

GLOBAL RISK DIALOGUE

ALLIANZ GLOBAL CORPORATE & SPECIALTY

ANALYSIS AND INSIGHT FROM
THE WORLD OF CORPORATE
RISK AND INSURANCE

THE CLIMATE CHANGE ISSUE

- Operational and compliance challenges for companies
- ESG risks for directors and officers
- How catastrophe risk management is responding

THE COST OF CIVIL UNREST

The need for business continuity planning
to address disruption

THE RISE OF SOCIAL INFLATION

What's behind it?

THE WORLD'S LARGEST OFFSHORE WIND FARM

AGCS propels the Dogger Bank development

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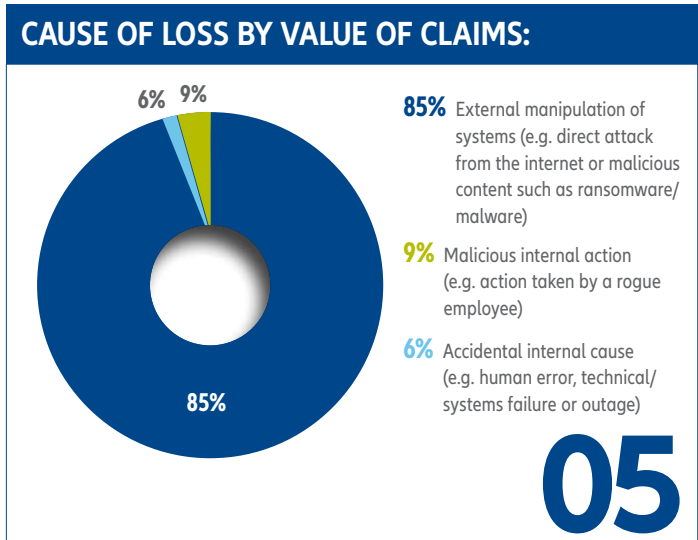
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Based on the analysis of 1,879 claims worth €673mn (\$800mn) reported from 2015 until year-end 2020. Total includes the share of other insurers involved in the claim in addition to AGCS.



AGCS is on Twitter and LinkedIn
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LET'S START THE DIALOGUE

Thank you for taking the time to read **Global Risk Dialogue**, our biannual dialogue between AGCS experts and thought leaders for a global audience of risk managers, broker partners, insurance professionals, experts and media about issues of interest to the industry. It's one way we showcase the considerable depth of talent AGCS underwriters, claims experts, risk engineers and leaders can bring to the conversation.

Thanks for stopping by.

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NEWS FROM AGCS AND ALLIANZ

CYBER RISK MANAGEMENT PARTNERSHIP ANNOUNCED



Companies increasingly are using cloud-based solutions: by 2024 more than 45% of IT spending will shift from traditional to cloud solutions.¹ Benefits of cloud usage includes lowered cost, enhanced data analytics and expanded collaboration, but also new potential risks around security, compliance and data privacy.

To serve cloud users, AGCS and Munich Re have jointly developed a new commercial cyber risk insurance solution **Cloud Protection +**, a state-of-the-art insurance solution designed for US-based Google Cloud customers enrolled in Google's new Risk Protection Program. The program consists of two components: Risk Manager, a new tool that helps determine a customer's cyber security risk posture on the cloud, and Cloud Protection +.

Subject to underwriting eligibility, customers are offered a new type of

protection against cyber incidents within their own corporate environment, as well as incidents related to Google Cloud. The coverage may be offered globally at a later date.

Cloud customers, especially in regulated markets such as financial services and healthcare, are concerned about security and reliability in the cloud as they run the risk of high-profile data breaches and outages. Some have resulted in great financial and reputational loss or even business closures. Business interruption (BI) due to security issues is the main cost driver behind cyber claims and it accounts for nearly 60% of the value of all claims analyzed, with the costs associated with data breaches ranking second.

Find out more at www.agcs.allianz.com/news-and-insights/news/agcs-google-cloud-munich-re-cyber-risk-management.html

NEW GLOBAL HEAD OF ENTERTAINMENT NAMED



Michael Furtschegger has been appointed as **Global Head of Entertainment at AGCS**. Based in Munich, Furtschegger has been the interim head of the global entertainment team since the end of 2020. The entertainment line of business provides specialized insurance solutions for film productions, as well as live sports, music or cultural events. Furtschegger steered the international expansion of this business segment since 2016.

Furtschegger originally joined AGCS in 2009 as a Global Customer Relationship Manager. He later served as Executive Assistant to Axel Theis, founding and long-term CEO of AGCS, before taking over a role in the New York office as Quality and Projects Manager in the area of global underwriting coordination. He then served as the Head of Global Strategy and Development for the Chief Underwriting Office, Specialty. Before joining AGCS, Furtschegger worked as a management consultant after his MBA and diploma studies in Business Management.

NEW GLOBAL HEAD OF BROKER MANAGEMENT NAMED



Stefan Versluis has been named **Global Head of Broker Management at AGCS**. Based in New York, he has led the Regional Broker Management team in North

America since August 2020. Prior, he served as Lead Director of Client and Broker Management for the North American Northeast Zone.

Versluis has extensive experience in the insurance industry from a number of leadership roles in distribution and underwriting across Australia and North America since joining the Allianz Group in 2008.

LOSS LOG

CYBER CLAIMS

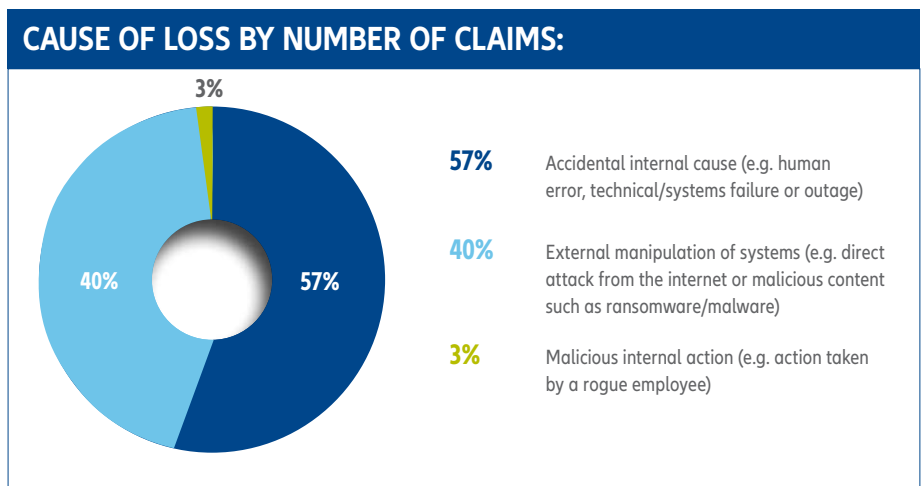
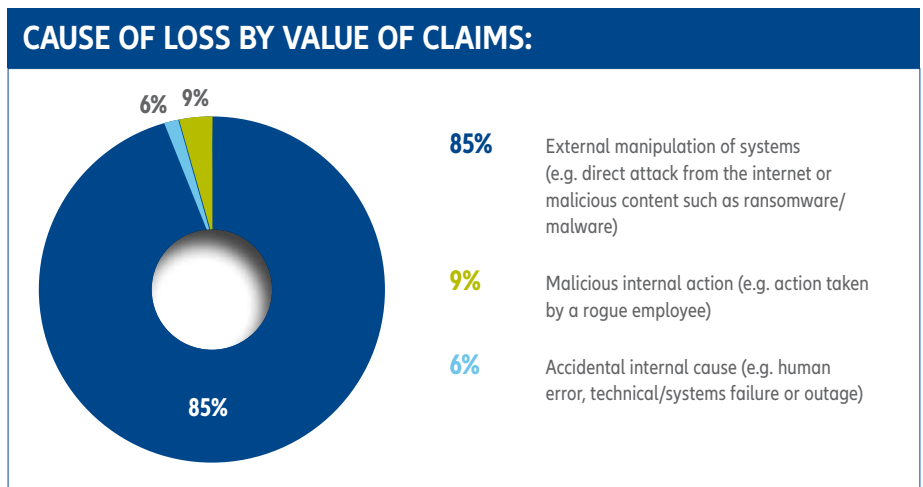
Our analysis of more than 1,800 cyber claims shows that although external events such as “DDoS” attacks result in the most costly losses, internal incidents like human error or systems failure occur more often, albeit with a lower financial impact.

There has been a notable rise in cyber-driven claims in recent years, led by the strong growth of the cyber insurance market but also by the rise in incidents such as data breaches, distributed denial of service attacks (DDoS), phishing campaigns, and, increasingly, ransomware events. Human error and technical failures are also major drivers.

Losses resulting from the external manipulation of computer systems such as DDoS or phishing and malware/ransomware campaigns account for the significant majority of the value of claims analyzed. Cyber-crime generates the headlines but the analysis also shows that technical failures, IT glitches or human error incidents are the most frequent generator of claims, although, overall, the financial impact of these events is, on average, limited compared with external events. However, losses can quickly escalate in the case of the most serious accidental incidents.

Whether it results from an external cyber-attack, human error or a technical failure, business interruption is the main cost driver behind cyber claims. This accounts for around 60% of the value of all claims analyzed, with the costs associated with dealing with data breaches ranking second.

Of course, the Covid-19 landscape brings new challenges. With home-working now widespread, security around access and authentication points is critical. Preparation and training of employees can significantly reduce the consequences of a cyber event, especially in identifying phishing and business email compromise



Based on the analysis of 1,879 claims worth €673mn (\$800mn) reported from 2015 until year-end 2020. Total includes the share of other insurers involved in the claim in addition to AGCS.

schemes, which can often involve human error. It can also help mitigate ransomware attacks, although maintaining secure backups and a dedicated business continuity plan are also valuable aids when it comes to limiting damage. Cross-sector exchange and cooperation among companies – such as what has been established by the **Charter of Trust** – is also key when it comes to defying highly commercially-organized

cyber-crime,, developing joint security standards and improving cyber resilience.

Find out more about **Managing The Impact Of Increasing Interconnectivity – Trends In Cyber Risk** www.agcs.allianz.com/news-and-insights/news/cyber-risk-trends-2020.html

TECHNICAL EXCELLENCE – PRINCIPLES AND PRACTICE

Technical excellence is a term that is often cited in insurance, and especially so in relation to AGCS' international clients with their complex risk profiles. But while it is frequently used, what does it truly mean in this context? **AGCS' Chief Underwriting Officers, Tony Buckle and Dr. Renate Strasser**, who are jointly responsible for technical excellence as a core element of the **NEW AGCS** strategy, share their perspectives.

AGCS' risks range from aviation flag carrier fleets to pharmaceutical manufacturers, from investment banks to offshore wind farms, and beyond. This extraordinary variety presents a unique challenge for an insurer: How to assess, cover and price such risks, individually and across a truly global portfolio, while offering compelling value for customers balanced with sustainable profitability for long term security?

It's this challenge that is at the heart of AGCS' drive for technical excellence (TEX), as Renate Strasser explains: "This isn't simply an internal improvement initiative – it's rooted in the partnership that is at the heart of the complex risk insurance. Simply put, we transfer insurable risk from businesses to our balance sheet. The principle is simple, but the variety and complexity of these risks makes it much more challenging in practice. That's why the better we are at truly understanding and framing complex insurance risks, the better will be our offering and the more sustainable will be our customer relationships. TEX in insurance is what differentiates the leader from the crowd."

