Forward steps in resolving conflicts of interest

FERMA and the European Federation of Insurance Intermediaries (BIPAR) have agreed a protocol to resolve conflicts of interest in intermediation in business insurance after a long period of negotiation led by FERMA President Peter den Dekker.

The FERMA-BIPAR Protocol on Transparency is the first such international agreement by market participants. Both organisations recommend that their member associations use this protocol as a framework to enable them to agree and issue guidance to their members.

Its principles are intended to allow intermediaries to identify, manage and mitigate potential conflicts of interest in an appropriate and transparent manner.

- They should provide clear and fair information on the nature of their services and the capacity in which they operate, including any underwriting powers and delegated authorities they hold from insurers.
- They should voluntarily inform their clients about the nature of the remuneration directly related to the placing and servicing of the insurance contract, for example whether they are paid a fee or receive commission.

On request from the client, they should disclose the amount of this direct remuneration and any “indirect” remuneration they may receive from insurers if the client’s business insurance contract is part of the calculation of these payments.

Den Dekker and Jaap Meijers, Chairman of BIPAR, said in a joint statement: “In the complex nature of insuring businesses, conflicts of interest can arise from time to time. When this occurs, intermediaries should identify, manage and mitigate them in an appropriate and transparent manner. The BIPAR-FERMA Protocol on Transparency addresses these concerns to underpin and enhance trust in the purchase of business insurance.”

The protocol is also an important contribution to the current process of revising the European Insurance Mediation Directive (IMD), according to Den Dekker. The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) has advised the European Commission to maintain exemptions for intermediaries dealing with the insurance of large risks in the new IMD, in recognition of the sophistication of corporate buyers as a group of customers.

“That is why both Federations are excited about this industry initiative, since it supports the members of associations represented by FERMA, being corporate buyers dealing with these large and complex risks,” said den Dekker.

On your skates

FERMA President Peter den Dekker reminds all those joining him on the 2011 Vikingarännet 80 km skating race in Sweden that it will take place in mid-February. The final date will be fixed closer to the time. He is taking part to raise awareness of the 2011 FERMA Forum in Stockholm and to demonstrate that risk management is a healthy career. The race runs along a old Viking route on the ice of Mälaren, a fresh water lake that provides Stockholm with drinking water, between Uppsala and Stockholm.

See http://vikingarannet.com/en/ for registration and news.

Solvency II the final lap

By Pierre Sonigo

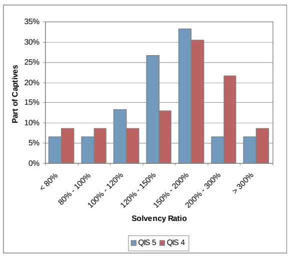
Although the deadline to submit results to national authorities on the final Solvency II Quantitative Impact Study (QIS 5) was postponed until 15th November, Marsh and Aon presented trends at the European Captive Forum in Luxembourg some weeks earlier.

The purpose of QIS 5 is to test the changes made to the calculation of the solvency capital requirement under the Solvency II Directive, due to apply to insurance and reinsurance companies established in the European Union from January 2013.

If the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the European Commission consider the results satisfactory, the formula will finally then be able to be adopted and the Directive transposed into national laws.

The preliminary findings are based on a better distribution of participation from captive domiciles than for the previous study, QIS 4 in 2009. In 2009, a total of 99 captives responded, of which 65 were based in Luxembourg. For QIS 5, although Luxembourg and Sweden slightly increased their participation rate, Ireland, Netherlands, Gibraltar, Malta were more involved than for QIS 4 (up to 60% of active captives, excluding run-off captives.) Across Europe, the participation rate of captives was probably between 40% and 50%.

From a sample of Luxembourg and Ireland captives which responded, one can observe that if QIS 5 were in force today, they would show a slight decrease in average solvency ratio. At the same time, with the new Solvency II solvency capital requirement calculations, approximately 13% of captives would be considered insolvent compared to 21% on the basis of QIS 4. More than 73% of captives would have a solvency ratio between 100% and 200%, compared to 52% in QIS 4.



First results also show that using QIS 5, small captives will have a lower solvency ratio than large ones. This is often due to a lack of diversification in investments (especially intra-group loans). It is also explained by less risk-bearing capital in more recent captives.

It seems that results for captives from QIS 5 will not be too different from QIS 4. The main drivers of risks remain unchanged: non-life underwriting and concentration. The contribution of catastrophic risk to the solvency capital requirement has decreased, due to the inclusion of a risk mitigation effect. The concentration risk, however, remains too important and not appropriately calibrated.

