zukunft

7 2030 I Automobilindustrie in Bayern, Bayern Innovative GmbH

8 „Vehicle-to-Grid", The Mobility House AG and www.electrive.net, „Porto Santo: Smart Grid-Projekt von Renault, EEM und TMH"



Automotive & Mobility

The transformation of mobility is driven by the electrification and digitisation of vehicles leading to new trends of autonomous driving or mobility-as-a-service. Our experts think ahead on the risk and insurance implications of these changes for the automotive & mobility sector.

Oliver Jug
Practice Leader
Automotive & Mobility
GrECo Austria

Safely navigating through turbulent times

The aviation insurance market has navigated through turbulent times over the past two years. Increasing premiums, reduced capacities and a selective stance when choosing risks have accompanied us for the last few years.

Low premium levels caused by developments that have taken place over the past decades as well as the burden of increasing claims costs in the aviation sector brought about a reverse thrust in early 2019 that still prevails today. The onset of the Covid-19 crisis in 2020 grounded the aviation industry. This has not significantly changed in the first half of 2021, but now until the end of 2021 we see a slight easing in the market.

What is the outlook?

Given the increase in the level of premiums, the insurance market has once again become more attractive for insurers and investors. New market entries are on the horizon and at least some capacities will increase. The market will again become more competitive. However, we expect that a shift towards risk data and risk differentiation will make negotiations more complex and time-consuming. The spotlight will be put on the presentation of both risks and data.

In the airline sector, there are first signs of an easing in its tense market environment and a slowdown in technical premium increases. This in the light of lower costs of damages because of a lack of major events in 2020, only a few events in the first quarter of 2021, followed by an increase in events in the second quarter, such as incidents on the runway or bird strike.

Similar developments and an ease of the tension can be seen on the General Aviation market. However, we are also observing that specific high risks are no longer underwritten, and the attention of insurers has increasingly shifted towards local markets. As a result, transnational offers are declining – deglobalisation is taking place. Given a somewhat insignificant claims development over the last two years, we expect a continued noticeable easing on the General Aviation market.

A close watch is being kept on other aviation segments, including airports, air traffic control, product manufacturers, maintenance, etc. – risks are carefully assessed, capacities and coverage reduced, and the limitations of recent years eased. Increases in premiums, although more moderate than in the past two years, continue to prevail. In this sector, the collaboration between the insurance broker and policy holder for preparing and documenting risks as well as informing the policy holder about processes is key to creating the insurer's understanding.

The winners are...

Despite crisis-related restrictions that were imposed upon the aviation industry – worldwide air traffic movements dropped by more than 75% in 2020 compared to the previous year[1] – there are some winners, or at least some aviation sectors that were less hard hit. The private jet charter business[2] recovered faster from the Corona slump than scheduled air services.

At the onset of the pandemic, many return flights were organised using private jets. Governments helped their citizens return home from regions most affected by the virus, and large corporations did the same for their expatriates.

Private jet operators also benefit from many cancelled scheduled flights as well as restrictions and regulations that were imposed upon airlines (e.g. introduction of new hygiene standards). Many travellers, for example, experienced the new safety regulations as oppressive to unacceptable. In business, this means less flights, and, if needed, only in a private jet – a growing trend. Safety, more direct routes, and thus shorter travel times are increasingly viewed positively.

A third key driver are private travellers who are willing to pay more for safety and therefore charter an expensive private jet. Even before the crisis, one hour in a small jet cost up to 4,000 EUR, in a larger long-range jet, such as Bombardier or Gulfstream, at times up to 10,000 EUR. These prices have since surged by 20% or even 50%. A rise in demand as well as many different safety measures requested by customers are responsible for these price increases.

The aviation environment

The entire aviation industry – airlines, business jet operators, airport and aerodrome operators – has been under attack for quite some time now. Debates over climate protection, environmental and noise pollution are the order of the day. Given the increase in traffic, the spotlight is currently put on the private jet business sector and smaller regional airports.

These discussions have spurred new thoughts about alternative fuels, the introduction of minimum CO_2 targets, and fuel savings. E-Mobility, already well-known in the automotive industry, has made its way to aviation. Electric, hybrid and solar-powered alternatives are no longer future topics, they are already being implemented.

Experiments are being conducted with diesel-powered airships, showing 75% less CO_2 emissions than other long-haul carriers. Hybrid-electric alternatives which can achieve a 90% CO_2 reduction[3] are also being tested. DHL was the first transport company worldwide to order twelve e-planes. Each e-plane has a range of 815km[4] and can carry a freight load of 1,200kg.

Manufacturers such as Pipistrel have already received the initial EASA certification for small, 2-seater e-planes (Velis Electro)[5] currently used in flight trainings. Flight times of up to 50 minutes (plus a VFR reserve) are stated. Other manufacturers have received type certificates for various aircrafts.

In the passenger aviation segment, first experiments were conducted, and prototypes were designed, built and tested. Companies, such as MagniX, manufacturers of e-engines and AeroTEC products as well as specialists in tests, construction and certifications in the aerospace sector, have already successfully converted conventional aircraft into e-planes. By 2022, the first commercial e-planes are expected to carry more passengers. In addition to electrically powered aircraft, Airbus currently focuses its research on hydrogen-operated aircrafts to reduce the emission of CO_2 and nitrogen oxide.

More and more green solutions are sought after to refuel electrically powered aircraft. To meet the growing demand for electricity, solar panels are being installed at airports and aerodromes. In the case of Frankfurt Airport, some of its electrical power is generated by onshore wind farms. An offshore wind farm is already in the airport's project pipeline.

1 https://www.statista.com/statistics/564769/airline-industry-number-of-flights/

2 https://www.wiwo.de/unternehmen/dienstleister/privatjets-sind-gefragt-wie-nie-coronavirus-sorgt-fuer-boom-im-businessjet-geschaeft/25586596.html

3 https://www.hybridairvehicles.com/our-aircraft/airlander-10/

4 Aero Telegraph, 3 August 2021: https://www.aerotelegraph.com/dhl-express-baut-elektrofrachter-flotte-auf

5 https://www.pipistrel-aircraft.com

Aviation

The aviation team offers a wealth of experience and a proven track record in dealing with complex aviation risks. Our clients benefit from even faster and more direct access to international insurance and reinsurance markets, where they get the best prices, products and terms for their cover.

Ilse Konheisner-Holub
Group Practice Leader Aviation

Delivered Duty Paid for a green future

The major international cargo insurers are reconsidering the insurability of cargo of concern (for example thermal coal) in relation to zero emissions targets as companies dealing with such cargo, such as miners, traders or major users may have difficulties to secure the insurance they need in the future.

With regard to thermal coal it still seems that cargo insurers who do underwrite the commodity business tend to focus on those accounts where the volume of thermal coal provided is within a certain tolerance limit, i.e. below or about 20% of the total turnover or revenues. Discussions are rife, especially in the lead-up to the UN Climate Change Conference (COP26) being held in November 2021 in Glasgow, UK, and with the IEA Report on net-zero emissions by 2050 and the latest UN Report having recently been issued.

In December 2020, Lloyds issued their Environmental, Social and Governance Report[1] which included various undertakings, the two most prominent being:

- Lloyds managing agents will be asked to provide no new insurance cover in respect of thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities from 1 January 2022.
- To support Lloyds customers through this transition, Lloyds managing agents will be asked not to renew insurance coverages for thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities after 1 January 2030. This also applies to companies with business models which derive at least 30% of their revenues from either thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities from 1 January 2030.

Furthermore, eight of the world's leading insurers[2] and reinsurers, working together with the UN Environment Programme Finance Initiative, are currently in the process of establishing a pioneering Net-Zero Insurance Alliance (NZIA).

Overview & Expectations

We expect the London and mainland European cargo markets to be pressing for some continued base rate increases where business warrants it and where they are able to do so. However, through the first half of 2021 we have begun to see some softening of general increases and with some insurers beginning to look quite aggressively for new business opportunities available to them. If this trend develops, we expect the renewal business with little or no adverse claims histories and the right profiles to be considered "as before" renewals as we reach the end of 2021 and the beginning of 2022.

Marine Cargo renewals have been subject to price increases of between 15% to 40%. Automotive, pharmaceutical, commodities and retail stock throughput accounts will continue to be the most affected. Specific changes to the underwriters' appetite include:

- Excess stock – insurers have reduced the capacity in many market sectors, no longer willing to underwrite excess stock.
- Many marine insurers are no longer underwrite distilleries or wineries.

Insurers have shifted their focus from topline premium and growth towards rate adequacy. New modelling and technical tools are being utilised more than ever as insurers want to understand the complex technicalities of cargo risks. As natural perils remain a key focal point globally, we expect longer turnaround times for quotes as well as significant rate changes for most exposures in the region. Good data quality, including surveys, COPE, risk management forms, and so on, will help us to provide our clients with more favourably rated insurance contracts.

Lead lines are expected to remain conservative, and the expected reduced capacities will come with the added difficulty of some insurers not wishing to reinsure their competitors.

We will continue to see a disconnection between the local Eastern European markets and international markets in terms of rates. However, this gap is slowly closing as most local insurers face an increase of reinsurance costs and are thus unable to sustain reduction demands.

1 https://www.lloyds.com/about-lloyds/responsible-business-esg-strategy

2 AXA (NZIA Chair), Allianz, Aviva, Generali, Munich Re, SCOR, Swiss Re and Zurich Insurance Group

Cargo

The transportation of goods creates a range of unique risks. Minimising the exposure to these risks requires close attention, precise policy wordings and specialist technology. Our Cargo team meets all of these challenges – and more.

Kristo Ristikivi
Group Practice Leader
Cargo

Reliable networks and good connections

Changes in the digital world also have an impact on corporate risk management and present many risk managers with new challenges, but at the same time also offer new opportunities. An interview with Martin Cerny and Jörg Schönenborn, Telecommunication Executives, and Andreas Schmitt, Insurance Professional.

What were the main developments in the last 24 months in your business sector?

Cerny: Covid-19 has pushed digitisation in nearly every area of life and therefore the demand for a stable and fully developed, high speed network has surged. We expected that long before Covid-19 but, for example, on the day of the first lockdown, the data traffic volume doubled from one day to another. Still, our network worked perfectly.

Has the new work environment with more people working from home or remotely also pushed this demand?

Cerny: Definitely. And people expect high speed internet everywhere in Austria, not only in urban areas. As more and more people want to live outside of cities, this is becoming ever more important.

Network expansion is also a big topic in Germany. Which challenges is Deutsche Telekom facing in this regard?

Schönenborn: As Martin mentioned, network reliability is a key success factor for digitisation. Therefore, we are pushing ahead to further develop the network. But there are still a lot of hurdles to take. I give you an example: everybody is talking about 5G. But, to prepare the network for 5G we need much more transmitters with less distance between them. We are dealing with the same barriers as renewable energy. Everybody wants to have clean electricity but nobody wants to have a wind turbine close to his or her home. However, without a close network of transmitters a 5G network is impossible.

How will you overcome these barriers?

Schönenborn: Intensified communication is key to convincing people to support this expansion. You have to destroy their fears and doubts.

What happened to the risk landscape? Any new developments there?

Schönenborn: With growing digitisation, cyber-attacks, especially ransomware attacks, present an even greater challenge to companies, with hackers trying to steal business-critical data or digital identities and manipulating companies' production facilities. The rising, all-encompassing connectivity and cloud transformation require up-to-date security measures. This is why Telekom Security, for example, offers all customers the same professional high-quality solutions that we use to protect Deutsche Telekom around the world. As you can see, the demand and need for cyber consulting and prevention is constantly increasing.

Besides risk management and prevention, the possibility exists to insure companies against such cyber-attacks. Insurers have been trying to push cyber insurance for years. Does this help to build up a new and big insurance line?

Schmitt: Yes, and no. On the one hand, the demand for cyber insurance is increasing and therefore boosting the growth of this line. On the other hand, we see a lot of claims. As a result, prices are rising and capacities are declining. Sometimes, it is even impossible to get a cyber insurance or an offer with the required insurance limits.

On top of that, insurers' underwriting guidelines are getting stricter. That is why cyber insurance often goes hand in hand with a risk dialogue. Risk evaluation, risk transparency and risk management are becoming much more important than in the past. And, if you already have a cyber insurance you will have to brace yourself against price increases and lower capacities as more claims are dealt with at the same time.

Any other developments beside cyber crime?