As Strasser points out, this extends beyond the core underwriting business: "TEX is often linked primarily to risk assessment and pricing, but it has to extend across the whole value chain, from product design, sales and distribution through underwriting, claims and reinsurance."



BIOGRAPHY TONY BUCKLE

Tony Buckle was appointed Chief Underwriting Officer Corporate and Member of the Board of Management at AGCS in July 2020. He is responsible for AGCS' global Alternative Risk Transfer, Energy and Construction, Financial Lines, Liability and Property underwriting portfolios, plus Allianz Risk Consulting services and Global Portfolio Management. Prior to joining AGCS, he held senior underwriting and portfolio management positions both in reinsurance (Swiss Re, GE Frankona) and corporate insurance (Swiss Re Corporate Solutions, RSA and AXA XL), most recently as Chief Underwriting Officer International P&C at AXA XL.

AGCS is currently investing across this spectrum, from teams harnessing insights from data, developing new

forward-looking pricing tools or creating a harmonized global product framework, to practice groups leveraging shared expertise on specific risks or sectors.

Data is a constant theme in the cross-functional quest for technical excellence as Tony Buckle highlights: "Being data-driven allows us to make better decisions on exposures, enabling us to serve our clients and brokers more quickly."

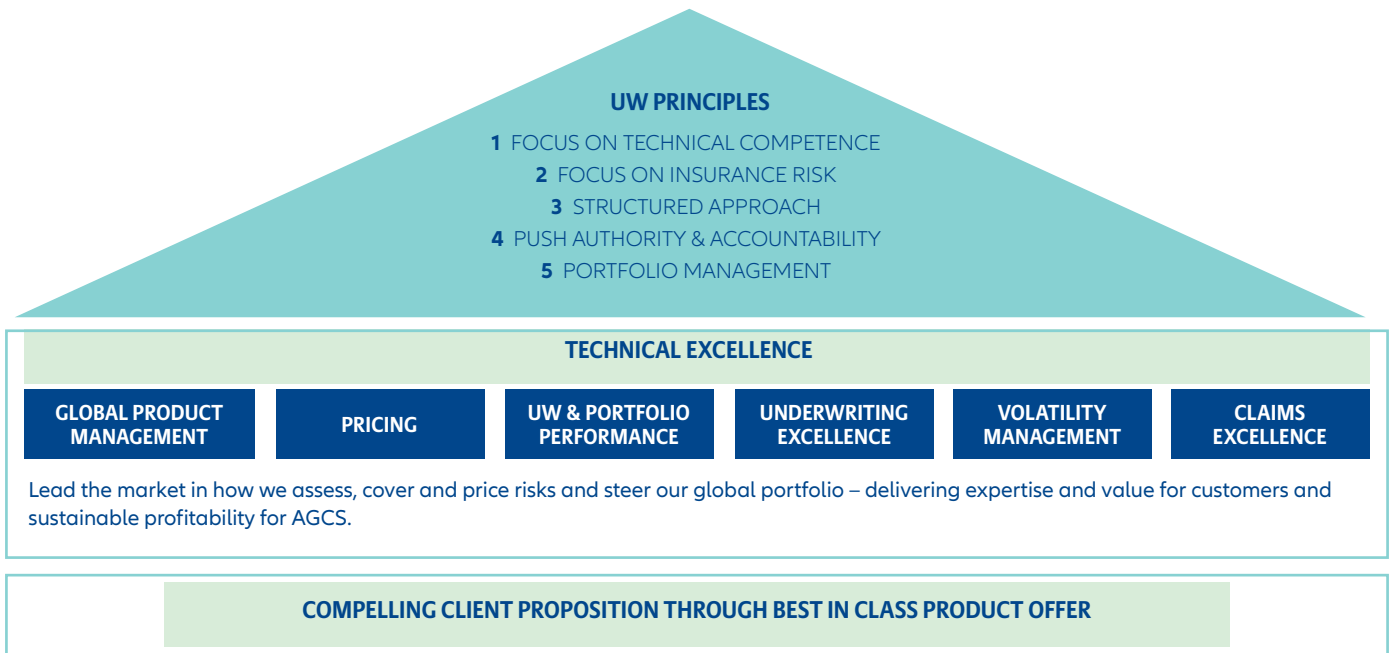
External data can add great value, too. For example, third-party data now supports the assessment of cyber exposures, monitoring hacker activity on the dark web; Environmental, Social and Governance (ESG) performance indicators are utilized in directors and officers insurance underwriting; and data sourced by remote monitoring enables a comprehensive assessment of numerous company sites without field inspections.

UNDERWRITING PRINCIPLES

Buckle explains that while these new capabilities are essential, for an underwriting company like AGCS, they need to be underpinned by a shared professional credo – what he and Strasser refer to as "**underwriting principles**".

"Underwriting is a profession that combines both art and science and this requires strong standards and principles. It should never be a box ticking exercise,

TECHNICAL EXCELLENCE AND UNDERWRITING PRINCIPLES



Source: AGCS

but more of a skilled assessment using the best inputs available. And as such, we at AGCS focus on five core principles that represent our core underwriting philosophy.”

These principles focus on **technical competence, insurance risk, a structured approach** in assessing risks, **authority and accountability** to the frontline, and emphasis on **portfolio management**.

Buckle says these go hand in hand: “In a nutshell, our underwriting should focus on our core competence and match expertise to exposure. We should focus our cover on the exposures we truly understand so that our clients benefit from our expertise and we take on their insurable exposures with a good understanding how those could potentially develop.”

Strasser elaborates what this means in practice: “First we have to ask ourselves: do we fully understand the risk and exposure, and do we have appetite for it? Only then should we look at the coverage we provide and on the price we need to charge to ensure a fair risk-reward balance.”

The AGCS underwriting principles aim to move authority and accountability



BIOGRAPHY DR. RENATE STRASSER

In October 2020, Renate Strasser was appointed Chief Underwriting Officer Specialty and Member of the Board of Management at AGCS. She is responsible for Aviation, Entertainment, Marine and Mid Corporate underwriting portfolios, plus Underwriting Integrity and Solutions and the Underwriting Academy. Prior to joining AGCS, she was Chief Executive Officer of NewRe. Previously, she spent six years as an Assistant Professor for Corporate Finance at the University of Klagenfurt, before joining the Munich Re Group in 2004. From 2007 onwards, she took over the role of Head of Aviation Facultative, where she was responsible for the worldwide portfolio.

to local underwriting teams allowing for quicker decision making and direct communication towards clients and brokers.

“The individual underwriter is best positioned in their local markets to assess the risk and rate it accordingly – and drawing on global expertise where needed,” Strasser emphasizes.

The final principle “portfolio management” reflects the global nature of AGCS’ business: underwriting should target a balanced and diversified portfolio, maximizing AGCS’ role as a lead insurer and absorbing larger losses for clients, rather than day to day operational losses.

Buckle stresses that this combination of consistent underwriting principles and technical excellence is the foundation of AGCS’ strategy and value proposition to clients: “We are dealing with sophisticated international buyers who are responsible for some of the world’s most complex risks. Therefore, we need to make sure we are best in class in technical excellence, delivering sustainable profit for our shareholder and being a reliable long-term partner for our clients with market-leading solutions.”

REINSURANCE/CATASTROPHE RISK MANAGEMENT

4 QUESTIONS FOR ...

HYEJI KANG

GLOBAL HEAD OF REINSURANCE AND CATASTROPHE RISK MANAGEMENT, AGCS

Photo: Wikimedia Commons

One of the most important parts of assessing and managing perils is catastrophe risk management, especially as climate change threatens to tighten its grip. For insurers, a similarly important way to help balance the insurance equation is reinsurance. Marrying the two is a delicate dance, as **Hyeji Kang, AGCS' Global Head of Reinsurance And Catastrophe Risk Management**, explains.

HOW HAS THE REINSURANCE INDUSTRY BEEN IMPACTED BY COVID-19?

The pandemic has pushed insurers/reinsurers to think more carefully about “black swan” events which we didn't think were likely to happen. This challenged many of us in the industry to develop new ways to identify, assess, mitigate and manage these risks – something in which reinsurance plays a big role. At AGCS, we worked with colleagues from multiple insurance functions to discuss exposures, how reinsurance would respond to various scenarios and how else we could mitigate the risk. Given the heightened awareness and focus on topics like communicable disease and cyber events, coupled with the hardest reinsurance market since 9/11, the biggest challenge we had was to secure proper levels of

coverage and capacity given our own retention appetite on certain covers, as reinsurers were focusing on coverage and wording topics – even more so than pricing – especially for lines exposed to pharmaceutical, cyber and contingency risks. The ways in which we handled reinsurance business had to change dramatically. The industry managed quite well in the end, but the slow pace of renewals was due to the combination of remote working and a hard market.

WHAT DO YOU THINK IS THE BIGGEST CHALLENGE FOR THE CATASTROPHE RISK MODELING INDUSTRY?

In general, for both modeling vendors and insurers, the challenge is to keep up with the ever-changing list of major risks insurers face and to learn how to correctly predict them. The pandemic

has showed us that the exercises insurers conduct to identify and assess potential risks can sometimes miss the magnitude and frequency of similar global events. The industry for some time has been developing ways to assess cyber risks and understand what kind of damage the next wide-reaching cyber-attack could do to their portfolios. When we invited several vendors to show us how they go about it, we found that the topic is multi-faceted. Depending on what you focus on (pricing, accumulation analysis, etc.), the model outcome can widely vary. For insurers, the issue is more daunting because we must take this information and make a decision on how we shape coverage, how we price it and which loss mitigation controls to consider. These complex man-made accumulation events are particularly difficult to model because there are



Climate change awareness takes center stage in Brisbane, in the midst of Australia's severe 2020 bushfire season

human factors – unlike modeling a damage from a hurricane – both in the cause and prevention of the events and the claims in the aftermath of an event.

HOW CAN THE INSURANCE INDUSTRY BETTER FACE THE CHALLENGES YOU MENTION THROUGHOUT 2021 AND BEYOND?

Speaking of human factors, another modeling challenge for the industry is to understand the impacts of climate change. Not only are the impact of the weather and rising sea levels hard to predict, but there's also the human behavioral change – such as urbanization causing a greater potential for flood damage and growing abstraction of fresh water from rivers and groundwater resulting in increased risks from drought, for example. The industry is only beginning to learn how to encompass all these factors into a perfect model, but because climate change happens gradually the accuracy of a prediction for any given year is more difficult to rely on. I think what insurers can do

amid the uncertainty is to actively focus on working with customers on preventative measures and steering our portfolio composition with these numerous not-yet-well-quantified risks in mind. Our risk consulting is well positioned to help in this sense.

GIVEN THE VOLATILITY OF FORECASTING, HOW CAN CATASTROPHE RISK MANAGEMENT HELP IN MITIGATING BOTH WEATHER AND NON-NATURAL CATASTROPHE PERILS IN THE YEARS TO COME?