It is too early to draw conclusions from these preliminary studies. We have to wait until the final results are published in the second quarter of 2011 by EIOPA, the new European insurance regulator which will replace CEIOPS on 1st January 2011. We will then direct our efforts to what still needs to be done to reach our objectives.

Seminar breaks records

A record breaking number of risk managers and business partners attended the FERMA Seminar which took place in London at the end of September. It was the first time the event moved away from Brussels, and FERMA was very pleased with the turnout, which numbered about 300 people over the two days.

The star attraction of the Seminar, which alternates with the larger FERMA Risk Management Forum, is the presentation of the results of the pan-European risk management benchmarking survey. This year was no different – except that the survey was more representative than ever with 782 replies from across Europe.

Key survey findings

The risk management environment is evolving toward more regulations and standards.

- Risk management is on the agenda for management, the board and shareholders.
- Risk management practices and tools are becoming more consistent.
- Internal communication on risk is maturing.
- Company complexity has a clear impact on the maturity of risk management practices.

When it comes to insurance

- Customers are reasonably satisfied with current prices and are looking for innovation and services.
- There is, however, real concern about a possible hardening of the market.
- Insurer's networks, knowledge and expertise are generally regarded as good, but clients would like more innovation from insurers to help them manage emerging risks.
- Broker transparency remains an issue. Respondents have increased oversight of the insurance programme.

For the full survey report, see the FERMA website: http://www.ferma.eu/Portals/2/documents/press_releases/20100929.ferma-risk-management-benchmarking-survey-2010.pdf

FERMA spreads guidance on 8th European Directive

FERMA is distributing copies of its Guidance on the 8th EU Directive for boards and audit committees, compiled and published in cooperation with European Confederation of Institutes of Internal Auditing (ECIIA).

FERMA and ECIIA produced the Guidance because they believe that board members, especially those who sit on the audit committee, will find it useful to have practical and focused advice from practitioners on their duties under art. 41 of the Directive.

This article requires the audit committee to "monitor the effectiveness of the company's internal control, internal audit, where applicable, and risk management systems..." As FERMA and ECIIA explain, this seems a rather simple statement, but "what to monitor" and "how to monitor" are considerably more complex.

If you like printed copies for your own association, please contact Anja Ngoy at the FERMA office: anja.ngoy@ferma.eu

Taking the message to Poland

FERMA board member and President of the International Federation of Risk and Insurance Management Associations (IFRIMA), Carl Leeman participated in the annual Eastern Institute Economic Forum held in Krynica in Poland where he was able to spread the risk management message to an important and prestigious audience.

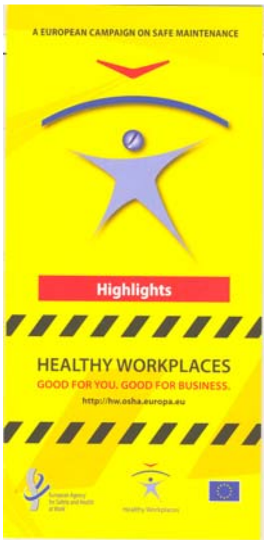
More than 2,000 people took part in the event which had as speakers the President of the European Union, José Manuel Barosso, and the presidents of several countries. It attracted television coverage from CNN, CNBC and national stations.

Leeman paticipated in a discussion with a representative of the Polish employers' association, the risk managers of the two major Polish banks and the risk manager of the next European Football championship in Poland 2012. Their title was "Risk Management, lessons drawn from the crisis". Despite having to compete for attention with 13 other simultaneous sessions, the panel attracted more than 50 people and produced positive feed-back.

Leeman said Polrisk, the Polish risk management association and a FERMA member, was honoured that FERMA had been invited to take part in such an important event. Unfortunately, he added, risk management as separate from insurance is so far little known in Poland. "The representative of the Polish employers' association did not know about the existence of a Polish risk management association." Leeman has, of course, now corrected this omission.

He concluded:"If we want to progress in real risk management that gives an added value to our companies, we have to broaden our scope away from the insurance and brokers' industry. None of them was present at this forum."

Official partner in safety



FERMA participated in the pan-European conference "Do it Safely" in November as one of some 30 official partners in the Healthy Workplaces Campaign 2010/11 for safe maintenance. The campaign, co-ordinated by the European Agency for Safety and Health at Work (EU-OSHA) and its partners in the EU member states, supports a wide range of activities at the national and European level.

Building on the achievements of the Healthy Workplaces Campaign 2008/09 on risk assessment, the current campaign highlights the importance of maintenance of plants, equipment, machines and workplaces to provide safer and healthier working environments throughout Europe.

