Reactions
APCIA REPORTER
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APCIA: United in mission & action

The American Property Casualty Insurance Association (APCIA), forged by the union of the Property Casualty Insurers Association of America (PCI) and the American Insurance Association (AIA), will celebrate its first anniversary in January. As this year's Annual Meeting kicks off Sunday in Boston, President and CEO David Sampson shared with *Reactions* the trade association's top priorities for 2020 and related how the APCIA offers its members all the best benefits of its two previous organizations.

First and foremost, says Sampson, APCIA provides "a united voice for the industry in terms of market share and brings together the entire industry under one roof." Speaking for nearly 60% of the U.S. Property & Casualty market, the trade organization includes home, auto, and business insurers; its members represent companies of all sizes, structures and regions.

Another advantage is that the APCIA affords former PCI and AIA members access to combined resources. "A combined trade organization isn't about just having combined staff, but creating an organization that can tap into the policy expertise, greater political network and political strategy of all of our member companies," says Sampson. "That's one of the major attributes that we're already seeing in the first year.

"Now, having all that intellectual horsepower under one roof enables us to be more proactive in being a thought leader for the industry, understanding the current economic and social impediments that stand in the way of achieving policy outcomes, and methodically taking incremental steps to advance the agenda of our members," he adds.



Key initiatives for 2020

In addition to its other work, Sampson says the APCIA will focus on several key initiatives, one of which involves state courts: "We believe that legal defense and reform is the most important priority that the industry is facing right now and will continue to face over the next several years."

Over the last decade, "legal and due processes have come under attack in certain jurisdictions," he notes, adding that increased claims-related litigation and a rise in what he calls "nuclear verdicts" against insurers are eroding legal certainty. This, Sampson adds, leads to "a growing legal tort tax that adds to the price of every product that Americans buy."

Third-party litigation financing is an issue, he explains, adding that more attorneys are becoming involved in first notice of loss. "That doesn't lead to more money for the policyholder," Sampson notes. "It draws out the claims process and its resolution. More money ends up going to them, rather than to injured parties."

In the year to come, he adds, "we'll be educating consumers and working with legislators and judicial associations within key states to help them understand the unintended consequences of a runaway legal system in which judicial certainty has been undermined in recent years."