Catastrophe risk analytics at AGCS is already actively used when we try to price the risks and also monitor any significant accumulation from a weather event. We provide services called “**client risk profiles**” for our clients with many global locations, using such analytics and insights. This service helps customers know precisely what their locations are susceptible to – such as flood risk for buildings near water, hail risk for flat, large roofed buildings or wind risks for multi-storied buildings – and what

insured values are exposed, which then leads to better risk management measures. This goes beyond a simple property insurance implication – an investment firm with a large real estate portfolio would also be keen to know and protect these assets on behalf of their investors. There are also other by-products coming out of the tools we have developed to map the concentration of insureds. Some non-weather events, like terrorist attacks, riots, environmental contaminations, or large explosions like we saw in Beirut or Tianjin – basically anything location specific can be simulated and monitored. These tools are key to AGCS' own risk management, and provide our clients with meaningful insights as well.



BIOGRAPHY HYEJI KANG

Hyeji Kang joined AGCS in 2015 as Chief Actuary for North America. In 2018, she became the Head of the Actuarial Function for AGCS. Prior to joining Allianz, she held various consulting and in-house positions with Price Waterhouse Coopers (PwC), CNA Insurance and Willis Towers Watson. Kang holds a degree in Economics from the Seoul National University. She works in the Munich office.



ESG MOVES INTO THE MAINS (AND THE BOARDROOM)

The journey from a voluntary regime for companies around **environmental, social and governance (ESG)** topics to a more regulated and compulsory one involving transparency, disclosure and reporting is well underway. Although there are currently no global, standardized ESG reporting benchmark requirements, “hard” legal measures with “teeth” are on the rise. D&Os beware....



According to law firm, Herbert Smith Freehills, there have been over 170 ESG regulatory measures since 2018 at the national and European Union (EU) level with Europe leading the way around the globe, accounting for around 65% of all ESG-related regulation. For example, the **Non-Financial Reporting Directive** has obligated companies to report on a wide variety of ESG-related metrics, while last year the European Commission published its final report on the **EU taxonomy** – a classification system, establishing a list of environmentally sustainable economic

activities. Outside of Europe, the Institutional Shareholder Services recently announced it will adopt a similar standard based on the EU taxonomy. Ultimately, this changing landscape will influence how, and in which sectors, companies and funds invest, as they consider whether a particular asset fits within the taxonomy or ESG strategy, how they will report on it, and what shareholders and stakeholders will think.

As investment decisions are increasingly influenced by this new

STREAM

Photo: iStock

years – particularly regarding increased claims frequency and severity. One of the reasons for this has been a significant shift in this environment from traditional financial statement- or reporting-related litigation, such as bankruptcy or fraud, to so called “**event-driven**” or “**bad news**” litigation, which can often result in significant securities or derivative claims from shareholders, if the “bad news” causes a share price fall or a regulatory investigation.

“Increasingly, such incidents can involve ESG issues (see graphic),” says **Shanil Williams, Global Head of Financial Lines at AGCS**. “And if an ESG issue is not handled or disclosed appropriately by the company or board, it can result in ‘bad news’ in their market, ‘bad news’ for the company share price and ‘bad news’ in the form of regulatory and legal action. ESG topics can pose a significant D&O risk for companies and their insurers.

“Legislation is evolving. Regulators are becoming more active, as are many other stakeholders. Companies – and current and future D&O underwriters – need to be aware of ongoing global ESG matters, from activist investor campaigns to social justice protests or money laundering schemes in order to adequately assess potential perils and how they can manifest in terms of potential liability. There are a growing number of topics that boards need to stay on top of where we already see examples of litigation, investor, shareholder and activist actions and D&O claims.”

TOPICS TO WATCH

- **Climate Change Actions:** Although ESG represents a much broader topic than just climate change (see also page 14), incorporating issues such as social mobility, diversity, business and human rights and sustainable and social investment, understandably the climate change topic is very much at the forefront of people’s minds. Much of the litigation seen to date has been around disclosure – companies and boards failing to adequately disclose the material risks of climate

environment, so too will be the role of risk management and in particular that of the board of directors. Directors’ duties in many jurisdictions are already under growing scrutiny and this will only deepen given tightening regulatory frameworks. Questions and clarity about who is responsible for ESG topics, such as climate change, on the company board will not just be a matter of “nice to have” but essential if the duties of directors are considered to be adequately fulfilled in future. Such topics need to be right at the heart of company decision-making.

“BAD NEWS” IN THE SPOTLIGHT

The directors and officers (D&O) insurance market has already seen some significant challenges in recent



THE 1 MINUTE DIALOGUE

- ▶ Over 170 ESG regulatory measures introduced since 2018 at the national and EU level. Europe accounts for around 2/3 of all ESG-related regulation
- ▶ As investment decisions are increasingly influenced by this new environment, so too is the role of risk management and that of the board of directors
- ▶ Litigation or investor, shareholder and activist actions increasingly focus on ESG topics such as climate change, pollution, diversity, cyber security and even CEO pay
- ▶ Elevating and identifying ESG risks through a company’s risk registers and committees and making sure it is understood how they will play out in and out of the boardroom is crucial

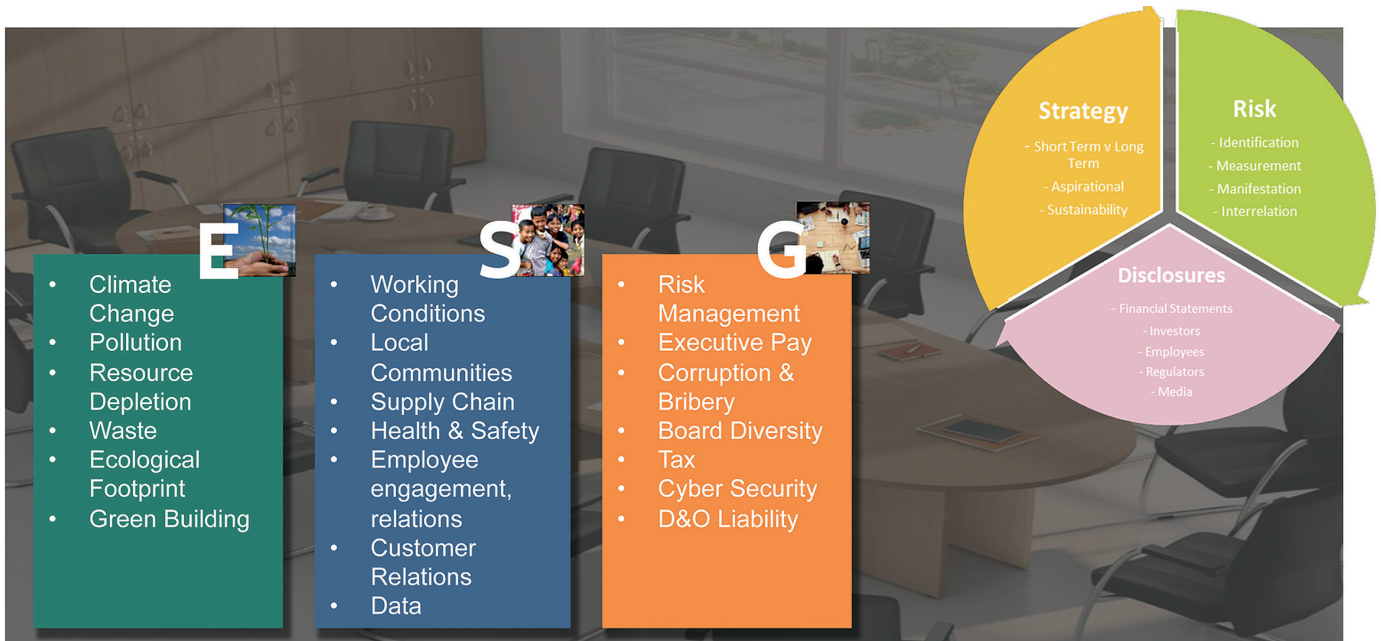
change. For example, there have been a number of recent lawsuits in the US following wildfires where it is alleged companies did not disclose the changes in the environment that were leading to more wildfire activity, and, subsequently, how this could negatively impact the business. Companies’ boards of directors have a vital duty to ensure solid corporate climate responsibility with appropriate reporting and due diligence.

- Over the past year there has been a big uptick in **Board Diversity Litigation**, particularly in the US, with cases typically alleging there has been a failure in the fiduciary duties of directors given the inadequate level of diversity on the board or in management positions. A number of studies show diversity brings better risk management and financial performance to a board. Companies in the top quartile for gender, ethnic and cultural diversity on their executive team are 25% more likely to have above-average profitability of outperformance than companies in the fourth quartile¹, according to McKinsey & Company. This uptick in litigation started in California, where a number of technology companies such as Oracle and Facebook have faced claims. “That the composition

Investor, shareholder and activist actions increasingly focus on ESG topics such as climate change

¹ McKinsey, Diversity Works: A Study On Why Inclusion Matters, May 19, 2020

ESG AND THE BOARDROOM



ESG topics can pose significant risks for companies. Source: AGCS

and diversity of the board is adequate enough to effectively manage risk is an issue that is only going to expand in terms of importance and governance in future," says Williams.

- **Pollution and Environmental Disasters:** In the aftermath of events such as the collapse of a dam or an oil spill impacting an ecologically-sensitive area, the boards and directors of impacted companies are increasingly being questioned about whether they had adequate risk management processes in place to prevent such incidents from occurring and how aware they were of the possibility of them happening.
- **Greenwashing Claims:** Incidents of companies providing misleading information in order to present a more environmentally friendly and responsible public image have already been the subject of litigation in the US and crackdowns by regulators are imminent. In the UK, the Financial Conduct Authority has developed a set of principles to tackle concerns over false claims. The Task Force on Climate-Related Financial Disclosures, the Securities and Exchange Commission (SEC) in the US and European supervisors are also looking at this issue.

