The Spanish leg of our Risk Frontiers Europe survey delivered some intriguing insight into the state of the commercial insurance market, areas of concern for insurance buyers and the future direction of the risk management profession. **Rodrigo Amaral** reports

Spain

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Spanish insurance buyers face tougher conditions and fear capacity shortfall

Insurers urged not to overreact

SPANISH COMPANIES FACE HIGHER prices and tougher conditions when renewing some of their insurance programmes, with concerns over a capacity shortage in certain areas, according risk and insurance managers taking part in part our Risk Frontiers Europe survey.

They pointed out that insurance prices have gone up recently in lines such as property, directors and officers (D&O) and professional and indemnity (P&I). But they added that the hard market has not been felt across all areas.

More worrying is the fact that the insurance market seems to be withdrawing capacity for some risks, warned Lourdes Freiria, director of risk and insurance at construction firm Grupo San José.

"More than a price issue, which also exists, the biggest problem, which can be very negative and dangerous, is the lack of answers to the transfer of some risks that, until today, presented no placement challenges," she said.

Adding: "There is no doubt that there has been a significant change in the insurance market's perception of companies' needs. What concerns me the most is a change of risk appetite among many insurers for some specific sectors or special projects… I believe we are seeing a change in internal underwriting policies at some insurers, depending on the risk and the risk appetite that they have at a particular moment," she told CRE.

Ms Freiria warned that the scarcity of some essential coverages could have wider effects than depriving businesses of insurance protection, and undo some of the good work to promote the benefits of risk management.

"I sincerely fear that all the progress we have made in terms of helping companies to value insurance, and to see how relevant risk management is, could be hampered if hardening implies sending a message that the market refuses to provide solutions, thus preventing certain deals to be closed, or denying coverages for risks that risk managers need to solve and cannot be tackled otherwise," she said.

Lourdes Freiria

Esperanza Pereira, head of risk management and insurance at airport group AENA, said the hard market is here and she expects it to stay.

"We believe that in the next few years we will see a period of hard market… We have enjoyed a soft market for almost ten years and we have always expected it to change at any moment. We have noticed it in the past year," she said.

Ms Pereira said market concentration caused by mergers and acquisitions is making matters worse and adding to a loss of capacity (*see story on page 21*), but it is not the only cause of such problems for buyers.

PORTFOLIO CHANGE

"We have noticed that companies are ceasing to underwrite certain risks. Those that stay in the market are doing a comprehensive analysis of their portfolio of clients, with the goal of getting rid of accounts that are not profitable – and that sometimes generate a loss of coverages – complicating the renewal process," she said.

Augusto Pérez Arbizu, director of risk and insurance at telecoms group Telefónica, stressed that hard conditions have not spread through all the insurance market and warned underwriters not to overreact to the new environment.

"There has been a change of tendency, although the situation is not the same for all insurance lines. I will not mind if hardening lasts some more time, but I would expect it to remain within reasonable limits," he said.

"Market cycles exist and I will not blame insurers for a hardening period. There are factors that can justify it, such as natural catastrophes or high litigation levels. But the market must not overreact," he added.

Mr Pérez urged insurers not to withdraw capacity from particular lines without very good reason.

Juan Carlos Porcel, president of Spanish risk management association Agers and head of risk and insurance at ArcelorMittal España, also sees signs of a hard market.

"We understand that significant rate increases are likely to take place in lines such as property, business interruption and motor fleet, with a more moderate trend affecting other coverages, depending on the client's risk profile and the preventative measures they have implemented," he said.

"We also expect it to be a cyclical situation, although it will depend on some variables that are out of the market's direct influence, such as natural catastrophes," he added.

"The hard market has arrived for D&O, P&I, all-risks construction and some property lines," said Daniel San Millán, president of Spain's other risk management association Igrea and corporate risk manager at Ferrovial.

Although he is not yet sure if the market cycle has changed overall, he warned there could be "significant and tough adjustments" in certain lines and regions such as the US and Australia.

Mr San Millán said brokers and insurers cannot simply send a message that rates will go up. "They have to work together to make sure that risks that are traditionally insurable do not become, in practice, uninsurable from now on," he said.

