

Dirk Schilling, head of the large corporates division at HDI Global SE, lead sponsor for this year's European Risk Frontiers survey, discusses the state of the German corporate insurance market, the impact of consolidation and the need for greater innovation and service levels in international programmes with *Commercial Risk Europe* Editor ADRIAN LADBURY

## TRACKING CUSTOMER NEEDS

**ADRIAN LADBURY (AL):** How competitive is the German corporate insurance market currently? What impact are the big reinsurers that have decided to enter this market having?

**DIRK SCHILLING (DS):** It is still a highly competitive market and we have had more new entrants in recent times, notably from US- and UK-based companies. There is excess capital in the market and it is leaking towards more profitable lines of business, from traditional underwriting to alternative risk solutions. The reinsurers can of course offer risk transfer capacity but not the services that larger customers need on an international basis. It is not helpful in terms of prices but they cannot offer the international service on the ground that we can, so it is not really direct competition.

**AL:** What impact is the recent process of consolidation having on the market? Do you expect this activity to continue?

**DS:** There could be more mergers in the market. I do not think we have seen an end to this process. In the short term it is difficult because it puts pressure on terms and conditions. But in the long term it could lead to a more stable market, whereby the mergers actually lead to a consolidation of capacity. This could lead to more stable behaviour and the market could reach an equilibrium, so long as there is no further big change in interest rates or a major market-moving loss. We have always acted as a long-term partner and aim to develop long-term relationships and commitment. Customers know that we will not withdraw when major losses occur. But for now there is excess capacity in the market and we are still seeing an inflow of capital.

**AL:** What is your strategy for growth in such a market? Where do you see the best opportunities?

**DS:** The growth opportunity we are seeing in Germany is with the rising number of companies that are expanding abroad in search of growth. A lot of our growth is coming from existing customers that are expanding in markets such as central and eastern Europe, Latin America and the US. We are also seeing expansion to China and the wider Asian region too. We have recently restructured in the Asia-Pacific region to accommodate that growth. We are based in Hong Kong, Australia and Singapore and have seen strong growth here servicing existing European clients, so why not also offer our services to the local market?

Cyber is definitely a growth market as companies are more aware of their exposures, especially because of new regulations on data protection that introduce new third party exposures. Claims are likely to increase during the next couple of years. There is also a big business interruption and supply chain risk linked to cyber. This is another area where customers are seeking solutions. This is not an easy area because you need history, transparency and modelling to properly evaluate and cover these risks. We offer some very interesting products in the business interruption area.

**AL:** What is needed to make difficult areas such as supply chain more readily insurable at a reasonable price?

**DS:** Work is needed on both sides. Customers need to decide what they actually want and then we work out what we have that can really add value and make the risk insurable. Therefore, we need close cooperation to make market solutions possible. Brokers can bring real value to this equation too. In Germany we are very focused on in-house brokers of course, but the big international brokers and independent brokers can bring knowledge in from other markets worldwide, from London or the French market for example. Brokers can be very helpful to foster product development.

**AL:** What about global programmes? Surely this is a growth market for a company such as HDI, but also one that needs a lot of investment to deliver what multinational customers really need? What is your strategy in this increasingly important area?

**DS:** This is where the long-term approach and partnership concept that we adhere to is absolutely critical. Multinational customers with international programmes need a reliable, long-term partner that can service the programme with their own network. Running a network is not easy if you look into it in more depth. It is complex and you really need your own entities, at least in the major markets, to make sure it works properly for you and the customer.

You need to offer proper and consistent service levels and ensure that money flows as it should and is compliant. This is an increasingly tightly regulated area and you have to make sure that all partners are compliant to ensure that the programmes are compliant and tax laws are complied with. Making this manageable and workable at the same time is a real challenge for the industry. The bigger the client, the more companies are involved and they usually use a captive to retain an element of the risk and then reinsure an element out to the market. We need to ensure that the reinsurance premium is in their books and that the money flow is managed properly. This is a really valuable service for the customer. Also, the policies have to be issued in time and to the quality expected.