Cerny: Of course. Our main supplier, for example, is electricity. At the beginning of the year we nearly had a blackout in Austria. This is something we have to prepare for. Several studies predict a blackout in Austria within the next five years.

How can this happen?

Schmitt: There are a lot of potential triggers such as cyber-attacks, terror attacks, natural hazards, insufficient network stability, and so on.

How can you prepare for a blackout?

Cerny: Well, the easiest way are emergency generators. However, they only uphold communication for a short period of time and only in critical areas. That is why every company – not only in our industry - should also develop an emergency blackout plan and define what to do, and what is critical to keep up and running and for how long. Imagine a day without electricity, internet, phone calls, emails, etc. - no communication at all. We would be back in the Stone Age.

Which other topics are keeping you busy?

Schönenborn: As mentioned before, our main supplier is electricity and therefore ESG is getting more and more important. We must ask where the electricity comes from, what happens with the hardware when it is no longer needed or working, can it be recycled? What will the future workplace in our tech-driven business look like, how much remote working from home is good for our employees in the future, and what can we do to support them at home?

How do you handle this?

Cerny: The A1 Telekom Austria Group is aware of this responsibility and has set specific goals for the environment, society, and its people. As ESG is one of the company's strategy enablers, the topic is strongly embedded in strategic decisions. That way, we aim to achieve more efficient, resource-conserving and thus more sustainable ways of working and living. In addition, the company considers these initiatives as long-term value drivers with not only environmental and social benefits, but also economic advantages.

Communication, Technology & Media

Our specialists advise clients across the entire Communications, Technology and Media spectrum ranging from semiconductors/ technology manufacturers all the way through to telecommunications, media & publishing as well as software companies.

Martin Cerny
Finance Insurance Manager
A1 Telekom Austria AG

Jörg Schönenenborn
Managing Director
Dt. Telekom Assekuranz GmbH

Andreas Schmitt
Member of the Executive Board
GrECo Austria

The quiet revolution

There are a number of large forces at work which form the basis for the framework in which the construction sector operates and develops.

- **Urbanisation** is one of the key developments which can be observed in industrialised and emerging economies alike. The pandemic briefly shifted public focus to remote working and an increased demand for more room and quality of accommodation for certain, mostly white-collar professions, but this does in no way slow down the global trend.
- Secondly, **globalisation** is increasing. Again, the vulnerability of global supply chains is a recent and widely shared experience. It remains to be seen in which sectors, if at all, a trend back to local sourcing will pick up.
- **Demographic shifts, climate change and rapid technological advancements** complement the macro megatrends. On the demand side, they cause shifts in consumer priorities with sustainability becoming an increasingly relevant piece of the puzzle – either as constraint, when it comes to achieving those goals, or as pre-requisite in sourcing and making investment decisions.

Construction is an industry which in the past has often been called out for showing slow growth in productivity in comparison to stationary industries as well as other sectors. And while there is a vivid discussion of whether those measures of productivity adequately reflect the output rendered or whether they should be amended, it is uncontested that foreseeable technological change has the potential to boost the sector into something that could aptly be referred to as Industry 4.0.

Environmental aspects and technological progress will be the main pivotal elements coining and shaping the industry in the coming decades. Requirements for durability, safety and longevity will increase. New challenges in this regard will have to be overcome in the light of climate change and more unpredictable exposures than in the past. Climate adaption projects, for example to better prevent flooding, are expected to be among the largest and most expensive infrastructure projects in the coming decades, as policymakers set out to protect and sustain population centres against new – or resurrected – exposures. Jakarta, most commonly cited as one of the fastest sinking cities, or the recent floods in Turkey, Belgium and Germany are just hints of what may become necessary on a wider scale. There is, yet again, a divide between developed and emerging markets, with the latter being most exposed and lacking financing.

Influencer climate change

At the same time and with increasing urbanisation, infrastructure and smart city developments, a stronger focus will be put on making infrastructure and transport more efficient and sustainable. City planners are shifting away from privately owned fuel-powered cars to pursuing new concepts. Electric vehicles or micro-mobility options like dockless bikes and scooters are already a thing of the present. They will, however, require continued adaptation of existing infrastructure with regards to separate lanes, parking, and storage facilities instead of parking for vehicles with combustion engines. Shared autonomous vehicles, airborne options like flying taxis and electrical vertical take-off and landing crafts (eVTOLs) may sound utopian, but they are feasible, given recent advances in battery technology. Construction firms will continue to specialise in mass transit, rail and bus projects. As pioneers of adopting alternative mobility, they will benefit from the development.

Our natural water resources are globally under pressure as well. Increased investments will therefore flow into water resource management and water desalination. Some of the largest cities worldwide are severely water stressed. This raises the question of whether the price of water will also come under pressure. After all, while being a redundant resource in a few areas of the world, the scarcity of water as a vital element prevails on every continent.

Green construction, based on a sustainable foundation, can hence be expected to be the first order of business. This is a topic with geopolitical reach and indeed multi-facetted. The topic, however, seems to have reached a serious turning point. In public debates an increasing number of voices warn that we have already passed a point of no return, and some effects caused by mankind's actions are irreversible. An almost equally large number of people negates or doubts the very fact. Regulators and policymakers are expected to increasingly address these issues, as the recent regulation with regards to socially responsible ESG investment criteria shows. A case in point is the practice of climate-washing and greenwashing used by some to optimise a company's or a product's profile. Efforts have been made to prevent this from becoming a mere compliance-driven ticking-the-box exercise and turn it into an effective instrument.

Technology in the driver seat

Technological advances are considered an integral part at the design stage, changing the risk and benefits profile of assets during the construction and operation phase. The implementation of new technologies is bound to have an effect through labour restructuring, for instance, and an increased dependency on data and internet opens a wider array of questions when it comes to cyber-attacks. With infrastructure often being of strategical relevance to countries, the further proliferation of connected infrastructure assets goes hand in hand with an increased exposure.

The trends in technology which are expected to drive the industry are modular construction and new materials, including increased energy efficiency, prefabrication, and Internet of Things (IoT). IoT is a seemingly innocuous acronym. Its relevance as a disruptive technology can hardly be overstated. Connected construction sites can improve their productivity level and use IoT solutions for predictive maintenance of plants, machinery and buildings.

There is an array of companies, spanning from global players who increasingly position themselves as tech companies operating in the field of construction down to the regular (sub)contractor and craftsman. Still, the change will affect all levels over time. The main barriers, according to a recent GlobalData survey on ESG investments[1], are construction cost and lack of return on investment. While the former is tied to the readiness of market demand to pay a premium for achieving these deliverables, the second comprises the question of whether investments in new technologies and material can bolster the ROI. Considering the risks incurred in the construction industry, this is low compared to other industry sectors. Modularisation and prefabrication designs increase efficiency as well as safety. Investments made into new materials, such as high-strength concrete, geosynthetics, geotextiles, fire-resistant timbers and self-healing materials may need a longer period until they pay-off but they are an ideal means to strategically position companies for meeting the changing requirements driven by the macro environment.

Risk management and insurance follow suit

The consequences for the insurance industry are twofold.

- For one, **existing insurance solutions must be adapted**. Increased losses caused by Nat Cat or damage due to faulty materials or tougher workmanship challenges will be reflected in engineering, professional indemnity and general liability ratings.
- On the other hand, **new products can establish themselves**, like parametric covers which pay as soon as a certain measurable trigger is exceeded. Cyber insurance, an exotic term just a few years ago, is widely known today and is sometimes catchingly referred to as the "fire insurance of the 21st century". It has become a required basic cover for companies competing in today's digital environment.

1 GlobalData, ESG in Constrcution, 14 July 2020

Construction

Understanding each project's life cycle, the interests of stakeholders – such as those of the project owner, contractor and subcontractors – as well as the risk allocation makes the decisive difference when we structure and implement appropriate insurance solutions.

Richard Krammer
Group Practice Leader
Construction & Real Estate

Call to action for the "new normal"

The big difference between the 2009 financial crisis and the Covid-19 crisis lies in the extraordinary state support measures with which many countries have kept their economies up and running. However, both crises have one thing in common: the fear of payment defaults and an increasing number of bankruptcies.

After the pandemic spread all over the world last year, the trade credit industry experienced almost a year of extreme uncertainty, mostly due to the lack of a long-term outlook. Credit insurers reduced their overall risk exposure and adjusted both their individual and sector exposures to bring their portfolios under control. This affected supply and demand.

State aid during the pandemic has contributed to preventing a wave of corporate insolvencies. Some governments have provided state support schemes to trade credit insurers. In general, the aim of the state support schemes during the pandemic was to stabilise global supply chains. By the end of June 2021, these state support schemes to trade credit insurers have expired.

So far, trade credit insurers have navigated the crisis quite well. Fitch Ratings[1] expects the sector's 2021 results to be robust, supported by continued low payment defaults. Generally, they assumed that the expiry of government-backed reinsurance schemes will have a positive impact on the sector in the next 12-24 months as insurers who have agreed support schemes with the state will no longer have to share earned premiums.

Underwriting stance – the "new norm"

Once again, the credit insurance sector is called to action. The rebound in the economy as well as economic developments must be supported by the credit insurance industry with sufficient revolving cover for goods being delivered or services rendered. Hence, credit insurers have started to increase their risk appetite for new business and different needs as the pandemic has had an unequal impact across companies, industries and sectors, and sometimes even within them.

Understanding what is really risky and what is not essential, will be the "new normal". Credit insurers' underwriting will have to go beyond financial results as the "new norm" of risk assessment will put more weight on aspects such as the crisis resilience of business models, cash position versus cash burn, regular financial reviews and a sector-specific outlook. As the global economy is catching up again, credit underwriting will strive for a clear picture of the new risk profiles and their risk potential. Besides that, credit insurers' risk underwriting can no longer turn a blind eye to important ESG trends.

Expected defaults – still expected to rise

According to Euler Hermes[2], Q1 and Q2 sector reviews see a shift of sector ratings back towards more positive territories, bearing in mind that risks remain, like weak sectors, inflation, or severity.

Currently, no dramatic increase in payment defaults is expected. Credit insurers could face increasing claims from historically low levels starting in 4Q21/ 1Q22, particularly in the sectors most severely hit by Covid-19, e.g. the travel industry (airlines, restaurants, hotels, etc.), small and medium-sized enterprises, and mostly from those that were financially weak prior to the Covid outbreak. Certainly, there will be the one or the other major loss that one could not foresee in 2020. Every year or so, a high-profile insolvency involving high losses reminds us of the significance of trade credit insurance.

In general, the forecast economic upswing will facilitate a rapid recovery in sales and will limit the wave of bankruptcies.

Risk appetite

Businesses cannot expect that credit insurers will lower premium rates in 2021 because of a low level of insolvencies. Furthermore, insurers cannot yet estimate the effect of the spread of the Delta variant on the economy. This uncertainty also affects the development of the rate of premiums because the overall risk situation has changed as a result of the pandemic. On average, premium rates are expected to increase between 5% to 10%, even for policies with a no-claim history. Hence, the focus is on achieving price stability as well as greater flexibility on the policy structure of well performing clients. Top performers, however, will continue to have an increased risk appetite.

1 https://www.fitchratings.com/research/insurance/trade-credit-insurers-resilient-well-set-for-economic-recovery-20-05-2021

2 Webinar 23 June 2021: Capturing the upswing

Credit & Political Risk

Our specialist understanding enables our clients to secure growth. The international team of the Practice delivers the trade credit insurance solution for our clients that best suits their business in order to minimise or even eliminate their trade risks.

Lisbeth Lorenz
Group Practice Leader
Credit & Political Risks

Decarbonisation takes its toll

Although the topic of global warming sparks many controversies in the world's media, political circles and everyday discussions, few people would deny that the climate patterns have recently been changing, bringing about an increasing number of natural catastrophes. Published in August 2021, the Sixth Assessment Report of the UN-backed Inter-governmental Panel on Climate Change[1] shows alarming trends affecting the global economy and the well-being of the world's population.

Amongst those most affected is the financial services industry, such as equity investors, lenders and insurers. It is no surprise that the industry, prompted by progressive political and environmental activists and industry regulators has taken action and encouraged some of the major polluting industries to transform their processes so that they produce lower or no greenhouse gas emissions. This step has often taken an extreme form of providing reduced access – or no access at all – to risk capital, effectively cutting the worst offenders from access to equity and debt financing, and to insurance.

