PCI
CONFERENCE NEWS | 2018 ANNUAL MEETING
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IN BRIEF

Scottsdale must cover shooting site

A California appeals court overturned a lower court ruling and held Scottsdale Insurance Co. must indemnify the owner of a nightclub for the property's loss in value after its operating permit was revoked after a fatal shooting there. The club sued its security service and Scottsdale, the service's insurer. Scottsdale requested summary judgment, arguing the permit's loss was not a loss of use of tangible property, which a trial court granted. But the appeals court disagreed, saying "loss of the ability to use the property as a nightclub is, by definition, a 'loss of use' of 'tangible property.'"

AIG names global head of specialty

American International Group Inc. has appointed Peter Bilsby to the newly created position of global head of specialty. Based in London, he will be responsible for global energy, marine, aviation and credit. He will continue as CEO of Talbot Underwriting Ltd., AIG's Lloyd's of London insurance and reinsurance specialist, until a successor is appointed.

New York broker acquires Ed

BGC Partners Inc. will buy London-based Ed Broking Group Ltd., the firms announced Monday. Terms were not disclosed. Ed is owned by New York-based Lightyear Capital LLC, which bought predecessor firm Cooper Gay Swett & Crawford Ltd. It will continue to do business as Ed, and Ed CEO Steve Hearn head BGC's insurance vertical, an Ed spokesman said.

US economy may feel the effects of weaker nations: Economist

BY MATTHEW LERNER
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Mohamed El-Erian, chief economic adviser for Allianz, says job creation and business investment are boosting the U.S. economy.

The U.S economy is seeing strong growth but could be dragged down by a less healthy global community, according to a leading economic commentator speaking at the Property Casualty Insurers of America annual meeting in Miami Beach.

"If we look at the U.S economy on its own, we should be quite optimistic," said Mohamed El-Erian, chief economic adviser for Allianz SE.

There are three ongoing trends that are helping propel the U.S. economy, he said.

The first is household income. "The jobs market is very strong in terms of jobs creation, and it is just a matter of time until wages go up," Mr. El-Erian said.

Business investment is also bolstering the U.S economy. "For years, it wasn't about the ability to

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Technology changes test insurers, regulators

BY GAVIN SOUTER
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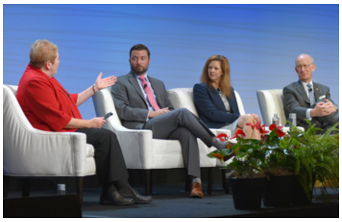

Insurance commissioners discuss insurtech and auto technology.

The rapid growth of the insurtech sector presents challenges to insurers and regulators throughout the United States, but so far state insurance departments have kept pace with the changes, a panel of insurance commissioners said Monday.

Technological developments, many of which benefit consumers, have been reviewed and approved by regulators, but some insurtech developers are still learning how the state-based regulatory system for insurers works, they said, speaking at the Property Casualty Insurers Association of America's annual meeting in Miami Beach.

"There's an exciting number of new entrepreneurs coming into

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INSIDE

R!SK PERSPECTIVES

Cyber: the hidden risk revealed

Aon
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Catherine Mulligan | Head of Cyber for Aon's Reinsurance Solutions business

Q. | 'Silent cyber' is a buzz word at the moment: how can insurers protect themselves from surprise exposures?

A. | Regulatory attention and high profile attacks — including reports from PRA and EIOPA and the far-reaching ransomware attacks NotPetya and WannaCry — has raised awareness of how cyber incidents can impact multiple lines of business. It's imperative that insurers identify and quantify the exposure in their portfolios. Aon's Reinsurance Solutions cyber practice group works with clients on this process, including running bespoke scenarios. We recommend developing a long term approach to cyber – whether exclusions or additional premiums and express coverage grants – but clash reinsurance capacity is available in the meantime for companies that are in the process of transitioning their books.

Q. | How are reinsurers reacting to silent cyber — are they prepared? Is capacity available?

A. | Reinsurers are willing to provide clash capacity — Aon has secured $350M to date — for companies that are in the process of actively addressing their exposure. Reinsurers are asking questions about cyber on their traditional treaties so insurers are advised to take a proactive approach.