- **CEO Pay** is another hot topic, particularly for investors. Norway's \$1trn sovereign fund – one of the world's largest – is just one that has developed active stewardship of management compensation proposals in the companies it invests in, amid concerns about opaque pay. At the same time, a growing number of companies are looking at linking CEO or director level remuneration to climate/ESG-related targets, such as greenhouse gas reduction.
- **Cyber Security** is fast becoming one of the most important ESG-related topics, particularly in terms of the sustainability of a business. Determining the cyber resilience status of a company is increasingly important for investors, while assessment of potential cyber exposures should be an essential part of any M&A process, given the number of large data breaches and the possibility that an acquiring firm could be liable for incidents pre-dating the merger. The 2018 Marriott breach, which resulted in a \$20mn+ regulatory fine for the hotel group, was traced to an intrusion in 2014 at Starwood, a hotel group it acquired in 2016. "Cyber security is a big governance topic for companies – making sure it is understood at the board level and that cyber risk monitoring processes are in place,"

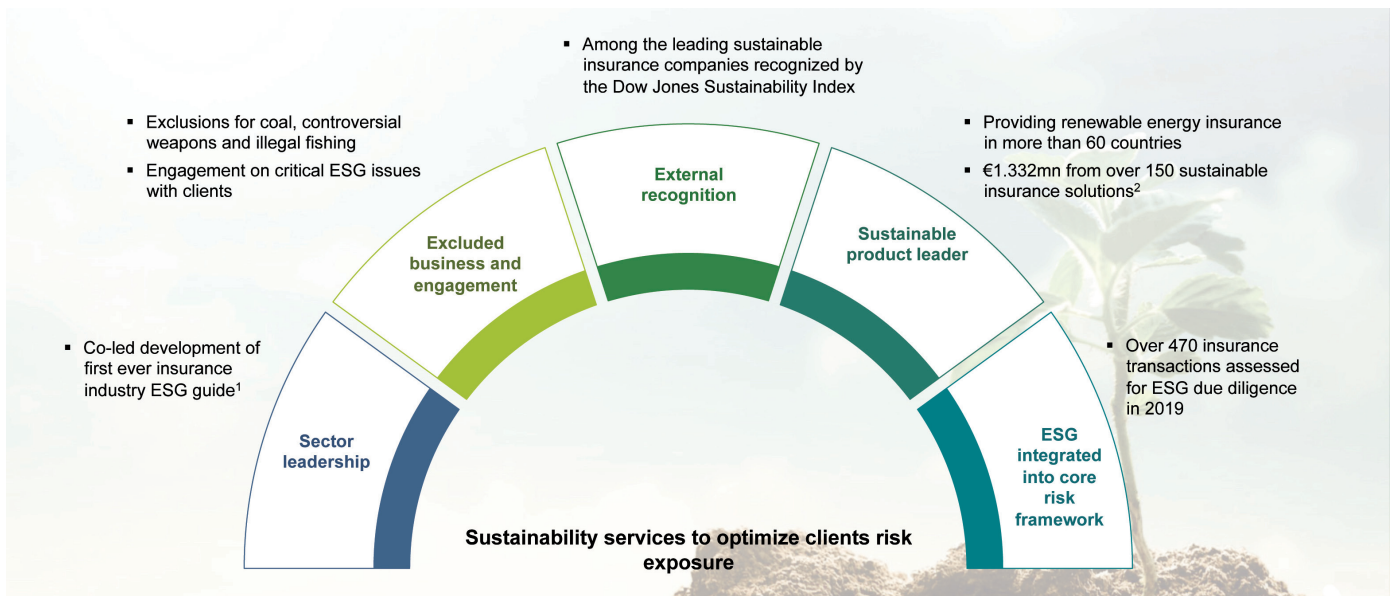
says Williams. "The main complaint from the investment community has been around transparency. It is hard to understand a company's cyber risks. And companies for various reasons have been slightly hesitant to provide enough transparency but the ones that do certainly see the benefit. The increasing focus on digitalization and remote working following the Covid-19 pandemic means this topic will only become more important."

Impact of new supply chain legislation around aiding and abetting violation of child labor law, and water management and biodiversity degradation strategies, as misuse comes under increasing scrutiny, are just a couple of other examples of ESG topics increasingly on the risk radar.

BEST PRACTICE COMPLIANCE AND LIABILITY MITIGATION

A crisis represents the real test of governance. And for many companies the pandemic has proven to be a huge learning curve with the board having to be at the center of the company's crisis management response. One positive change to emerge is a recognition of the increasing need to monitor, manage and report on a wider range of potential risks than before, including non-financial topics, which could result in many companies being better

ALLIANZ SUSTAINABILITY APPROACH FOR NON-LIFE INSURANCE UNDERWRITING



1. The United Nations Principles for Sustainable Insurance Initiative
 2. 97 sustainable insurance solutions, 28 emerging consumer solutions, 35 insurance solutions with sustainability component

positioned for the advent of new disclosure regimes around ESG risks.

“What we have learned from our own ESG experience is that you need a strong commitment at the management and board level,” says **Michael Bruch, Global Head of Liability Risk Consulting/ESG at AGCS**. “Within Allianz, we have implemented our own ESG board, so that all the important group centers are really committed to sustainability and the ESG topic, including the setting of specific targets from top management down. Then it is about translating this into execution.

“ESG risk topics should be integrated into enterprise risk management and all relevant operational processes. What we are seeing in many of the industry sectors of our client community – and in particular the power and utilities sector which is heavily challenged by the transition of its own business model into a more green energy-related power supplier – is that ESG and sustainability is having a high impact on virtually all functions within the company.”

Companies and their boards can benefit from conducting internal due diligence around their decision-making processes and determining any potential risk areas. For example, the prospect of climate change litigation risk increases the more

there is a discrepancy between what a company does and says internally and what it does and says externally (even further to the extent to which any public statements or actions of a company might contravene a legally-binding framework). Engaging with ESG subject matters is crucial. It is important that ESG is not only on the board agenda a few times per year but that a company embeds sustainability topics and thinking into the whole organization. Beyond internal steering, it is also crucial for the board to acquire appropriate skills and understand the external requirements in order to be successful in the long-term.

“Elevating and identifying ESG risks through a company’s risk registers and committees and making sure it is understood how they will play out in and out of the boardroom, is crucial,” adds Williams. “Disclosure is not just about the various regimes coming in around the world but also about how you disclose to the wider community – employees, stakeholders and the media – the latter, in particular, which can have a devastating impact on reputation.”

NOT JUST ABOUT GOVERNANCE

ESG is not just about governance issues according to Bruch. From the insurer’s perspective, there are also opportunities, such as helping organizations to improve

their ESG capabilities, given Allianz’s own initiatives (see graphic above) and its experience in observing ESG best practice across many different industry sectors. At the same time, ESG information can also help to improve the underwriting process, to the benefit of insurers and companies.

“We are utilizing ESG data in our D&O insurance underwriting,” explains Williams (as part of a partnership with investment and risk consultant, **the Value Group**). “We have statistically modelled a lot of ESG data points against claims and public litigation and we do see some predictive power there. From an insurer’s point of view, conversations around ESG-related topics, in addition to financial topics, are becoming much more important.”

Listen to the AGCS and Airmic webinar: **ESG in 2021: Moving Into The Mainstream** for further insights on this topic
www.youtube.com/watch?v=BiGI4dRKnJI&feature=youtu.be

OUR EXPERTS

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AFTER THE FLOOD

Businesses are entering a period of huge policy and regulatory change as the world steps up its efforts to combat global warming. Actions to address climate change pose significant operational and compliance challenges for companies and those that over promise or lag behind are facing increasing scrutiny.



The physical consequences of increasing weather volatility are becoming all too apparent. In February 2021, deadly Winter Storm Uri brought record seasonal cold temperatures to parts of the US, testing the infrastructure to the limit and leaving millions in Texas without power or water. As the world battles against coronavirus, extreme weather events like Uri are a timely reminder of the potentially catastrophic threat posed by extreme weather and climate change.

The last seven years have been the warmest on record, with 2020 joining 2016 as the hottest year on record,

according to NASA analysis¹. Despite the reduced economic activity during the pandemic, the World Meteorological Organization² states that greenhouse gas concentrations continued to rise in 2020. Carbon dioxide levels have increased by nearly 50% since the Industrial Revolution 250 years ago, while the amount of methane has more than doubled.

Evidence of climate change and its impact continues to mount, with longer lasting and more frequent heat waves, wildfires and hurricane seasons, as well as sea level rises, on the horizon. The 2020 Atlantic

¹ NASA, 2020 Tied For Warmest Year On Record NASA Analysis Shows, January 14, 2021

² World Meteorological Organization, 2020 Closes A Decade Of Exceptional Heat, December 24, 2020



Photo: iStock

D...

Changes in societal and generational attitudes to climate change are influencing policy and regulation going forward

hurricane season³ produced a record-breaking 30 named storms and 12 US landfalling storms. Australia's "**Black Summer**" bushfires of 2019-2020, the most intense bushfire season to date, occurred in Australia's driest and hottest year on record.

PANDEMIC IMPACT PUTS CLIMATE CHANGE BACK ON THE BOARD AGENDA

For businesses, coronavirus worries superseded climate change concerns in 2020. Climate change ranked as only the ninth most important risk in the **Allianz Risk Barometer 2021**, pushed down two places in a year dominated by the pandemic. What the pandemic and climate change have in common is that they are both global systemic risks. It is unsurprising then that in 2021, climate change is back on the agenda as a priority.

"Covid-19 is a reminder of the urgent need to tackle climate change and promote sustainability to build greater resilience in the future. It has demonstrated the potential for environmental and climate issues to inflict enormous damage on society," says **Isabel Naumann**, responsible for **Sustainable Finance Regulation at Group Regulatory and Public Affairs at Allianz SE**.

"The election of President Biden is also significant in pushing the sustainability agenda. There is now a period of policy and regulatory change in the US. Having the US back at the international table is critical if the world is to take an aligned approach to climate change."

The pandemic has changed the context of the debate around climate



THE 1 MINUTE DIALOGUE

- ▶ As the world transits to a low-carbon future, more countries are introducing climate change-related regulations
- ▶ Companies are likely to face simultaneous regulatory compliance changes across many fronts
- ▶ Litigation activism is increasing as advocacy groups advance climate policies and drive behavioral shifts
- ▶ Businesses need to use targeted data and analysis to identify potential impacts from developments in climate change risks, regulation and litigation

change, says **Chris Bonnet, Head of Environmental, Social, and Governance (ESG) Business Services at AGCS**. "Like climate change, pandemic risk was previously just an abstract exercise, now it is a risk we experience every day. We also are seeing growing activism and social pressure on governments and companies to address climate change."

INTERNATIONAL COMMITMENTS MATERIALIZE AS GOVERNMENT POLICY

The past decade has seen marked progress on international co-operation and commitments to address climate change and greenhouse gas emissions. Practically every country has signed the **Paris Agreement** (the US announced in January 2021 it will re-join), which calls for keeping the global temperature to 1.5°C above pre-industrial era levels in order to avoid the worst of warming. A growing number of countries are also striving to achieve carbon neutrality, or "net zero" emissions, within the next two decades. By early 2021, countries representing more than 65% of global CO₂ emissions will have made ambitious commitments to carbon neutrality, according to the United Nations⁴.

These commitments are now materializing as government policy, says Naumann: "There is a clear political will to tackle climate change. We see a growing number of climate change-related legislative activity, for the real economy but especially for the financial sector. The idea is to facilitate

³ National Oceanic And Atmospheric Administration, Record-Breaking Atlantic Hurricane Season Draws To An End, November 24, 2020

⁴ United Nations, The Race To Zero Emissions And Why The World Depends On It, November 2, 2020

the transition of the real economy through sustainable finance regulation.”

RISING TIDE OF REGULATION

While the physical loss impact is seen as the most significant exposure from climate change for companies according to this year’s **Allianz Risk Barometer** respondents, regulatory/legal risk is a rising concern (see graphic below).

As the world transits to a low-carbon future, more and more countries are introducing climate change-related regulations: By mid-2019, more than 1,600 laws and policies relating to climate change had been created across 164 jurisdictions, according to law firm Herbert Smith Freehills⁵.

So far, these changes have targeted sectors closest to greenhouse gas emissions, but developments will begin to impact almost all sectors, touching on a wide range of regulation and

guidance, including product liability, building codes, supply chains and reporting.

From a policy and regulatory perspective, it is now full steam ahead. “Businesses are entering a period of huge policy and regulatory change. Companies will face new regulations and standards in the coming years, as well as reviews of existing rules and legislations with sustainability in mind,” says Naumann.

COMPLIANCE CHALLENGES AND NEW LIABILITIES

A surge of climate and sustainability-related regulation in combination with inconsistent approaches across jurisdictions and a lack of data availability represents significant operational and compliance challenges for companies, according to Naumann.

