EVENT REVIEW

Aon Risk Solutions hosts 'mega trends' discussion panel with industry leaders

Carrie Cook reports from Aon Risk Solutions' recent panel event which brought together industry leaders to discuss current and future trends on the risk management agenda

PANELLISTS

Tom Wallace
Partner, K&L Gates LLP

Andrew Massey
Partner, K&L Gates LLP

Nick Triggs
Head of international corporate finance, Aon Benfield

Andrew Myhill
UK public affairs manager, Zurich Insurance

Ed Smerdon
Partner, Sedgwick LLP

Alexander Verweij
Managing director, head of UK and Europe, talent, awards and performance, Aon Hewitt

What better way to identify key risks currently on the agenda for financial institutions than to bring together leading financial industry practitioners, representatives and regulatory experts who are faced with overcoming these challenges every day? That's exactly what Aon Risk Solutions did at its recent Financial Services Conference held at the illustrious Barber Surgeon's Hall in the City of London last month. The half-day event provided an exclusive opportunity for select financial services firms to discuss current hot topics, including the possible impact of Brexit on business operations; fintech firms and their growing influence on how consumers bank; and how increased regulation is adding to the talent acquisition challenge.

The Risk Universe was invited along to a panel discussion, chaired by Dominic Christian, CEO of Aon UK Ltd and executive chairman of Aon Benfield International, aimed at dissecting industry 'mega trends'; key risks and opportunities currently concerning those in financial services.

REGULATION

The panel provided an interesting range of perspectives; from legal representatives who shared their thoughts on current regulatory developments, to public affairs specialists and corporate finance heads. One very clear theme throughout the discussion – and a challenge which all members of the panel identified as a growing issue – was regulatory pressure. Tom Wallace, partner at law firm K&L Gates LLP, said he believes regulatory risk and compliance failures, the kind of scandals which can result in uninsurable fines, have become an increasingly prominent risk factor for the financial services M&A market over the past few years. Wallace's colleague, Andrew Massey, a financial services lawyer at K&L Gates, agreed. "It goes beyond the risk that there is a breach in your organisation; it's the risks associated with keeping abreast of the tsunami of regulation that's out there; this never-ending wave of new developments that legal, compliance and business personnel need to be aware of." Exacerbating this problem is the frequent uncertainty around the regulatory requirements affecting the industry, he added. "That might be in the actual drafting [of legislation and regulation]; it might be because the regulator is not necessarily clear as to the objective it's trying to achieve; or it might be that there is conflict between regulators – which we are seeing at the European level in relation to remuneration rules. We have ESMA taking a different view from the EBA on the interpretation of proportionality, which ultimately will affect what remuneration structures are permitted in the UK and throughout Europe."

Regulatory risk is also a problem from a mergers and acquisitions perspective, said

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ANDREW MYHILL
UK public affairs manager
Zurich Insurance

Nick Triggs, head of international corporate finance at Aon Benfield. "Since the financial crisis – since the pendulum has swung from probably too-light touch regulation, to the other end – we've seen transactions stopped by the regulator, which we hadn't really seen before." In Triggs' experience, the regulators have become much more cautious, even about transactions between well-established buyers and, due to consumer pressure, have had more involvement in those transactions, making the whole process costly and "more painful".

TECHNOLOGY

Technology was discussed at length, both as a threat to business and an opportunity. Wallace warned firms to avoid the temptation to jump straight into the fintech race without first having the right expertise →

and a sound strategy in place. Intellectual property rights and data regulation are two important areas to be considered here and firms need to ensure any technology projects and investments they embark upon are managed by persons with appropriate financial services and technology investment experience and executed after thorough technical, regulatory and legal analysis, says Wallace.

Another law expert on the panel, Ed Smerdon, a partner at Sedgwick LLP, elaborated on the technical expertise issue and suggested more experts in cyber crime are needed within banking and insurance. He has witnessed a marked uptake in cyber-related claims in financial services in recent years. "These organisations move large amounts of money around the world all the time and there are going to be chinks in the system," he said. "It's a continuously dynamic field. You think your cyber defence is fully secure and up to date this year; but next year it won't be," he said. The panellists agreed institutions will need to get inside the minds of cyber criminals if they are going to successfully mitigate this risk.

