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# NEWS

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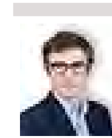
## Listed Lloyd's players see strong growth as Covid losses stabilise

### Hiscox, Beazley and Lancashire expect strong rate hikes into 2021



Lorenzo Spoerry
**Deputy editor**

The third-quarter earnings reports of Lloyd's three listed players showed strong premium growth and a sense their initial assumptions about Covid-19 losses had proved correct.

Beazley saw 16% growth in premiums for the first nine months of 2020, ahead of both its rivals and analysts' expectations. The firm said the increase was due to the hardening market, as well as an increase in exposures.

The Lloyd's insurer said rate increases had reached a point where "materially more business" could be written in some lines and it has planned 10% net growth next year.

Lancashire, meanwhile, reported a 14% increase in gross premiums to £659m ($865m) over the nine-month period. Premiums grew almost 26% for aviation, 22% for marine, 14% for energy and 10% for property.

Hiscox's London market business saw premiums grow a more moderate 7% in the first nine months of the year (and 11% in the third quarter) to reach $773m. Across all businesses, the firm saw gross written premiums grow 2% to $3.26bn.

All three carriers saw no need to change their Covid-19 loss expectations, although Hiscox warned if lockdown restrictions continue into 2021, it could lose an additional $30m to $40m because of exposure relating to event cancellation. And Beazley said it could face another $50m of claims, net of reinsurance, if restrictions continued into the second half of next year.

The news on November 9 that an effective coronavirus vaccine has been developed buoyed the stocks of all three companies amid a broad-based market recovery. They have also benefited strongly from a broad-based recovery in rates over recent months.

> **Pandemic losses**
>
> **$387m**
> **Hiscox**
>
> **$340m**
> **Beazley**
>
> **$42m**
> **Lancashire**

In its latest trading update, Hiscox reported rates up 18% overall, with notable increases in US public company directors' and officers' (D&O) liability, US general liability, cargo, hull and major property.

Beazley reported premium rates on renewal business increased 14%. The group now sees particularly attractive opportunities in D&O, despite the heightened risk environment, and "most" marine classes of business.

The company is planning for "mid-teens" percentage growth in 2021. However, it also plans to use reinsurance to manage growth in some of its more volatile lines and so expects growth of around 10%, net of reinsurance, next year.

Lancashire chief executive, Alex Maloney, said the group continued to see premium rate increases across the majority of its portfolio, as well "strong new business flows" as certain competitors retrenched.

"Pricing, particularly in capital-intensive lines of business, has increased significantly and I expect rates and terms of coverage to improve throughout 2021 in most of our core business lines," Maloney said.

Hiscox said the improving rate environment at Lloyd's is being driven by factors impacting both supply and demand. Carriers' discipline is increasing, while clients' appetite for retaining risk shrinks in the face of ongoing economic uncertainty.

The bullish outlook comes on the back of a challenging year. Aside from the Covid-19 pandemic, insurers have had to contend with a very active hurricane season, but few of these hurricanes landed in densely populated areas of North and Central America, so losses were contained.

Lancashire saw catastrophe losses in the range of $65m to $75m in the third quarter, roughly equivalent to its 10-year average annual loss exposure to such events.

However, the group suffered an accumulation of single risk losses in its specialty business lines, which is described as "unusually high" for a single quarter. Its ultimate loss estimate, net of reinsurance and reinstatement premiums, from these risk loss events is approximately $30m for the quarter above its usual attritional guidance.

Hiscox reserved $75m for catastrophe claims in the third quarter, and overall claims for its Hiscox London Market business were in line with expectations in the third quarter.

Beazley has estimated cat losses for the third quarter at around $80m net of reinsurance and reinstatement premiums. It will report a full-year combined ratio of around 110% for 2020, assuming a normalised loss environment for the rest of the year.

## Only two weeks to go until Insurance Day's London Market Outlook

There are only two weeks to go before *Insurance Day*'s London Market Outlook event. You can sign up here to register your place for this free event.

Our first panel will look generally at the future of the London market and will feature BGC Insurance Group chief executive, **Steve Hearn**, Aegis London chief executive, **David Croom-Johnson**, International General Insurance president, **Waleed Jabsheh**, and Clifford Chance partner Ashley Prebble.