With increasing regulation, companies and their directors could face litigation and regulatory action, says Bonnet. While global ESG reporting standards have yet to be agreed, national and regional “hard” legal ESG measures with “teeth” are on the rise, Bonnet explains.

“Climate change related-regulations and ESG requirements make it easier to hold directors and companies to account.

Companies closest to fossil fuels will face the highest risk of climate change litigation and regulation, but this is an issue

that will become relevant to almost all sectors, from financial institutions to manufacturing and technology.”

Companies are likely to face simultaneous regulatory changes across many fronts, which will not always be aligned. “Climate change-related regulatory and legal developments are likely to emerge over time and be iterative in nature. The pace of regulatory developments will also be unpredictable, accelerating or slowing with changes in governments and policy,” says Bonnet.

CLIMATE CHANGE LITIGATION

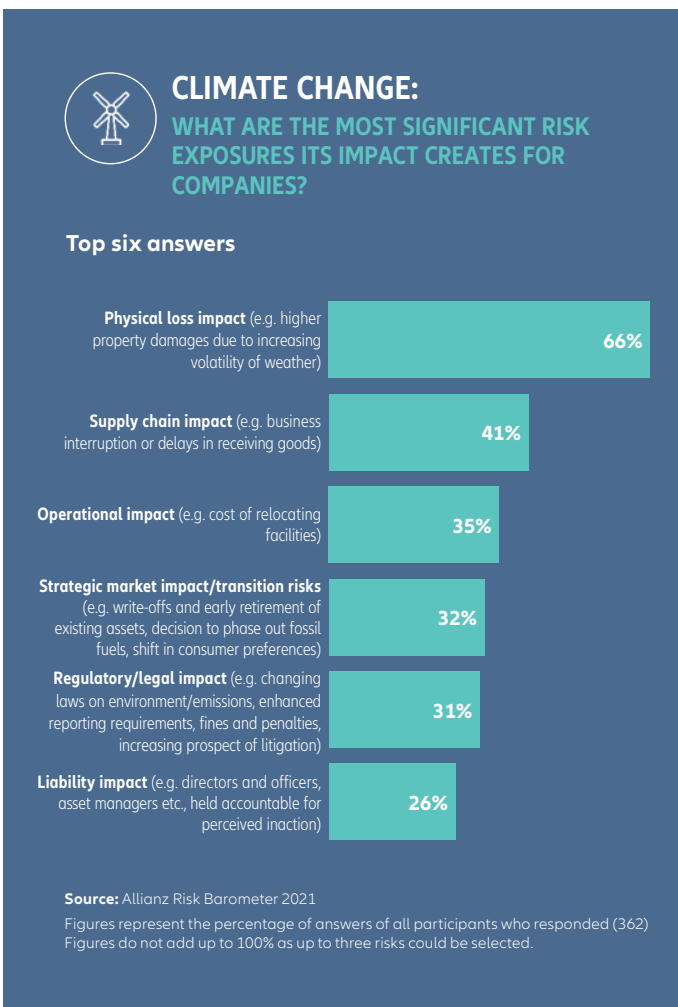
The frequency and diversity of legal actions addressing climate change are increasing, including those that are premised on regulatory responses to greenhouse gas emissions and others that arise out of extreme weather events, sea level rise, and other physical impacts of climate change.

Climate change-related litigation might implicate a wide range of issues, including but not limited to potential costs, fines and penalties, prosecution of executives, impacts of valuations and credit ratings and shareholder claims⁶.

In total, there were 1,587 cases of climate change litigation in 37 countries between 1986 and the end of May 2020, of which over two thirds were in the US (1,213), Australia (98), UK (62), and EU (57), according to the London School of Economics (LSE)⁷.

So far, no company has been found liable⁸ for climate change, although there are a growing number of cases filed against fossil fuel companies – there are currently at least 40 ongoing climate cases worldwide against “carbon major” companies, mostly in North America, according to the LSE.

“The development of climate change litigation is uncertain, and cases to date have largely been unsuccessful. But the stakes are high. The moment climate change litigation is successful, there would be huge ramifications,” says Bonnet.



⁵ Herbert Smith Freehills, 25-Fold Rise In Climate Change Related Regulation Could Mean Businesses Are Facing Risks To Value And Reputation, Says New Report, September 26, 2019
⁶ UN Environment Programme’s Principles For Sustainable Insurance Initiative, Ensuring The Climate Transition, 2020

⁷ London School Of Economics, Global Trends In Climate Change Litigation 2020 Snapshot, July 3, 2020
⁸ The D&O Diary, Climate Change Litigation Threats To Directors And Officers, November 9, 2020

ACTIVISM AND GREENWASHING

Changes in societal and generational attitudes to climate change are also influencing policy and regulation going forward. For example, since 2019, there has been an escalation in the use of litigation by activists and advocacy groups seeking to advance climate policies, drive behavioral shifts and/or create awareness and encourage public debate, according to the LSE.

Climate change activism has stepped up a gear, says Bonnet: “Campaigns have gone to another level in recent years, and are increasingly aligned and sophisticated. Groups lobby governments and pressure companies to effect change, and they are not afraid to resort to litigation.”

For example, non-profit law firm, ClientEarth, has gained a reputation for using legislation to hold companies accountable. In September 2020, it secured a major victory by forcing the closure of a giant coal plant in central Poland.

Meanwhile, a number of current lawsuits claim that companies have misrepresented the impacts of climate change, or alleged **“greenwashing”** where companies make false or misleading ESG claims. A crackdown on **“greenwashing”** claims could also be on the cards in future with the Task Force on Climate-Related Financial Disclosures, the US Securities and Exchange Commission (SEC) and European supervisors looking into the issue.

Companies that over promise or lag behind on climate change are likely to come under increasing scrutiny, according to Bonnet. “Companies need to ask themselves if promises made are achievable and backed by appropriate action. For example, what does it mean to be carbon-neutral? This will increasingly raise technical and regulatory questions, as well as raising expectations for consumers and investors,” says Bonnet.

GETTING AHEAD OF THE CLIMATE MITIGATION AND ADAPTATION CURVE

Companies will only have limited possibility to influence societal and



EU LEADS THE WAY ON CLIMATE CHANGE REGULATION

Europe is a front-runner when it comes to climate change regulation. At present, there are a number of key policies in development or due for implementation in Europe under the **European Green Deal**, which enshrines Europe’s greenhouse emissions targets, and the EU action plan for financing sustainable growth. In February 2021, the Commission also adopted a new, more ambitious EU strategy on adaptation to climate change.

“We are now at a tipping point in Europe with the application of first regulatory requirements such as sustainable finance disclosures and the taxonomy for sustainable economic activities kicking in. However, we are just at the beginning of the journey – the integration of sustainability into other areas, such as corporate governance or supply and value chains will follow,” says **Isabel Naumann**, responsible for **Sustainable Finance Regulation at Group Regulatory and Public Affairs at Allianz SE**.

political aspects of climate change. However, keeping a finger on the pulse of the climate change debate will help companies anticipate future policy and regulatory developments.

“This is an issue companies need to keep on top of and to keep in-touch with their peers, customers and suppliers about,” Bonnet says. “The boundaries of what is socially acceptable in terms of carbon-based

business models are shifting, and society will want to understand that businesses are contributing to the solution to climate change, rather than being the cause of the problem.”

Businesses need to be proactive in addressing climate change liabilities. “The EU’s climate change and wider sustainability agenda will not be postponed. Companies should start thinking about upcoming requirements and changes in policy and regulation now,” says Naumann. “From a risk management perspective, companies need to consider potential climate change-related liabilities alongside physical and transition risks. By engaging early, companies will be able to prepare for what is around the corner.”

Businesses will need to factor-in future climate change-related regulation and legal developments in their risk management and strategic planning, says Bonnet: “However, just including climate change in the risk register will not be sufficient. Businesses need to use targeted data and analysis to identify developments in climate change risks, regulation and litigation and understand how they could impact their business.”

KEY EU LEVEL REGULATIONS:

- Sustainability-related disclosure in the financial services sector (application in March 2021)
- EU taxonomy for sustainable economic activities (application in January 2022)
- Review of the Non-Financial Reporting Directive (ongoing)

OUR EXPERTS

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SCENARIO PLANNING FOR FUTURE DISRUPTIONS

The Covid-19 global pandemic highlights the importance of business continuity planning for current and future operational disruptions. Good continuity management learnings – robust planning and honest supply chain de-risk assessments – help businesses better adapt when the next event arrives.

60%+
of companies say improving business continuity management is a priority post pandemic

Costing the global economy \$375bn per month¹, Covid-19 has exposed many companies' reliance on their supply chains and weaknesses in business continuity management (BCM). A recent Covid-19 survey found that more than half of companies worldwide did not have a business continuity plan (BCP) in place to offset the impact of incidents such as the current pandemic outbreak².

According to the **Allianz Risk Barometer 2021**, which surveys more than 2,700 risk management experts about their top corporate concerns, 'initiating or improving BCM' (62%) is the main action companies are now taking in order to de-risk their supply chains and make them more resilient in

the face of the global pandemic. This is followed by 'developing/alternative multiple suppliers' (45%), 'investing in digital supply chains' (32%), 'intensifying supplier selection, auditing and risk assessment' (31%) and 'inventory/safety stock management' (17%).

There are not many positives to take from the pandemic but a growing realization that the impact of globalization needs to be better managed and more resilient supply chains need to be built is to be welcomed. Many companies have found that their contingency plans were overwhelmed by the rapid pace of the pandemic and changes in public health measures over the past year.

¹ The Independent, There's No Place For Vaccine Nationalism In The Fight To End The Pandemic, January 25, 2021

² Mercer, Business Responses To The Covid-19 Outbreak: Survey Findings, 2020

FOR



As Covid-19 took its toll on 'business as usual,' many companies found their contingency plans overwhelmed by the rapid pace of the pandemic



THE 1 MINUTE DIALOGUE

- ▶ Covid-19 has exposed many companies' supply chain resilience and weaknesses in business continuity management
- ▶ The pandemic has added to existing climate, reputational and compliance pressures to rethink increasingly complex supply chains
- ▶ Scenario-based continuity planning critically examines the company's own set-up and supply chain resiliency
- ▶ Increased resilience of supply chains will help with insurability of supply chain exposures and help businesses react faster to market trends

"What is clear is that the insurance industry cannot take away all the challenges companies face, but we can work with customers to identify, comprehend and mitigate risks in the supply chain," says Varney.

"AGCS' global network of risk experts can review a company's basic risk awareness and management, compare risk management systems of different companies and identify approaches for further development. Scenario planning should be constantly updated and tested, so it can be applied when needed. It can be cross-functional and integrated into a company's risk management and strategic processes for it to be effective."

The pandemic's impact on business-as-usual will be felt for a long time. It forced companies to depend on new or increased digital approaches, as travel and face-to-face interaction was discouraged and remote working increased proportionally – a 2020 Deloitte survey found that 48% of respondents had been forced into at-home working due to the pandemic³. However, new working scenarios also bring the potential for new disruption scenarios. The move toward digital dependence and remote working has exacerbated cyber and business interruption vulnerabilities from threats such as system failures, phishing, compromised

"One of the main property business interruption lessons from the pandemic is the importance of an up-to-date BCP, including having alternative suppliers available for raw and intermediate materials," says **Thomas Varney, Regional Head of Risk Consulting North America, at AGCS**. "Supply chains have been significantly impacted in many industries, resulting from manufacturing plants having to shut down."

