Customer & broker webinar summary
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Managing risk in uncertain times calls for a look through a 'new lens'

Risk managers are taking a hard look at all aspects of their insurance coverage and risk management practices as they deal with multiple economic and geopolitical challenges, the likes of which many have never seen, according to experts who tackled the topic in a webinar.

"We are living in such uncertain times," said **Audrey Rampinelli, Senior VP, Risk Management and Insurance Services at Mastercard**. The combination of inflation, shrinkflation, rising interest rates and supply chain issues has created an "economic tsunami," she said. "It's all compounding what risk managers have been grappling with for the last 18-24 months in a hardened insurance market."

Dirk Wegener, President of the Federation of European Risk Management Associations and Global Head of Corporate Insurance at Deutsche Bank added "In addition to the hardened insurance market this increased uncertainty is shaking up things for all organizations, and risk managers need to be prepared to answer questions from their management about what this increased inflation environment will mean for their insurance programs."

Rampinelli and Wegener were panelists in a webinar moderated by **Ron Davis, Global Head of Customer Management at Zurich**. They were joined by **Guy Miller, Zurich's Chief Market Strategist and Head of Macroeconomics**.

Uncharted territory

Miller highlighted a number of economic and geopolitical uncertainties that are causing risk managers to rethink their coverage and how they manage their risks. He called it a "fundamentally different operating environment" than the one risk managers had grown used to in previous years.

He outlined Zurich's global outlook, highlighting several issues that are influencing the way businesses operate, including:

- A continuing rise in inflation that doesn't peak until the second half of the year
- More aggressive and frequent interest rate hikes by policymakers
- A declining rate of global economic growth
- Financial market volatility, but still upside potential for equity and credit markets

"All of this is vulnerable and susceptible either to further developments regarding the pandemic or an escalation" of the war in Ukraine, Miller said.

Despite the uncertainty, Miller says, "we believe the world is in reasonably good shape from a global economic perspective." Inflation, however, is a significant risk to economic stability, he emphasized.

"Central banks are walking a very, very thin line here; they have to balance trying to bring in inflation and expectations of inflation by talking in very hawkish manner," Miller said. "But they need to make sure that the pace of these rate hikes...are not so strong that it leads to us actually falling into a recession. Policy error risk is high."

See Miller's slides from the webinar here

Inflation affects values

"A lot of risk managers haven't really experienced such rapid growth in inflation, so it really makes you sit back," said Rampinelli, and consider what needs to be done to manage high costs and other issues in this "confluence of events" organizations are facing.

Inflation is playing havoc with property damage and business interruption values, Davis pointed out. Values have not kept up even with low inflation in recent years, he said, and with inflation up significantly, risk managers have to make sure they are reporting properly updated values to their insurers, who in turn use those amounts to ensure the appropriate premium is being charged.

Coming up with accurate values is a complicated process for risk managers, said Wegener. "You need to calculate what you have on your books and recalibrate it. One of the challenges is to apply the right inflation rate" which might differ depending on the type of property insured and for various supplies and parts, he noted.

Business interruption values might be even harder to assess, Wegener said. He recommended risk managers meet with their brokers and insurers to agree on how to calculate proper values "that are meaningful and accepted by both parties."

"What your values were two years ago aren't necessarily going to be what they are today," said Rampinelli. That means working with internal real estate and construction experts and understanding how values could differ across geographic locations, she said. "It does take a team of people in different areas of your organization to focus on this."

Davis added taking into consideration supply chain problems combined with higher construction and building material costs, a major loss today will cost a lot more than it would have just a few years ago due to substantially higher replacement costs.

No time for overreaction

Uncertain times call for underwriting discipline among insurers, the risk manager panelists agreed.

"We all want to ensure that our insurers are there for the long run," to pay claims and operate profitably, Rampinelli said. But risk managers have seen knee-jerk reactions by insurers to raise prices when market conditions change, she added, and called instead for a more disciplined and measured approach to coverage changes in times of uncertainty.

Risk managers, meanwhile, have a responsibility to assist insurers in their underwriting discipline by providing insurers with what they need to properly write coverage, Rampinelli emphasized. It requires a significant time commitment, she noted, particularly in a hard market which means work on most renewals needs to start much earlier than usual.

Wegener agreed the renewal process will be more challenging, and added that social inflation is impacting liability losses, so it's important to keep policy limit adequacy in mind as well.

Careful communications

With so much uncertainty surrounding risk managers, it is perhaps more important than ever that they be able to communicate news that is sometimes unpleasant to their organizations' financial executives and other leadership. The panelists suggested that an uncomplicated approach works best.

"There's a lot of bad news out there, and people don't like to deliver bad news. Risk managers need to be able to do that," said Rampinelli. "We're very technical in our language, it's very nuanced and it's not very intuitive for those who don't work with insurance on a day-to-day basis. So, taking a plain language approach is really important."

When changing conditions call for coverage adjustments, let senior executives know as soon as possible, Wegener advised. And come prepared with options that could include self-insurance, higher deductibles or using a captive if one is in place to help address coverage issues, he said.

The importance of resilience was highlighted, with valuable contributions to risk management through risk assessments, loss prevention, and business continuity planning.

There will likely be some difficult conversations and difficult decisions to make, Wegener added, but "hopefully you can demonstrate that insurance was a valuable risk management tool in the past and there are convincing arguments to continue to rely on it."

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