In many cases these policies prohibit the financing of the very projects that are aimed at transformation towards greener technologies, such as the development of renewable energy sources by incumbent thermal coal-fired power producers. Whether this dogmatic and inflexible approach will contribute to reaching desired goals or prove itself to be counterproductive, remains to be seen. The seemingly unlimited capital resources available worldwide may be channelled to new players and technologies on the power utility scene, effectively pushing the incumbents into extinction. It is worth noting that all these woes do not only befall coal-fired power producers. Next in line are gas-fired power plant owners and operators as well as industries such as oil and gas, cement, steel, transport and others that contribute to greenhouse gas emissions.

Fate of the incumbent power suppliers

Although we cannot foresee which different scenarios the future may unveil, we believe that it is still possible to arrange insurance coverage for operations that produce power from fossil fuels, including thermal coal. However, increasingly this requires careful planning, a flexible and realistic approach to the scope of cover and, finally, competent execution. Companies need not (and often cannot) go this route alone. An insurance and risk consultant can help you through the transformation process despite the pressure from activists and other key stakeholders.

Tips for your risks

- **Improve the risk quality**. As long as increasingly challenging economies allow it, invest in improving the risk management framework. Traditionally, insurance has been the cheapest form of risk capital. Certain operators have abused this by consciously not using good risk management practices, which may have been effective in the short term during the final stages of the soft market. Today's hard market no longer tolerates such an approach. Underwriters who still write carbon-intensive business can choose from the entire range of clients. They will choose those who display the desired traits such as a proactive attitude to risk management.
- **Seek outside opinion**. Hire a seasoned and respected engineer to survey the business and produce a risk engineering report. It will come with useful risk recommendations backed by years of experience as well as actual loss scenarios that happened around the globe. It will also provide realistic insights into the possible costs of catastrophic losses, which can be used as a basis for discussions on how to fund those costs (especially in tough times).
- **Be realistic about the coverages sought**. Low deductibles and full value policies are becoming things of the past. Not only are insurances with higher deductibles and realistically set limits easier to place, they also demonstrate the client's commitment to loss prevention and robust risk management. Capital requirements imposed on insurers and reinsurers by financial market regulators have reduced and will continue to reduce market capacity — perhaps as much as the pressure from activists and investors.
- Companies that have an internal decarbonisation strategy are advised to **communicate it effectively**. The strategy must be credible, measurable, and supported by the company's top management. Adhering to standard measurement and reporting rules will be helpful to integrate the decarbonisation strategy into the insurers' internal reporting systems. In the future, markets may require the progress of the strategy's implementation to be verified by an independent auditor or a similar body.
- Companies lacking a decarbonisation strategy may still rely on **using existing assets until the end of their technical lifecycle**. However, they will have fewer options to choose from as time passes. There will still be certain risk financing tools available, such as industry mutuals, captives and other alternative risk transfer techniques, parametric insurance, and so forth. An experienced, creative and open-minded risk management consultant to structure and implement risk financing strategies in the ever changing financial and regulatory landscape.
- **Careful and skilled carrier management** should be exercised to optimise coverage terms and pricing, find the right balance between the requirement for broad insurance panel diversification, differing risk appetites, portfolio and territorial considerations, varying credit rating, etc. We expect certain insurers to be pushed out of writing carbon-intensive risks by their stakeholders, whilst they may or may not be replaced with new entrants. That is why accessing worldwide insurance markets and understanding the individual market characteristics, business targets and constraints is an ever more important issue.
- The market approach should be a mixture of **nurturing long-term relations with key stakeholders and accessing opportunistic capacity** as it becomes available. Unfortunately, today's market environment for carbon-intensive risks is characterised by uncertainty. There is no guarantee that an insurer, declaring a long-term commitment in good faith, will not soon be forced out by investors at short notice. Therefore, while working towards the best-case scenario, one should be prepared for the worst.
- **Submission quality is just as important as risk quality**. Information provided to insurance markets should be kept up-to-date, accurate, to the point and presented in a clear and attractive manner. Distressed risks with challenging loss histories will obviously be much more difficult to place in the current environment. However, the direct involvement of a senior risk manager giving account of lessons learned and improving the robustness of the asset and risk management framework may make all the difference between a challenging placement and a failed one.

Insureds facing an ever more difficult market environment that is likely to remain challenging in the years to come should accept the reality and maximise their efforts to prepare themselves and their companies for the future. A competent, experienced and dedicated insurance broker and risk management consultant can assist in achieving the risk financing goals required by owners, lenders, government authorities, clients, and other key stakeholders whose well-being and prosperity depends on the successful operation and resilience of the business in question.

1 https://www.ipcc.ch/assessment-report/ar6/

Energy, Power & Mining

Our highly skilled team works seamlessly around the globe helping you to effectively and efficiently finance and transfer risks in the energy sector. We enable technical progress by securing the expected return on investments, promote innovation and ensure business continuity in the highly volatile market environment.

Pawel Kowalewski
Practice Leader
Power & Renewables

Investing in the future

The market has continued on its hard path with increases in the range of 10% to 20% for clean accounts and much higher for those considered distressed risks. Additionally, the market has been weakened by the absence of face-to-face broking due to the Covid-19 crisis.

Looking back on the past 12 months

As a result, underwriters had no need to take on additional risks and thus continued to wield the power in transactions. After 2020, premium increases of 25% were the order of the day. However, the correction on financial institutions (FI) was nowhere near as severe as in the D&O insurance sector, given the more disciplined approach in the FI market compared to other liabilities.

There is a glimmer of hope in the strong competition we encounter in the fund management market. There were hardly any corrections in Central and Eastern Europe. With London markets taking a keen interest in this region, an even greater opportunity exists to bring specialist forms to the CEE region.

While claims have been lower than usual, conversations with loss adjustors suggest that this is not a long-term trend. It is rather people's absence from their office that has shifted the focus onto other issues. Adjustors believe that we are heading for a wave of claims coming from employee fraud and Corona-related loan issues once office work is resumed and checks are carried out more rigorously. Fraud is expected to be a major issue for FI in the coming months, especially in Central and Eastern Europe.

Emerging risks

The impact of Covid-19 will become an issue for all types of FI in the coming year. Government support has kept many businesses solvent, but inevitably this will be scaled back over the next 12 months and the losses that are in the pipeline will crystalise. This will put a great strain on banks with large lending portfolios to businesses in the more distressed industries such as aviation, tourism and leisure. In CEE, several countries heavily rely on these industries, so there is concern as to what will come from the insurance market. More detailed Corona-specific questionnaires will become standard for the foreseeable future along with some inevitable rate increases where exposure is felt.

A second and perhaps more long-term issue arising for FI is the recent and potential legislation around investment and lending to companies that are considered detrimental to the environment. We have seen some central banks (France, UK) conducting regular audits of these companies' exposure within their loan books and investments, seeking to quantify the exposure which could turn out to be a systemic risk. The European Banking Authority is currently also working on a common standard for comparing banks' green assets. This may be perceived as a move towards penalising those who hold too many assets in companies that are "sensitive to transition risks". Some believe that charging capital for these risks (due to their "systemic risk" potential) could be a way forward. It remains to be seen how this would play out, but there is a lot of noise about it.

Accompanying the investigation of assets is the EU Directive published in December 2019 which came into force this year and which deals with the disclosure obligations for financial products linked to the sustainability of the investments they contain. This points to an alarming increase of risks for FI as it involves consumer protection laws and perhaps levels of disclosure that are not immediately apparent. Could a company, which (from an outside-in perspective) does not appear to pose a risk, suddenly become risky after such an investigation due to one small subsidiary's non-compliance? The due diligence required alone would take hours to ensure compliance with the EU Directive.

Boards under pressure

In CEE we are used to the main risks for banks in insurable terms being either credit or crime. These present most of the claims. With increasingly stringent legislation concerning environmental issues and the potential of Covid-19 fallouts, we may soon be moving towards a liability phase. The risks of falling foul of EU legislation are all too real. We therefore expect more corporate boards to be held accountable and thus increasing activity in the D&O sector. For example, can banks really avoid the risk in a region that still relies heavily on coal and aging nuclear plants for power generation? Now more than ever will D&O become a more valuable risk transfer tool to enable FI to continue acting in good faith.

Furthermore, with consumer protection regulation tightening up the disclosure of product exposure concerning 'dirty' investments, we will see more activists trying to dig up such dirt on investment products and attack FI. Among lobbyists, it is a known fact that banks are seen as the enemy. Therefore, a strong professional indemnity cover is a must for banks. In CEE, there have only been a few consumer actions over the past years. This may, however, increase and bring highly motivated lawyers into play.

In short, boards will come under more pressure from all angles. Lending practices will be put under the microscope after the pandemic, particularly where loan books are highly exposed to industries that have fared badly in these times. D&O will be a strong risk management tool and, like all liability insurances, the earlier it is bought, the more cover it will provide.

Looking forward – 2022

As the world returns to some sort of normal life next year, the level of scrutiny will likely reveal issues that have lain dormant for the past 18 months. On top of this, FI will face new layers of legislation. In insurance terms we expect a weakening of the hard market with rates returning to flat or low single digit increases (about 5%). Notwithstanding that, if the aftermath of the Corona crisis produces significant losses across FI (and all lines), then rates will rise above this level.

With new insurers having entered the market in the past few months, we should see a dampening of the price increases we experienced in the previous two years. Insurers will be keen to diversify their books by seeking risks in our markets. Whilst not enough to lower prices or extend the terms, it should at least provide a more stable market place.

Financial Institutions

Financial institutions are exposed to numerous risks which, in the worst-case scenario, may threaten their very existence. We help to finance and transfer risks and, in some areas, also to fulfil regulatory requirements for financial institutions like banks, funds, investment companies, insurance companies or stock exchanges.

Brian Alexander
Group Practice Leader
Financial Institutions

Managerial decisions stand trial

Environmental protection and measures curbing climate change have not lost their geopolitical and socio-political relevance during the pandemic. On the contrary, from a legal point of view, the topic is more relevant than ever.

Civil lawsuits on the rise

In March 2020, the German Federal Constitutional Court confirmed that constitutional complaints against the climate protection law were, at least in part, legitimate. In April 2021, the City of New York filed a lawsuit against three large oil companies (Exxon, BP and Shell) for allegedly misleading consumers about the leading role their products play in climate change and for allegedly "greenwashing" their practices to make them seem more eco-friendly than they are. In May 2021, the Hague District Court held Royal Dutch Shell responsible for its CO_2 emissions and ordered the oil and gas company to lower emissions by 45% by 2030, compared to 2019 levels. The Court stipulated that this obligation extends not only to Shell's group operations but also to business partners, suppliers, and end users.[1]

Although this judgement is not yet legally effective, its possible impact on future civil lawsuits in other European countries with differing legal systems can hardly be estimated. Nonetheless, it is a landmark decision and, given the global focus on environmental protection, one will no longer be able to just rely on the fact that operating facilities have been properly maintained according to the latest technical standards.

Legal basis for claims

The Charter of Fundamental Rights of the European Union sets out environmental protection in Article 37. In terms of the Green Deal, the 27 EU member states have agreed to achieve climate neutrality by 2050. According to the principle of division of powers, each individual legislator is called upon to define the guidelines for corporate action. The Federal Constitutional Court found that the German legislator did not achieve this with the Climate Protection Law, dated 12 December 2019, and the Dutch judiciary had in fact been too quick off the mark. The advice is to focus on collaborative corporate action to achieve the 2050 climate targets, even if there is no specific legal basis yet. Because regardless of whether the decision made by the Hague District Court can withstand the scrutiny of an appeal, the respective company's "excessive" emissions have long since attracted widespread public attention in social media news channels. The mere fact that the share price remained stable in this case should not blind us to the fact that such cases can quickly damage a company's reputation. In this sense, reputational damage insurance is still under-exploited.

Obviously, an environmental damage does not automatically cause a damaged reputation, it can lead to pecuniary losses as well. Future cases will shed light on the extent to which companies or their representatives will be held liable for damages. Whenever a board member is held responsible due to a breach of duty, the question arises whether a pecuniary damage liability insurance is in place – in short, a D&O insurance. A textbook example for such environmental damages and their damaging corporate impact is Volkswagen's dieselgate scandal. Insurers must pay out a combined total of 270 million EUR (328 million USD) in D&O claims to VW.[2]

D&O Insurance and ESG criteria

Looking at topics and developments that address climate change, there is no getting around the fact that we have not yet seen their peak. Our legal system requires a company's management to exercise the diligence of a prudent – in case of a joint stock company: conscientious – businessperson.