Another issue that will receive much focus from the APCIA,

▶ 3

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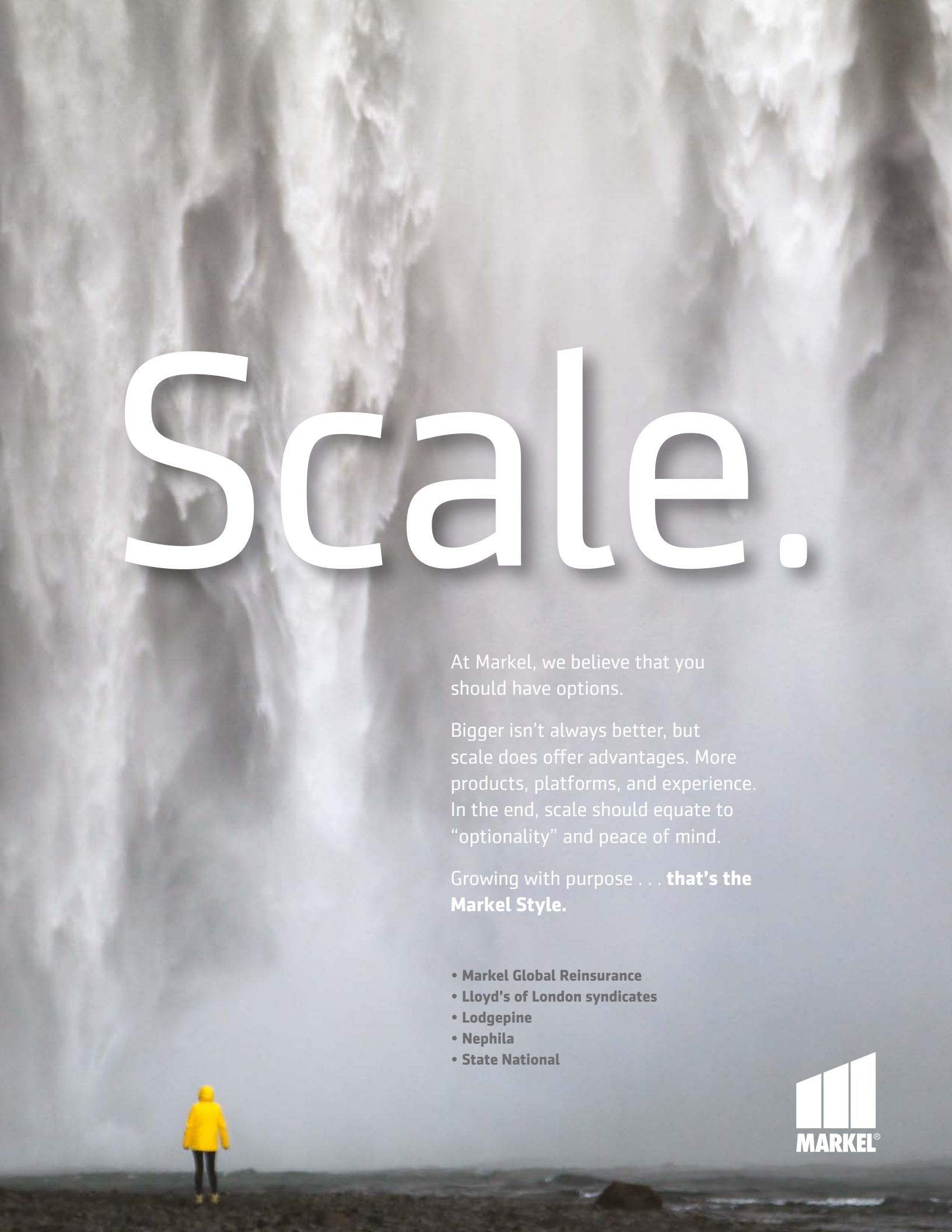
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1 ▶ says Sampson: many auto insurer-rating factors "are in political crosshairs, with so-called consumer advocates pursuing strategies that undermine risk-based pricing."

This is fundamentally a state-level battle, he explains, with efforts being made around the country to restrict actuarily sound, traditional underwriting tools.

For example, in California, efforts are being made to restrict affinity programs that have been effective in providing more cost-effective insurance to groups of individuals that have lower risk profiles, such as teachers, peace officers and firefighters. These "reform" efforts, Sampson says, are often spurred by those wondering why certain groups should get a discount when they don't – and speak to a complete lack of understanding of the predictive risk models involved.

"For insurance to work effectively, pricing has to match the nature of the risk," he adds. "That enables insurers to take on more risk, and creates a more robust market."

Closing the protection gap

APCIA will likewise be focusing on the issue of resiliency, and closing the protection gap for the underinsured. Sampson notes how estimates from analytics firms revealed that the lion's share of flood losses caused by Hurricane Harvey were not covered by insurance (uninsured flood losses from Harvey were estimated between $25 billion and $37 billion).

Closing that gap begins with long-term extension of the National Flood Insurance Program, he says, as well as the APCIA bolstering its work with FEMA to increase take-up rates on flood cover.

"It now takes longer for underinsured communities to recover after a disaster," says Sampson. "When you look at hurricanes and wildfires and the devastation they cause, we need to have a broader conversation about factors like building codes, zoning, land-use patterns and forest management.

"Clearly, we're in a period of increased natural disasters," he continues. "Multi decade-old weather patterns have changed. There are more and more people living in coastal areas, which means greater vulnerability. How can we make communities more resilient in the face of weather severity? It's a dialogue we're anxious to have."

The good news is, insurance companies are now better equipped to deploy their claims teams following a disaster and communicate with policyholders quicker. But that isn't enough, Sampson says.