Q. | The cyber market has huge growth potential but what is driving increased reinsurance buying? What factors do insurers need to bear in mind?

A. | The global regulatory environment and expanding attack vectors continue to motivate new buyers. Insurers understand that being able to provide a cyber solution to their clients is important, but they continue to refine their understanding of the exposures. Analytics and data including bespoke scenarios are helping carriers underwrite and price for cyber exposure. Still, support from the reinsurance market is an essential piece of insurers' overall portfolio management strategies.

Q. | And we also hear from insurers about the threat of aggregation. Can you share an example of the kind of attack that could cause this and how can insurers better understand the exposure in their portfolios?

A. | Public filings have shown financial loss and extra expense estimates from the 2017 malware attack NotPetya are upwards of $2.2B (source: Aon's Cyber Predictions report). This attack and others like it cause widespread disruption and even physical loss or damage. Insurers have not always specifically underwritten or priced for these exposures. We are working with insurers to analyze their so called "silent cyber" exposure across all of their portfolios. Carriers need to develop a long-term plan to address these exposures. Aon has sourced clash capacity to protect these portfolios during the transition.

To further understand silent cyber, Aon and Guidewire's Cyence Risk Analytics team have developed a new scenario where a hacker seeks to create significant disruption in the U.S. by opening the floodgates at a hydroelectric dam. If such a scenario were to occur it would likely cause significant downstream flood damages, resulting in 'silent cyber' losses for insurers. Silent cyber risk is the potential for cyber perils to trigger losses on traditional insurance policies — such as property or casualty — where coverage is unintentional or unpriced.

We analyzed the potential impacts of the scenario at three dams, selected to reflect a small, a medium, and a large exposure respectively. The key findings were that a cyberattack could cause:

- Major impacts not only to dam operations but also to the resilience of local businesses and communities, with the highest economic loss estimated at $56 billion.
- Silent cyber exposure to insurers, with total insured losses of up to $10 billion. By comparison, initial estimates of insured losses resulting from wind and storm surge damage from Hurricane Michael have ranged up to $10 billion.
- A significant protection gap that would impact homeowners and businesses if such an event were to occur, with only 12% insured in one scenario.

Q. | And what is being done to help companies boost their own resilience against cyber attacks?

A. | With growing Internet of Things (IoT) botnets, ransomware that targets backups, and an increasingly complex regulatory environment — cyber risk management must keep up. The goals stay the same: to protect business continuity and your organization's information. But what needs to be done to achieve these goals changes as rapidly as do the threats. Aon's recent Cyber Predictions Report highlights key recommendations of:

- Test the security of Internet of Things (IoT) applications
- Implement multifactor authentication
- Perform cyber-attack simulations and incident response readiness tests

Q. | You're a leading female figure in cyber insurance: how can we encourage more women to develop a career in this space?

A. | The insurance industry is facing a well-documented talent crisis, with increasing turnover and retirements. It's a business imperative that we tap the full scope of human talent for recruiting, retention, and career development. The insurance industry provides a broad platform for people to develop a wide array of skills — including technical, legal, negotiations, people management — making it one of the best kept secrets among those entering the workforce.

The cyber arena is growing and continues to change rapidly, making it an exciting segment in which to grow. But the numbers show room for improvement: according to the US department of labor,[*] about 47% of insurance industry employees are women, but the numbers drop at the SVP level. According to a recent Wall Street Journal article,[**] the number of women at SVP and C-Level positions in the Finance industry is only 23%; this is despite the fact that studies show women leaders outperform their male peers.[**] A thoughtful recruiting strategy and a commitment to mentoring and sponsorship is essential. Grassroots networking efforts such as those by the folks who have organized Women in Cyber Leadership[****] are a supportive initiative for women in this space. Finally, the cyber insurance industry can support the early education and development of girls in STEM careers.