The most effective way to safeguard oneself against breaches of duty and the resultant liability is a D&O insurance, which would cover damages as well as legal costs should such a case arise. Despite increasing premiums, this insurance is a popular means because it enables heads of businesses to at least protect themselves against the consequences of their liability in case of an alleged breach of duty. Looking at common wordings used, a personal liability insurance protects individuals for the most part also in case of a claim against environmental damages. Like always, the devil is in the detail: Insurers tend to only grant insurance coverage for defence costs or in the case of damages based on liability standards as long as no accusation of a breach of duty has been made. The company's management is therefore well advised to keep an eye on ESG criteria as well as on the development of jurisdiction in Europe and evaluate the scope of coverage of the D&O policy in case of environmental damages. The upcoming renewal phase in autumn 2021 presents an ideal opportunity to do so.

Although little knowledge seems to exist about environmental liability, this should not blind us to the fact that the number of legal proceedings regarding specific and relevant topics could pick up at any time. Prior to the onset of the current crisis no one would have thought that the Supreme Court would have to deal with two cases concerning a business interruption insurance due a pandemic within a very short time. However, this is precisely what happened in the first half year of 2021.

1 Wiener Zeitung 29 May 2021, https://www.wienerzeitung.at/nachrichten/wirtschaft/internatio-nal/2106111-Shell-Urteil-Die-kleine-Klimarevolution.html

2 Insurance Insider 10 June 2021, https://www.insuranceinsider.com/article/28n8bi9v2ujwpprbdgmps/zurich-axa-xl-and-others-agree-to-pay-eur270mn-in-d-o-claims-over-vw-dieselgate-scandal

Financial Lines

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Ralph Hofmann-Credner
Founder and Owner
HOFMANN-CREDNER
Rechtsanwalts GmbH

Feed the world and save the planet

Half of the world's GDP is tied to nature, be it food production or water supplies. How can we feed the world's 7.9 billion people without exceeding the planet's limits? The United Nations estimates that 840 million people will be affected by hunger by 2030.

Climate change is just as evident. The intensification of agriculture, which has resulted in extremely high nitrogen emission, exacerbates the problem. It accounts for nearly 11% of the world's greenhouse gas emissions. Of particular concern are nitrous oxide emissions from over-fertilisation of land, which is 300 times more potent than carbon dioxide, causing global warming.

Tackling the challenge of feeding the world's population while solving environmental problems and preventing further global warming is not an easy one. The latter implies curbing and reducing the intensification of agriculture. This may lead to a reduction of land used for agricultural purposes, less protection of crops, and, as a result, less crop production. At the same time, this spurs outside-the-box thinking to find a compromise that could solve the dilemma. New ways of more "efficient agriculture", producing healthier pesticide-free products on smaller areas that are well protected from production risks (pests, diseases, natural disasters, etc.) could be the solution.

Preserving nature

The EU Green Deal developed in 2020 is a roadmap to more sustainable economies. It sets new targets for achieving greener agriculture over the next 10 years by:

- reducing the use of chemical and more hazardous pesticides by 50%,
- reducing nutrient losses by at least 50%,
- reducing fertiliser use by at least 20%,
- reducing the sale of antimicrobials for farmed animals and in aquaculture by 50%.

The goal is to help the EU's organic farming to grow, aiming at 25% of total farmland by 2030.

New technologies for global problems

The development of digital technologies, precision farming and the use of artificial intelligence can help humankind to some extent to produce sufficient food while conserving natural resources. For example, artificial intelligence and nanotechnology can be used to improve both crop and soil yields, while maintaining soil health and protecting the quality of the environment.

How can we help farmers cope with crises while still providing them with a fair and reliable income basis? How has the food industry adapted production and distribution processes to better meet the challenges of both climate change and government efforts, aiming at making agriculture more environmentally friendly? Without doubt, the food and agriculture sector is subject to great changes and transformations. However, these very same changes also bring about new risks. Now is the time to think ahead to identify these risks, prevent and reduce potential losses.

What are the risks?

- **Management will be more exposed to claims under new rules**
  Increasingly, management decisions will be guided by compliance with new rules, primarily related to the need to preserve the environment and maintain public health, i.e. in line with the EU Green Deal. As a result, the insurance industry will have to deal with potential new claims made against directors, government officers, shareholders and other stakeholders.
- **More cyber risks in the food and agriculture sector**
  More reliance on digitisation means more cyber threats. A modern, fully automated IT farm, for example, may suffer from business interruption and losses caused by cyber-attacks, software failures or human error.
- **Supply chain sustainability**
  Climate change not only creates new challenges for farmers and the food industry, it may also result in catastrophic losses. It is prudent to plan ahead and consider alternative resources, increased costs due to additional transport requirements or even a limited supply. In addition, one should not lose sight of new risks of a pandemic. These can be substantial as the Covid-19 crisis has shown since 2019. Various business sectors registered a serious shift in the structure of demand, experienced restricted labour mobility, personnel in the health sector was hit hard, the timely availability of basic resources was a challenge for farmers and the food sector alike, and different channels were needed to ensure food delivery. New biosafety requirements were set up, delays and disruptions in transport and logistics services became the order of the day, and the costs of international freight transport surged. Many of these consequences continue to affect businesses and peoples' lives.
- **Business interruption coverage in the spotlight**
  The insurance industry is set to increasingly focus on business interruption products. Nowadays, livestock insurers are opting for gross profit loss insurance rather than animal value insurance. At the same time, every hectare of land will have a higher value - subject to risks associated with reductions in land areas, an increase in the capital intensity of the industry and its digitisation.
- **Moving from conventional to organic farming despite higher production risks**
  The sustainable yield performance of organic farming is still a matter of uncertainty. Historically, conventional agriculture provided a better guaranteed protection of yields against adverse perils. The rapid transformation of many areas from conventional to organic farming, therefore, entails additional yield production risks. These should be taken into account and handled accordingly.
- **Modification of agricultural resources and new farming methods lead to new liability risks**
  New crops varieties, chemicals and fertilisers will be created in response to the increasing need to fight hunger and save the planet. Each of these new modifications involve unknown risk factors that may cause property damage and personal injury, which, in turn, may lead to additional claims and costs in case of product recalls. For example, there are special concerns and doubts about the effects of genetically modified organisms (GMOs) on humans. Several incidents cast a shadow on the safety of GMOs and, importantly, also on the ability to control the spread of these organisms in food production and distribution networks, not to mention the environment in general.
- **Increased risks due to a lack of water**
  Water, the world's most precious resource, also plays a key role in solving agricultural problems. Water is one of the key factors in the deployment of irrigation facilities, as more and more rainfed lands need to be irrigated due to desertification - a result of global warming. Unfortunately, many natural water sources have also become unreliable, more polluted, or both.
- **PPP will gain in importance**
  Stepping up public private partnerships (PPP) by introducing new agricultural insurance products to better protect farmers against catastrophic risks, such as drought and epizootic diseases, will do much to help improve the financial sustainability of the agricultural sector. Governments will be challenged to find ways to encourage farmers to buy more agricultural insurance. They may have to introduce compulsory baseline production insurance, tie prerequisite insurance policies to other government support, develop other measures to prevent the risk of crop and animal loss, and help farmers to define effective mechanisms to reduce losses.

Food & Agriculture

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Maksym Shylov
Group Practice Leader
Food & Agriculture

Brave new working environment

Corporations are caught between retaining employees and attracting new talents, adapting to new ways of cooperation and establishing a collaboration culture with new values. As employees' expectations are changing, employers are facing the challenge of providing working environments that focus on the individual needs of their employees, provide well-being and health benefits as well as opportunities for career development. An interview with Adam Riley, global Employee Benefits specialist and thought-leader.

How will the transformation of working environments affect employee benefit schemes?

Riley: Employees are looking to their employers to approach their health, wellbeing and work-life balance proactively. A benefits and wellbeing programme tailored to suit the employer's organisational, budgetary and employee needs is no longer simply a 'nice to have' but an essential component of the wider recruitment, talent retention and overall people risk management strategy.

Is there one solution which fits all?

Riley: A one-size-fits-all approach is unlikely to be effective, as different nations are at different stages in their awareness of and acceptance of the issue.

Has the focus shifted from attracting new talents to taking care of existing employees?

Riley: A bit of both! Employers, more than ever, will be revisiting their employee benefit packages and will be asking themselves whether the existing benefits effectively support their business strategies in mitigating risks, and whether their offer still fits the purpose in the years to come.

During the pandemic the spotlight turned towards employees' physical and mental health. How can employers address this sensitive topic?

Riley: Some twenty years ago no one even spoke about employee wellbeing let alone gave mental health too much thought. Due to the pandemic, there are many factors which may be affecting employees' mental wellbeing, such as prolonged social isolation due to lockdowns, digital fatigue, illness, bereavement, or anxiety about returning to work. Corporate wellbeing must therefore be on the agenda to support financial, mental and physical wellbeing. This wellbeing comprises a complex mix of dynamics and includes the corporate culture, the work environment as well as the physical, social, psychological and mental health of employees. According to recent research conducted by the World Health Organization[1], 93% of countries worldwide reported a disruption to accessing mental health services, with demand outstripping supply. Despite that, employers can use every workday to demonstrate that the steps they are taking to ensure their employees' wellbeing is high on their leadership agenda and embedded in the company's DNA.

Which new developments derive from the impact left by the pandemic?

Riley: The pandemic has been a catalyst for more companies to recognise that a global benefits strategy must be flexible enough to account for differences in culture, attitudes, benefit provision and healthcare systems. With light at the end of the tunnel, as vaccination programmes are rolled out globally, employers will need to do even more to support and retain their existing employees as well as attract the best talents. Prior to the crisis, working from home and flexible working models were on the rise. Global lockdowns have accelerated the need for businesses to adapt their approach not only to the world we work in and to flexible methods of working but also to changing HR policies and employee benefits strategies. Benefits that may have been effective and highly valued pre-Covid may no longer meet the evolving needs of employees.

What are the key challenges of reward and benefit professionals?

Riley:

- **Mental wellbeing**: The pandemic has exacerbated existing mental health conditions and has raised mental health concerns among previously healthy people because many new factors may now be affecting employees' mental wellbeing.
- **Flexible working**: Work locations and patterns may have changed forever, and businesses that previously did without remote working policies have now been forced to quickly adjust. Due to the absence of a physical workplace the communication methods that employers have adopted have changed as well. Effective communication will be vital in this "new virtual global transient world".
- **Financial wellbeing**: The pandemic has resulted in a divide between those who have coped well and those who have suffered financial hardships. Young people have been heavily impacted. According to LCP's On Point (February 2021) report[2], three in five of those aged 16-24 stated that their personal finances have been negatively affected because of the crisis. Reward will be challenged in managing increased anxiety around job security, financial risks and the uncertainty of this happening again. Employers need to consider if they have the tools, skills and support in place to help employees make informed financial decisions, regardless of their situation and geographical location.

What is your outlook on trends for 2022?

Riley: We expect benefits to become more employee-led in the future. Employees already want to select the benefits that suit them. Looking at evidence and developments, this trend is likely to stay. This means employers will need a multilevel benefit system where people can pick and choose. The value of an effective employee benefits package goes far beyond the traditional objective of recruitment and retention or relying on the traditional insured benefits. The focus is on wellbeing and fringe benefits that support corporate strategies. "Benefit customisation and choice" is becoming part and parcel of an HR & Benefits strategy that aims to tackle the changing demographics in an increasingly diverse and ageing workforce.

Using data analytics has become equally important. Data analytics empowers employers to build effective benefits packages and smartly assess how their insurances will impact on future costs, data management, recruitment, and any restructuring across their global footprint. Forward thinking organisations are adopting digital technologies and data analytics to ensure they can provide a benefits package that is tailored to the needs of their people and the organisation. These techniques also enable them to identify any problems that may arise, the usage and the engagement. The reward is more satisfaction among employees while the company gets the most out of the benefits it offers!

What is our role as consultants, risk managers, and trusted partners in this transformation process?

Riley: We need to be flexible and have far more knowledge of benefits than ever before – more so, we must truly understand the challenges health and benefit teams are facing and will face as they deal with the post-pandemic world as well as employees' changing expectations.