"As an industry, we need to have more conversations with state and federal authorities to help limit the severity of damage when natural disasters occur – working with policyholders to mitigate risk on the front end so that we don't see as much devastation on the back end."

Reauthorization of the Terrorism Risk Insurance Program Reauthorization Act is likewise going to be an issue to watch, with the federal reinsurance backstop set to expire on Dec. 31, 2020.

"It's a major priority for us to have it renewed as cleanly as possible for as long as possible," adds Sampson. "We've seen what happens – for example, post 9/11 – when the industry freezes up." ●

APCIA Annual Meeting 2019 Agenda

Sunday, October 20	
12:00 – 6:00pm	**Registration** – Fourth floor, Registration Desk
4:30 – 6:00pm	**Exhibit booths open** – Grand Ballroom Foyer
4:30 – 6:00pm	**Opening reception** – Grand Ballroom Foyer
Monday, October 21	
7:00am – 5:00pm	**Registration** – Fourth floor, Registration Desk
7:30 – 8:30am	**Breakfast** – Grand Ballroom Foyer
7:30am –12:00pm	**Exhibit booths open** – Grand Ballroom Foyer
8:30 – 9:00am	**National anthem, antitrust and President's address** • Tony Kuczinski, APCIA Board Chair • David A. Sampson, APCIA President & CEO
9:00 – 10:00am	**This moment in American history: America then & now** • Jon Meacham, Presidential Historian and Author
10:00 – 10:15am	**Break**
10:15 – 11:00am	**Combatting the rise of socialism** • Kristen Soltis Anderson, Political Journalist
11:00am –12:00pm	**The rule of law in the new era of social justice panel**
12:15 – 1:45pm	**APCIA members' lunch**
6:00 – 6:30pm	**Reception** – America Ballroom, Westin Copley Place
6:30 – 9:00pm	**Monday evening event** – America Ballroom, Westin
Tuesday, October 22	
7:00am – 12:00pm	**Registration** – Fourth floor, Registration Desk
8:00 – 9:00am	**Breakfast** – Grand Ballroom Foyer
8:00 – 11:45am	**Exhibit booths open** – Grand Ballroom Foyer
9:00am	**Welcome** • Pete McPartland, APCIA Board Chair Elect
9:00 – 10:00am	**One team, one fight: Collaborating to capture the Boston bomber**
10:00 – 10:15am	**Break**
10:15 – 11:00am	**Present at creation: The past, present and future of TRIA Panel**
11:00 – 11:45am	**State of the market reinsurance Panel**

Please note: All APCIA Annual Meeting events take place in Grand Ballroom Salon E/F in the Marriott Copley Place, unless otherwise indicated.

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The cyber conundrum

Munich Reinsurance America's Annamaria Landaverde on the state of the cyber reinsurance market.

The cyber reinsurance market is fairly split with respect to carriers' purchasing trends, says Annamaria Landaverde, Munich Reinsurance America's Cyber Practice Lead for the Reinsurance Division.

"While many carriers continue to incorporate cyber business in blended treaties including casualty and professional lines business, there are a growing number of carriers purchasing standalone cyber treaties," she notes.

"We also see differences in the way cyber reinsurance is purchased among regional carriers compared to national or global clients," Landaverde adds. Treaty structures are predominantly proportional for affirmative cyber business, she says, with few exceptions for excess-of-loss structures.

On the primary side, indicators suggest that cyber liability insurance take-up is increasing, but broader acceptance and purchase of this important coverage remain somewhat elusive. "Take-up rates in cyber insurance are on the rise for all size risks as stakeholders increasingly view cyber risk as a core threat to their business, but the coverage still remains mostly a voluntary purchase," says Landaverde.

First, she explains, organizations must acknowledge the value of and need for the coverage, which requires a recognition of the risks by the C-suite. Those risks include events that may impact the organization's bottom line and the regulatory compliance needed when faced with such an event.