[*] Citation on III website
[**] WSJ, A Corporate Ladder of Attrition for Women, 23 October
[***] https://sp.aonavenue.aon.net/myaon/aonasc/en-us/hr/Documents/Inclusion%20Resources/CEB-Three-Keys-to-Developing-Women-Leaders.pdf
[****] https://www.linkedin.com/groups/13514921/

Auto liability, flood concerns remain unfinished business

BY GAVIN SOUTER
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Insurers have made some legislative strides in the past year, but many of their goals require multiyear efforts to achieve results, said Pete McPartland, incoming chairman of the Property Casualty Insurers Association of America and chairman, president and CEO of Sentry Insurance in Stevens Point, Wisconsin.

"A lot of issues we've been dealing with have unfinished aspects to them," he said during an interview at PCI's annual conference in Miami Beach.

For example, while the insurance industry successfully pressed for Georgia's "hands-free" law that bans drivers from holding mobile devices and was implemented earlier this year, the issues of safe driving, distracted driving and impaired driving are still concerns in many states, he said.

And flood insurance reform remains a priority for the property/casualty industry, Mr. McPartland said.

"Underinsured and uninsured homeowners in particular who are subject to hurricanes and other natural disasters is another very important issue, and every hurricane reminds us that the National Flood Insurance Program needs to be renewed and avenues need to be opened up to allow private insurers to have the right to enter that market more freely and provide coverage and flexibility," he said.


Pete McPartland

The NFIP is slated to expire Nov. 30, and most observers expect it will only be temporarily extended again.

"If both parties get behind it and think about what's best for the insurance-buying public," they would reform the program, but it's difficult to assess the prospects of that happening, Mr. McPartland said.

Meanwhile, the "explosion" of technology and data and analytics in the insurance sector requires a response from regulators, he said.

"It creates a challenge for regulators to enable that level of entrepreneurship to thrive while at the same time living up to their obligations as regulators," Mr. McPartland said (see story, page 1).

Trade tariffs on imports will also affect the insurance sector, because about 50% of the parts involved in auto repairs are produced overseas, he said. PCI estimates that tariffs on imports will increase the cost of parts by about $3 billion, which will likely result in about a 2.7% increase in auto insurance rates.

> "Every hurricane reminds us that the National Flood Insurance Program needs to be renewed and avenues need to be opened up to allow private insurers."
> Pete McPartland, Sentry Insurance

"We're pointing out the cost so everybody knows what that cost is, and that ends up ultimately likely getting passed on," he said.

Florida faces winds, politics

BY MATTHEW LERNER
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Florida is getting better at enduring hurricanes, and the upcoming midterm elections may play a role in solving the state's problem with litigiousness, said speakers on the Florida issues panel at the Property Casualty Insurers Association of America annual meeting in Miami Beach.

"I feel like between Irma last year and Michael this year, you can really see how building codes across the state are affecting the ability to withstand and weather storms such as these," said Dave Williams, senior product manager for Progressive Insurance in Cleveland.

"Every time there is a storm, we keep getting better," said Tallahassee, Florida-based Mark Wilson, president and CEO of the Florida Chamber of Commerce.

Bryon Ehrhart, global head of growth and strategic development at Aon PLC in Chicago, said the state is "a center of hurricane risk."

The industry is also challenged by state politics, which may be affected by elections next week, which could "make a big difference," said Bill Galvano, president designate for the Florida Senate.

Half of all insurance litigation in the state is due to disputes over assignment of benefits, according to Mr. Williams.

"Attorneys' fees have stretched past the intent of protecting individual consumers, and that's raising costs for consumers in a way that's just not fair," he said.

Insurance profits vary widely by coverage line: Guy Carpenter

MARK A. HOFMANN

Once-stable property/casualty insurance lines produced significant volatility last year, while others that often struggle to produce underwriting returns enjoyed their highest profitability in decades, said a Monday Guy Carpenter & Co. LLC report.

And, according to Guy Carpenter's 2018 Risk Benchmarks Research Report, "the familiar underwriting cycle has decoupled materially across long-tail casualty lines, with profitability, growth and reserve development moving in widely different directions by line and segment."