The extent to which some supply chains came under pressure during the Covid-19 pandemic is illustrated by a situation recently faced by automotive manufacturers. Due to a lack of semiconductors, many car makers were threatened with production stoppages, delays in deliveries and measures such as shorter working hours. There were no short-term supply alternatives. Many manufacturers had to cut production, delivering a further blow to an already hard-hit sector.

"The best way for businesses to approach these types of situations is through BCP scenario planning that challenges working environments and supply chains under various eventualities," says Varney. "Moving forward, a pandemic scenario should be added to a company's planning. The ability to understand and proactively handle potential business impact scenarios is better resolved when the crisis is not directly upon the business."

In future, businesses will need to consider more and better scenarios in order to prepare for future disruptions. Identifying and understanding potential triggering events is a significant challenge, but the central key to survival is quick response times. The problem isn't just traditional risks like fire or flood, but increasingly important intangible risks – something Covid-19 has uncovered.

³ Deloitte, Cyber-Crime – The Risks Of Working From Home, 2020

emails and the rising number of ransomware attacks. For example, on average, a ransomware attack can result in 16 days of downtime. Maintaining secure backups can significantly reduce losses but a dedicated BCP outlining what a company needs to do in the event of a ransomware attack to minimize disruption could prove invaluable.

WHAT MAKES A GOOD BCP?

Scenario-based planning critically examines the company’s own set-up and the resilience of its supply chains. The BCP, which should have top management buy-in, is a holistic approach that considers essential operations, critical equipment, key personnel, functional vulnerabilities, supply chain exposures, and proposed solutions. An effective BCP will involve key personnel from each critical function area, heads of departments and site managers. Employees, as well as managers, should facilitate, understand and take ownership, where possible, of the planning process and implementation.

BCPs should be well-documented in order to satisfy audit requirements and should consist of four key steps:

- conducting a business impact

analysis (BIA) that predicts the consequences of disruption to a business function and process

- assessing risks by defining likely threats or vulnerabilities and their business impacts
- establishing recovery point objectives (RPOs) which describe up to what point in time the business process’ recovery can proceed
- establishing recovery time objectives (RTOs) which define how much time it takes to recover after the notification of the business process disruption; and the exercising and maintenance time required to test the plan against different scenarios and make adjustments (*see graphic*).

Vulnerabilities could include the facility itself, unique equipment, bottlenecks, logistics, warehousing and inventory needs, manufacturing capabilities and capacities, purchasing restrictions, contractual obligations, supplier shortages, and IT system failure, among many other things. These would be spelled out in the overall BCP, which includes several individual plans governing different sub-areas within the organization.

Developing emergency plans is vital. Companies should account for employees and family members and

plans should include clear lines of communication and detailed guidelines for actions at all levels of staff, pre- and post-incident. Plans need to be constantly updated and tested, including having alternative suppliers available. They need to be cross functional and integrated into an organization’s risk management and strategic processes.

DE-RISKING SUPPLY CHAINS

The pandemic has added to existing climate, reputational and compliance pressures to rethink supply chains which have become increasingly global and complex. Over the last four decades, a large part of the world’s production has been organized in global value chains with a high degree of division of labor. Raw materials and intermediate products from different countries are shipped around the globe for processing and then assembled at another location. The finished products are in turn exported to end-users in both industrialized and developing countries. In recent years, insurers have experienced a significant increase in the severity of business interruption claims, particularly in the automotive, electronics and manufacturing sectors, where reduced



stock levels and increased reliance on fewer suppliers have driven up the costs associated with fires and natural catastrophes.

During the first lockdown, companies around the world were affected by restrictions and temporary closure of operations. There was a flurry of assembly line shutdowns in the automotive industry. As a result of plant closures, the pandemic presented global corporations with the major challenge of getting hundreds of supply links back on-track. This was the most difficult task for production planners in the spring of 2020. And the concern about renewed shutdowns is driving the boards of many companies.

“Companies increasingly understand that more resilient supply chains need to be built. This is a development that we as industrial insurers and risk consultants can only welcome,” says Varney. “And one that we have been discussing with our customers in risk dialogues for years.”

“In reaction to the pandemic we are seeing clients make changes including nearshoring (bringing production to a nearby country) and some reshoring



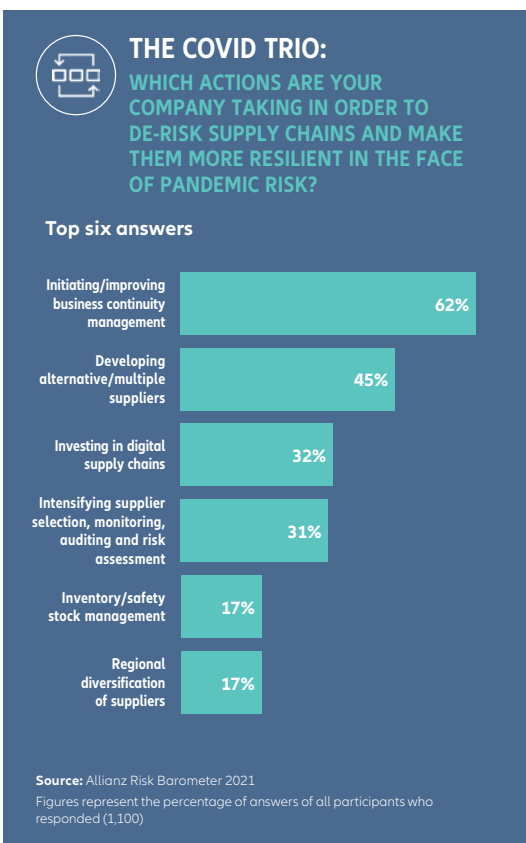
and changing the locations of supplies, particularly for US companies.

Companies are increasingly thinking about the consequences of events like natural catastrophes and civil unrest, and how quickly they will be able to find alternative suppliers,” says **Philip Beblo, Global Practice Group Leader Utilities & Services, IT Communication at AGCS.**

“Clients are looking to de-risk their supply chains to achieve operational resilience. Covid-19 shows just how vulnerable global supply chains have become and highlights how the most agile companies and those that were quickest to react to the pandemic were those that had an adaptive and embedded risk management approach,” adds Beblo. Post-pandemic, a lot of work remains to be done on business continuity and business resilience. In order to manage the risks and develop solutions, businesses will need to collect

data, utilize analytics, and then consider what is insurable. Risk management today is very good at insurable risks, but could do better when it comes to non-insurable risks, like intangible assets, supply chains and reputation.

“However, increased resilience of supply chains will not only help with insurability of supply chain exposures, it will also help businesses react faster to market trends,” concludes **Georgi Pachov, Head of Portfolio Steering And Pricing at AGCS.** “It’s not just about limiting insurance claims, more resilient supply chains should translate to more successful companies.”



OUR EXPERTS



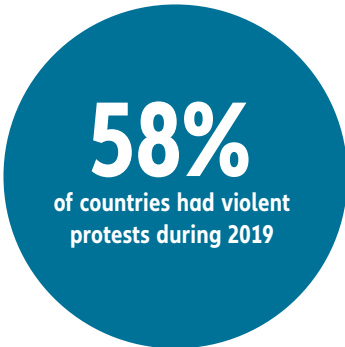
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THE COST OF UNCIVIL DISCOUR



If you think the world is becoming more turbulent and disruptive, you're right. Civil unrest has doubled in the past decade as protests ranging from economic hardship to police brutality ravage cities around the world. The Covid-19 pandemic is making things worse.

With national flags flying among banners and placards promoting conspiracy theories, the mob quickly overwhelmed police barriers and stormed the steps of the legislative building. Hundreds were arrested. This wasn't the 2021 insurrection of the US Capitol, but a demonstration that drew 40,000 people to protest Germany's coronavirus lockdown.

The German riot echoed protests in Hong Kong a year earlier when

hundreds broke into the Legislative Council, spray-painting messages on walls and breaking glass. Around the world, citizens are protesting more – and increasingly such protests are turning violent.

Data from the Global Peace Index 2020¹ show civil unrest has doubled around the world over the last decade with the numbers of both non-violent and violent demonstrations rising sharply. Riots increased by 282% in the

¹ Global Peace Index, Vision Of Humanity, June 2020



Photo: Wikimedia Commons

With no end to the pandemic-induced economic downturn in sight, protests are likely to continue

last decade and violent protests occurred in 58% of countries during 2019 – a development that reflects a longer-term trend. On the positive side, the death toll from terrorism continued to fall, with just over 8,000 total deaths recorded in 2019, down from a peak of 33,555 in 2015².

“Fortunately, large scale terrorism events have declined drastically in the last five years,” says **Bjoern Reusswig, Head of Global Political Violence and Hostile Environment Solutions at AGCS**. “But specialist political violence has risen instantly and seamlessly to take their place as a significant risk.”

Civil unrest incidents are becoming the main political risk exposure for companies, as reflected in the findings of the **Allianz Risk Barometer 2021**, in which ‘political risks and violence’ returned to the top 10 risks for the first time since 2018.

The number, scale and duration of such incidents in the last two years is staggering, says Reusswig, adding the extreme aspects of the French “yellow jackets” protest movement has inspired other groups. “The ‘yellow jackets’ did not stop,” says Reusswig. “Driven by social media, they continued, eventually turned violent and were partially successful. People took notice



THE 1 MINUTE DIALOGUE

- ▶ Number of non-violent and violent demonstrations rising sharply. Riots have increased by almost 300% in the last decade
- ▶ Over 70 countries expected to see an increase in protests over next two years
- ▶ Businesses do not have to be direct victims of civil unrest to suffer financial losses. Review insurance to check coverage
- ▶ Growing awareness among C-suite of need for business continuity planning to address disturbances

and they became a negative role model for demonstrations globally.”

Throughout 2019, “yellow vest” demonstrations drew some 300,000 people, constructing barricades and blocking roads, and turned increasingly violent with 2,000 protestors and more than 1,000 police reportedly injured. Meanwhile, demonstrations throughout the US in 2020 are estimated to have caused \$1bn in damages, although the final cost could reach \$2bn, according to Property Claim Services (PCS), a company that has tracked insurance claims relating to civil disorder.

A SHORTER FUSE

Unfortunately, the risk of riots and violence is likely to become more acute, thanks to the Covid-19 pandemic, says **Michael Stone, a Mid-Corp Risk Consultant for AGCS**. The measures governments have used to combat the coronavirus have had a significant socioeconomic impact and frustration is growing in large population segments.

The International Labor Organization (ILO) estimates that 8.8% more global working hours were lost in 2020 than in 2019 – the equivalent of 255 million full-time jobs³. According to a Pew Research study⁴, 15% of US adults interviewed had lost their work because of Covid-19 and one-in-four had trouble paying bills since the outbreak.

² Global Peace Index

³ International Labor Organization (ILO), ILO Monitor: Covid-19 And The World Of Work, January 25, 2021

⁴ Pew Research, Social Trends 2020: Economic Fallout From Covid-19 Continues To Hit Lower Income Americans The Hardest, September 2020



The boarded-up flagship Target retail store in downtown Minneapolis in the wake of violent protests following the death of George Floyd

The impact is particularly evident in the US, where the social safety net is not as comprehensive as elsewhere, explains Stone. "People are concerned. Job, health and income security are all gone. They're more likely to demonstrate and have a shorter fuse, so it isn't surprising that anti-lockdown demonstrations can turn violent."