"As risks have evolved over the last few years from privacy-related matters to threats to organizations' operational continuity, many organizations look to their cyber carrier to provide expert pre-breach and post-breach services to be adequately prepared to defend against and respond to such events," she says. "As more organizations recognize this evolving and growing risk, cyber insurance and the comprehensive solutions offered by carriers will increasingly become an integral part of overall risk management programs."

There's also the issue of "silent cyber" as insurers make more of a conscious effort to close those coverage gaps on the primary side – particularly when it comes to property exposures.

> "Many carriers are in varying stages of evaluating the cyber exposures in their traditional property & casualty portfolios, which is expected to lead to affirming or excluding cyber coverage over the next few years."
>
> *Annamaria Landaverde, Munich Re*

"For non-cyber underwriters, the conversation around silent cyber has become more widespread as a result of recent cyber losses within traditional property & casualty lines," Landaverde says. "Many carriers are in varying stages of evaluating the cyber exposures in their traditional property & casualty portfolios, which is expected to lead to affirming or excluding cyber coverage over the next few years."

At the same time, this presents an opportunity for the cyber community to collaborate with the traditional P&C market to ensure a comprehensive approach to closing any perceived coverage gaps, she says: "This is a positive development that will not only enable carriers to properly underwrite and price for cyber coverage, but will also increase the quality of data needed to model the exposures.

"Cyber coverage has traditionally been a non-standard product, which has made it difficult for some brokers and clients to understand or even compare the various products offered in the market," Landaverde continues. While there remains an opportunity for additional education for traditional P&C brokers, she adds, dedicated cyber and financial lines brokers are better equipped today than in previous years to understand and sell the cover.

"In addition to coverage, there is also an opportunity to educate brokers on the importance of qualifying risks based on organizational cybersecurity practices and providing necessary pre-breach and post-breach solutions and training," she says.

There are some who might suggest that cyber insurance actually creates an incentive for extortionists, as news outlet ProPublica did in August. Landaverde agrees that argument doesn't hold water.

"No different than any other form of crime, the primary motivation of extortionists is driven by factors independent of the level of insurance purchased by organizations," she says, adding that while cyber carriers work very closely with insureds to provide the necessary tools to resolve extortion events in the most effective way and to minimize financial harm to the insured's organization, the ultimate decision to pay a ransom resides with the insured. In some cases, an organization may choose to pay the extortionists if the potential business income loss outweighs the ransom demand.



"That said, as technology continues to evolve, cyber criminals will continue to find new ways to attack organizations," adds Landaverde. "Ransomware is one of the many cyber risks organizations face today, but cyber carriers are prepared to assist insureds with other types of events as well." ●


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Harnessing opportunity: Bruce Kelley

EMC Insurance Group President and CEO discusses the mutual's strategic advantages.

What do you consider the biggest advantage of mutual over third-party owned insurance companies?

EMC has a history as both a public company and a private company, and we've had reasons for both. We recently completed a stock repurchase and are, again, a mutually held company.

We believe our transition back to a mutual is in the best interest of our policyholders. Under a mutual structure, customers and owners are aligned because they're the same people. Rather than have a dual focus that requires an emphasis on short-term results for the benefit of stockholders, we have one focus – to serve the best interests of our agents and policyholders. This ensures our long-term stability and leads to higher member retention, as owners directly benefit from our long-term financial stability. The mutual structure creates a simple corporate structure that drives top-notch customer experiences, setting us apart from our competition.

What are some of the more frequent requests by your members and how is EMC addressing those requests?

The most common requests fall in the areas of technology, ease-of-doing business, and quick and easy access to information. At EMC, we address member and agent requests in the following key ways:

- Prioritizing our customer experience efforts. We have an entire team whose job it is to listen and make sure we are delivering on customer needs. We collect feedback early and often, and then act on it to deliver experiences that differentiate us from our competition. Finally, we measure on an ongoing basis to gauge satisfaction and fine tune.
- Building and maintaining strong underwriting relationships. At EMC, we strive to provide exceptional customer service in every interaction, whether that be online, in person or over the phone. Our people are at the center of what we do, and we use technology to support them in serving our agents and policyholders.
- Executing on our claims philosophy. Our goal is to handle claims as efficiently, fairly and quickly as possible, regardless of the type or size. We investigate every claim; explain what is covered and what is not covered; and pay the claims we owe as quickly as possible.