The campaign partners help raise awareness of afe maintenance at European and national levels through their own campaigning events and communication networks with a variety of activities including conferences, seminars and training sessions for employees and other groups involved in maintenance work.
http://osha.europa.eu/en/campaigns/hw2008

Time to prepare your risk management budget 2011, and include Stockholm

By Peter den Dekker, President of FERMA

Most of us are trying hard to get our budgets in place for next year. We need to advise our boards regarding the expected investment level for our company's risk and insurance management costs and savings. Also our own department's spending needs to be in place for next year. An important part of our budget should be permanent education. With so many changes in international laws and regulations, practices and compliance issues, it is of great added value to our companies and ourselves to keep track of what is going on in Europe and the world.

One of the best international permanent education opportunities is obviously the FERMA FORUM 2011 from 2-5 October in Stockholm.

Do not ask your boards if you can go! Just tell them you will go as it is in the interest of your company and your own personal development.

Also, you will meet your risk finance and risk capital providers and advisors in person. Your board or CFO cannot refuse such a great opportunity for its risk and insurance professional.

A bracing invitation to Stockholm

By Hans Brandt, Secretary, SWERMA

On the 9th September 2010, I piloted my boat out into the archipelago of Stockholm to one of the 30 000 islands. The temperature was +20ºC and the air was fresh and clear. In less than one year *you* and hopefully your partner will be here. You will also have the opportunity to do something similar or something totally different.

Stockholm has a lot to offer and is surrounded by clean water. Actually, the water is so clean so you can have a swim…if you like a little chilly water, because the 2011 FERMA Risk Management Forum will take place here on 2-5th October.

You will probably fly in via Arlanda Airport and join the express train that takes you to the city and Central Station in 20 minutes. From there, you can walk five minutes to your hotel and within another five minutes on foot, you will find Stockholm water front and our futuristic Congress Centre, which will be only 10 months old at the time. More than 1 300 delegates will network, participate in interesting risk and insurance discussions, listen to highly qualified and interesting speakers, and see Stockholm from its day and/or night side. The major insurance companies, loss adjustors and brokers are all represented in the city.

Stay a little longer. Before and after the Risk Forum you can enjoy the shopping in the city, the Old Town Gamla Stan and the City Hall where the famous Nobel Prize dinner is held, all within 10 walking minutes. Also very closely located is the WASA Museum in which you can see the ship WASA that sank on its maiden voyage in 1628 and was found on the bottom and salvaged in 1961. If you have more time you can visit the outskirts of the city, meaning the archipelago with its many islands or use some of the sightseeing facilities.

Stockholm has more than 1mn citizens. It is widely spread with green areas between the suburbs. The underground is very efficient and takes you around easily. You might decide to take one of the small ferries to the green island, Djurgården, where you will find Skansen. Skansen is like an open museum where you can see the most common and rare animals in Sweden like bears and elk, as well as typical buildings from different parts of Sweden. If you choose to go there, you will get a good overall picture of Sweden.

Tributes to Goetz Deecke

Tributes have poured in for Goetz Deecke, former President of the Swiss association SIRM, who died on 4 November after a long illness. He was very actively involved as a member of the SIRM organising committee for the 2007 FERMA Forum which took place in Geneva.

FERMA's President, Peter den Dekker said: "I have been in many committee meetings, Lisbon and Geneva, with Goetz and he contributed a lot to the success of the Forums. He was very nice person to work with and, despite of our age difference, we also had a lot of fun together."

François Settembrino, Former President of FERMA, wrote: "From the start of his involvement with FERMA, we developed a deep friendship and understanding. In times of difficulty, he was the first to offer support. Living as he did in Basle close to the borders of three countries, he had an incredible facility of putting himself in the place of others and believed that neither language nor culture created a monopoly on ideas."

Jérôme Brizard, Former board member of FERMA, commented: "During his long period as president of SIRM,Goetz used his charisma and high level of professional to bring SIRM to new heights, gaining the recognition from all partners in the market in Switzerland, and internationally through his work with FERMA. He never lost his enthusiasm and made his experience available to FERMA on a voluntary basis over many years. Estimated and respected, he will be missed by all."

Franck Baron, now in business development for AXA Matrix Risk Consultants, was chairman of the 2007 FERMA Forum committee.

"Goetz," he said, "was a precious source of help during the organisation of the Forum in Geneva with efficiency, modesty and above all with a great smile – just like the picture. I will retain this image of him."

