Russell Working Group

THE STORY SO FAR...

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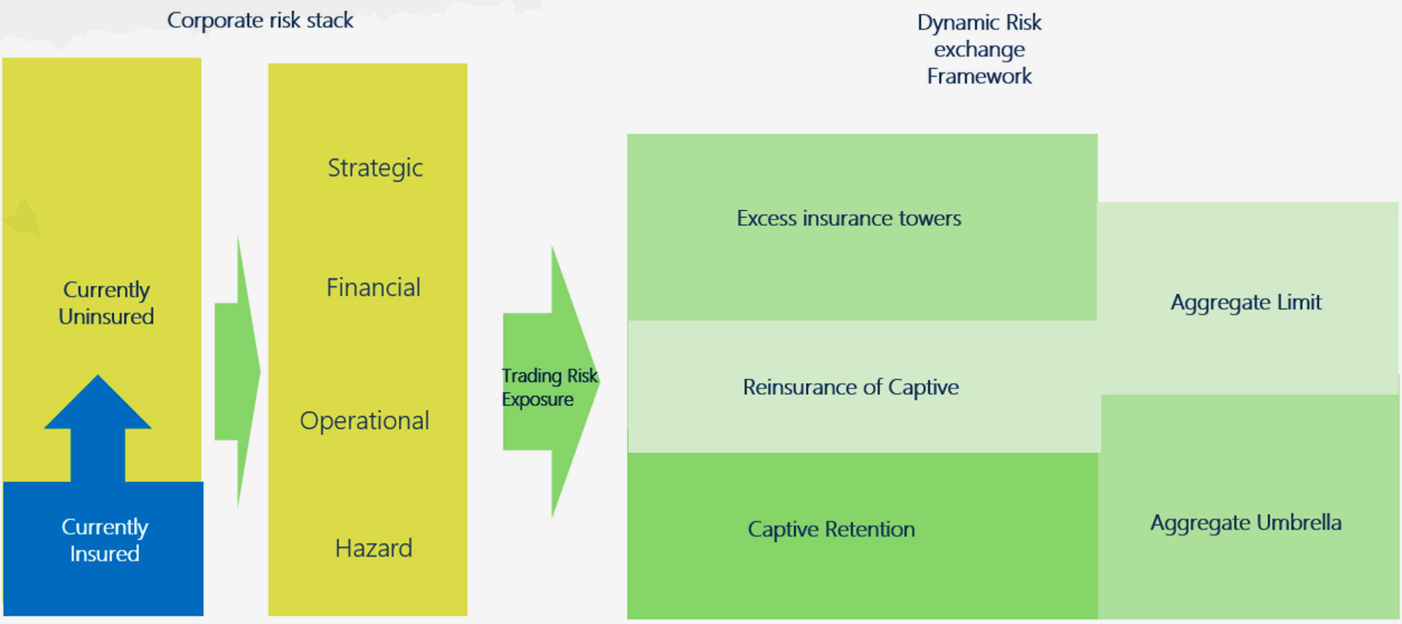
In 2018 we established a Corporate work group to consider the concept of 'connected risk' and to determine to what extent 'outside-in' exposure was being accounted for by corporate risk managers.

At our inaugural meeting, the trend towards risk event complexity and not knowing resultant exposures was signalled as an issue to be addressed, as was the need to look at both risk and opportunity in conjunction. We therefore broadened our definition of connected risk to include connected exposure. We also suggested at this meeting that there may come a time that within the working group that one person's risk may be another person's opportunity, meaning that risk may be 'hedged' between group members to achieve individual opportunities.

