

FERMA ARCHITECTS OF THE FUTURE

Johan Willaert talks to Jorge Luzzi about his role, the emerging insurance and risk management issues and how FERMA – Federation of European Risk Management Associations can guide Europe through this period of change.

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What is FERMA’s focus today and for the future? How do you work with your members?

Our focus is to have a world where risk management is embedded in the business model and culture of organisations. Last year, FERMA began a new journey with a fresh strategic vision and goals to increase leadership in risk management and enhance risk managers’ strategic influence.

Today, these goals are particularly relevant in what is an ever-changing landscape. Our world is in transition, bringing opportunities for risk managers, and the profession must adapt and respond positively to the increasing demands put upon it. We are seeing a move away from a time when risk managers were mainly insurance buyers; they now manage companies’ risks and, to comply with their risk management strategies, transfer elements of these risks to insurers.

While this strengthens their position, it poses a challenge for the profession; there’s a need to not only ensure risk management is among the business

objectives, thus demonstrating how it can add value to the company, processes and strategy, but also to contribute to and promote a risk culture and embed risk awareness across the whole organisation.

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What in general, do your members and European risk managers currently view as the main risk and insurance issues? Why and what can be done about them?

According to FERMA’s European Risk and Insurance Report 2016/7: economic conditions, limited growth opportunities (low interest rates and a slowing of the emerging economies), business continuity disruption and political/national instability (Brexit, Trump’s second year in the White House, rising tensions around North Korea) are considered the biggest risks to organisations.





It is extremely difficult today to predict how to address them. Companies clearly need to be more resilient to external threats (industrial damage and catastrophic events such as the recent hurricanes Irma and Maria) and have greater awareness of their vulnerabilities following global cyber attacks, WannaCry and PetrWrap.

In order to do this, companies must;

- Align risk management to their business objectives and understand/ have a good knowledge of the objectives so the function can support the decision-making.
- Have a holistic view of the strategic impact of risks – i.e. those that can affect their ability to achieve objectives.
- Embed risk awareness across the whole organization and ensure risk managers develop scenarios/stress tests and rehearse them regularly with stakeholders.
- Understand the risks they are exposed to – this will ensure they can source tailor-made insurance cover that’s right for the business. Insurers tend to underwrite in silos but insurance buyers need a more global/holistic insurance product. You can’t put risks into silos.

Can you give examples of your work with national associations?

Strengthening FERMA’s lobbying activities is a priority. FERMA acts as the interface between national associations and European and international policy-makers and to support this, we rely on the national associations’ input and their member feedback.

Cyber risk and captives are two examples of what can be achieved by working together.

Because cyber risk management is a corporate issue, we proposed a new European model of cyber risk governance with the European Confederation of Internal Auditing Institutes in June. To raise awareness of the importance of having a suitable governance framework for cyber risk management we presented our model to EU stakeholders at a European Parliament conference.

Our paper on captives is the industry’s first report on captive re-insurance arrangements, representing the strength of opinion within the European risk

management community on how captives support the operations of their parent organisations. We are very pleased to be shortlisted for this year’s European Captive Awards – a recognition that by bringing together the expertise and experience of our network, we can drive things forward and make a difference.

Are you working with any other regional or global associations, such as PARIMA/RIMS/ALARYS or IFRIMA?

Since April 2017 I’ve been president of the International Federation of Risk and Insurance Management Associations (IFRIMA). My objective is to strengthen and reinforce dialogue and cooperation among risk management associations worldwide, ensuring consistency in our actions and global development. To do this, I will build on my experience as president of FERMA since 2015.

Other relevant topics are:

- Captives – with many jurisdictions around the world adopting the BEPS recommendations, FERMA presented its report at an IFRIMA meeting.
- International Insurance Programmes – under the leadership of the German insurance association (GVNW), IFRIMA received a mandate to develop a proposal for joint action between brokers and insurers to modernise international insurance programmes. A steering group is being set up to do this.
- Education – in addition to FERMA, global risk management bodies RIMS (Risk Management Society), PARIMA (Pan-Asian Risk and Insurance Management Association) and ALARYS (Latin American Insurance and Risk Management Association), have developed professional risk management certification. Establishing links to connect these certifications is certainly the way forward.

Are you working with insurers and brokers to better support your members? How does the FERMA conference help and what is their future role?

Nurturing a true European risk management community with our risk partners is important and something FERMA supports and encourages. We have a close relationship with our risk partners in the insurance industry and

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Johan Willaert
President of FERMA



Johan Willaert has been president of the Federation of European Risk Management Associations (FERMA), since 2015, and president of the International Federation of Risk and Insurance Management Associations (IFRIMA), since 2017. He is also a board member of the Belgian Risk Management Association (BELRIM). As Agfa-Gevaert corporate risk manager, Jo is responsible for developing global risk management and insurance programmes for the Imaging Solutions Group. He joined Agfa-Gevaert in 2001. A law graduate, Jo spent the early stages of his career in broking with companies which are now part of Marsh and Aon.

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Considering the situation from a European business, risk management and insurance perspective, FERMA's role is to lead the way in this journey utilizing expertise, experience, communication and education.

beyond and appreciate the support they give us in our projects.