Listeners to this one-hour online panel, which begins at 3 pm on December 10, will go away with a deeper understanding of re/insurance rate movements, company business plans, the real impact of Covid-19, Brexit and the broad outlook for the London market in 2021. This panel will be brought to you in collaboration with our sponsor, Clifford Chance.

Our second one-hour online panel, focusing specifically on brokers and distribution, begins at 3 pm on December 10. It will feature Optio's executive chairman, **Matthew Fosh**, Beach chief executive, **Jason Howard**, and Birketts EC3 Legal partner, **David Coupe**.

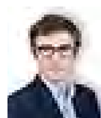
Listeners to this panel will go away with a deeper knowledge of the changing roles of the re/insurance broker and the managing general agent, how analytics can help you stay ahead of the pack and the ways to add value in a very competitive environment. This panel is brought to you in collaboration with Birketts EC3 Legal.

Click here to register your place.

NEWS

# Paris court rules Covéa boss Derez breached duties over Scor bid

## Chief executive ordered to pay more than €479,000 for disclosing confidential information



Lorenzo Spoerry
Deputy editor

The Paris Commercial Court has ruled Covéa chief executive, Thierry Derez, committed a "serious breach" of duty in relation to Covéa's unsolicited bid for Scor.

The court ruled Derez committed a serious breach of his legal and fiduciary duties and obligations as a director of Scor in his personal capacity by disclosing confidential Scor information and documents to Covéa and its advisers to support the preparation and execution of the takeover bid for Scor.

Derez was ordered to pay more than €479,000 ($566,330) plus interest, in compensation for the damage his personal misconduct has caused Scor.

"Derez committed a breach of contract for which he is civilly liable by violating the commitments he made to Scor as a director of the company in his personal capacity relating to conflicts of interest, confidentiality and loyalty," the court said.

Derez was a director of Scor by virtue of Covéa being the reinsurer's largest shareholder. He resigned his board seat following the bid for Scor.

Scor's chief executive, Denis Kessler, sharply rebuffed a €43-a-share takeover bid from Covéa in September 2018. Scor subsequently sued Covéa and Derez for breach of fiduciary duties.

In total, Derez, Covéa SGAM and Covéa Coopérations have been ordered to pay more than €19.6m plus interest in compensation for the damage their misconduct has caused Scor.

Criminal proceedings are under way against Derez and Covéa in connection with Covéa's takeover bid for Scor – for breach of trust and concealment of breach of trust respectively. These will take place in July 2021 before the Paris Criminal Court.

In addition, civil proceedings are under way against Barclays, Covéa's financial adviser and financing bank, for "serious breach" of Scor's confidence and trade secrets. These will take place next June before the London High Court of Justice.

Scor's shares now trade at €29, far below Covea's €43-a-share takeover offer.

Covéa has been approached for comment.

# Oneglobal continues expansion in Asia with Singapore launch

Oneglobal Broking has received regulatory approval to launch a Singapore-based operation, *writes David Freitas*.

The new business will be led by former JLT Asia deputy chairman, David Lum as chairman. Sirikit Oh has been named the Singapore arm's chief executive. Oh was previously Asia head of the technology, media and telecommunications practice at Willis Towers Watson.

Oneglobal is seeking to build out its presence in Asia. Oneglobal Broking Singapore follows the broker's expansion into Hong Kong in August.

The firm plans to open further offices in Asia and make additional senior hires.

Lum said Oneglobal would provide "an outstanding alternative to the existing market players".

Jonathan Palmer-Brown, Oneglobal's chairman, said: "I am pleased we are extending our capabilities in Asia with the addition of a pivotal office in Singapore."

# Time to look beyond Lloyd's for London captive solution

The idea of Lloyd's as a domicile for captive insurers is being revived as part of the transformation of the market envisaged by the Future of Lloyd's Blueprint, *writes Rasaad Jamie*.

While Lloyd's has not specifically publicised its plans, it is no secret it has been meeting stakeholders and industry organisations, including the London Market Group (LMG), to discuss its plans for reopening the market as a captive domicile to maximise growth opportunities.

In February Lloyd's set up a working party headed by John Keen, the market's managing agents development manager, to review Lloyd's potential as a captive domicile in the present market environment.