KEY ISSUE FOR BUSINESS & INSURERS

Global Trade Uncertainty Is Driving Connected Exposure

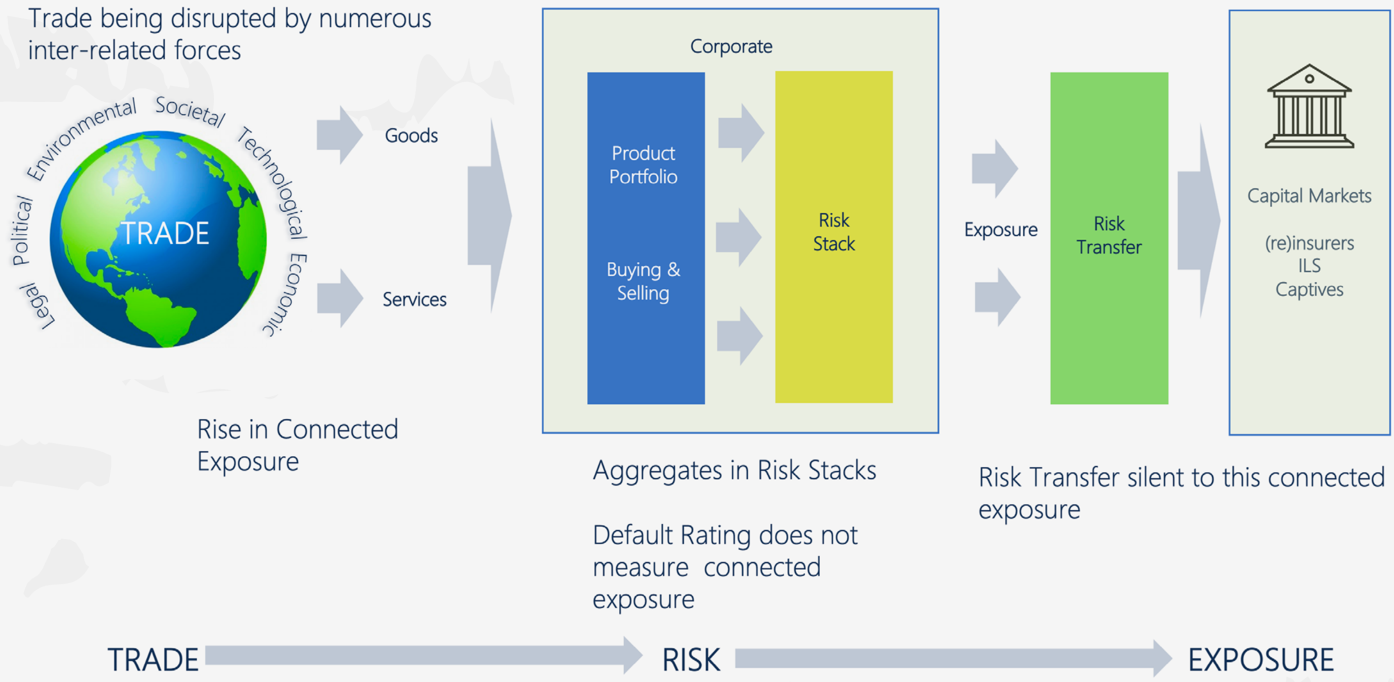


We have for much of the time since been building trust and providing a platform for thought leadership within the group, but it is clear that Connected Risk and Exposure has been accepted as the forward-thinking concept that they would all need to address at some stage. It has also been accepted that corporate risk registers need to be less one-dimensional, address risk correlations, and embrace an 'outside-in' approach in addition to looking at risks internally.

The corporate risk stack is accepted to contain 70-80% of risk that is generally considered to be uninsured and/or uninsurable. Of the 70-80%, portions are either unsupported by insurance due to the restrictive class nature of the insurance industry, could be exchanged effectively if quantified better, or is risk that is retained on the corporate balance sheet.

KEY ISSUE FOR BUSINESS & INSURERS

Corporate Risk Stack - Taking out the volatility



Mutualisation of risks was introduced towards the end of 2019, and this has generated interest.

Understanding risk connectivity and unlocking the mismatch between the "Corporate risk need" and "Insurer Peril-based solutions" were considered key requirements at the Russell Working Group Roundtable in May 2020 on "Insuring the Uninsurable". As a follow-up to this, Russell circulated a survey amongst members to understand connectivity better from each member's perspective.

Key findings revealed a commonality of strategic 'intangible' risks between the members regardless of industry type, but also key tactical risks for which the lack of ability to effectively transfer these risks from the balance sheet was stifling business opportunity.

It is now clear that since lockdown, insurer pricing has soared, with financial lines renewals for instance having premium rises in excess of 200-300%, and this trend is being repeated across the insurer product classes as insurers look for pay-back. Corporates are being asked to pay more for less coverage, at a time when the pandemic has made their trading environment more volatile by disrupted trade flows. Broad industry feedback is that this is not a short-term scenario. Consequently, risk appetites need to reflect the new trade, risk and exposure relationships generated by the pandemic and the road to recovery.

Further methods of risk transfer were explored by members of the group in 2020 and these included looking at virtual captives and a range of ILS solutions.

At the same time the group expanded to over twenty members representing the following industries:

Aerospace, Construction, Defence, Energy, Financial Services, Logistics, Manufacturing, Pharmaceutical, Retail, Services, Telecoms

In December 2020, the group also agreed to write to senior executives of selected (re) insurers, both to highlight their dissatisfaction with how the industry is meeting their risk transfer needs, but also to emphasise a new window of opportunity to work together. A crucial paragraph in the letter contains:

'It is, in the opinion of the members of this group, vital that large corporations are able to transfer a substantial amount of such risk, to release capital to fund future growth, and ensure the sustainability of their companies. They do not expect to do this in the way of traditional marketing, but by forming close partnerships, retaining a large percentage of the risks, and using any appropriate financial instruments available in the wider financial markets.'

Meetings subsequently took place in 2021 with senior executives from eight global (Re) insurance groups, all of which were very positive, informative and rewarding for all parties involved, and this has resulted in the Working Group establishing the following four pillars of activity:

- **Pillar 1 -** Define and create a business resilience risk transfer product and enabling data analytics.
- **Pillar 2 –** Act as an Incubator for insurer product ideas.
- **Pillar 3 –** Consider innovative solutions to make better use of Captives and other more readily available risk transfer solutions.
- **Pillar 4 -** Promote the emerging corporate resilience need and gain support from established Government and Market Bodies.

A team has now been established to work on Pillar 1 and the Russell Working Group issued an official press launch in June 2021.

One thing is very clear. The group do not wish to become just another talk-shop, but instead, a serious vehicle for driving essential change in how corporate risks are mitigated external to the corporate vehicle.

Connect with Russell

If you are interested in finding out more about the Russell Working Group or becoming a member please contact Julian Kirkman-Page at Russell, jkirkmanpage@russell.co.uk.