You've said that EMC Insurance Companies won't invest in any InsurTech that impedes the independent agency system. How does your partnership with DAIS Technology Inc. provide a better fit for your company?

EMC is a proven innovation thought leader in the industry, piloting more than 20 startups in 2018. We are successfully utilizing some artificial intelligence in our claims and underwriting functions. We also employ data scientists to analyze information and interpret statistics to solve problems and find solutions most relevant to our business.

Our strategic partnership with DAIS Technology Inc. helps our agents advance their digital capabilities, create internal efficiencies, identify new growth opportunities and provide value-added services to policyholders through a connected network. In a world where many agents feel undervalued by their insurance partners, EMC remains dedicated to the independent agent distribution system because these experts bring real value and knowledge to the insurance value chain.

Agents tell us they're grateful to EMC for having the foresight and willingness to invest in this technology that allows them to be relevant in the world of technology and win in the marketplace. Our partnership with DAIS further strengthens the agent's value proposition in an increasingly connected society, allowing us to equip them with the tools necessary to differentiate themselves in the market and drive an exceptional customer experience.



How did EMC's partnership with MākuSafe and its wearable technology come about?

At EMC, we believe investing in innovation will position us to respond quickly and effectively to change. By incorporating new ideas, tools and methods, we will deliver even more exceptional customer experiences to both our agent partners and ultimately our policyholders.

Through our investment and collaboration with MākuSafe, a Des Moines-based InsurTech/safety analytics company, we are testing technology aimed at helping companies reduce workplace accidents and workers' compensation claims. MākuSafe's wearable armband gathers real-time environmental and human motion data to identify workplace risks. Using this data, employers can begin to identify potentially hazardous trends and alert safety managers before an incident and/or a claim occurs.

Our goal is to determine how this equipment performs in real-world conditions and to have the opportunity to fine-tune the products before they're available to the public. Ultimately, we want to provide agents and policyholders value beyond traditional insurance coverages. Data provided by wearable technology is one way we can accomplish that while taking proactive steps to improve worker health and safety.

There is more innovation in the industry now than I've seen at any other time in my career, so EMC is focused on staying on top of [new] developments and harnessing the opportunities of big data and new technologies to better serve our policyholders and agents. ●



Since the beginning, our approach to your business needs has been to look beyond what everyone else is doing and focus on innovative solutions. After all, it's the people we do business with and the experiences we share that inspires us to serve you better.

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Property market: A change in the wind?

WKFC Underwriting Managers/CorRisk Solutions CEO & President discusses a market firming inspired by smarter thinking and shared responsibility.

Dawn D'Onofrio is CEO and President of WKFC Underwriting Managers and CorRisk Solutions, both divisions of Ryan Specialty Group Underwriting Managers (RSGUM). WKFC Underwriting Managers specializes in property, CAT property, excess property and equipment breakdown, as well as primary and excess casualty lines; CorRisk Solutions is its specialty professional lines division.

Broadly speaking, what's your current assessment of the property market, and how has it changed over the past few years?

The property market is firming in 2019 and shows no signs of slowing. From a capacity perspective, there are many positives for carriers: firming of the market in all property segments; some segments firming faster than others; positive rate change; reduction of capacity, which is playing out in lower limit usage; and restrictive terms and conditions – deductibles are increasing, and broad endorsements are being pulled back.

These positives must be balanced against the reality of the past five-plus years of rate deterioration, (CAT) claims creep and the emergence of social inflation, all exacerbated by a frequency of severity of loss. This certainly paints a challenging picture but 2019 has been pivotal as there seems to be a "linking of arms" with industry leaders to commit to responsible changes going forward.