The concept briefly captured the market's imagination more than two decades ago. Following the implementation of its Reconstruction and Renewal plan in the late 1990s and motivated by the same desire to secure the future of the market, Lloyd's opened itself up as captive domicile in 1999 when pharmaceutical giant SmithKline Beecham was allowed to set up a captive syndicate.

But contrary to expectations, no other corporates followed suit and by mid-2001 the SmithKline Beecham syndicate was put into run-off. This was despite the fact there were lots of multinational corporates looking to Lloyd's for solutions, if not necessarily to base their captives directly in the market because of the expense that entailed at the time.

These days, however, particularly for the brokers, corporate risk managers and captive managers who champion the idea, it is all too clear why it did not work back then and why it will work now.

The market, they argue, finds itself in very different circumstances from those that prevailed 20 years ago and the captive insurance industry itself has evolved over the same period of time. The scope and sophistication in the use of captive structures by multinational corporations has increased significantly and, in a hard market environment, more organisations than ever before are turning to the use of captives for insurance protection and financial flexibility.

Until recently, the idea of basing a captive entity in London was seen as something better executed outside Lloyd's. But for many in the market, the captive plans under the Future at Lloyd's strategy, not least the targeted £800m ($1.05bn) aggregate reduction in operating costs for brokers, underwriters and business partners at Lloyd's, have changed that perception.

The belief is Lloyd's structure, its brand and reputation, its financial strength rating (in global context in which the vast majority of corporate captives are unrated) and its network of international licences provide the basis for significant contribution to the global captive insurance market. Outside Lloyd's, the UK has no specific legal or regulatory framework for captives, instead treating them as insurance companies, even though they are very different entities.

Lloyd's offers captives the advantages of operating as a legal entity based in London and the ability to insure risks in the more than 70 territories in which it is licensed to operate. Access to these licences is particularly attractive at a time when fronting for captives is increasingly a challenge because, with the exceptions of Allianz, Axa and HDI, there are not that many global fronting companies left. The two traditional leaders in the global large corporate risk market – AIG and Zurich Insurance – are now pale shadows of what they were a decade or so ago.

**Looking beyond Lloyd's**

Despite Lloyd's clear advantages, though, other stakeholders in the London market such as the LMG and the London & International Insurance Brokers' Association (Liiba) see an even bigger opportunity for the UK in the captive insurance space by looking beyond Lloyd's and offering a more comprehensive London market proposition.

They argue London's position is potentially as strong as that of any other captive domicile, given the low tax considerations that once fuelled offshore captive formation are no the longer the competitive factor they once were. These, according to the LMG, have either been greatly reduced or eliminated as most tax loopholes have been closed through controlled foreign corporation (CFC) legislation. Instead, the LMG argues, the decision about where to domicile a captive insurer is increasingly about in-country expertise, such as the deep captive consulting experience within the London market broking community, rather than the tax breaks on offer.

There are a number of advantages the UK government could build on relatively quickly to create an attractive captive insurance market environment in London. These include the Risk Transformation Regulations of 2017, which permit the creation of protected cell company structures for insurance-linked securities.

The LMG's chief executive, Clare Lebecq, has called for the Risk Transformation Regulations to be extended to captives that involve first-party risks and are not consumer-facing as an important precursor to the creation of UK captive legislation and a fully fledged UK captive market that extends beyond Lloyd's.

In the long term, Lebecq says, it would be good to see a more proportionate interpretation of regulation. Popular domiciles in the EU, such as Luxembourg and Ireland, interpret the governance and reporting requirements, roles and responsibility clauses enshrined within Solvency II more flexibly, meaning they are able to operate in a more agile manner and allow the captives to operate at lower costs. "It could be something for the government and regulators to consider as part of their review of Solvency II in the coming months," Lebecq says.

The LMG and the London and International Insurance Brokers' Association (Liiba) say there is much to be gained from the UK reviewing its approach to captives at a time when the London market needs to create as many opportunities for growth as possible. But there is also a sense that Lloyd's, without reference to the rest of the London market, is setting off on its own path and for London be the market everybody aspires for it to be, it is vital to ensure the enthusiastic engagement of all sectors of the market, especially the London companies market.