Covid-19 has both magnified underlying long-standing grievances and given them a focal point. The pandemic has also negatively affected political stability, increasing polarization and bringing into sharp relief issues surrounding equality, worsening labor conditions and civil rights.

With no end to the pandemic-induced economic downturn in sight, protests are likely to continue climbing. Verisk Maplecroft, a leading research firm specializing in global risk analytics, expects 75 countries to experience an increase in protests by late 2022⁵. Of these, more than 30 – largely in Europe and the Americas – will likely see significant activity. And when emergency spending by governments ends in the post-pandemic period, the economic fallout is likely to reverberate for years, ensuring a tumultuous decade ahead.

BUSINESS IN A TIME OF UNREST

Conducting business in a time of civil unrest can be hazardous. **Bradley Jones, Manager of Mid-Corp Risk Consulting North America, for AGCS,**

explains that business insurance covers damage to property and contents when the cause is fire, looting or



Protests in Miami, Florida, following the death of George Floyd (Photo: Wikimedia Commons)

PREPARING AGAINST CIVIL UNREST

Civil unrest is not a natural disaster. It can be prepared for. This involves three phases: **plan development, physical preparation and response and mitigation.** **Bradley Jones, Manager of Mid-Corp Risk Consulting North America at AGCS** and **Scott Steinmetz, Regional Head of Mid-Corp Risk Consulting North America at AGCS,** have authored a short paper providing the essential information businesses need to brace themselves for civil unrest.

Find out more about mitigating against civil unrest at www.agcs.allianz.com/content/dam/onemarketing/agcs/agcs/pdfs-risk-advisory/ARC-Civil-Unrest.PDF

vandalism caused by civil commotion, protests and riots. But businesses do not have to be direct victims of civil unrest to suffer financial losses.

Revenues can suffer if the surrounding area is cordoned off for a prolonged time or while infrastructure is repaired to allow reentry of customers, vendors and suppliers. For example, during the "yellow vest" demonstrations, shops along the Champs-Élysées were looted and heavily damaged, which drove customers away. After only three weeks of demonstrations, the French retail federation reported that retailers nationally had lost \$1.1bn in revenue. Bruno La Maire, the French Finance Minister, described it as a "catastrophe for our economy⁶."

Jones explains that one of the most important steps businesses can take in preparing for civil unrest is to check insurance policies. In addition to losses incurred by civil disturbances, standard property policies may cover income loss caused by a riot or civil commotion. This includes if a business is forced to suspend operations or limit hours due to rioting. However, some policies are only triggered if the premises are physically damaged.

"This can vary from country to country and by line of business, but it means reimbursement for a loss of business or interruption is only triggered if the business actually sustains a physical loss or damage, such as looting, broken windows or in-store destruction," explains Jones.

During two days of "**Black Lives Matter**" demonstrations in late May in Chicago, almost every storefront on Michigan Avenue, which includes the "Magnificent Mile" shopping district, sustained damage. Later in the summer, looters – some who may have hired vans for the occasion – flooded to the rich central districts of Chicago and smashed into luxury-goods, electronics and other shops. Cash dispensers were pried open, cash registers seized and carloads of fancy clothes, jewelry, televisions and alcohol hauled away.

"In many cases, businesses not directly affected by those disturbances would not have sustained a covered loss,"

says Jones, “even though they may have suffered a significant decrease in sales resulting from the incidents. If businesses find their insurance does not cover such losses, then they may want to review their policy with their insurer or broker.”

NO PUTTING THE GENIE BACK

Jones recommends that businesses review their business continuity plans [see page 18]. Typically, these only focus on national catastrophes, but there is a need for BCP plans to address political disturbances and other types of business disruption like cyber. “There is growing awareness of this in the C-suite as the situation is not likely to change in the foreseeable future,” says Jones.

While the successful rollout of vaccines may help calm the situation worldwide, Stone does not believe this alone will see the risk of civil disturbances and riots decline again. “I don’t think there is any putting that evil genie back into the bottle until civility reenters public discourse,” Stone comments.

Reusswig is concerned that the



Photo: Wikimedia Commons

French “yellow vest” protesters block traffic in central Paris

pandemic has enabled conspiracy theories to flourish. “That has become reality to an extent I never imagined was possible,” says Reusswig, adding that it, “has prepared the ground for future turbulence – and even physical damage in some cases: A conspiracy theory that baselessly links 5G technology with the coronavirus has led to a series of arson attacks on cell phone towers in the UK and Europe.

“As underwriters, we are working to understand the dynamics of such

situations. At the moment, we can’t predict when a demonstration will turn into a riot, but we need to gain a better understanding of the triggers. If we can answer this, it has huge implications for the insurance industry in terms of the impact of the magnitude of losses.”

WHY PROPERTY INSURANCE IS NOT ENOUGH

The scale and extent of civil unrest is blurring the lines between when the general riot cover of property policies become political in nature. This can place such events outside the scope of standard insurance and may lead to damages caused, for example, as a result of a political protest being rejected. Specialist **political violence insurance (PVI)** covers the impact of civil commotion, strikes, riots, and terrorism plus physical damage incurred during a process of mass social uprising, revolt or military coup. It is in increasing demand after the events of the last two years.

OUR EXPERTS



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5 HIGH-TICKET LOSS INCIDENTS



1. Chile – Starting as a fare evasion campaign in October 2019 after an increase in the Santiago Metro subway fare, the movement swept the nation. Confrontations with police and infrastructure vandalism resulted in damages of \$2bn.



2. Ecuador – A series of protests erupted in 2019 in response to austerity measures introduced by the government, including the cancellation of fuel subsidies. The demonstrations paralyzed the country and caused \$800mn in damages.



3. France – After only three weeks of “yellow vest” demonstrations, the French retail federation reported retailers nationally had lost \$1.1bn in revenue.



4. Hong Kong – A proposed bill to allow extradition of citizens to jurisdictions such as mainland China and Taiwan sparked violent demonstrations from March 2019 into 2020. Damages are estimated at \$750mn.



5. United States – Throughout 2020, demonstrations often turned violent, including those by “**Black Lives Matter**” and anti-lockdown campaigners, as well as protests surrounding the national elections. Damage – \$1bn+.



THE RISE OF SOCIAL INFLATION

300%

increase in frequency of verdicts of \$20mn or more in 2019 when compared to 2001 to 2010 annual average

Social inflation is challenging the liability environment for companies and impacting potential claims payments for insurers, driven by a wide variety of factors such as anti-corporate sentiment, the rise of the litigation funding industry and even the growing use of jury psychologists. And it is no longer just a US phenomenon....

‘Social inflation’ describes increased insurance losses resulting from the growing phenomena of for-profit litigation funders, higher jury awards, more generous workers’ compensation claims, legislated compensation increases and new tort and negligence concepts. It is especially established in the US, but is increasing globally. Driven by a generation-long decay in public trust of corporations, social

inflation trends are challenging to predict, largely because they are driven by ‘soft’ social constructions, such as public perception of corporate behavior and changing demographics, especially with the increasing influence of social media.

“Simply put, the US has developed a culture of fault which can be exceedingly dangerous to businesses,”



Photo: iStock



THE 1 MINUTE DIALOGUE

- ▶ Social inflation trends are challenging to predict, as they're driven by 'soft' social ideas like public perception of corporate behavior, social media and changing demographics
- ▶ The increasing sophistication of the plaintiffs' bar and the changing composition of jury pools can influence how cases are viewed and verdicts awarded
- ▶ New collective action options and a growing collective redress trend have resulted in increased liability exposure for companies amid softening of EU regulatory obstacles
- ▶ Traditional public and product liability insurance, as well as motor, professional, medical, workers' compensation and D&O insurance claims can all be affected by social inflation

plaintiffs' bar, which has adopted tactics including the expanded use of jury consultants and psychologists specializing in group dynamics to influence the size of jury awards to plaintiffs.

Another factor is the changing composition of jury pools which can influence how cases are viewed and verdicts awarded. So-called 'millennials' and 'Generation Z' age groups now participate as jurors and their world view may significantly differ from older groups. However, in many cases, they also tend to seek consensus and may agree with the majority of fellow jurors while deliberating a verdict to keep from "making a scene", says Crotser. Jury composition impacts the outcomes of verdicts in a big way.

"In effect, the plaintiff uses psychological tactics to convince the finder-of-fact to more readily accept an inflated value of a case," says Crotser. "This process, known as '**anchoring**,' starts at the outset of the case, sometimes before the lawsuit is filed in court, and acts as a leitmotif during the duration of the litigation."

says **Larry Crotser, Regional Head of Key Case Management, North America, at AGCS.** "The acute perception of economic disparity in the US, a deep-seated institutional distrust and the perception of the value of an injury, translates into larger than expected claim values. There's a deep dissatisfaction and resentment – even anger – with the status quo."

One way this plays out is larger jury awards, with a review by VerdictSearch showing a more than 300% increase in the frequency of verdicts of \$20mn or more in 2019 when compared to the annual average from 2001 to 2010¹.

RUNAWAY SOCIAL INFLATION: THE US PICTURE

In the US, there were 77 court-approved class action settlements totaling \$4.2bn in 2020. Although the number of settlements increased only slightly compared to 2019 (74), the aggregate total doubled (2019: \$2.1bn) largely as a result of several "mega" settlements over \$100mn. The average settlement amount in 2020 was \$54.5mn – a 15% increase over the prior nine-year average.²

A significant contributing factor to the social inflation phenomenon in the US is the increasing sophistication of the

¹ Wall Street Journal, The Specter Of Social Inflation Haunts Insurers, December 27, 2019

² Cornerstone Research, Securities Class Action Settlements – 2020 Review and Analysis, March 18, 2021



Although social inflation is primarily a US phenomenon it has already impacted global tort activity due to similar drivers

With anchoring, people are influenced by information from their environment when making decisions without realizing they're being influenced, potentially impacting the eventual settlement amount.

AROUND THE WORLD

Although social inflation is primarily a US phenomenon it has already impacted global tort activity due to similar drivers: perceived social inequalities, social justice demands, developments to include higher duties of care, expansions of liability theories, weakening of exclusions and the emergence of litigation funding firms and fewer cost deterrents.

While rare in Canada, since civil personal injury trials seldom proceed to jury there is a cross-over when Canadian companies are hit in US cross-border claims, where a company targeted in the US sees its Canadian affiliate also named in the lawsuit, an increasing activity:³ 2019 saw 14 cases (four more than 2018) and just one less than the top year of 2011⁴.

At the same time, the litigation funding industry – which first rose to prominence in North America and Australia – has ramped up activity outside of these

territories. New collective action options and a growing collective redress trend have resulted in increased liability exposure for companies amid softening of EU regulatory obstacles. There has also been notable litigation funding growth elsewhere around the world – as widespread as in Saudi Arabia and South Africa.

“We see an uptick in the value of product liability claims that can result in astronomical payments compared to what they were before litigation funding was widespread, and with recent reports pegging the capital available to fund litigation at \$10bn in the US alone⁵, that’s a lot of financial support for plaintiffs’ lawsuits,” says Crotser.