Global benefits are a complex issue. Furthermore, for the first time organisations are faced with five different generations of employees, starting with those in their 20s to those who are still working into their 70s and beyond. Add to that an ageing population around the world. These circumstances result in many socioeconomic risks with more people claiming pension benefits and rising numbers with chronic health diseases.

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Adam Riley
Director of Global Sales
Howden Global Employee Benefits Practice Group

Gabriele Andratschke
Head of Group Human Resources

1 https://www.who.int/publications/i/item/978924012455

2 https://www.lcp.uk.com/media-centre/2021/02/on-point-paper-britain-s-accidental-savers/

Quo Vadis sanitas?

The world around us is changing. Peoples' needs are changing, and in the face of the ongoing Covid-19 pandemic, there is a lot of uncertainty: Can the medical sector and accompanying technology companies meet these growing challenges? What will be the impact on risk management in the healthcare system?

There are three megatrends which will affect the entire healthcare system in the near future: an increasing and aging population, lack of medical staff as well as a rising dependency on new technologies.

Overaged population

In 1950, the earth's population was 2.5 billion people, in 2019 it had grown to 7.7 billion. According to United Nations projections, our population will count about 10 billion people by 2060. Besides population growth, aging presents another challenge. Data published by the European Union[1] shows that 65-year-old and older people will account for 28.5% of all EU citizens in 2050. In other words, every third European will be a senior citizen.

This also means that the current healthcare system will not be able to meet the expectations and demands of its patients. As the life expectancy of Europeans increases, the period in which they might become chronically ill and require intensive medical care will increase as well. Amongst the younger generation new diseases are emerging, including those related to civilisation. Added to that, the number of skilled medical staff is decreasing (already a third of them are considering a resignation), and so is the number of hospital beds. According to some of forecasts, Europe will be faced with a shortage of over 4 million medical staff members by 2030.

Notwithstanding that, the pandemic has revolutionised the healthcare industry in a rather positive way. It is difficult to imagine another business sector that had to adapt to the crisis in such a short time, implement new client servicing models and increase the use of technology.

At the beginning of 2020, the worldwide healthcare industry had to grapple with a supply chain crisis as well. The demand for personal protection equipment spiked within weeks and it took a few months until suppliers could again meet this demand. At the same time, hospitals and doctors were so engaged with the care of Covid patients that unfortunately other health disorders were neglected. This gave impetus to the development of telemedicine which, until 2019, was tucked away in a niche market.

Upsurge of new technologies

Telemedicine comes with numerous advantages. Most of all it offers a wider spectrum of services, it is easy to make an appointment, and it is time-efficient for the medical doctor. The implementation of electronic prescriptions was a milestone in many EU countries.

Telemedicine also comes with the challenge of risking errors and omissions. Shorter appointment times and not being able to see the patient in person may in some cases lead to a misdiagnosis. And while telemedicine may be convenient for most people, those who are tech-reluctant could be excluded or prevented from the online accessibility to medical services.

The use of new technologies in medical services is becoming more common year after year. For example, the use of pulse oximeters has supported the treatment of Covid patients, giving hospitals more room for patients requiring more urgent treatment. Smartwatches and remote stethoscopes are already great helpers and may speed up patient diagnosis. Typically, such opportunities are accompanied by threats. While the development of technology, the use of Internet of Things (IoT) in medical services and artificial intelligence can support doctors with a preliminary patient diagnosis, and boost their efficiency, there are also risks. Human lives depend on the technology used. It must therefore be fully reliable and medical staff must be well trained and comfortable in using it. Just think of the Da Vinci surgical robot: It draws a very thin line between product liability and the professional liability of medical entities using it.

Emergence of new risks

The increased use of technology over the past few years has resulted in a greater exposure to cyber risks. In 2020 and 2021, many examples revealed the vulnerability of software, making it an easy target for cyber criminals. Hospitals, although a critical infrastructure, are often underfunded when it comes to cyber security. Hence, cyber-attacks, using ransomware to encrypt software and extort money from victims are a real danger to hospitals. According to Check Point data[2], the number of attacks against healthcare entities has increased by 45% globally since November 2020. Central Europe has been the most affected with a 145% increase. Eastern Europe is not far behind with a 97% increase. Criminals are looking for fast and easy money. Healthcare unfortunately is an easy target for them.

Medical documentation is nowadays purely digital. The mere fact that this involves sensible data should improve data security. Nonetheless, data breaches, exposing such sensitive data, are very valuable to cyber criminals. According to Tenable data published in January 2021[3], healthcare entities are the most exposed industry. Data breaches were the cause in 24.5% of all cases, resulting in over 22 billion records exposed. The shared use of technology creates new access points which cyber criminals may use to harm any apparatus connected to internet. In healthcare, this creates some very scary scenarios.

The current situation, combined with existing and new megatrends, poses a huge challenge for all those involved in and responsible for risk management in the healthcare industry. Even though new technologies greatly support the industry, they come with new risks that must be managed. We are also faced with an increasing number of people needing medical services and a decreasing number of medical staff able to provide these services to them. The widespread digitisation in the market, coupled with process automation will require new types of risk specialists. Specialists who are experts in defining, predicting and transferring these risks - just in case, when the worst case scenarios do occur.

1 https://ec.europa.eu/eurostat/documents/3217494/10166544/KS-02-19%E2%80%91681-EN-N.pdf/c701972f-6b4e-b432-57d2-91898ca94893

2 https://blog.checkpoint.com/2021/01/05/attacks-targeting-healthcare-organizations-spike-globally-as-covid-19-cases-rise-again/

3 https://www.tenable.com/cyber-exposure/2020-threat-landscape-retrospective

Healthcare

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Patrycja Paluszynska
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Green responsibilities on the rise

It is common knowledge that the insurance market is navigating through a difficult period. A lot has been said about increasing premiums and decreasing limits. However, little attention has been paid to the changing risk landscape and the impact that these changes could have on insurance contracts.

"Bricks are turned into batteries"[1], "WE CARE. For PEOPLE the PLANET and the FUTURE"[2], "Adding the Extra to the Ordinary"[3] are examples of corporate vision statements and headlines of articles that are published on the internet, in print media, company reports and on websites. Among other things, these statements mirror the ability of innovation and sustainability and offer a glimpse into the future development of companies. At first glance these statements have absolutely nothing to do with changes in the risk landscape. Bricks have been used as a building material for thousands of years, sustainability is an age-old principle in many business sectors, and machine-driven products such as elevators have been produced and serviced for decades.

ESG efforts change liabilities

Looking deeper, however, it quickly becomes clear that these statements also contain significant changes in risks and show similarities. A brick that is not only used as a building material, it also provides the storage space for electricity, representing at least another, if not higher, product liability risk.

Less obvious is the fact that companies' sustainability statements may result in new liabilities. ESG is a voluntary contribution by businesses to sustainable development that has been increasingly codified in laws. A violation therefore no longer remains without sanctions but comes with enormous penalties and might lead to claims for damages.

For example: In Italy, ENI was sentenced to a fine of 5 million EUR for describing a diesel product as "green" and thus deceiving consumers. In the Netherlands, a ruling by a civil court required Shell to change its guidelines and requirements to ensure that the Shell Group's CO_2 emissions in 2030 would be 45% lower than in 2019.

ENI's "green" diesel was probably more expensive than "normal" diesel. Consumers could claim for damages because they had trusted the environmental friendliness of the green diesel, refuelled their cars with it, and then sued ENI for the additional expenses they had. Looking at the judgement against Shell, a similar situation might arise. If Shell does not achieve the target set out in the court decision by 2030, and if, for example, harvests fail due to environmental influences that can be traced back to climate change, farmers affected by crop losses might sue Shell for damages as a contributor to the climate change.

Not only product changes, but also changes in the company's offerings may lead to new risks. The statement "Adding the Extra to the Ordinary" is just one of many examples that clearly shows that more and more manufacturing companies are evolving into system providers. Over and above typical maintenance services, companies have added a wide range of services to their portfolios, including software solutions or product trainings. Manufacturers therefore not only have to consider production risks but also risks associated with the provision of services.

EU Interests: Consumer Protection

These developments are accompanied by the EU paying more and more attention to consumer protection. From today's perspective, the exemplary claims for damages against ENI and Shell are rather unlikely in most European legal systems, since class actions, common in the USA, are not possible in most European countries. However, the recent diesel scandal has shown that such claims could in principle also be raised in Europe. Unlike in the USA though, far more stringent legal conditions would apply. This current lack of class actions can be seen as a kind of protection of European companies against the risk of extremely high consumer compensation claims.

This protective cloak might soon be lifted. In November 2020, the European Parliament passed the "Directive on representative actions for the protection of the collective interests of consumers" to protect collective consumer interests from breaches by companies under EU law. The directive is to be implemented in national legal systems by 31 December 2022. This new guideline will not only lead to changes in the basic liability of companies but will greatly increase their risk of being faced with extremely high compensation claims.

"We are well insured in any case"

This statement is often heard in connection with claims. In view of the changing risk landscape, however, the question arises whether the existing insurance solutions also offer the expected and necessary protection. Claims for damages from services generally comprise financial losses that are not derived from personal injury or damage to property (so-called "pure financial losses"). A violation of ESG rules can also result in property damage or personal injury, but the greater number of possible damages will be associated with pure financial losses.

In contrast, covers from traditional business and product liability insurances are specifically geared towards property damage and personal injury. Including pure financial losses is only possible to a limited extent. Even if so-called "open pure financial losses" are included in a liability contract, the limits agreed for this extension will not be enough to cover the sums claimed in the event of a violation of ESG rules.

Corporate financial loss coverage

D&O insurance usually offers managers protection against ESG claims. But what about the companies, are they adequately protected? In most European legal systems, third parties cannot directly claim damages from managers, only from companies. Should they be found liable for that damage, they can take recourse to managers for compensation payments. The insured event according to D&O is only triggered when the company claims compensation from the manager. To insure this recourse, companies bear the burden of enormous advance payments when it comes to ESG claims. Whether the D&O insurer pays the damage at the end of the day or whether the D&O insurer's services are limited to defending the manager depends on each individual case and cannot be foreseen. Adequate insurance protection for the company itself can only be built up by means of appropriate financial loss coverage. Currently available insurance products, like the employer's practice liability, provide only partial protection against ESG risks. Notwithstanding that, the insurance market is increasingly under pressure to insure companies against ESG losses in their entirety. To better address this need, insurers will have to come up with appropriate product innovations.

Already, the market is reacting to the changing risks of manufacturing companies that are evolving into service-led businesses. Various insurers offer products that specifically address the risk of pure financial losses for companies offering software solutions in addition to their products.

The upcoming renewals will continue to be driven by a highly competitive insurance market under pressure. Comprehensive risk analyses combined with a presentation of the risks will be necessary for a successful renewal. The related work should be used to check the extent to which individual companies' risks have changed and whether existing insurance policies still offer sufficient protection.

1 Energie leben at: 7 December 2020, https://www.energieleben.at/good-news-smarte-ziegelsteine-speichern-energie/

2 sOliver https://www.soliver.at/landingpage-we-care-LP_WECARE.html

3 Schindler Group: https://www.schindler.com/com/internet/en/home.html

Liability

Even with the strictest safety regulations and the best organisation of business processes, mistakes happen when people are at work. Our specialists support you in analysing your liability risks and avoiding damage. The international team offers local service, global technical know-how and outstanding industry knowledge.

Thomas Herndlhofer
Practice Leader Liability
GrECo Austria

Rescue for the sinking ship

The EU is on course to realising a fully sustainable maritime transport sector.

The maritime transport sector emits around 940 Mt CO_2eq annually and is responsible for about 2.5% of global GHG emissions. Within the EU (i.e. for ships calling at EEA ports), CO_2 emissions from maritime transport increased by 48% between 1990 and 2008. They are expected to reach up to 86% above 1990 levels by 2050.

Current situation

Since 1 January 2018, large ships (over 5,000 gross tonnage) arriving to or departing from ports in the European Economic Area already have to monitor and report their CO_2 emissions, fuel consumption and other parameters, such as distance travelled, time at sea, etc., according to Regulation (EU) 2015/757 on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport (thereafter the "MRV Regulation"). The first available data show that the 10,800 ships covered by the MRV Regulation emitted more than 130 million tonnes of CO_2 in 2018, which is more than the annual CO_2 emissions of Belgium.

Reflecting the need for steeper emission reductions, the EU Commission has proposed that by 2030 sectors covered by the revised EU Emmission Trading System (ETS)[1] will need to reduce their greenhouse gas emissions by 61%, compared to 2005 levels.