FERMA's Executive Manager Florence Bindelle, said: "Like Franck, I have a memory of a smiling, dedicated professional, very involved in the committee that ran the Forum in Geneva."

Jorge Luzzi, FERMA Vice-President, said: "I met Goetz a long time ago in a conference in Monte Carlo when I was quite young, and I would say that he was a real motivational risk manager trying to support the development of young people in the profession."

Former FERMA Board member's good ideas

Risk managers were interested earlier this year when a report from the research and consultancy group Mactavish warned that companies had unintentionally increased their risks in adopting measures to combat the financial crisis.

What the readers may not have realised is that one of the people involved with Mactavish is former FERMA board member, Michel Yarhi, who was also president of the French risk management association AMRAE from 2005-7. Now retired as risk manager for Société Générale in Paris, Yarhi serves as chairman of the international advisory board of UK-based Mactavish.

Wanting to build its business in France, Mactavish approached Yarhi soon after his retirement from SocGen in April 2008. His advice was that the company needed to show French brokers that its activities would support them, not compete.

Mactavish took this advice to heart and invested in the production of an important piece of independent research on the impact of the recession on UK corporate risk, which covered about 250 companies. It concluded that changes that many companies made to their businesses because of the financial crisis could have aggravated risk levels without their being fully aware of it.

The report was published in January 2010. The response was heartening, said Yarhi. It got coverage in the national press and there were plenty of requests for further information, including from the UK's Financial Services Authority (FSA). The FSA wanted to find out if UK insurers were accepting liabilities they hadn't expected because of changed business processes and new concentrations of risk among their insureds.

The timing was also good. In France, the leading car maker Peugeot recalled a number of vehicles manufactured in the same in plant in the Czech Republic as the Toyotas that were subject to a much larger recall operation.

Another less publicised case concerned a furniture retailer in France who sold leather sofas imported from China. The leather had been treated with a chemical that gave customers an allergic reaction. Itchy customers were not happy customers. "The company had to reimburse the buyers and to take the reputation damage. The furniture seller was in the front line - neither it nor its insurers was able to get recourse to the manufacturer in China," said Yarhi.

Although there was already a trend toward concentration of suppliers, distribution and so on, the financial crises increased the pressure because companies were facing financial pressure. Then there was the BP oil spill in the Gulf of Mexico. As Yarhi said: "The study had posed the pertinent question - had these companies economised in some way that increased risks?"

The success of the Mactavish report has been such that the firm is intending not only to produce a similarly extensive report for the French market but has shifted its entire business plan toward the production of independent research. With Yarhi's help, Mactavish is now in contact with insurers and brokers in France. "It will be of great interest to risk managers," Yarhi says "because it will be useful to them and give increased weight to their perspective. Even today, there are companies which don't really listen to their risk manager. They can be taken as too negative."

He has been pleased that advice has proved valuable for the group. "For me, there is satisfaction to see my ideas had a positive effect."

Around the associations

A change in Germany

Günter Schlicht has been a familiar, tall figure at FERMA meetings in his role as executive director and board member of the German commercial insurance buyers and risk management association DVS. This summer he retired from the helm of DVS, but he is far from lost to FERMA. Instead, he is one of its newest board members. Schlicht studied in Germany, did a school exchange to California – too early though for the 1960s flower power– and returned to Germany where he completed his legal studies and did a traineeship in the French city of Lyon. After working for an international law firm in Cologne for six years, he went to work for the federation of German industries, BDI, in 1979 and became its head of insurance, dealing with all industrial insurance issues in 1983.

In 1987, Schlicht joined DVS and became its executive director in 1993. He was also for many years a member of the advisory board of the German insurance supervisory authority, BAFin. Despite relinquishing his DVS post at the end of June, he has taken on the management, including insurance and risk management functions, of the DVS business activities and will work with a large German company in this field.

Phillip Andrae who has taken over from Günter Schlicht has a similar background: the law and 10 years with the BDI where he was managing director of the insurance committee. He started work with DVS in 1999 and became a director in 2009 and its executive director on 1st July.

Phillip Andrea

Günter Schlicht

France

AMRAE's annual Rencontres will take place from 2-4 February 2011 in Deauville with the theme of risks and resources. Registration is open at http://www.amrae.fr/rencontres-amrae/2011.html.

Italy – risk included, risk understood

The yearly ANRA Forum took place on 9th November 2010, at Palazzo Mezzanotte, Piazza Affari, in Milan, with the title *Governance - rischio compreso*, meaning both Governance– risk included, and risk understood. FERMA's President Peter den Dekker participated in a panel discussion and Paulo Rubini, President of ANRA, presented the FERMA-ECIIA Guidance on the 8th EU Directive for boards and audit committees to the audience. The association's next planned event is a seminar on professional liability risks 12-15 December 2010.