**AL:** How do you see the development of the ART market in the longer term? Is this where risk managers may find innovative solutions for more difficult emerging risks?

**DS:** To be honest, we have not seen a huge amount of activity in this market. We are seeing some captives seeking alternative solutions but if you look at creating a catastrophe bond-type structure, even larger groups do not offer the diversified portfolio of risks that capital markets seek when creating these structures. So we have not seen a huge number of corporate insurance buyers from Germany seeking these kinds of solutions yet.

However, in the long run this market has some potential. If the demand for such solutions rises, we are ready to cooperate with potential clients in developing and structuring those kinds of solutions.

## COMMUNICATION REMAINS KEY TO INTERNATIONAL PROGRAMMES

*Commercial Risk Europe* editor ADRIAN LADBURY speaks to Reinhard Riehl, director, international department at SÜDVERS, the German member of the Worldwide Broker Network that co-sponsors this year's European Risk Frontiers survey, about what risk managers, brokers and insurers need to do to ensure that international programmes work as intended. Mr Riehl says effective communication and technology are very important, while the human touch remains critical in this complex area

**ADRIAN LADBURY (AL):** How have international programmes evolved over time, in your experience?

**REINHARD RIEHL (RR):** The vivid history of international global insurance programmes goes back more than the 30 years during which the international teams at SÜDVERS have collected valuable experience of building such programmes for clients. Unlike the last two decades of the 20th century, however, dealing with international programmes today has become unavoidably more sophisticated, more complex and, at the same time, without alternative.



Reinhard Riehl

**AL:** What do the three parties involved—risk manager, broker and insurer—need to do to ensure international programmes deliver?

**RR:** Today, those involved in a global programme—client, insurer and broker—must have the same understanding of what implementing the programme means to each party. Much has been said in this context on the importance of communication. The triangle of involved parties is multiplied when you consider the various local exposures faced by a multinational client nowadays.

It goes without saying that technology—globally accessible to at least the broker and client—is a precondition that simply has to work. Modern data platforms such as WBN 3.0, which just recently went live for the Worldwide Broker Network, provide an extensive range of data to provide risk managers with an in-depth understanding of their respective company's global exposures. As there is nothing worse than an incomplete database, those who use and feed a database have to make sure it is properly and accurately populated.

**AL:** Do you observe differences in the way that customers approach international programmes, depending upon where they are based?

**RR:** When implementing a global programme, the risk manager and broker go through a process of mutual education. The broker has to understand the client's risk philosophy and global mindset. For example, some risk managers are less inclined than others to provide direction to their subsidiaries. This is a differentiation we often encounter when comparing US risk managers with their European counterparts. Germany's business style often puts insurance decision-making into the hands of CFOs, treasurers or legal departments.

**AL:** How should the originating broker work with network brokers to ensure that all goes according to plan?

**RR:** To assure that expectations for global insurance solutions are fulfilled, the originating broker must not underestimate the importance of instructions to the network's brokers. There must be clarity when describing the insurance techniques, as well as service expectations. The risk manager needs to do likewise with global subsidiaries. As such, broker instructions and the client's risk manual containing the core information should include the same language and message on the programme's philosophy.

**AL:** And what about the insurance companies? In which areas do they need to invest and focus to deliver the goods for your customers?

**RR:** In response to the challenges of current compliance issues, some insurers have presented technologies that bring greater transparency to their workflow. These highly welcomed tools enable clients and brokers to quickly assess the status of local policy issuance, instructions or premium payment.

Looking into the future of global programmes, we see the tools being used by insurers, brokers and clients being linked together. We also see the complexity growing when it comes to compliance, data security and local supervisory laws.

But not everything is about information technology and compliance. At SÜDVERS, we have a tradition of meeting globally with clients and brokers regularly. When it comes, for example, to India or China, we find that personal relationships cannot be substituted even by the most advanced technology system.