The issue was succinctly summed up by Christopher Croft, chief executive of Liiba, in his response to the publication of Blueprint Two last week. Lloyd's developing services just for its own use would be a backward not a forward step, Croft said. "Most business in London is placed across both Lloyd's and company markets, so a single set of processes for both is vital. It is called Future at Lloyd's, but unless it is Future at London, we will have failed," Croft says. ■

ANALYSIS

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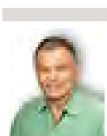
# P&I clubs resist cyber exclusions despite rise in attacks

## The market has no plans to introduce cyber exclusion clauses, but there could be problems for clubs reinsuring their primary risk retention in the commercial market



Rasaad Jamie
Global markets editor

As for other industries, cyber risk is a huge issue for the maritime sector, with companies increasingly subjected to high-profile cyber attacks. Most recently, one of the largest logistics and transportation firms in the sector was the target of a malware attack that disabled its online trading platform for days.

Even the International Maritime Organization (IMO), the global governing body responsible for drafting the cyber risk management guidelines for the maritime sector – which come into effect at the beginning of next year – recently had its intranet and website disabled by a cyber attack. The IMO's focus on cyber risk management is relatively recent but, given the role the organisation occupies, it has been very effective. More than any other single factor, it has highlighted the issue of cyber risk in the maritime sector.

As a result, most companies in the sector, including their insurers, are now very aware of the substantial risk cyber creates for all areas of their business, from loss of hire to physical damage. The marine insurance market, in particular, is also increasingly concerned about systemic shoreside exposures, as demonstrated by recent events affecting the world's four largest shipping companies.

The IMO's focus on cyber has also highlighted the issue for the marine protection and indemnity (P&I) insurance market. From January 1, 2021, shipowners will have to demonstrate they have incorporated cyber risk into their risk management strategies.

The International Group of P&I Clubs, whose 13 members provide P&I cover to approximately 90% of the world's ocean-going fleet, has a very active working group on IT and cyber security to provide support to shipowners. Individual club rules require shipowners to adhere to all statutory

**'A member's normal P&I cover will continue to respond to P&I liabilities arising out of a cyber attack so long as the cyber attack in question does not constitute "terrorism" or another war risk excluded under rule 4.3 of the club's rules'**

**Nicholas Mavrias**
**Standard Club**

requirements of the flag state, including maintaining the validity of certification to comply with IMO standards like the International Safety Management code, which addresses cyber resilience.

But experts point out the issue of cyber risk is more intricate in the P&I sector, where the clubs are focused on providing legal liability cover. At present, neither English nor international law imposes standalone liabilities or obligations related to cyber security on owners or charterers. However, nobody has any doubt that, should that situation change, the P&I clubs will respond accordingly to ensure shipowners are able to operate with adequate cover.

In addition, many maritime cyber risks do not come within the scope of P&I cover because they do not arise from the operation of a ship. One example of this is the risk of monetary loss where a shipping company is blackmailed to pay a ransom for the restoration of IT data or restoration of IT systems that have been compromised by cyber attack. "Some P&I claims resulting from cyber risks may also be excluded from cover by virtue of exclusions relating to paperless trading, or exclusions relating to P&I war risks," Filip Koscielecki, a senior claims executive at the UK P&I Club, says.

**Exposure amplification**

This means that, for the moment, the bigger concern for the P&I market is that cyber risk can amplify exposures already covered by the clubs, particularly as there is no cyber exclusion for P&I cover in the clubs' rules. "As such, a member's normal P&I cover will continue to respond to P&I liabilities arising out of a cyber attack so long as the cyber attack in question does not constitute 'terrorism' or another war risk excluded under rule 4.3 of the club's rules," Nicholas Mavrias, a senior claims executive at the Standard Club, says.

This is a risk that is in part addressed by P&I club rules, Koscielecki says. "One of the foundations of P&I cover requires members to act as 'prudent' owners or charterers and take reasonable steps to prevent liabilities and losses which can be foreseen," Koscielecki adds.

The International Group's pooling agreement effectively gives clubs the freedom to decide what risks are insured under mutual P&I cover, according to Mark Cracknell, managing director, marine and cargo division at Marsh JLT Specialty. "At this time, as far as I am aware, there is no perceived requirement on the part of International Group members to make any changes to club cover in response to emerging cyber risks," Cracknell adds.

