Insurance Buyers' News

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Allianz Risk Barometer Says Cyber and BI Biggest Worries

Extreme weather events, fires and explosions, geopolitical risks, ransomware attacks and the Covid-19 pandemic have all tested global supply chains in recent years.

This is reflected in the results of the Allianz Risk Barometer, an annual survey which asks businesses to nominate their top risk concerns for the year ahead. In the 2023 survey, cyber incidents and business interruption (BI) rank as the biggest company worries for the second year in succession.

Levels of interruption increased dramatically following Covid-19, as shortages and transportation delays exacerbated the business impact of natural catastrophes, fires, and machinery and equipment breakdowns, leading to shortages of materials and spare parts and longer times to complete repairs. However, many of these supply chain pressures have eased in 2023, according to Scott Inglis, Head of Global Practice Group for Property and Business Interruption Claims, Allianz Commercial.

Extreme weather dominates recent claims activity

However, not all business interruption loss activity has eased. The top causes of business interruption claims remain consistent, with the most frequent and expensive damage arising from natural catastrophe and fire and explosion activity, with natural catastrophe-driven loss activity rising, according to Sarah

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CBI Claims Update

While not at their record level of two years ago, contingent business interruption (CBI) claims are still a challenge in 2023 as the impact of natural catastrophes, fires, and political violence can ripple through global supply chains in specialist concentrated industries like auto manufacturing and semiconductors, according to Sarah Versavaud, Executive General Adjuster in the Chief Claims Office at Allianz Commercial.

CBI is an extension of business interruption insurance which provides insurance to your firm when your suppliers or customers experience damage to their operations which precludes them from doing business with you, in turn interrupting your business operations.

Two years ago, there was a record number of CBI claims, as global supply chains were disrupted by storms, fires, and the pandemic. The Winter Storm Uri in the US in February 2021, for example, caused cascading effects on companies and services reliant upon power, including water, transport, and medical services, with the so-called 'Big

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Versavaud, an Executive General Adjuster in the Chief Claims Office at Allianz Commercial.

"When looking at the costliest business interruption events for large corporates over the past two years, the top 20 is dominated by natural catastrophe activity," says Versavaud.

Political violence on the rise

Businesses and their supply chains face considerable geopolitical risks with war in Ukraine and ongoing tensions between the US and China over Taiwan, and more recently with conflict in the Middle East. So far, these events have only had limited impact on supply chains and shipping routes but could become more relevant for business interruption going forward. "There are a lot of political headwinds out there right now," says Inglis.

The Russia-Ukraine conflict has resulted in some claims, mostly property damage and consequential business interruption from retail businesses with exposures in the region, explains Versavaud. "It can be challenging to get a handle on such claims, where getting loss adjusters on the ground is sometimes not possible."

Inflation, political instability, and climate change activism have also contributed to rising civil unrest in many parts of the world. According to analyst Verisk Maplecroft, political risk at the start of 2023 was at a five-year high, with some 100 countries considered at high or extreme risk of civil unrest. According to Versavaud, a wave of protests in France this summer following the fatal shooting of teenager Nahel Merzouk resulted in significant business interruption claims in retail business from riot cover under property insurance policies.

ESG concerns and 'green clauses'

Environmental, social, and governance (ESG) concerns are increasingly featuring in property claims, with implications for the cost and extent of business interruption. Versavaud says large corporate clients are increasingly concerned about their environmental impact when rebuilding damaged property.

"It is encouraging that more companies are concerned about ESG in the context of claims and are interested in alternative solutions. However, sustainable options can also have implications for business interruption and insurance coverage. For example, sustainable options – such as shipping spare parts via a lower carbon intensive form of transport, rather than air freight – can result in a longer period of business interruption or lead to extra expenses," says Versavaud.

Commercial property insurance traditionally pays out on a like-for-like replacement basis, although 'green' reinstatement clauses are now being included in some policies that give insureds more flexibility around more sustainable options.

"We are seeing more requests from insureds to accommodate ESG requirements in claims, yet this is not always well covered by standard property policy wordings. We are introducing 'green' clauses that enable insureds to integrate sustainable characteristics into a rebuild, but these are not widespread, and do not always cover other areas of ESG such as expediting expenses." The industry will need to work on this, says Versavaud.