BRIBERY AND CORRUPTION

Crime prevention measures are continuing to grow in importance in risk management and can themselves present a risk to business, in the form of new, more stringent legislation. In Smerdon's opinion, bribery and corruption will be in the spotlight in coming months as governments and authorities come under increasing pressure to show they are being proactive in the battle against illicit business activities. "Big, international institutions are going to get drawn into corruption scandals," he predicted. He added that firms wanting to do global business will inevitably confront corruption because they will be operating in countries where attitudes to bribery may be different to perhaps the UK, the US or other Western nations. "That won't be an excuse when you're investigated by the SFO under the Bribery Act, which makes it very clear you need to do your due diligence," warned Smerdon. "The Bribery Act is just the beginning; there is a lot more that is being enacted, or has been enacted, in the last couple of years." He suggested creating clear-cut policies and visible roles within the organisation which hold accountability for bribery and corruption issues as a sensible step towards managing this risk.

REPUTATION AND POLITICS

The subject of reputational impact was touched upon several times in the discussion, probably due to its wide-reaching nature and the fact it is linked with virtually every other type of risk. A number of high-profile examples of companies suffering damages due to reputational issues in recent years has highlighted the extent of the problem and, as Smerdon pointed out, a good reputation can be lost very quickly, but it's a "long, slow process to get your reputation back". Closely linked to this is vendor or third-party risk, which many firms are simply not considering deeply enough, says Massey: "Does the business have a true understanding of that service provider's ability to deal with various issues or scenarios that could be thrown at them? Are their business continuity practices sufficiently robust?" Further complicating this is the way many service providers sub-contract work to other entities in what may already be a highly concentrated market, giving firms even less control and visibility over vulnerabilities that may affect their business and increasing the risk of industry-wide failings, says Massey.

Andrew Myhill, UK public affairs manager for Zurich Insurance, was keen to stress that for the insurance industry, there were lessons to be learned from the banking industry's experiences since the financial crisis. "There is a feeling out there within the industry that we've had our beating from politicians; we've weathered it and we're through the worst. And, actually, it's far from it," he said. "The banking sector has certainly had its moment in the political sun – and I think insurance is next. Certainly the mood is here in the UK government that the microscope now needs to shift onto how the insurance sector operates and how we can regulate it better." This is exacerbated by growing political disdain for the way free markets operate, he adds: "On a wider-world political scene, we are seeing the rise of anti-free market parties across Europe; the Labour party here in the UK and in places like Spain and Greece where the challenge to the traditional market is very much in the ascendancy…Political pressure is forcing governments to stay on this track of keeping the financial sector under closer scrutiny – more regulation, more supervision, more control – to rein in that sort of 'anti-business' side of the vote."

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TALENT AND CONDUCT

Alexander Verweij, who is head of talent, rewards and performance for UK and Europe at Aon Hewitt, provided insight on the human side of risk. "All risks have relationships that go back to talent" he said, "whether it's attracting and retaining the right people to be able to deal with some of these threats from the outside – or conduct; how do you create a culture in which people take pride in differentiating themselves in a positive way?" To avoid some of the reputational disasters we have witnessed in recent times, firms need to cultivate a culture which prevents individuals from falling into the conduct "traps" so many bankers have fallen victim to, explained Verwejj. "None of them started maliciously, but they got trapped into a situation where it felt like, at that point in time, the right solution. The talent question is only getting more complex; with generational differences, with the globalisation of the workforce; it's a very challenging time." In response to this challenge, just like in many other areas of banking, senior management is becoming more accountable for this area. "You'll find that management is more directly involved in the talent question – finding the right people, the right support and the right opportunities to optimise their resource. Whereas in the past it was a separate function, now it's part of the management role," says Verwejj.

DIGITAL DISRUPTORS

Taking the technology issue but turning it on its head to see the opportunities it presents to firms, the panellists discussed how businesses can benefit from the technological revolution – rather than fall victim to it. "In insurance, we claim we are listening to customers, but it is still quite a traditional model. We are not finding out what customers really want and need from us," said Myhill. Verwejj agreed and said firms need to adapt to survive and start thinking about the risks that are not yet visible. "Why wait for somebody else to disrupt your industry when you can do it yourself?" he said. TRU