Nevertheless, the issue of cyber as an emerging risk in the shipping sector is being very closely monitored by the International Group, Nick Shaw, the organisation's chief executive, says. "We have engaged already with the reinsurance market just to understand their thinking on the issue," Shaw says.

At the same time, cyber is also being looked at within the context of the International Group's risk pooling arrangement. "It used to be silent cyber cover, but we have moved towards naming it as a covered risk in our pooling agreement. That is so the clubs are clear on what they are covering," Shaw adds.

The obvious concern for the International Group is whether the reinsurance market will impose a cyber exclusion on its reinsurance programme. "There are a lot of exclusions now being imposed in the reinsurance market and we would very much push back against that. Our argument is that based on our tracking of group claims, there has been no significant pooled claims involving cyber as a cause. Part of the reason for that is we still have people on board vessels who can intervene if there is a cyber attack," Shaw says.

**Growing risk**

But there is no doubt that with the increased use of technology on board vessels, the associated risks – ranging from unauthorised access to malicious attacks on ships' systems and networks – are growing. Mavrias says the increase in the number of cyber attacks in the past few years has shed light on such risks and is behind the club's efforts to raise awareness on issues such as cyber security by issuing web alerts to members on regulatory and policy initiatives.

The International Group is also engaging with the issue of technology on board vessels and the issue of cyber attacks by engaging with the International Association of Classification Societies, according to Shaw. "We are in constant communication with them because they are looking at the ship designs of the future, including cyber issues. They are in the lead in terms of looking at and addressing emerging risk issues in the maritime sector, which we do as well. Cyber is clearly an emerging risk for the sector but we are, at the moment, managing that risk pretty well within our capabilities," Shaw says.

**'Based on our tracking of group claims, there has been no significant pooled claims involving cyber as a cause... Part of the reason for that is that we still have people on board vessels who can intervene if there is a cyber attack'**

**Nick Shaw**
**International Group**

Some clubs are making adjustments to their covers and services to better mitigate cyber risk for shipowners. For example, the strike and delay cover provided by the Standard Club (the only club that provides this cover at present) will indemnify shipowners for the costs of delay incurred following a cyber attack. The cover, which is provided on a fixed-premium basis, amounts to a payment of a daily agreed amount excess of a deductible expressed in days, according to Mavrias. "The cover would respond to risk of delays to the entered ship arising from an onshore cyber attack affecting a person, place or thing; congestion arising at a port as a result of a cyber attack, insofar as the ship was there during the attack or arrives within 15 days; and delay as a result of the cyber attack affecting the operation of the ship itself," Mavrias says.

Earlier this year, the West of England P&I Club invested in marine specialist cyber insurance start-up Astaara, the only dedicated marine cyber consultancy in the market, which provides insurance solutions as part of the package. The club described the investment as timely, given the number of cyber attacks on marine companies is up 40% since February. Victims include MSC (the world's second-largest container line) and Anglo-Eastern (one of the world's largest shipping managers), as well as other West of England P&I Club members that have not gone public on the issue, the club's chief executive, Tom Bowsher, says.

The International Group's excess-of-loss reinsurance programme was renewed for two years at the end of last year, which makes it highly unlikely any cyber exclusion or limitation clause can be introduced by reinsurers before February 20, 2022. But, while P&I coverage does not contain any cyber exclusion clause at the moment, there is the potential for issues to arise for clubs that reinsure their primary retention (of up to $10m) outside the International Group pool.

This is particularly likely in a reinsurance market environment where reinsurers are seeking to impose cyber and pandemic exclusion clauses, which, for the P&I clubs, would take effect from each club's next renewal date, Ian Harris, director in the marine division at broker Tysers, says.

"This would pose a question for the individual clubs that do reinsure their retention exposure. The question for these clubs is: do they continue to offer ground up cyber and pandemic coverage, notwithstanding the potential lack of primary reinsurance protection?" ■

The marine insurance market is increasingly concerned about systemic shoreside exposures
KoSSSmoSSS/Shutterstock.com

# VIEWPOINT

The international cruise market has been severely affected by coronavirus, with many vessels laid up
TetKabrit/Shutterstock.com

# Reduced premiums highlight need for rate adequacy across marine market

## Most carriers recognise the need for rates to rise, but holding the line at renewal is a very different challenge

Alex Barnes
BDO

Marine insurance underwriters are facing some tough choices. Both protection and indemnity clubs (P&I) and marine hull insurers are faced with not one but a series of challenges that will necessitate a need for rates to be adjusted in the months to come.