The report found strong equity-market performance pushed industry surplus to its highest level ever at the end of 2017. But the costliest year of North American catastrophe activity since 2005 drove the gross loss ratio of the study's median insurer up 12% in just two years.

In fact, "2017 was the first year to eclipse $85 billion in trended North American cat activity since hurricanes Katrina, Rita and Wilma in 2005," said the report.

The report found that 44% of property/casualty underwriters posted a positive underwriting return in 2017, down from an average of 59% percent in 2014-2016. The industry experienced a 3.8% underwriting loss in 2017, compared with a loss of 0.4% in 2016 and a profit of 1.6% in 2015.

But the report also noted that favorable trends in workers compensation continue to manifest themselves, saying 60% to 70% of the workers compensation insurers achieved an underwriting profit.

Jura Zibas

WILSON ELSER

The European Union's General Data Protection Regulation, breaches of which can result in fines of €20 million ($22.8 million) or up to 4% of turnover, is a concern for any U.S. company with clients in the EU. Jura Zibas, co-chair of Wilson Elser Moskowitz Edelman & Dicker LLP's intellectual property practice in New York, recently spoke with *Business Insurance* Editor Gavin Souter about the effect of the law and other privacy and cyber security issues. Edited excerpts follow.

Q How do you think GDPR will affect financial services companies?

A Financial services companies are going to be impacted no differently than other large multinational companies. They all have specific terms to comply with. They are going to have to contact their customers outside the U.S., they are going to have to send notices to foreign clients to advise them of their rights, they are going to have to monitor their vendors globally to see what they are doing and how their information is being stored, so they do have to follow the process. Clearly, they don't want to be fined because the fines, when they are enforced, are going to be much larger. So the compliance departments of financial services companies just got busier.

Q How big a task do you think it will be?

A I think that most companies have probably already done the minimum, like taking care of their websites and notifying customers. I think the biggest task is knowing who all the customers are and knowing all of their addresses. You may have a customer with a U.S. address — and this is what I encountered with a real estate firm selling real estate in the U.S. — but they are really a foreign national, so GDPR applies to them. The biggest task is finding out who to send a notice to.

Q Any other things companies need to be aware of?

A There's a long list: You have to notify people of their right to be forgotten, the transparency on how you are using the information; you have to know who your vendors are and make sure they have complied; and there are all sorts of technical requirements as well, it's not just the legal side, so the IT department has to handle those issues.

Q This right to be forgotten seems to be a big issue.

A Yes, some law firms have come to me and said they've told their clients that they can't be forgotten because for regulatory reasons they have to be able to maintain information about them. If you have a legal basis, that's an exception, but you are going to have to document why that person can't be forgotten.

Q How else should companies prepare for GDPR?

A They need to talk to their employees. I've seen that big companies, especially, don't always know what all their employees are doing, so they may have customers and they don't know that they have those customers, and the GDPR may apply to them but they don't know about it.

Q More generally, what proactive steps can insurers and other financial firms do to comply with privacy and cyber risks?

A I really think they need to have multiple discussions with their employees. They send out a webinar and they think that everyone remembers. Don't assume that. You need a lot more training. Cyber risks are employee driven often — they click on something and you end up with a hack or an infiltration or malware and your whole system going down. There needs to be more discussions with employees, and don't assume one training session is enough.

If you have a new vendor, especially if it's integrating software, it needs to be reported to the compliance department and the IT department.

Q Do you get the sense that companies are getting better at dealing with privacy and cyber risks?

A No, because they are doing one training session and checking it off the list. I guarantee you that if you talk to half the employees, they won't remember the training.

Clearly, they don't want to be fined because the (GDPR) fines, when they are enforced, are going to be much larger. So the compliance departments of financial services companies just got busier.


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TRANSFER:
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PHOTOS BY JASEN DELGADO

EL-ERIAN

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invest, it was about the willingness to invest, and what we see now among the business community is a much higher willingness to invest," Mr. El-Erian said.

Public spending, he added, has amounted to a "two-year stimulus coming from the public sector."

In combination, the forces constitute a potent engine for the U.S. economy.