To strengthen the role of carbon pricing in the transport sector, the EU Commission has proposed to gradually extend the current ETS to the maritime sector over the period 2023 to 2025 as shipping has been the only transport sector within the European Union without any emissions regulation.

1 Power sector, energy-intensive industry sectors including oil refineries, steel works, and production of iron, aluminum, metals, cement, lime, glass, ceramics, pulp, paper, cardboard, acids and bulk organic chemicals, as well as aviation and maritime sectors.

Furthermore, the EU has adopted Regulation (EU) 2020/852 - The EU Taxonomy for Sustainable Investments, i.e. "Taxonomy Regulation" (TSC) - which came into force on 12 July 2020. Starting 1 January 2022 at the earliest, the TSC will be applicable to all maritime transport, stipulating zero direct (tailpipe) carbon dioxide emissions for vessels. Notwithstanding this, certain exemptions apply.

Future

The EU Commission has also proposed to promote the uptake of sustainable fuels in the maritime sector, complementing the ETS and making polluting fuels more expensive for suppliers. The Fuel EU Maritime proposal to promote sustainable maritime fuels will create new requirements for ships, regardless of their flag, arriving to or departing from EU ports, by imposing a maximum limit on the greenhouse gas content of the energy they use and making these limits more stringent over time.

The EU also aims to take other greenhouse gases besides CO_2, like methane, into account. The drilling and extraction of natural gas (the source of liquefied natural gas - LNG) from wells and its transportation in pipelines results in methane leakages, a primary component of natural gas that has a far more severe impact on the environment than CO_2. This needs to be considered when analysing the environmental impact of various fuels and their sustainability.

Additionally, shipping companies would be required to reduce their carbon intensity (CO_2 emissions per transport work) by an average of at least 40% by 2030 for all ships. The EU's efficiency target of 40% less CO_2 per ton of freight transported and nautical mile travelled will have a significant effect: It will provide a real incentive to build more efficient ships, whether they operate within or outside the EU.

Sustainable shipping is not limited to the seas alone. The EU has set up initiatives to motivate ports and ship owners to invest in shore-side electricity and reduce ship emissions in the port by adopting zero-emission berth standards.

International trade will continue to increase in the future. Currently, the international shipping industry produced just over one billion tons of greenhouse gases (GHG) in 2018, almost 10% more than in 2012. Today's existing fleet and technology will not get the shipping industry to meet the IMO's GHG target of a 50% cut in emissions by 2050 or even stricter EU targets. This will require substantial investments in research and development as well as big changes in ship design and propulsion. In turn, this will have implications in terms of both risks and supply chains. One fact remains though: The ships of the future will look a lot different in 20 years' time.

The world's largest shipping company Maersk has reported that half of their top-200 customers have defined net-zero or science-based carbon reduction targets. These customers expect service providers like Maersk as well others to provide solutions that help them solve the supply chain emission problem. To meet these customer needs and fight global warming, Maersk has conducted several analyses of the available technology and fuel options for net-zero carbon operations. Some of the technologies already available are mature enough for pure net-zero vessel technology without needing any transitional technologies.

Other major shipping companies are looking for similar solutions, such as biomethane, a second-generation biofuel. However today, the only commercially available options to significantly reduce emissions from the shipping industry at scale include improving energy efficiency, LNG, or biofuels. None of these are going to provide a long-term or fully-fledged solution alone. We therefore need to ask ourselves: How will these EU climate initiatives affect the availability of the fleet? Will they increase hire rates? What are the additional costs due to the introduction of new-zero emission technologies?

The new regulations, although necessary in the present context, will most likely entail changes in the supply chain.

Market Overview and Expectations

According to an Allianz study[2], some 49 total losses of vessels were reported globally in 2020, the second lowest total this century and a 50% decline over 10 years. The number of shipping incidents declined from 2,818 in 2019 to 2,703 in 2020, machinery damage being the main cause. Eighteen cargo ships were lost in 2020, these being 37% of all vessels lost.

However, the number of fires or explosions resulting in total losses hit a four-year high of 10 in 2020. Container losses also spiked, with more than 3,000 containers lost at sea in 2020, and over 1,000 falling overboard during the first months of 2021 according to Allianz. Southeast Asia, the global loss hotspot, accounts for one third of all losses, the Eastern Mediterranean and the Black Sea being the second major loss locations.

Marine insurers are still expecting a 10%-20% rise in shipping firms' hull and machinery insurance premiums and a 5%-10% increase in protection and indemnity insurance premiums during the next 12 months for accounts with favourable loss records. Furthermore, a successful renewal depends on size/type, renewal rating history and relationship with the insurer. There will be extensive adjustments due to loss records, with owners whose records are deemed adverse likely to face changes in deductibles and/or changes in terms and conditions.

2 Allianz Safety and Shipping Review 2021 as per Lloyd's List Intelligence Casualty Statistics.

Marine

The maritime sector faces key sustainability challenges and the coming years will see a number of potentially very disruptive transitions. Mitigation of the risk arising from these changes is the expertise of our marine team.

Kristo Ristikivi
Group Practice Leader
Marine

Setting the technological pace

Many discussions have already taken place concerning cars' technical developments (self-driving cars) or new and different business models (e.g. car-sharing). No doubt, the future of the motor insurance business will look quite different than in the past years. Some even believe that motor liability insurance might be replaced by product liability insurance because of self-driving cars. But what can we really expect in the next 20 years in the EU?

Self-driving cars

Yes, we are testing them, some of the cars offer additional functionalities, the driver though is still needed behind the wheel. Full self-driving cars are not on the streets yet, and if they come, they will probably be mostly used in cities and with low market penetration. Furthermore, self-driving cars come with functionalities that are quite expensive. They may not be affordable for most of the people. We expect to still see ordinary cars on our roads for at least the next 20 years or even longer, especially if we look towards the countryside. The same applies to trucks, busses, tractors and so on. We therefore do not believe that motor liability insurance will be replaced by product liability insurance in the next 20 years – at least not yet.

Less accidents, yet higher repair costs

Smarter cars can avoid a lot of accidents and thus reduce the likelihood of damages. For example, a car's automatic braking system reacts much quicker than any human would. Hence, the accident frequency will be lower the smarter cars become. However, in case of an accident, repair costs are much higher because smart cars are more complex. While there may be less accidents with smart cars repair costs will be higher. Therefore, we do not expect a major decrease in insurance premiums.

Driving behaviour versus anonymity

Another very interesting feature may become a game changer. Knowing how much we drive, how we drive and where we are heading is part of the data that is already stored in smart cars today. But, for the majority of the people this bears a risk because they give up their anonymity, especially if their data is used by the insurance. It might work as long as the insurance premium remains unchanged but sharing data with the insurer as part of a risk assessment might be a problem for most drivers. Considering data protection discussions about the extent to which we willingly share or even give up data, we may want to opt for more anonymity in the future. Notwithstanding that, as cars' technical functionalities become smarter, some of the data they provide will be used by the motor insurance to assess individual risks. However, in the next 20 years, the majority of motor insurance risks will probably not be calculated on the basis of data provided by driving behaviour.

Sharing economy principles

Car sharing offers new and interesting opportunities and steps up mobility. New things are always interesting, everyone want to test them. This type of service will attract a specific target group of customers, mostly in bigger cities. The price of the service will be decisive for customers choosing this option. Despite the merits of the service provided, there will still be many people who prefer their own car and who would not want to share it with someone else. During the Covid-19 pandemic, more people also bought a car to simply avoid public transport. While sharing economy principles are on the rise and we recognise the opportunities that come with them, we have not identified a trend that points towards less cars in the near future or fewer cars being purchased.

Regulations and compliance

Regulations are always a consequence of real life. First, there are new opportunities, innovations, and start-ups. In a second step, regulations follow. The BOLT or Uber taxi service platform serves as a prime example. When they launched their services there were no regulations. BOLT and Uber had more freedom to structure their business. Once it became clear that the service they provide is a taxi service, they had to comply with old and even new regulations. The same will apply to the use of customer's personal data in insurance, self-driving cars, everyday traffic and so on. In the EU, we are faced with all kinds of regulations. The main question is how to strike a balance between innovation, customer protection and regulations.

As far as cars are concerned, we already see more innovation, new features, and new opportunities on the horizon. However, in terms of motor insurance, we do not expect any major changes in the next 20 years – especially in the case of MTPL (motor third party liability) and MOD (motor own damage) insurance.

New ways of insurance purchase

Customers consider insurance as boring, very difficult to understand, and it certainly is not among the most popular things they purchase. Therefore, the way insurance is sold or used will change. For example, motor insurance will be part of a car purchase or rental. In the case of an accident, the car will be repaired at the dealership or at the agreed repair shop.

Another option for customers will be a subscription-based insurance that goes hand in hand with one's mobile phone invoice. By treating motor insurance as a commodity, the way it is bought and used will change significantly in the next years.

Fleets make us of driving behaviour measurement

Already, companies operating truck, bus or even tractor fleets use different driving behaviour measurement systems to better understand how the driver operates the vehicle, how much fuel is consumed and so on. Some of the companies even offer their drivers an additional bonus if they save on fuel. Such measurement systems are not yet widely used for insurance purposes. We expect their usage to pick up in future because companies will then be better able to control their insurance costs. All other business models based on sharing economy principles, BOLT or Uber taxi services will probably also use this solution. We therefore expect an increased use of driving behaviour measurement systems linked to the motor insurance of fleet owners and operators in the next years.

Different insurance premiums for smart cars

The smarter cars become, the more safety and convenience functions tare packed into them. Likewise, regulations require minimum standards for cars equipped with safety features, such as the e-call emergency function. Today however, insurers do not yet use such functions in their motor insurance risk assessment procedure. This will change in the future. For example, in cities, most accidents are rear-end collisions. Cars equipped with specific city assistance packages pose a lower risk. We can therefore expect risk assessments based on cars' safety systems to gain in importance in the next years.

More insurance product developments

Motor insurance used to be a pretty standardised product. This will change. First, the MTPL will be addressed, especially when dealing with older cars. Because clients' needs, are more complex than a standard MTPL cover product development and packaging will have to be stepped up. The same applies to MOD. For example, the cover for a trailer, for bicycles transported on a car roof or for a roof box with contents usually requires add-on covers. Product developments will therefore pick up in the next years.

As technological progress in the automotive industry and mobility sector has picked up pace, we may soon no longer be driving our cars by ourselves, nor might we own them. While these changes are imminent, no major changes are expected in motor insurance volumes in the next years. MTPL products will also continue to serve their purpose. What will change is the way motor insurance will be sold or purchased. Insurers are therefore challenged to come up with new products.

Igor Fedotov
CEO IIZI Estonia
GrECo Baltics

Hand in hand with a shift in mindset

This summer, Central Europe was hard hit by a severe weather disaster. The low pressure system Bernd caused major flooding and flash flooding in many areas in Belgium, the Netherlands, Austria, Switzerland, Germany and other neighbouring countries. At least 230 people died. Considering the number of victims, it was the worst natural catastrophe in Germany since the storm surge in 1962. Many houses were damaged or even swept away by the floods. Roads, bridges and other important infrastructure facilities were destroyed. The huge damage required massive aid and rescue measures in some of the affected countries, and the estimated economic loss totalled more than 10 billion EUR. Insurance companies will bear about half of this amount.

These extreme weather events have once again shown the obvious effects of climate change. More and more individuals, companies, and the insurance industry are challenged to change their values as well as their mindset. Measures to slow down or even stop climate change will therefore accompany us more and more often in the future. There will be a shift from traditional to alternative technologies, especially in production processes. One example is decarbonisation, i.e. phasing out coal as a first measure, followed by abandoning the use of fossil fuels for industrial processes, heating, and as means of operating transport. Most of these steps will impact on the future employment situation in all areas of fossil fuel production. The switch to new technologies and the availability of alternative resources will also give rise to new risks.

Setting of legal framework and voluntary goals

The EU Taxonomy Regulation defines the criteria for sustainable investments. At the same time, it requires financial institutions (including insurance companies) to model and quantify the effects of ESG factors (in particular climate change) in their regular Solvency II stress tests and report on the results. Some insurers have already started to restrict their portfolios to "clean energy" and no longer provide capacities for e.g. coal-fired power plants. The Net-Zero Insurance Alliance, a strategic alliance of several well-known insurance groups, has set itself the goal of converting their underwriting portfolios to net-zero greenhouse gas emissions by 2050.