Already we are witnessing P&I clubs looking at driving higher general increases at a time when the shipping industry is, like the wider global economy, facing significant disruption due to the impact of the coronavirus pandemic. Covid-19 has affected the maritime sector, with some areas hit harder than others. The international cruise market, for example, has been severely affected, with many vessels now laid up and business levels best described as being at an almost record low.

Freight markets and trade levels have also fallen and there has been a shrinking demand for shipping services, with owners forced to cut freight costs and mothball vessels. For insurers, the issue of laid-up vessels is not a major concern, with underwriters well versed in pricing the risk and the fact vessels that are inactive tend to have far fewer claims. Hull insurers have reported the number of claims have fallen in the past year but they have been quick to point out trade levels are starting to recover and the ongoing issue of vessel fires, particularly on containerships and roll-on/roll-off vessels, continues.

### Financial challenges

We have seen a small number of Covid-19-related claims for the marine sector and these have, in the main, been in the passenger and cruise sectors. However, it is the financial challenges that are testing the underwriters at present. Following the economic crisis of 2008, the investment markets struggled to provide any real returns, but the situation had begun to improve in recent years.

However, the investment markets are now in a perilous state, providing little or no real return for insurers. That is being compounded by growing uncertainty for the investment departments, given the global economic predictions on which they can base their strategies have been continually changing as the full impact of the pandemic becomes apparent.

With the investment markets under pressure, the global slowdown has also reduced the level of premiums being earned. A lower premium income will make it harder for clubs and insurers to cover the fixed costs they face, in the absence of any extraordinary claims

The P&I market has for many years sought to shield its members with zero general increases. The lack of investment returns has been coupled with a number of pool claims for the P&I market and already the clubs are looking to increase rates to mitigate the claims they face. They also have the impact of the churn effect. While rules for existing tonnage made it uncomfortable for members to move vessels between clubs, new tonnage is not subject to such restrictions and, therefore, competition for new tonnage all too often is predicated on price.

Hull insurers are also talking up rates, given they face the same challenges, and both have looked to reserve releases to manage performance in recent financial years. Reinsurers are also putting pressure on the market. The Covid-19 claims coupled with some significant natural catastrophe events have found themselves in the reinsurance sector. As such, reinsurers have been increasing pricing across all classes of business. That momentum has shown no signs of slowing down, with the January 1 renewals likely to see a further push.

### Rising reinsurance costs

It has left marine insurers facing higher costs for their reinsurance cover and those costs are having to be factored into their underwriting decisions absent of any investment returns to cushion the blow.

Both P&I clubs and the marine hull companies have been financially stable and remain so. However, they need to be ever mindful of their solvency margins and their reserving levels. It is a difficult situation for many, given their shipping clients are struggling and any additional premiums will only increase the financial pressure they are already under.

For many of the hull underwriters the internal pressure is also increasing. The majority of marine insurers are part of parent groups that are looking at how best to exploit the hardening market. While marine has long been seen as an attractive way to diversify risk, with the need to deliver underwriting returns to mitigate the falling investment income, questions are naturally being asked as to how best to deploy capacity.

The question many market observers are seeking to answer is just how strong underwriters will be with their members or their clients in the present environment?

There are few who believe the need for increased premiums is not evident. Recognising the need for rates to rise is one thing; holding the line to ensure rates do increase at renewal is a very different challenge. ■

*Alex Barnes is a partner in the insurance practice at BDO*

VIEWPOINT

# Due diligence is essential to stem the rise in fraud claims

## The market is braced for a surge in claims as state agencies, despite the challenges of Covid-19, step up measures to enforce corporate fraud and corruption laws

Victor Ferreira
**Hiscox London Market**

Incidents of fraud and corruption are on the rise. That will come of little surprise to those who have traded through previous recessions and times of economic hardship, when cash-strained businesses are often unable to maintain focus on their routine compliance and due diligence.