David González, corporate director of insurance at construction group Sacyr, does not believe that a truly hard market has yet arrived for Spanish firms. "But it is true that underwriters are holding capacity in some lines, such as property in markets where insurers are directly exposed to catastrophic risks, which

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The Uninsurables

Spanish risk managers have growing concerns that too many mergers and acquisitions (M&A), combined with hardening market conditions, might limit choice and make some risks uninsurable.

Those taking part in our Risk Frontiers Europe survey are worried that the insurance market is withdrawing capacity from some lines of business (*see story on page 26*) and fear that the growing number of M&As could be fuelling this trend.

"The M&A trend is certainly worrying. It affects capacity and the offer of insurance. It does not look like an advantage for buyers," said Daniel San Millán, president of Spanish risk management association Igrea and corporate risk manager at Ferrovial. "Some coverages are turning into something similar to an aching tooth, like D&O with US exposure or P&I," he added.

Mr San Millán said one problem area in the construction market is cover for liquidated damages. "There is no solution for it in the market and it is a real pain," he said.

"For a while now, liquidated damages coverages have disappeared," agreed David González, corporate insurance manager at fellow construction group Sacyr. "It was an interesting coverage that maybe has not triggered much interest in the market and, as a result, capacities have been withdrawn. But I miss it," he explained.

Other problematic areas exist and are affecting a wide range of companies.

"It is hard to find coverages for economic losses not linked to physical damages... CBI coverages do exist but they have a limited range," said Mr González.

He pointed out that recent insurance M&A activity is a double-edged sword for risk managers. "On the one hand, M&A deals often build companies that are more efficient, but they also limit capacity in the market," Mr González said.

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is not the case for Spain, and also on P&I and D&O. It affects prices, although it is not something that is happening across the board," he said.

One risk manager at a multinational group, who asked not to be named, said price increases have been signalled in property lines but not in a way that could be characterised as an ongoing hard market. She also said her company has seen slight increases in lines like cyber insurance and D&O.

So, while there is some disagreement as to the extent of market hardening, nobody denied the soft market is over. This raises the question of how buyers and their brokers can secure favourable deals in conditions many have not operated in before.

"The environment that we are beginning to face is different from anything that many risk managers and brokers have lived through before. Because of that, we have work to do to avoid situations that could be very negative," said Ms Freiria, who suggested everyone starts early on their next renewal.

"Companies need to react to changing market conditions with new strategies and by selling their risk management practices in a more emphatic way, so that the market does not put everybody in the same bag. And everybody should be ready to retain more risks," said Mr San Millán.

"If the market gets harder, each company will have to compete with other sellers of risks," Mr González added. "I need to do my homework, so that underwriters choose my company, and not others, when allocating their capital. Companies need to know where they are, what they have and how attractive their risks are," he said.

Staying ahead of the curve

Spanish risk managers recognise the need to stay well informed and on top of emerging trends to justify their position, reports **Rodrigo Amaral**

RISK MANAGERS MUST BE BOLD and keep up with business trends if they want to become chief risk officers (CROs), according to participants in the Spanish leg of our Risk Frontiers Europe 2019 survey. They also advised fellow risk and insurance managers to resist losing control of buying insurance.

In a series of interviews with *Commercial Risk Europe*, the survey participants talked about a profession that is going through changes as risk managers become more involved with subjects like sustainability that are climbing the agenda of Spanish companies.

Spanish risk managers also face the task of boosting their function's profile within their companies, a fact reflected by the scarcity of CROs in the country.

The risk managers agreed that in some circumstances, companies may be justified in having separate departments dealing with ERM and insurance management. But generally speaking, they believe risk managers must maintain responsibility for insurance buying.

"Risk managers need to be bold," said Daniel San Millán, president of Spanish risk management association Igrea. "We don't lack skills or capabilities, but we have to be bold and to make a case for ourselves," said Mr San Millán, who is also corporate risk manager at construction group Ferrovial.