Insurers can individually decide how to achieve this goal. The list of potential measures includes:

- A definition of underwriting criteria for the most intensive greenhouse gas activities in the underwriting portfolios and the
- Integration of independently defined, company-specific net-zero and decarbonisation-related risk criteria into risk management frameworks.

Insurance in a hardening market

The forecast increase in severe weather catastrophes and the resulting damage will lead to higher losses for insurers in the future. It remains to be seen how premiums, specifically for covering natural hazards, will increase and whether there will still be sufficient financial capacities for the insurance of such events.

In the commercial insurance sector, we have been in a hard market phase for the third year in a row. We have taken note of the fact that the insurers' risk appetite, especially in sectors with traditionally negative loss records (such as the wood, chemical, and food industries among others) is significantly reduced. Hence, it is more difficult to provide sufficient insurance cover for such industrial risks if they are increasingly exposed to natural hazards. In such cases, the premium level is often no longer decisive. It is, however, far more important to find insurers who are willing to write such risks.

Analysing risks and planning ahead

The prevention of damage from severe weather events will play an important role in future risk management. To avoid the serious effects of climate change, all stakeholders involved must pull together to reduce greenhouse gas emissions. Given the increasing introduction of regulations and measures, companies from CO_2-intensive industries will be faced with special challenges.

The analysis of the potential threat from storms and natural hazards will gain in importance in the future. For example, companies looking to invest in a new location are advised to examine the possible exposure to earthquakes, floods, storms, hail, or other risks as part of their project risk assessment. Similarly, the infrastructure of existing buildings and production plants must be robust and secure to withstand the threat of natural forces. To be better prepared for a possible disaster, appropriate precautions should be taken in the form of emergency plans.

In this context, supply chains also play a key role as disruptions of transport routes due to natural disasters often cause critical bottlenecks in the supply of production-relevant raw materials. Business interruptions are the result. Thinking ahead, setting up alternative routes and supply chains and creating preventive measures can help to avoid major disruptions in production processes in the event of a natural catastrophe.

Alternative insurance solutions take over

Climate change will therefore require higher quality risk management and, at the same time, new, alternative insurance concepts to cover natural perils. Already today there are parametric insurance policies or special "Named Perils" excess layers in addition to conventional insurance coverages available. Parametric solutions trigger a payment from the insurer when predefined parameters (e.g. a defined flood level at the insured's location) are reached, whereby excess layers provide coverage above a certain deductible, usually following the conventional insurance programme.

Another approach for providing adequate insurance protection for natural disasters are state pool insurance solutions which are already established in some countries. Following the recent severe weather events, insurance associations across Europe are now requesting general compulsory insurance for natural hazards as well as the collaboration with governments to receive their backing in future.

Property

System transformers lead to new challenges on a company´s risk landscape. Climate change not only triggers a higher natural hazards exposure, it also drives the need for new products and processes to achieve certain ESG goals. Our risk specialists accompany our clients in the implementation of their ESG goals and support them in all transformation processes towards more sustainability.

Rudolf Schiel
Practice Leader
Property & Engineering
GrECo Austria

Accelerated change

The Covid-19 pandemic has accelerated existing trends which will continue to shape the real estate sector in the years to come. Digitisation, remote working and online shopping are driving these trends. The industry's environmental, social and governance agenda reinforces them.

To mitigate the disastrous effects of lockdowns on their economies, many states have made unprecedented levels of fiscal and monetary stimuli available. This loose monetary environment helps keep interest rates low and reinforces investment in the real estate sector, which has always been considered a safe haven during crises. At the same time, real estate offers compelling yields for investors.

Lenders, however, have adopted a more cautious stance. Increased uncertainty with regards to businesses being able to operate and earn the money to repay loans against the backdrop of global supply chain disruptions have led to tougher lending criteria. Government subsidies and postponed payment obligations are expected to end soon. Inevitably, there will be some distressed debt as a result. Banks that have pulled back have at the same time opened up the opportunity for non-bank lenders. Yet, the cardinal issue in real estate remains: the solvency of tenants.

Residential vs. office sector

Residential real estate develops steadily, with housing investments being part of an ESG-driven search for affordable housing that includes environmental aspects in design and execution. The office sector, however, is subject to fundamental change.

Though offices in many regions have opened again and businesses have returned to normal operation for the time being, the disruptive forces of the pandemic have shown that other organisational structures and new ways of workforce interaction led to changing requirements in office space. Employers and employees alike see the benefit of avoiding long commute times by working from home. Although voices proclaiming the end of the office have become quieter, it is unlikely that the majority will switch to pure remote operation. Rather, mixed working models will be implemented, leading to major shifts in the market. This trend also coincides with an increased focus on quality of living. Above all it has to be borne in mind that, as time goes on, the upsides and advantages of actual interaction among colleagues in the office will retain their importance even though office space may be used differently than in the past.

The hospitality and retail sectors have been hit the hardest because most capital will continue to flow into other sectors that promise greater stability or even growth. The physical retail sector was affected by an increasing shift towards online sales already before the outbreak of Covid-19, the exception being essential and convenience shopping as these sectors were also largely exempted from lockdowns.

Environmental affairs

Decarbonisation is an ubiquitous term nowadays. Although discussions about climate change have been around for the better part of the last half century, it is only in the past 18-24 months that these issues have received the industry's focused attention. The dynamics of climate change are currently still driven by finance providers, who pledge many of their funds and products to the cause of acting responsibly and in accordance with ESG criteria. Larger tenants reinforce the dynamics by actively requesting ESG-compliant assets and thus boost the demand.

But environmental concerns are also found in many other contexts. Growth and expansion for instance inevitably lead to questions around soil sealing. This is defined as the covering of soil by buildings, structures, and other layers with completely or partially impermeable artificial material such as asphalt or concrete. It is one of the most intense forms of land take and often irreversible. Soil sealing is directly associated with other soil threats, for example soil biodiversity, flooding and landslides, soil compaction and soil contamination.

Most social and economic activities require some form of land take and sealed areas. An expansion of existing settlements puts pressure on sites previously being used for agricultural purposes. According to the European Environment Agency, the main drivers of land take between 2000-2018 were industrial and commercial land use as well as the extension of residential areas and construction sites. In this period, land take in the EU28 amounted to 539 km^2/year, consuming 0.6% of all arable lands and permanent crops, 0.5% of all pastures and mosaic farmlands and 0.3% of all grasslands. To counter this development, a three-tiered approach is advised, which consists of limiting (L), mitigating (M) and compensating (C) soil sealing. Various measures such as green roofs, permeable surfaces for driveways, reuse of topsoil, but also de-sealing exist already and are among the issues any real estate developer must deal with.

The power of new technologies

New materials are being tested and introduced to make buildings more energy efficient and reduce the carbon footprint while stepping up durability as well as resilience against adverse climate conditions. As climate change, wildfires and floods appear almost every day in the news, developers, tenants and governments alike are keen on bracing themselves for the future. France for instance is actively seeking a way to "heatwave proof" its cities to make them more liveable during hot summers. Urban heat islands are a new challenge, as they do not cool off during nights, putting strain on the population. At the same time, firefighters struggle to control blazing fires in the surrounding rural areas.

Technology is rapidly changing the way we live and work. Big data, artificial intelligence and IoT are key topics for any real estate development. State-of-the-art sensors can assist in predictive maintenance and optimise both usage and the energy profile of buildings.

Solutions for emerging risks

The insurance industry is connected in several ways to the real estate industry. It is one of the largest investors, as insurers are bound to have a stable investment portfolio for the funds entrusted to them in the form of premium payments for life and other insurances. Furthermore, margins in real estate are still attractive given the low interest rate environment, and in case of a higher volatility of prices or an inflation in the Eurozone it is also a good hedge against that.

The real estate industry is also key to insurance companies' operational business, protecting its clients against the adverse effects from the development and operation of assets. In traditional lines such as property insurance and general liability, prices have recently risen, reflecting the negative results insurers have experienced in a competitive low premium environment. Recent claims have reinforced the focus on business interruption, be it due to tenants going out of business or the increased awareness in the wake of the Covid-19 pandemic that such events can endanger the very existence of a business operation.

Digitisation leads to new exposures in terms of cyber insurance for real estate operators in all sectors. Specific insurance solutions can help to counter the threat emanating from the cyber sphere. Less widely known products such as parametric insurances or loss of footfall insurance cover the probability of a predefined triggering event happening. They are detached from the former principle that damage to one's own insured property is the only trigger for insurance coverage.

As far as real estate investment or asset management is concerned, there are an increasing number of financial professional liability claims. Insurance products like an Investment Management Insurance in the form of a multiline insurance bridge the gap between a cover for criminal deliberate acts of employees, directors and officers and a liability cover for financial loss due to wrongful professional acts. They are a valuable insurance proposition for real estate investment companies and fund managers.

Real Estate

Projects and real estate developments are major investments that require a financial model to optimally reflect all underlying assumptions that may affect the investment decision. We provide sound risk management and insurance solutions that reliably help you to ensure a successful project completion.

Richard Krammer
Group Practice Leader
Construction & Real Estate

Rethinking the energy of the future

We are at the crossroads of the fastest and most profound disruption the energy sector has seen since the beginning of the industrial revolution. It is an irreversible process driven by key technologies: solar power, wind power and battery storage systems. Hydrogen and bioenergy are still underrepresented because their technological progress is only in its infancy. We yet have a long way to go because a successful energy transition, i.e. a 100% substitution of fossil fuels with renewable energy, including green hydrogen, hydropower and biomass, might only be reached by 2050. An analysis conducted by RethinkX[1], an independent think tank, has shown that 100% clean energy from a combination of the above-mentioned sources is both physically possible and economically affordable. And this is just the beginning. Coal, gas, petroleum and nuclear assets will become stranded during the 2020s because investing in these technologies will no longer be rational.

The role of insurance

Insurers are faced with a big challenge during the energy transition: The past loss experience on which they have based their forecast models can no longer be used for predictive future scenarios. On top of that, new risks will emerge as technological developments associated with solar, wind and battery storage infrastructure advance even more rapidly.

It may become more difficult to put a price tag on physical risks because the transformation from hazard to exposure to damage and its manifestation in cash flows will be hard to model. According to a Harvard Business Review research, onshore and offshore large risk losses amounted to 60 billion USD in the last 30 years.

Insuring renewable energy should present an intuitive alternative to fossil fuels. Indeed, prospects for insurers look very promising. However, the renewable energy sector must still grow considerably to replace the revenue generated by the fossil fuels sector. To date, renewables still play a minor role in the worldwide energy insurance sector, which generates roughly 14 billion USD in premiums each year. Renewable energy insurance only generates an estimated 500 million USD in premiums per year.

Insurers are in the business of taking risks, yet they also need to make a profit. They allocate capital, using historical data and other factors to calculate the right mix of aggressive and conservative risks, and tend to balance both frequency and severity. This does not mean that solar power and other renewables are unattractive to the insurance industry. On the contrary, renewables are the future of insurance just like they are the future of energy. Insurers are therefore challenged to understand, model, and price policies more effectively, especially as alternative energy continues to evolve.

Rocky road

If energy transition is to succeed in the next 32 years, two goals will have to be reached:

- The renewable share of electric power would have to increase from currently 15%-20% to 100%
- The share of electricity in the global energy mix would have to increase from currently 18% to 100%;

This means that the current renewable production would have to increase by a factor of 60!

The American climatologist Ken Caldeira has estimated that we would need to develop the equivalent of the energy produced by a nuclear power plant every day in a fifty-year time span. At the current rate however, the energy transition will take 363 years.