But the coronavirus pandemic, as well as being the cause of the economic downturn, is also creating a perfect breeding ground for fraud and corruption, whether related to the huge sums of government money being spent on procurement or other factors like job insecurity and the sudden wholesale shift to home working for many office-based workers.

With nearly half of the businesses surveyed in a 2020 PwC report on global economic crime and fraud reporting they had been a victim of fraud over the previous 24 months, the upwards trend is likely to envelop more businesses in the coming months as the economy worsens.

Early in the pandemic, companies were called on to respond fast to demand for personal protective equipment (PPE), for example, and hospital equipment like ventilators. Procurement pressures across Europe, according to the *British Medical Journal*, led to health authorities entering into contracts with companies that often failed to deliver or provided sub-standard products. In April, Europol reported the arrest of a man in Singapore who had taken the identity of a legitimate company and advertised the availability of FFP2 surgical masks and hand sanitisers. A French pharmaceutical company fell victim to the fraud, losing €6.6m ($7.8m) for items never delivered.

In Brazil, similar reports have emerged of procurement failures involving the government. A report by *Reuters* contains allegations top officials "sought to pocket up to Real400m [$72.2m] via corruption schemes that steered inflated state contracts to allies during the pandemic". The contracts included a deal for 1,000 ventilators, "most of which never arrived".

Maintaining due diligence procedures can help reduce the likelihood of fraud
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### Invoice inflation

It is not just high-profile public expenditure that has been a target for fraud. Hiscox has already seen an uptick from last year in claims made by clients that have taken out its security incident response cover, which responds to fraud and corruption allegations.

Problems are being seen in the Middle East and Asia, with businesses reporting frauds involving a staff member paying fake invoices or paying an inflated invoice in collusion with the recipient. This issue can be exacerbated when close family ties are involved. According to PwC, 20% of reported fraud incidents were a result of collusion between internal and external individuals.

The widespread shift for many office-based businesses and workers to remote working makes this type of fraud easier to execute. Based in a physical office location with fellow workers working in proximity creates a natural barrier to wrongdoing. Take that barrier away and workers might feel more inclined to take advantage of their physical remoteness from other employees.

Often the problem will become known thanks to a whistleblower at the firm making an allegation that will oblige the organisation to initiate an investigation. Investigators will then take a forensic look at the staff member's background, profile and any personal ties they have to suppliers, as well as taking a similarly forensic look at the company's invoicing.

In addition, remote working also presents more vulnerabilities to cyber hackers and their ability to exploit organisations through social engineering techniques to defraud companies.

### Lax due diligence

One problem for businesses is the normal due diligence procedures they would usually rely on to filter out much of the fraud are often bypassed or not strictly adhered to in times of crisis or in the face of extreme business pressures such as high customer demand. Say you are a business moving to remote working for the first time and urgently need 100 laptops. If it means keeping the metaphorical lights on, few will care how those laptops were acquired, what the procurement process was and even if a few laptops went missing in the process – circumstances that can provide the perfect opportunity for fraud.

Over the next six to 12 months, fraud and corruption is likely to increase as unemployment rises and personal finances become stretched for many, which means managing the risk should be a high priority for businesses, not just because of the potential financial losses they might experience but also because of what fraud and corruption can do to a company's reputation.

### Adapting compliance

One place to start is by considering how an organisation's own compliance rules and regulations can be adapted to reflect the new environment. Where a compliance policy might have been designed to reflect a largely office-based workforce, for example, is it still appropriate for a remote workforce?

There is also a new logistical challenge for multinational companies, which may not have compliance and audit teams in each location. Travel restrictions may hinder the movement of teams, which means a firm must rely on contracting out investigations and audits to a dependable third party on the ground; however, locating the necessary expertise may not be straightforward.

Despite the challenging environment, there is no sign governments will ease off on the policing of anti-fraud measures. In the US, for example, the Department of Justice and the Securities and Exchange Commission recently updated their joint guidance on the Foreign Corrupt Practices Act.

Businesses should recognise they are vulnerable and must take steps to mitigate the risk within their organisation. Not only can they work to stop a problem from happening, but if they do experience an incident of fraud, regulators will look far more favourably on organisations that self-report any violation and demonstrate they have taken robust action to make sure the problem cannot happen again. ■

*Victor Ferreira is security incident response business development lead at Hiscox London Market*

insuranceday

# Sustainability challenges energy underwriting profitability

## Energy insurers are being forced to consider climate impact against profitability

David Freitas
Reporter

Climate change concerns are an increasingly important consideration for energy sector players and insurers
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The energy insurance market is set to present many challenges for its players in the months to come.