This Just In

Freeze' particularly impacting Texas. Estimated total losses are more than $1 billion, with economic damage significantly higher.

Less than a month later, a fire at a semiconductor plant in Japan added to the growing global shortage of microprocessors, hitting production in the automotive and electronics industries. The automotive sector was again hit with supply chain problems from the conflict in Ukraine, which is an important supplier of parts.

While the level of CBI claims of two years ago appears to have peaked, according to Versavaud, natural catastrophes continue to disrupt supply chains. The flooding in Slovenia and neighboring countries in August 2023 impacted many factories in the region, including several tier-one car part manufacturers. The resulting disruption to automotive supply chains reportedly hit production at car plants and parts manufacturers.

"CBI claims are still among our top concerns" says Versavaud. "They are always challenging for insurers because it is never easy to get a clear picture of the whole exposure, and claims can be slow to develop."

New Survey Says Firms Not as Well Prepared to Handle Risk as They Think

According to a just released survey by an international brokerage and financial services firm, many organizations are unjustifiably confident of their risk management strategy.

Whereas "many organizations are confident about their preparedness," the report says its findings "reveal that the steps [organizations] are taking to inform their strategies" are not as "robust" as they could be. Most organizations are "leaving gaps … when it comes to financial stability, performance and profitability," and failing to build "a healthy and productive workforce, and [ensure] a more resilient organization."

Based on key findings in the report, the following actions are recommended:

- **Close the gap between perceived and actual preparedness.** Three-fourths of the organizations surveyed claim to be prepared to address the most critical risks such as disruption to business operations, increased economic challenges and unpredictability. However, 76% of organizations lack ample insurance to maintain profitability while nearly 20% of organizations in the U.S. and Canada take property loss prevention measures only if local rules demand it.
- **Use insurance as a tool to mitigate financial risk.** The opportunity to leverage insurance as a strategic financial tool to manage profitability-related risks remains underutilized as 75% of organizations haven't explored the idea. Companies should consider using insurance as a strategic financial tool to minimize earnings volatility and strengthen their financial and overall organizational resilience.
- **Amplify your focus on employee wellbeing to enhance workforce vitality.** The executive survey found 68% of organizations identify employee wellbeing as a top strategy impacting workforce vitality, but only 36% have a strong and consistent focus on it. Companies can significantly improve vitality by using data pertaining to employ-

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ee population, life stage and other demographic aspects — to design employee wellbeing solutions that are tailored to their workforce.

- **Invest in advanced data analytics to meet employees' needs.** When formulating and implementing an organization's benefits strategy, 53% of U.S. companies use data analytics to improve individual outcomes. However, the companies that claim to be using data analytics may not be collecting or using data to its fullest extent. A robust approach to data analytics encompasses efficient preparation, data acquisition, modeling and deployment, along with a continuous focus on improvement and adaptation.
- **Develop an adaptive and effective Enterprise Risk Management (ERM) strategy for resilience.** The survey found that 45% of organizations in North America conduct frequent ERM assessments—28% quarterly and 17% monthly. However, only 12% have comprehensive business continuity plans, and 43% note a misalignment between C-suite objectives and risk strategies.

The Survey, conducted by Hub International, polled 900 business leaders across corporate, risk, human resources and education/non-profit functions from companies in 14 sectors in the U.S. and Canada. Survey findings present insights into the risks that companies perceive in the present and future, their level of preparedness and the measures they plan to take to mitigate the identified risks.

Insuring Against Dishonesty in the Workplace

According to a study by Embroker, 75% of employees admit to stealing at least once from their employer. The study also reports that internal theft can cost U.S. businesses up to $50 billion a year.

Another study by SmallBizGenius states that organizations around the world lose approximately 5% of their revenue to employee fraud and occupational abuse each year.

Additionally, according to Embroker.com,

- More than 30 percent of business bankruptcies are due to employee theft.
- 90% of all significant theft losses come from employees.
- Cash theft is the top cause for over 20% of businesses.
- 60% of employees would steal if they knew they wouldn't get caught.
- 34% of millennials justify stealing from their job.
- 72% of all occupational fraud is committed by men.