ANRA has also held claims handling and advanced risk management courses in Milan in October and plans a basic level risk management course in January 2011. The association holds regular workshops in Milan and Rome on subjects such as property damage and business interruption, general liability, product liability and recall, employee benefits, marine and transport, construction risks and directors' and officers' liability.

Netherlands looks forward

NARIM is already looking ahead toward its 2011 conference, which will take place on 26 and 27 May. The NARIM Conference 2010, held in Noordwijk in June 2010, attracted more visitors and members than ever before, which the association sees as a satisfying accomplishment. For an impression of the conference or other information, see <http://www.narim.com/> www.narim.com.

On the 5th November, NARIM organised its general assembly of members at the head office of one of its members, Royal Ahold. Afterwards, an external lawyer gave a presentation on precautionary measures for uncertain future risks.

Russia organises

RusRisk has arranged two major events this autumn:

A training seminar on corporate risk management from 25th October to 5th November targeted at new risk managers in production, financial sector specialists and entrepreneurs.

A seminar on the_ISO 31000 risk management standard: principle and implementation trends" is planned on 15th December 2010. The organisers are RusRisk and Marsh, with support from the Federal Agency on Technical Regulating and Metrology, the Russian Union of Industrialists and Entrepreneurs (Committee on Technical Regulation, Standardization and Conformity Assessment).

Spanish initiatives

AGERS opens prize competition

AGERS has opened the competition for the Second Julio Sáez Prize. It calls for submissions of unpublished research in Spanish on subjects that encompasses risk management or that document scientifically relevant and practical experience on the subject. The deadline for entries is 30 January 2011.

The prize is named after a former chairman of AGERS and risk and insurance manager at the Spanish retail group El Corte Inglés, who died in 2006. Supported by El Corte Inglés, the prize is worth €18 000. The winners will be announced at a ceremony by 31st May 2011.

During the year, AGERS has run training programmes on a wide range of insurance and risk management topics and launched "Agers Boletin", a newsletter for members. In November, the association held its 16th insurance programme renewal meeting for members to hear a global review of the main lines of business in the national and international market.

IGREA

IGREA has started discussions with UNESPA, the Spanish insurers' association, to discuss progress on the implementation of Solvency II and its implications for the insurance market and commercial insurance buyers in Spain. The association is also preparing to publish a code of good practice to tackle inefficient claims handling in the market.

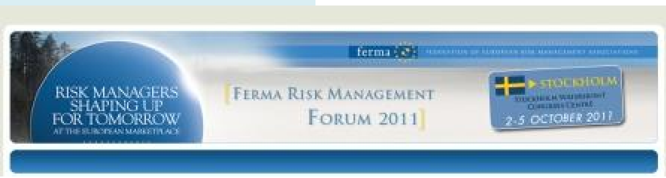
Members met in November to discuss the 2011 insurance renewals. , The main conclusion was that the markets were soft except for risks needing great capacity or where there were particular issues, such as in Chile following the February earthquake**.** None of the risk managers considered that insurers make sufficient distinction between good risks and those with bad claims records. IGREA members remained concerned about the possible impact of the financial crisis and sovereign debt on the solvency of states as well as on insurers and how this situation might lead to market hardening.

UK looks for clarity

Airmic's technical director Paul Hopkin is a member of the working party set up by the Financial Services Authority (FSA) to look at updating the European Insurance Mediation Directive (IMD). The directive is expected to cover broker remuneration. The European Commission is holding a public hearing on the revision of the IMD on 10th December 2010 in Brussels.

The six top brokers used by Airmic members say they do not accept contingent commissions in the UK commercial market. They do, however, charge insurers fees for services they carry out and for some products, but in a phone in programme arranged by Airmic the promised that they would be completely transparent on such matters, in advance and without the client having to ask.

In another project, Airmic is working to help the market find more proportionate remedies for innocent non-disclosure of material facts by commercial insurance buyers. UK law currently allows insurers not just to deny a claim in these circumstances but to avoid the policy entirely. Airmic is in consultation with the Law Commission, the legal reform body, and developing wordings that members can use to cover situations where the non-disclosure is unintentional or unrelated to the cause of a loss.



This Newsletter is produced by FERMA. If you have any questions concerning this Newsletter, please contact Florence Bindelle at FERMA on +32 2 761 94 32 – email: info@ferma.eu