Meanwhile, in Germany, liability insurers are also beginning to find out that the potential impact of social inflation can be expensive, adds **Joerg Ahrens, Global Head of Claims Key Case Management, Long Tail Lines, at AGCS**. “More court cases, higher settlements and more customer-friendly analyses of contracts have all impacted German corporations. It’s not yet a dominant issue, but it’s becoming visible, especially among self-insured companies with international programs.”

In addition, there is a growing number of parties involved. Ahrens cites an example from the logistics industry: “More and more people are ordering goods online, and logistics companies are responding with more drivers, who may be not as well trained as in the past, and more trucks. If a fatigued truck driver causes a car accident, the issue quickly moves beyond the individual’s fault and liability. In such cases, lawyers can focus not only on the driver’s individual liability, but also on the employer’s organizational fault,” says Ahrens.

Traditional public and product liability insurance, as well as motor, professional, medical, workers’ compensation and D&O insurance claims, can all be affected by social inflation. “Brokers should install a multi-faceted approach to ensure they’re steering companies towards insurance partners who are experienced in the area of social inflation and very proactive on litigation/insurance trends analysis,” says Crotser. “Understanding what its impact looks like, with help from their insurance carrier, and having timely dialogues on expectations as new terms and conditions come out or renewals of insurance policies come around, is key.”

³ AGCS, Collective Actions And Litigation Funding And The Impact On Securities Claims: A Global Snapshot, July 2020

⁴ NERA Economic Consulting, Trends In Canadian Class Actions: 2019 Update: Cannabis Litigation Leads To New Highs, March 19, 2020

⁵ Bloomberg Law, How Litigation Finance Works: Making Millions Off Other People’s Lawsuits, 2021



Social inflation has had a significant impact on the commercial transportation industry in North America

Photo: iStock

COURT CLOSURES AND SETTLEMENT TRENDS

In the wake of the Covid-19 pandemic, court closures and the uncertainty around reopening impacted the legal environment, although the number of settlements in class action filings continued at about the same rate as before the pandemic – especially in line with historical trends before 2019 when medium settlement amounts were historically high due to reduced numbers of small settlements.

With attorneys working and conducting depositions remotely during the lockdown, the legal process may have slowed a bit, but any disruption – chiefly during April when the lockdowns began in earnest, when only 3.9% of cases were settled, compared with 7.4% in 2019⁶ – was temporary, after which there followed a return to normal pre-trial activities in May, and continuing through the rest of the year. The number of jury trials conducted continued to exhibit a slight delay in 2020, which should correct as 2021 progresses.

“We saw very limited blockbuster personal injury trials in early 2020, with one out of Washington with a verdict of \$410mn for a Florida highway crash, and one for \$125mn in New Jersey for a plaintiff severely injured by a falling telephone pole,⁷ but since then there seems to have been a return to historical trends, in which case there have been larger settlements,” says Crotser.

Download the AGCS report: **Collective Actions And Litigation Funding And The Impact On Securities Claims** www.agcs.allianz.com/news-and-insights/reports/collective-actions-litigation-funding.html



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SOCIAL INFLATION

WHAT'S BEHIND IT IN THE US?

- Jurors distrust in big corporations and their lawyers
- Emergence of an industry dedicated to financing plaintiffs' lawsuits (litigation funding) – fewer cost deterrents
- Increasing sophistication of the plaintiffs' bar
- New psychological tactics to convince fact finder to accept more readily an inflated value – “anchoring” – emotions versus facts
- Active print and electronic advertising by the plaintiffs' bar
- Changing composition of the jury pool has potential impact on how cases are viewed
- Prospective jurors are more aware of “blockbuster” verdicts due to social media
- Medical expenses have increased year on year

WHAT'S BEHIND IT IN THE REST OF THE WORLD?

- Shifts in perceptions and attitudes – delivering ‘social justice’ (judicial bench) because of assessment of new public sentiment and social norm
- Influence and proliferation of social media (narrative versus facts)
- New litigation tactics (e.g. exploitation of advanced analytics)
- Shorter claims cycles due to cost pressures and reputational aspects
- Legislative developments:
 - Collective redress (opt out – opt in, onus of proof, inhibition of statute of limitations)
 - Lower pleading standards
 - Developments in tort law – higher duties of care, expansion on (public nuisance) liability theories, weakening of exclusions, reverse burden of proof
- Emergence of an industry dedicated to financing plaintiffs' lawsuits (litigation funding) - fewer cost deterrents.

⁶ Cornerstone Research

⁷ Law 360, The Biggest Personal Injury Decisions And Verdicts of 2020, December 18, 2020

AGCS PROPELS LARGEST WIND FARM



The Dogger Bank wind turbine fields will eventually power millions of UK homes

Around 130 km (81 mi) off the Yorkshire coast, construction has begun on the world's largest multi-field offshore wind farm to provide up to 5% of the UK's total energy needs by 2026. AGCS is leading the insurance coverage for the three-phase construction project.

As long ago as 2010, the Dogger Bank, an ancient sea-bank in the North Sea, was selected as an ideal spot for offshore windfarms due to shallow waters which allow for fixed-foundation turbine installation. At greater depths, considerably more expensive floating wind turbines would be required. Once finished, the wind farm will be capable of powering 4.5 million UK homes.

Dogger Bank Wind Farm is a joint venture partnership between SSE

Renewables, the UK's leading developer and operator of renewable energy, and Equinor, one of the world's largest offshore operators, each with a 40% share, and the ENI Group, an Italian oil and gas multinational, at 20%.

The Dogger Bank A and B fields will be comprised of 190 General Electric (GE) Haliade-X 13 MW wind turbine generators (see box) – at 853 feet almost as tall as the Eiffel Tower. Demonstrating an impressive step

forward in offshore turbine technology this machine will be a key contributor towards the UK government's targets for green energy transition.

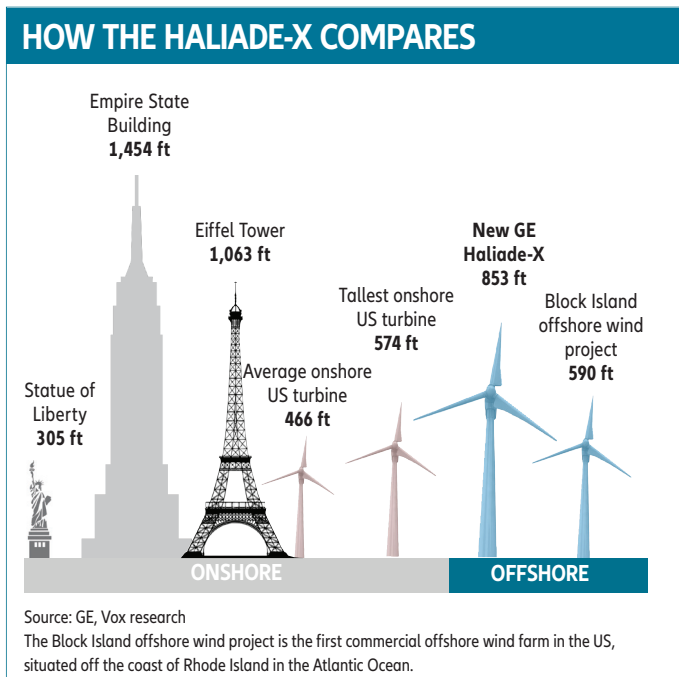
FACTS AND FIGURES

- 190** Total number of wind turbine generators in both farms
- 52,000** Number of metric tons of CO2 savings per generator – the equivalent of emissions generated by 11,000 vehicles in one year
- 4.5mn** Number of UK homes powered
- 853ft** Height of wind turbine generators

over-placed soft markets of old, the new normal has been multiple split terms and conditions and pricing. With so many differences, many can be left without a clear understanding of the overall coverage in the event of a claim.

"AGCS took this opportunity to establish a new benchmark market offering. This was achieved by working in close collaboration with risk consultants, customers, the broker and AGCS' Crisis Management-Political Violence team." AGCS leads on both DBA (defense base act – insurance for US contractors working abroad) and DBB (design-build and bid – insurance against damage to the structure during construction) and the first year of operations.

"Over the last 18 months, the offshore wind insurance market has seen many changes," says **Peter Hubbard, Underwriter, Energy and Construction, at AGCS.** "In stark contrast to the



CONTENT SHOWCASE

Visit www.agcs.allianz.com for the latest AGCS news and expert content on risk topics across a variety of formats and channels. Latest uploads include...

AGCS REPORT IDENTIFIES MEGA RISK TRENDS FOR D&OS



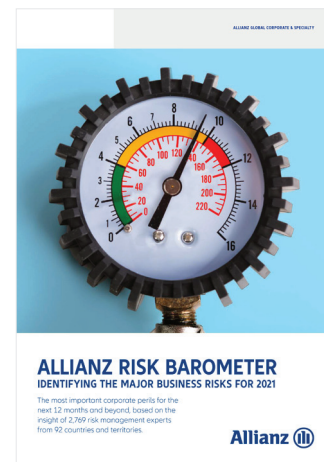
The Covid-19 pandemic has created a highly volatile and uncertain environment for businesses resulting in a litany of new or heightened risks for directors and officers (D&Os) as well as exacerbating the situation in an already strained D&O insurance market, according to the new report **Directors And Officers Insurance Insights 2021** from AGCS.

Rising insolvency exposures, the growing cyber security threat and persistent securities class action activity are among the key risks for which D&Os of companies could be held liable. In 2021, companies also need to be on guard against "event-driven litigation" which can be caused by different triggers such as inaction on diversity, poor sustainability performance or for underestimating or misrepresenting Covid-19 related risks.

While publicly-listed companies are generally more exposed to D&O risks, the situation of private companies also is aggravating. The Covid-19 pandemic is currently placing private companies and their executives under considerably higher litigation risk. Generally, D&Os of privately-held companies are more closely involved in all of the company's operational topics and business decisions. This can more easily translate into being held personally liable through different forms of litigation, the report notes.

Download the report www.agcs.allianz.com/news-and-insights/reports/directors-and-officers-insurance-insights-2021.html

PODCAST: "THE COVID TRIO" AND BUSINESS CONTINUITY PLANNING



A trio of Covid-19 related risks heads up the **Allianz Risk Barometer 2021**, reflecting potential disruption and loss scenarios companies are facing in the wake of the coronavirus pandemic: Business interruption; Pandemic outbreak and Cyber incidents.

To help companies better understand these risks – and mitigate them – **Thomas Varney, Regional Head of Risk Consulting North America at AGCS**, joins the latest AGCS podcast to discuss best practice business continuity planning, how to de-risk supply chains and ways to monitor the threats posed by the rapid growth in remote working.

Tune in today at www.agcs.allianz.com/news-and-insights/podcasts/allianz-risk-barometer-2021.html



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"#Winterization is protecting the equipment & the instrumentation, so it won't be susceptible to failure from cold weather much like they do in Canada or North Dakota" - David Robertson [@ijournal](https://twitter.com/@ijournal): lnkd.in/g/NsHBXP

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"It is always easier to work with people who look and think like you. However, the result will not be as rich unless we embrace the difference and promote a real culture of #Diversity & #Inclusion. If we want to be resilient, we need new ideas" - Paloma Martin Bueno.

[#AntiRacism](https://twitter.com/#AntiRacism)