Employee dishonesty is the most important crime coverage for most businesses. Most basic business package policies do not include crime coverage beyond a baseline amount, so unless you already have employee dishonesty coverage, you will need to add it to your basic policy.

When adding commercial crime coverage to your package, you typically get a limit of at least $10,000 for "loss of and direct loss from damage to money, securities and property other than money and securities resulting directly from employee dishonesty." You will also usually get a $10,000 limit for "theft, including disappearance or destruction, of money and securities," with separate $10,000 limits applying to loss inside or outside the premises. Most policies also provide up to $10,000 in forgery coverage.

Prevent Employee Dishonesty

While insurance for employee dishonesty helps you recover from losses, employers need to implement sound risk management practices to prevent or at least control employee dishonesty.

Keep in mind that in most incidents of embezzlement (theft by a person in a position of trust), the people involved often possess the following characteristics. They:

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- Are trusted and long-term employees
- Embezzle property rather than money
- Have been doing this for a long time
- Rarely take vacations or time off
- Have debt or gambling problems
- Act in collusion with outside people

With a good system of internal controls, you can reduce or eliminate opportunities for employee dishonesty in the first place.

It is critical, when hiring, to thoroughly screen and obtain background information on job candidates, to the legal extent possible. This may by difficult in certain states. At least ten states (California, Colorado, Connecticut, Hawaii, Delaware, Illinois, Maryland, Nevada, Oregon, Vermont and Washington) have laws restricting or forbidding employers from pulling credit reports, even with permission. There also may be legislation pending in other states. Check the National Conference of State Legislatures website for an update: http://www.ncsl.org/research/financial-services-and-commerce/use-of-credit-information-in-insurance-2016-legislation.aspx

In states where obtaining credit reports as well as criminal reports, workers' comp records and other background information is legal, the federal Fair Credit Report Act (FCRA) requires employers to obtain the candidate's written consent. You must also let them know you may reject their application based on what's in the report and you must provide notice once your decision is made, sending an "adverse action notice," if necessary.

Providing notice not only gets you off the hook for violating any privacy rights or concerns, but candidates with something they want to keep private will take themselves out of the running. For full details on "What Employers Need to Know" about complying with the FCRA and laws enforced by the Equal Employment Opportunity Commission, visit https://www.eeoc.gov/eeoc/publications/background_checks_employers.cfm

In addition to obtaining background information, where possible, an effective employee dishonesty risk management plan will also:

- Focus on hiring only people who seem truly interested in the company's future
- Create internal controls and supervision standards
- Require and verify countersignatures on all checks
- Require all payments be made in non-cash form
- Reconcile bank accounts monthly
- Develop written audit procedures and perform annual audits
- Be sure to include inventory audits, which are high theft targets.

What is Enterprise Risk Management?

Enterprise risk management (ERM) is a methodology that looks at risk management strategically from the perspective of the entire firm or organization. As a top-down strategy it aims to identify, assess, and prepare for potential losses, dangers, hazards, and other potentials for harm that may interfere with an organization's operations and objectives and/or lead to losses.

One of the most popular ERM applications uses the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) framework, which looks at eight components of an organization to develop a strategy:

1. **Internal environment:** assess the culture of the organization and the tone set by management.
2. **Objective setting:** set objectives and align them with the organization's mission and vision.
3. **Event identification:** identify potential events that could impact the organization.
4. **Risk assessment:** assess the likelihood and impact of identified risks.
5. **Risk response:** develop strategies to manage risks.
6. **Control activities:** develop policies and procedures which, when implemented, will ensure that risk responses are carried out effectively.
7. **Information and communication:** Ensure that relevant information is identified, captured, and communicated in a timely manner.
8. **Monitoring:** Set up a procedure to review and evaluate the effectiveness of the ERM process.

Successful ERM strategies can mitigate operational, financial, security, compliance, legal, and many other types of risks. Some well-known businesses that use ERM include TD Bank, Coca-Cola, Ford Motor Company and The Walt Disney Company.

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