STAY ON TREND

Juan Carlos López Porcel, president of the other Spanish risk management association Agers, and head of risk and insurance at ArcelorMittal España, stressed that risk professionals must make an effort to keep up with the latest trends and technologies that could impact their jobs.

"Risk management is delivered by teams within organisations and that is why it is so important to emphasise education and training," he said. "Constantly updating one's knowledge, so that one can position oneself on the front line, as well as being able to anticipate events, coupled with an adequate communication policy, are essential characteristics of future CROs," he added.

For some companies, however, the idea of having a single person in charge of all risk-related activities may not be the best option, pointed out Augusto Pérez Arbizu, director of risk and insurance at telecommunications group Telefónica.

"A company like ours is too big and too complex for a single person to be responsible for all the risks. Each operational unit manages its own risks with a degree of autonomy," he said.

Juan Carlos López Porcel

"The ERM function is separated from insurable risks. The insurable risk management function plays a transversal role, checking again how each unit is managing its risks… and deciding the risk financing strategy," continued Mr Pérez.

He added that in a company like Telefónica there are many different risk management angles that each require a high level of specialism.

"Of course, it is important to have good coordination between them but, honestly speaking, we don't see the need to have a single chief risk officer in charge of managing all the risks of the company on a global basis, and we don't aspire to be this person. In other words, ultimately the chief risk officer is the board or some of its delegated bodies. For a small, less complex company, however, it may make sense to have a chief risk officer who is centralising everything regarding risk," the former Igrea president said.

Mr Pérez warned, however, that sharing responsibilities between risk professionals cannot result in the delegation of activities such as insurance-buying to non-specialised departments like procurement.

"That would mean a devaluation of the insurable risk function and the strategies required to finance those risks. Insurance is a sophisticated financial product that requires high levels of expertise," he said.

Adding: "Also, it is worth noting that we do not buy insurance – we actually sell risks. It requires a deep knowledge of the risks of the company and a good level of coordination with the risk owners."

David González, corporate insurance director at construction group Sacyr, agreed with his peer. It would be a serious mistake to hand over insurance buying to procurement, he said.

"Insurance policies are financial products and services, and as such, their dynamics are much different from the markets that procurement departments usually work with, which are more focused on industrial products," he said.

"What a company really needs is an efficient organisation. Risk management and insurance have to be efficient, no matter if they are done by a single department or separately. And that depends on the strategic vision of the company," he added.

Mr López Porcel said risk managers must be problem-solvers, 24 hours a day, 365 days a year, which makes it impossible to take shortcuts. In his view, insurance management cannot therefore be performed by procurement departments.

"If a company delegates insurance to the procurement department, it shows very clearly that its risk culture has developed very little, and urgent action is required," he said.

Mr San Millán went on to argue that his profession is in a good position to help companies manage risks that come with the move to a sustainable economy.

"Risks managers can contribute to sustainability by highlighting the reality of how climate change can affect our companies in terms of property and casualty damage, for instance as a result of natural catastrophes," said Mr San Millán. "We have plenty of data and experience to support the argument that climate change is a reality that is directly affecting companies, society and individuals," he added.

Mr González agreed that risk managers have a role to play in sustainability.

"Risk managers work with prevention and anticipation, and from this point of view it makes it easier to plan a sustainable use of a company's resources, be they of natural or financial nature. We can surely add our grain of salt, even if we do not lead this process in our companies," he said.

But the risks profession faces its own challenges when it comes diversity and sustainability. Gender equality, for instance, remains on the to-do list.

Spanish risk practitioners agreed that making sure men and women have equal opportunities to reach leadership positions is still a work in progress, but said significant strides have been made in recent years.

PUSH FOR EQUALITY

One female risk manager at a multinational group who asked not to be named stated that, even though women are gaining ground in leadership positions, it is necessary to push for further equality.

Lourdes Freiria, director of risk and insurance at construction Grupo San José, said: "I believe that legislative changes that affect companies are among the most relevant reasons why women will gain more visibility at companies. Once the glass ceiling is shattered, the process will be unstoppable.