We are aware of the enormous expertise that exists within these companies from which we can benefit – and they too can benefit from our experience. This is why FERMA and Commercial Risk Europe launched the European Risk Management Awards. Introduced last year it was a great success and the increased number of applications already received this year shows how important this initiative is for the European risk management community. By rewarding organisations that innovate and deliver excellent service, we encourage others – in the spirit of healthy competition – to emulate them. I believe in a risk management community.

In the future, the insurance world will be as important as it is now but it will be different. We have two levels of insurance products:

- standardised products for private individuals and smaller companies
- tailor-made products for large companies and specific markets

In the future, insurance managers will become increasingly important as they will risk manage their companies' exposures. In the past, insurers offered products that insurance managers tried to adapt to, now insurers must work more closely with clients to provide global solutions.

Insurers are preparing for the future; they are hard working and more focused on selling a service. Cyber policy is a good example with insurers offering a crisis management service. The rationale behind Kidnap & Ransom is to bring people back safely, the challenge is to sell this value-added service.

The same applies to brokers. They are now working as advisors because they are close to their clients. Brokers can help risk managers define their exposures and source market solutions asking 'What products do you have for these exposures?'

Why are conferences like the FERMA Forum important for risk managers?

The FERMA Forum is the sole pan-European risk management event – the next one will be in Berlin in 2019. The FERMA Forum is networking 'par excellence': a big attraction is the opportunity for risk managers to meet colleagues and senior business partners from around Europe and we design the

event with this in mind. For example an industry-sector breakfast for risk managers only is a great way to discuss shared interests.

Because it is a European event, our speakers represent different industries, sectors and sizes from across Europe. This ensures the Forum provides broad points of view for each topic.

Are you confident the insurance market will be able to deliver for members post Brexit? Are you lobbying government for continued 'passporting rights'?

According to FERMA's European Risk and Insurance Report 2016, political and country instability is the third largest risk facing risk managers across Europe. Brexit is one of the biggest political risks the EU has ever encountered and it will have insurance and risk management implications for years to come.

The impact of Brexit is still a massive unknown, but the real danger is that companies stand still whilst waiting for clarity. FERMA will continue to monitor the latest Brexit developments and what it means for insurance programmes and risk management.

Do you believe FERMA can guide Europe through this period of change?

I remember the experience, especially in the days before satellite navigation, of arriving at a crossroads where it was hard to tell which direction to take. Perhaps the signs were unclear or roadworks blocked the route I once knew. Now of course, you have GPS and while the computer will take you through the shortest route, it can still take you down an unmade road at some risk to your suspension.

Today, in many ways, we are at such a crossroads. Our ultimate destination is a prosperous and sustainable future for Europe, our enterprises and communities. In order for this journey to be successful, we will have to positively manage our risk taking and make decisions about the route. I believe that the risk management community is in a strong position to support those making the decisions.

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expertise, experience, communication and education. At the end of our time together, I believe you will have confidence in the value of our chosen profession(s) and view us among the guides for future travels. Let me quote Matthieu Ricard, a Nepalese French scientist and Buddhist monk: “At each point in our lives, we are at a crossroads. We are the fruit of our past and we are the architects of our future...”

Taking into account how fast technology is progressing and what’s happening now, what are Europe’s challenges for the future?

‘Europe at a crossroads’ was the title of our keynote session during our last Forum in Monte Carlo and given the scope and pioneering nature of the European Union, it’s not surprising to find it’s encountered difficulties since inception. But the EU has always emerged strengthened. Brexit and the risk of fragmentation within the Union has awakened other EU Member States to the need to be positive about the future of Europe.

Many of the great challenges of our time however, are not regional but global: security, migration, climate change, digital technology and economic and financial volatility. The world is going through a period of profound transformation and nationalism, populism and protectionism are responses to such uncertainty. They increase levels of unpredictability and create potential sources of conflict.

At the same time, rapid technological development is aggravating economic and social differences. Africa has technology innovators with great potential that are contributing to economic growth in many African countries, but it is uneven, and many people on the continent still face existential risks such as food and water insecurity, widespread disease, corruption and armed conflicts. Parts of the Middle East are still held back by conflict, and many people who should be knowledge sharing and boosting the economies of those countries have died or fled.

In Europe, we have other pressures. Our cohesion is being stretched by revived nationalism and the number of people wanting to come here. Businesses face disruptive technologies, cyber risks, data security issues and threats to business continuity and reputation.

European leaders seem to agree that the EU is the best way to protect, build resilience and seize the opportunities created by these challenges and the digital world. The new leaders are well-educated, (the Erasmus generation) and speak English (the language of business). They are young, have grown up as Europeans along with their own nationality and, even though we know it will not be easy, can influence the Union’s direction.

Their positive economic outlook and confidence in a better future blows a wind of optimism over Europe. As European Commission president Jean-Claude Juncker said in his annual State of the European Union speech: “The wind is back in Europe’s sails. But we will go nowhere unless we take hold of that wind.”

For our members and friends outside the EU: Russia, Turkey, Norway, Switzerland and soon, I regret to say, the United Kingdom, a stable and prosperous European Union makes for a good neighbour and trading partner.