While insurers have struggled to turn a profit in the past 18 months, their clients face an environment of hardening rates and tightening terms and conditions.

The coronavirus pandemic and the oil price crisis have shaped the energy market for the insurance industry this year and are likely to continue to weigh on the sector for many months to come.

Like other sectors, insurance is no exception in facing increasing pressure to adopt environmental, social and governance (ESG) practices.

While on one hand, insurance companies face shareholder pressure to conduct business in a more responsible manner, on the other hand, they want to be as profitable as they possibly can.

"We've seen some big changes and some of our clients have started being really proactive about demonstrating how they approach the whole subject matter of ESG," Nick Little, chief broking officer for energy in Aon's global broking centre, said. "It has become more relevant to the insurance market than it was before."

Little said the "real critical challenge" for insurance companies is how to bring consideration for ESG into underwriting profitably.

Climate change has been at the forefront of the ESG conversations across the insurance industry.

The planet is warming at an alarming rate and carbon emissions are at record highs. This year has also seen the number of natural catastrophes rise at unprecedented pace. Last month Hurricane Zeta became the earliest 27th storm to form during any Atlantic hurricane season.

But some insurance companies are already taking advantage of the opportunities sustainable underwriting can provide to them and their clients.

"Sustainability is an opportunity, not a threat," Zurich's head of energy and construction, Frank Streidl, said. "Some of the old school energy underwriters might see that more as a threat than an opportunity, but ultimately they will lose out."

Streidl pointed out this year the decrease in air traffic and cars on the road as a result of Covid-19 has provided Zurich with new opportunities to reconsider greener practices.

In the upstream market, he says, Zurich stepped away from thermal coal across its power and electricity portfolios. The Swiss firm has also eliminated its presence in the Western Oil Sands.

Zurich is not alone, with many other global carriers imposing underwriting restrictions on the coal and oil sands industries as a step towards addressing the same problem.

"The energy market is very conservative and inherently scared of the conventional to go away," Streidl added. "People get concerned about change."

# UK grants Solvency II equivalence to EEA states

The UK is granting regulatory equivalence to European Economic Area (EEA) countries in a number of areas, including Solvency II, *writes Stuart Collins*.

On November 9, HM Treasury said EEA states are equivalent for the purposes of Solvency II articles 378, 379 and 380, which will form part of UK law at the end of the transition period on December 31, 2020.

The move covers all three equivalence decisions covering both reinsurance and group capital treatment.

EEA states are equivalent for the purposes of Solvency II articles 378, 379 and 380
Zoltan Gabor/Shutterstock.com

The UK also granted equivalence for Credit Rating Agencies Regulation, which will allow for the cross-border use of ratings between the UK and the EU.

It will also enable EU credit rating agencies to be certified in the UK.

The EU has made very few concessions to the UK so far on equivalence designations, forcing brokers, insurers and other financial services providers to make expensive contingency plans.

"A full set of Solvency II equivalence decisions for the EEA states is beneficial for the UK by providing certainty and continuity," the Treasury said.

# Aon swoops on Swiss Re for renewables leader

Aon has appointed Guido Benz as the chief executive of its global renewables practice, *writes Lorenzo Spoerry*.

Benz joins from Swiss Re Corporate Solutions, where he was global head of engineering and construction with global responsibility for the renewables portfolio.

He served as chairman of the European wind turbine committee and has 25 years' international insurance experience in markets including Asia and Europe.

Benz began his career as an engineer for Alstom and has held project manager positions for several significant construction projects with Holcim.

In addition to managing the broker's renewables practice, Benz will work with Aon's energy and power practices, including the London Global Broking Centre's energy transition group. He will be based in Zurich.

Lee Meyrick, co-lead of global specialties and chief executive of global marine for Aon's commercial risk solutions business, said: "With his depth of expertise and experience and strong track record in the sector, [Benz] will provide the focus required to... bring our renewables practice to the next level."

Benz will take up his role in spring 2021.