Although renewable energy has clear benefits with respect to reducing greenhouse gas emissions, it has some inherent limits. Five major obstacles would have to be overcome on the road to energy transition:

- **Space**: Regardless of wind, solar or battery storage, these facilities require large areas of land. Solar parks and wind farms are usually placed on agricultural land and therefore can cause land shortages, a displacement of the population, and they have a negative impact on biodiversity.
- **Resources**: The dependency on huge amounts of material and natural resources such as steel, concrete or rare natural metals accelerates the rapid depletion of our planet's resources. Economics teach us that these supplies will not be depleted because prices increase, and technological innovation will enable the use of poorer quality ore to maintain production levels. However, obtaining poorer quality ore means more invasive and energy-intensive methods. The outcome is a vicious cycle: to produce more energy, more metals are necessary, and to produce more metals from low-grade ore requires more energy. Already there are bottlenecks in the production facilities for solar modules, wind turbines, blades, transmission and distribution lines.
- **Transmission**: We are used to having electricity when we need it. Since it cannot be stored, it must be consumed when it is produced. Wind and solar energy, which are available when the wind blows, and the sun shines cannot meet these two conflicting demands.
- **Non-substitutability**: Renewable electricity cannot replace all the benefits of liquid fuels. For example, batteries simply cannot meet the energy needs of heavy machinery, aircraft or merchant ships. Certain industrial processes simply require liquid fuels, e.g. the manufacture of steel, plastics and fertilisers. For other industries that rely just as heavily on uninterrupted, smooth production processes, such as aluminium and cement production, intermittency is a serious stumbling block because stoppages damage the infrastructure.
- **Financing:** Given the poor financial returns and major risks associated with renewables, the energy sector remains cautious. For a successful transition to occur, about 14 trillion USD in investments in solar and wind energy would be needed by 2030. But spending in the battery sector will not exceed 10 billion USD, including research and development.

We are dealing with the "known unknown" phenomena, as the new energy system that emerges will be much larger. Its architecture will be completely different and will operate in a yet unknown way. One of the most unique characteristics of the new system will be its ability to produce much larger amounts of energy – a superabundance of clean energy. This energy will be available at near-zero marginal cost throughout the year for nearly all populated areas of the world. Computers and the internet serve as an example. The marginal cost of information has been slashed and hundreds of new business models were created only to transform the core of the global economy.

1 https://www.rethinkx.com/climate-implications

Renewable Energy

We believe that renewable sources are essential pieces of the future energy puzzle. When you take out insurance for your renewable energy project, we enable you to assume risks which make your projects bankable. Various insurance solutions are tailor made for your business to address the risks and challenges.

Zviadi Vardosanidze
Group Practice Leader
Energy, Power & Mining

Listening to the winds of change

Tourism thrives on and with change. Globally improved tourism market networks as well as digitisation open up new opportunities. Those who are able to identify and analyse change will be better able maintain their competitive edge. An interview with Mario Gerber, Austrian tourism expert.

What are your main concerns in tourism?

Gerber: The tourism industry is facing many different issues, ranging from a shortage of specialists to climate change. The pandemic and open questions still dominate our business. For example, how will we start the winter season? What will new viral mutations look like? Naturally, we keep a close eye on developments, not only in Austria but in the home countries of our guests.

In Austria, we operate with high hygiene and safety standards. In Tyrol, we developed the app SAFE SERVICE® during the pandemic. The app digitally supports our tourism businesses, providing them with the latest safety rules at a glance. At the same time, SAFE SERVICE® is a communication tool that enables us to show our guests that we have positioned ourselves as a responsible host.

Did Corona also affect tourism in a positive way?

Gerber: As far as I am concerned, the pandemic is the biggest crisis that tourism had to tackle. Airlines, travel agencies, the accommodation and the gastronomy sector were all hit hard. The crisis did, however, boost domestic tourism. Last year, we focussed even more on our domestic guests, although this market has always been important to us. Our guests realised just how great it is to spend a holiday at home.

Do you feel an increasing trend in the use of public transport, such as trains and busses, or even a change from traditional means of transport towards more sustainable alternatives?

Gerber: We live in an affluent society where many families own two cars and consider it less comfortable to travel by bus or train. There is, however, a growing potential and we are challenged to making this type of travel for our guests more attractive. The carbon footprint – especially in our tourism sector, where guests can use their own car – is pretty good. Having said that, our goal is to make train journeys more comfortable. It is the last kilometre that counts. This requires a changing mindset which I believe will also take place in our neighbouring countries.

Austria is a country that is strongly driven by tourism. It also needs guests from abroad – even though air travel was slightly exaggerated before Corona. People want to spend their holidays abroad. Therefore, they take a plane. Airlines have already implemented numerous measures to reduce their carbon footprint. One should be careful to separate myths from real facts when it comes to fuel consumption and emissions. A lot has been done in aviation in the past few years to reduce the fuel consumption per person. That is often lower than a journey by car.

Looking at sustainability and regionality: Do guests already take it for granted that the gastronomy sector offers them local products and vegan/vegetarian dishes as well as plastic-free packaging?

Gerber: Regionality is an important issue, especially the collaboration with local farmers. In Tyrol, we all benefit from the excellent relationship between tourism and agriculture. Yet, there is a lot that we cannot produce for everyone. Having said that, this relationship extends beyond just products. It is about maintaining our local agriculture, nature, and so on. I greatly believe in promoting regionality, but it would be wrong to dictate it. It is always the guest who decides what he or she wants.

Generation Z wants to tell a story after a holiday. Tourism must be a memorable experience. How do you deal with storytelling?

Gerber: Creating an experience is very important. I believe that storytelling results from experience – and this can have many different facets: It can be a great gourmet menu, a trip to a ski lodge, followed by a fondue at 2,400m above sea level, swimming in a rooftop pool with a surrounding view of the mountains, embarking on a tour at sunrise or soaking up culture. When guests enjoy such experiences while on holiday, storytelling follows automatically. This is excellent advertising for the destination. We are also experimenting with influencers, but it is quite difficult to determine which influencer is best suited to the individual tourism business – for example fitness coaches or well-known athletes.

How will climate change affect skiing slopes or tourists' skiing behaviour? We are faced with having to increasingly use snow cannons to produce artificial snow, yet they cannot be used in all skiing resorts.

Gerber: Winter Wonderland is the buzzword that comes to mind. Guests just want to experience snow. Therefore, we must ask ourselves: What else can still be done, and which new technologies are available? It will be more difficult for low-lying skiing resorts. Despite climate change, guests will not want to give up skiing. Looking towards the future, the question will rather be: Will there still be enough and adequate opportunities for skiing? If they disappear, there will also be less skiers.

Will summer tourism play an increasingly important role in Tyrol and in Austria?

Gerber: Yes, I believe so. We are still blessed with stretches of unspoilt nature and wonderful landscapes, which we market quite successfully. In this sense, climate change offers new possibilities for tourism in the alps. Our tourism numbers are growing steadily, and, in some regions, we register more guests in summer than in winter. Tyrol is well-positioned for summer tourism and authentic holidays.

Finding staff versus skills shortages. Do you expect that the number of working days will be reduced to five days in the accommodation and gastronomy sector?

Gerber: Yes, the lack of specialists and skills shortages we face is an issue even after Corona. I believe that we are selling ourselves short in tourism. The services we provide start with a warm welcome and end with the Wiener Schnitzel. Staff costs put businesses under a lot of pressure. Tourism offers great jobs with many different facets. The working hours are a huge challenge though. We must therefore increase the wages we pay. To be able to do that, we must increase the price of the services we provide. This means that if we pay better wages and communicate the pros of working in tourism – free food and board, flexible working hours – we should be able to motivate more people to join us.

Thank you for your time.

Tourism

Tourism businesses see themselves driven by increasing demands and at the same time slowed down by an overflowing abundance of legal standards. We believe in the innovative power and willingness to perform of tourism professionals and the strength of the industry in the future and support them with progressive insurance concepts.

Mario Gerber
Tourism expert and hotel owner Gerberhotels

Reinhold Resch
Practice Leader Tourism
GrECo Austria

Innovations on the way

Recognising, avoiding and minimising risks while insuring the remaining, often huge risks – if still insurable in light of reassurance capacities – is a key measure in business. It is also a challenge because globalisation and its worldwide networks harbour considerable risk potential. Such risk may threaten the very existence of businesses and is therefore ideally transferred to the insurer. Additionally, professionally managed businesses also face the risks associated with an increasing number of natural hazards due to climate change. That is why all parties involved in trade and transport supply chains are called upon to join forces to fight the ill effects of climate change, meet the ever more stringent legal requirements and adopt a responsible environmental policy.

Securing livelihoods and saving resources

Insurances cover major damages and losses. They help secure one's livelihood and ensure that businesses can be kept up and running. It even makes sense to insure a seemingly small potential for damages because such risks can be quite complex, tie up considerable human resources or end up in a legal cross-border dispute. If that is the case, a lack of contact to the required legal experts or lack of knowledge of applicable law, uncertainty as to the place of jurisdiction, inexperience with foreign case law, and local civil provisions can exacerbate the dispute.

D&O, business liability, legal protection, transport liability, motor vehicle third party liability, collision, machine failure, accident, life, disability cover, buildings, inventory and equipment, storage and warehouses, business interruption, electronics, cyber, cargo, and so on. These keywords are part and parcel of the transport and logistics business and these risks need to be properly insured.

More liability claims

Parallel to the increasing amount of liability claims we saw over the last few years, we also noted more unjustified claims. The prevention of damage claims as part of liability insurance policies will therefore gain in importance – especially in the case of business liability and transport liability. In dealing with such claims, brokers will be challenged to use all their skills, knowledge and experience, and exercise a fair portion of sound judgement, put the client (and in turn his/her customer) first and not burn bridges that may have taken years to build. Simply rejecting a claim without proper explanation is not good enough, it is also counter-productive. Rather, the policy holder's contractual partner as well as the injured party should be properly informed as to why a claim has been rejected and why the insurer will not pay for damages. Offering such explanations helps create a better understanding, even if the insured may not be entirely satisfied with the outcome at the time.

Spotting challenges early on

Spotting and identifying future challenges in the face of changing circumstances will become the order of the day. Even if most developments are difficult to predict and often turn out to be megatrends, it is prudent to think ahead and incorporate them into the business strategy. That way, the right steps can be taken should such trends materialise. In this sense, it is important to remember that large corporations not only tend to take the lead in developing megatrends, they also play an active part in driving their development to demonstrate innovation leadership.

Focus on customer needs

By putting the spotlight on innovation leadership, coupled with strategic considerations to reduce costs and increase profits, large logistics companies have implemented ever shorter delivery times. In doing so, they have awoken their customers' desire to receive goods as quickly as possible. Buzzwords like SDD (same day delivery) or JIT (just in time) come to mind. As a result, it will no longer be a case of the big fish eating the small fish but rather the fast eventually eating the slow. It is the fast companies that will grow quicker – an exception being niche market specialists. However, fast also means more risks. For example, JIT raw materials or semi-finished products can result in damages caused by production downtimes or a stoppage if, for example, the production company lacks the very same JIT raw materials in case of a delayed delivery by the carrier. In the event of a CMR (Convention relative au contrat de transport international de marchandises par route) case, for example, claims for damages which are usually limited may be turned into a case of gross negligence or even a wilful misconduct to lift this limit and ensure full compensation. Such payments could amount to millions of euros. This highlights the significance of a solid transport liability insurance, not only for the carrier but also for freight forwarders as the forwarder – if he concludes a contract of carriage – shall be liable also acts and omissions of his agents and servants.

Platooning

Platooning is the next logical step in the development of telematic systems with the aim to implement autonomous truck driving by coupling vehicles, i.e. grouping them behind each other and decreasing the distance between them. Initially, pioneering developments included shared data networks between trucks and transport companies to optimally plan routes, GPS-based topographic tools to help lower fuel consumption, driver assistance systems to improve road safety, and more. First platooning tests conducted in several European countries and a recent trial run on a German motorway highlighted much needed improvements: an optimisation of infrastructure and communication as well as better traffic management systems. It remains to be seen whether platooning will bring about fewer drivers and extended truck operating times. It also remains to be seen if it will better protect the environment due to lower fuel emissions and if traffic safety will improve in the long run as some experts have forecast. If platooning also succeeds in reducing the number of thefts of trucks and their cargo, we may expect a positive impact on vehicle, transport and transport liability insurance premiums.

Robotics, supply chain intelligence, crowd logistics

Driverless transport systems, packaging, loading and reloading are already typical robotic examples which will gain in importance. Supply chain intelligence helps us convert data into knowledge. It gives us insight into customers' demand-related behaviour. Collecting as much data as possible in a legally accepted manner and evaluating this data comes with decisive competitive advantages.

The list of innovations is long. Crowd logistics is mentioned at the very bottom. Today, for example, trustworthy persons are given valuable packages to carry with them on air travels. The same could be done on a car journey where individuals, who would have embarked on that journey anyway, are entrusted with the transport of valuable goods.

Transportation & Logistics

Our Practice provides dedicated services to carriers, freight forwarders, shippers, and financing institutions. The services encompass the entire value creation supply chain management from sending to delivering.

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