For business development going forward, where should we focus risk management?

As I mentioned, technological development. We are on the threshold of a Fourth Industrial Revolution with great scientific and technological changes that are taking us in unpredictable directions. We’re already seeing digital currencies and blockchain technology coming into use and slightly further ahead of us on the road are the internet of things, applications of artificial intelligence and further exploitation of Big Data. For this, we do not have ready-made maps. We know they offer exceptional opportunities, but alongside the cyber risk exposures are many unintended consequences, both positive and negative.

However, risk taking is essential to business sustainability, and not in spite of its environment, because of it. As Andrew Harmstone, managing director, Morgan Stanley, said recently when discussing cyber security, ethics and sustainability: “The risks and costs to companies of not keeping up with change are great, be it from fines and reputational damage or lower productivity due to cyber attacks – each can erode companies’ profitability.”

The contributors to business value today are increasingly fluid; there’s a

About FERMA

FERMA – Federation of European Risk Management Associations represents the risk management profession at European level.

It brings together 22 risk management associations in 21 European countries, representing nearly 4800 risk managers active in a wide range of business sectors from major industrial and commercial companies to financial institutions and local government bodies. It provides the means of coordinating risk management and optimising the impact of these associations at a European level.

Among its goals FERMA seeks to share knowledge, risk management methodologies and their benefits to business and the community, by participating in meetings and discussion groups. FERMA holds its Risk Management Forum every two years.

wide division between capital-intensive industries and the growing number which generate returns from intangible assets, human capital, brands and reputation. Some of the latter, in business terms, don't even own much physical property. They hire what they need and like to use independent contractors, rather than employees.

We cannot manage or insure – and I'll come back to insurance later – the risks of these enterprises in the same way we do factories, warehouses and multi-million Euro machinery. The value of their proposition can suffer damage almost overnight from a reputational attack. At the same time, the millions of small and medium sized enterprises that still generate a great proportion of Europe's GDP and employment need insurance in a coherent cost-effective package.

What is the ultimate goal FERMA has for members when it comes to market challenges? Does FERMA have official certification for its European risk managers?

Professional risk management is also at a crossroads – and we have to ask “where is it heading in this changing world?” We have acquired considerable experience in the application of risk management and we now have an opportunity to demonstrate how, when faced with unpredictability, the fundamental principles we apply can be used to develop a successful future strategy.

There are opportunities and consequences of exploiting these opportunities, some potentially negative and severe, so identifying and mitigating these risks is crucial to company success. The board of directors and senior management need to have knowledge and experience to apply these principles to the company's performance and they should be aware that this is equally the risk manager's role. Do we emphasize this enough? Do we speak their language? We need to understand the company's strategy and objectives so that we can demonstrate how risk management aligns with these objectives.

As you know, my focus as president of FERMA is on leadership, communication and education. In risk management, leadership in 'management' is as

important as 'risk'. The risk manager should also be able to communicate how risk management adds value to the company, its processes and strategy, how it helps executive management achieve its objectives and highlight the key risks of success so they can be controlled. This level of leadership requires what I call a 'risk control' approach to supporting decision-making.

Having started with the EU, I would like to refer to it again in parallel with our role. Ultimately, in order to succeed, the EU must demonstrate it contributes to the growth and prosperity of its companies and citizens, and that it is not just a regulatory body that members consider restrictive. Likewise, as risk managers we play a valuable role; it is our duty to inform about risks and compliance, but we must also have the confidence to develop this part of our work and demonstrate how the management of risk-taking is positive and essential to company sustainability.

Our ultimate goal is to incorporate risk awareness throughout the entire organisation. To do so, the risk manager must be in contact with the sales division, which take the risks, and develop scenarios and stress tests beyond this to ensure the strategy continues to meet company objectives. We must also work with other functions related to risk management, for example, internal audit, human resources and IT – this is an aspect FERMA is developing throughout Europe. Effective communication with all company stakeholders is of vital importance; by doing so risk management can become the company's risk intelligence centre.

Within the insurance market and particularly insurers, brokers, etc, what should be their current and future focus?

Our closest partners on this journey are in the insurance industry – insurers, brokers and experts – they are our co-pilots, navigators and even mechanics. No one questions the contribution insurance has made to the evolution of enterprises – even going as far back as sailing ships. Yet risk managers express frustration that insurance is not moving at the same speed as the industries they support. The insurance model of traditional

underwriting based on claims data and business lines limits how we can develop opportunities in the Fourth Industrial Revolution. How can insurers underwrite risks associated with artificial intelligence applications if they have no experience to rely on and want them all to fit into property, casualty and transport silos?

We understand that in these circumstances, insurers do not believe it is right to expose so much of their capital to such uncertainty and offer meaningful capacity to corporate clients, but for companies with large balance sheets, borrowing a small amount of capital from an insurer is not the most effective way to manage material risks.

Insurance is at a crossroads, but not at a dead end! We encourage the industry to follow a different route, one that expands the range of solutions on offer and provides services such as data sharing and technical expertise, in partnership with their corporate clients. •

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