"I trust that, one day, gender will stop being a factor to differentiate people in the highest leadership positions and become an irrelevant factor. Only talent and competence should matter," she added.

In some business sectors, like aviation insurance, this process is well underway, according to Esperanza Pereira, head of risk management and insurance at airport group AENA.

"Fortunately, this has been the case in the sector of aviation insurance, which… has been led by women in recent years. That goes for risk managers, brokers, insurers, reinsurers, lawyers and loss adjusters alike," she said.

Keep the market on its toes but value relationships

THE OPTION TO CHANGE insurance providers is important to keep both insurers and brokers on their toes as tenders become more aggressive during a hardening market, Spanish risk managers said. But they also urged companies to value long-term relationships that can prove particularly useful when a difficult claim hits.

Daniel San Millán, president of Spanish risk management association Igrea and corporate risk manager at Ferrovial, said that although companies change insurance providers in a soft market, it is more likely in complex, or hard, conditions.

When it comes to choosing a broker in the current market, he said it is important to look at its capacity for innovation when designing programmes, its retention policies and its strategies for difficult times.

It is vital to seek brokers with new ideas and experienced staff who have already gone through a hard market, he continued.

"For carriers, it is important that they value stability, that they take into account long-term relationships that have been built up over the years. Insurers should not put everybody in the same bag either. Underwriters must evaluate clients on an individual basis, taking into account past relationships and loss histories," he added.

AVOID KNEE-JERKS

Fellow Risk Frontiers Europe participants warned risk and insurance managers not to make knee-jerk reactions when selecting partners.

"At Agers, we see insurers and brokers as integral parts of our own teams. They work side by side with us and help us to identify, from the first minute, our risks and coverages. Frequent changes of insurance providers, or permanent tenders of policies, are strategies that produce negative results, due to a lack of stability which hampers the technical development of the insurance programme in the future," said Juan Carlos López Porcel, president of the other Spanish risk management association Agers and head of risk management and insurance at ArcelorMittal España.

Daniel San Millán

To foster trust, it is important not to constantly change brokers and underwriters, said Augusto Pérez Arbizu, director of risks and insurance at Telefónica.

"We launch tenders every three or five years, depending on the programme, for fronting or consultancy services. Very often, the incumbent company wins the tender after making some changes to improve services. But sometimes we change our providers," he explained.

Adding: "We ask companies to see us as partners and to be committed to the partnership. We also ask them to offer us coverages that are not limited to programmes for which they have more appetite, but also for those where they do not have much interest, but where we need capacity. And we expect high-quality advisory services from brokers in areas such as risk management, benchmarking and consultancy."

David González, corporate insurance manager at construction group Sacyr, said breach of trust is a key reason for an insurer or broker relationship to end.

"Insurance is based on trust, so a breach of trust would be enough reason to change partners. But as an insurance buyer, I have to be aware of opportunities if commercial opportunities emerge that are worth taking advantage of," he said.

Trust can be compromised at the time of a claim, in particular when promises made during the underwriting process are not met, he continued.

"The question is not 'who' is responsible for a good claims handling process, but 'what'. And the answer is the contract, which reflects the agreements freely negotiated between all participants in the deal. If a party comes up with a one-sided interpretation of the contract, there is a breach of trust," said Mr González.

More efficient claims handling is a big topic for Igrea, which has launched a campaign to engage underwriters and brokers to reduce the time it takes to decide whether a loss is covered or not.

"All parties are responsible for the claim handling process. But insurers may play the most important role in the sense that they must prioritise the questions that they ask their clients," Mr San Millán said.

DILIGENCE

"They must aim to promptly find out whether the loss is covered or not. Policyholders and brokers can also be more diligent, but insurers are those that need to lead the process and to do that in a more efficient way," he added.

Mr López Porcel noted that building up stable relationships based on trust can go a long way towards preventing problems during the claims handling process.

"Long-term relationships, clear wordings, and coverages and exclusions that are well defined and previously agreed, ensure that the machinery is well oiled to go through the claims process without setbacks. Therefore, if those topics are comprehensively worked out beforehand, it is guaranteed that the claims handling process will be successful," he said.