"When you get all three kicking in at the same time, that's a very powerful force, and that's what's lifting us out of the 1% growth rates into the 3% growth rates," Mr. El-Erian said.

The problem, he said, lies beyond U.S. borders.

"The minute you go away from the U.S., things look a lot less rosy," Mr. El-Erian said, adding that both the European and Japanese economies are slowing, forming what he termed a "classic divergence."

Over the next 12 months to 18 months, he said, "either the U.S. will be joined by the other countries, or we get pulled down by the gravity of the situation."

Conflicts over international trade with China, Mexico, Canada and others will likely not escalate too far, Mr. El-Erian said.

"My own assessment is that we will most likely avoid a trade war, but the journey to that is going to get more noisy," he said. "Things are going to get worse in the short term, but in my opinion it will be resolved without a major trade war."

He described what has happened so far as "skirmishes" with China and not a true trade war.

Another variable in the progress of world economies is technology, which Mr. El-Erian said would "fundamentally redefine the financial industry."

"Technology doesn't change just what we do, it changes how we do it," he said.

"It's just a matter of time until the established companies figure out how to evolve," Mr. El-Erian said. "Either you evolve, or someone will disrupt you."

INSURTECH

Continued from page 1

the (insurance) system with their thoughts, their impacts, their programs … As regulators, we don't need to stand in the way of innovative products that help our consumers," said Ray Farmer, director of South Carolina's Department of Insurance. While laws governing insurance were often formulated years ago, they need to accommodate new developments, he said.

For example, rebating laws in various states — which bar insurers and brokers from offering inducements for placing business with particular insurers — should not bar insurers from offering technological enhancements to policyholders, Mr. Farmer said.

Regulators should proactively meet with insurers and insurtech firms to address regulatory concerns, said Julie Mix McPeak, Tennessee insurance commissioner and president of the National Association of Insurance Commissioners.

"We are very much focused on early intervention as regulators, meeting with current industry or startup ventures very early on to discuss the ideas they might have … and identifying hurdles that they might have," she said.

The NAIC has identified regulatory contacts in each state for insurers and insurtech companies to consult with on new technology ventures, Ms. McPeak said.

But insurtech companies need to recognize that regulatory concerns must be addressed before new products can be launched, said Florida Insurance Commissioner David Altmaier. "We've had a couple of folks come in with really good ideas that they want to launch after lunch, if it's OK with us. We have to explain that it doesn't work that way, but it really is just simply a matter of it's their first time in a regulated space."

While some jurisdictions are considering setting up regulatory "sandboxes" where some rules are relaxed while insurtech initiatives are developed, South Carolina has successfully approved insurtech products without developing that approach, Mr. Farmer said.

"We have enough flexibility and we have enough discretion that there's three or four new concepts that now are in the marketplace in South Carolina, and we did not get tripped over," he said.

The activities of individual states on insurtech regulation is benefiting other states, said Ms. McPeak.

"We really do view each of our states and jurisdictions as individual sandboxes, and we have a lot of different things happening in different states, and the rest of us are learning from states that are trying new things," she said.

The introduction of autonomous vehicles is another development that will affect insurers, consumers and regulators, Mr. Farmer said.

Federal agencies have indicated that liability and insurance issues for autonomous vehicles will likely be left to state regulators, he said.

As a result, state regulators will have to address how insurance laws will apply, as auto liabilities may transfer from individual drivers to corporations that develop autonomous vehicles, Mr. Farmer said. "That's a work in progress."

There are auto liability issues that need to be addressed, agreed Ms. McPeak, "whether that comes from individual coverage, or fleet coverage or some no-fault laws."

In addition, insurers will have more data available when an accident occurs with an autonomous vehicle than they would with a conventional vehicle, she said. This is because of all the sensors on autonomous vehicles.

"We'll have a lot more information than we are used to having at the time when liability is being determined," Ms. McPeak said.

The industry will have to "think through" issues such as assignment of benefits, said Mr. Altmaier.

"The last thing we need is another issue that will be a payday for trial attorneys," he said.

Strengthening tomorrow

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