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Talking local, going global

◇ HDI GLOBAL

Spain and Portugal may be home to many medium-sized and smaller companies, but they still have international ambitions that need protecting, as **Juan Aznar Gáldiz**, of Risk Frontiers Europe sponsor **HDI Global**, explained recently in interview

THE CORPORATE WORLD IN SPAIN and Portugal, with many more mid-market players than large companies, has resulted in a very different landscape for risk managers.

While natural catastrophes and cyber risks top the agenda, risk managers in Spain and Portugal are also concerned by political risk and its impact on their ability to do business, said Juan Aznar Gáldiz, country manager for Spain and Portugal at HDI Global.

Much of that stems from the numbers of clients who have Latin American interests, where political risk is often very acute.

Closer to home, Mr Aznar Gáldiz said cyber risk is high on the agenda of Spanish firms because of increased publicity around developments such the EU's General Data Protection Regulation (GDPR). Like elsewhere on the continent, high-profile breaches have brought the risk to the attention of boards.

IMPACT OF GDPR

As Mr Aznar Gáldiz explained: "The need for cyber insurance had been mainly restricted to the large financial institutions, however the GDPR has focused the minds of those running every size of business like never before."

"These smaller companies are now looking for protection. And they are the ones that need it most because they are less able to cope with a major breach. They simply don't have the experts on board or manpower to handle the crises," he added.

According to Mr Aznar Gáldiz, smaller companies are now beginning to suffer cyberattacks and are waking up to the threat they pose to their business.

"Cyber was always seen as a threat to larger businesses, but now everyone uses IT and the internet to run their business and they want help," he said.

Mr Aznar Gáldiz believes cyber risks need their own insurance solutions. "It is a complex cover and needs to be treated separately," he stressed.

The good news is that most large firms in Spain have cyber insurance policies. However, the challenge comes when looking at the middle and smaller end of the business spectrum. Too few mid-market corporates have a separate policy in place.

"In many ways, it is the mid-sized and small companies that need the cover more than the giants, as they are less able to cope with any catastrophe. Part of buying a cyber policy is about buying the consultancy expertise that sits alongside it – smaller firms need that support should a breach occur," said Mr Aznar Gáldiz.

Cyber is a good example of how important it is for insurers to be flexible and work closely with clients to determine the right cover, he continued.

"You need to work with every client and identify their needs and their risk appetite if you are to develop an insurance portfolio that delivers – and that is what we do," he began.

"No cover is for 100% of the risk – that is impossible. But sometimes clients expect that and, again, that is where you need the in-depth conversation. Particularly in smaller businesses where there is no real risk management team, we need to spend time managing those expectations and ensuring clients are also managing their own risks as effectively as possible," he added.

That close interaction has helped HDI Global with its 2020 campaign to increase rates, particularly in property and marine classes.

"In the past few years, it has not just been about premium decreases but also about the increasing severity of losses – and neither Spain nor Portugal have been any different to the rest of Europe in that respect," noted Mr Aznar Gáldiz. He feels that insureds understand the need for price increases and believe insurance remains good value for money. "Imagine their world without insurance. They could not function and could not survive," he said.

"If you look at the risks we are able to take off their balance sheets, there is no other option. And for Spanish and Portuguese companies, this becomes an even more important conversation in terms of their international business," he added.

INTERNATIONAL DIMENSION

Spain is the second-largest investor in Latin America and Mr Aznar Gáldiz said insureds recognise the need to work with an insurer that can handle intercontinental and local risks. "They need to have international programmes but they also want to be working closely with their insurer so those programmes deliver," he said.

Delivering a high level of service is an end-to-end commitment, and as important when it comes to claims as it is for underwriting, Mr Aznar Gáldiz stressed.

"Clients want consistency and reliability, particularly when it comes to a claim. They also want financial stability in their partners and a long-term relationship. These things are among our main assets, combined with a large international network, so we can deliver what they need, where they want it. Even quite small businesses in Spain will look outside their home markets for business and we need to be able to support them through that journey, including the claims process," he concluded.