When the largest global capacity providers finally say enough is enough, real change happens. Carriers are publicly acknowledging that underwriting profitability trumps top-line growth. These market influencers are setting the stage for the rest of the market to follow. This is the game changer; when good actors' actions overwhelm irresponsible competition, real change can be had.



Do you feel that property rates across the industry are where they should be, relative to the risks being written? I realize every insurer's risk appetite is different.

Property rates are likely significantly off from where they should be. How far off really depends on the segment, but simple math illustrates you cannot have multiple years of rate reductions and expect to be made whole in one year. Segments have ranged from soft to very soft (e.g., CAT property). We all thought HIM was going to change the market and boy, we were wrong. Then Florence and Michael – still nothing. Finally it takes multiple-year, billion-dollar CAT wildfire events out West to slowly start the wheels of change. We're talking tens of billions to start the change … astonishing, really.

In my opinion, there will be a long runway for achieving rate as the environment is really exuding responsible underwriting and pricing. How long? No one really knows.

When you consider the increasing number of severe weather events over the last several years, is there an indication there that this might be the "new normal" when underwriting property risks?

The new norm is already upon us; those carriers and MGUs that have not responded in kind and invested in how to look at business differently will be at a disadvantage. WKFC Underwriting Managers made pivotal changes in technology, data, modeling and aggregation post-Superstorm Sandy. Underwriters who are most successful today are able to navigate and integrate the abundance of tools and technology available to pick the best risks and price them appropriately.

Given the amount of capacity in market, do you see pricing returning to previous levels anytime soon, especially in property?

There is an abundance of capital and capacity in the market. However, there appears to be an invigorated view of responsible deployment of the capital – relatively new in 2019 but encouraging nonetheless. There will always be outliers but my sense is that insurers, reinsurers and the ILS community are in lock step regarding this subject matter.

Let's talk about professional lines. What does the claims picture look like right now? How has that market evolved in terms of emerging risks?

As with other lines of business, there is development in professional lines. Some segments are more pronounced than others (e.g., D&O). The nature of the professional liability claims are more focused on defense than indemnity, and those costs continue to escalate – hence, driving up overall claims costs.

Outside of a few trailblazers, the market has generally responded slowly to emerging risks. Ransomware is a great example and also a great unknown. Capacity providers have addressed policy forms to what they believe to know today, but as overall industry exposures escalate (hacks, breaches, etc.) it seems the more we learn and evolve in terms of product availability. ●

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Uncertainty around TRIPRA renewal: Mitigation strategies essential

Emil Metropoulos, Terrorism Center of Excellence Leader, Guy Carpenter

Despite a reduction in the number of large terror attacks in the United States, the market for terror (re) insurance is maturing and the peril is changing. Instead of targeting property, more frequent "soft" human attacks are becoming commonplace, increasing the threat of incidents occurring in or near public spaces and workplaces. And although active shooter attacks in themselves are not defined as acts of terrorism, their increased frequency in the United States is raising the question among carriers if a broader definition that encompasses the two may be appropriate regarding their reinsurance protection. Adding to the complexity is the current uncertainty around the U.S. terrorism risk backstop, known as the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA), which is up for renewal on December 31, 2020. TRIPRA became law in November 2002, and has since been extended in 2005, 2007 and 2015. The law continues to provide an essential backstop protection to carriers, and it remains crucial to the continued stability of the terrorism insurance market.

Today's terrorism landscape differs from that of the 2015 reauthorization because acts of terrorism have gravitated from catastrophic events causing enormous property damage to smaller, more localized human casualty-oriented events that involve attacks by lone wolves.

During the last TRIPRA renewal, there was a small pocket of resistance from lawmakers as the benefits to the industry and economy were debated, which caused nearly a two week delay in the TRIPRA renewal being actioned. As a result, policies were written for shorter-terms of less than a year, large accounts moved among various carriers, and carriers started requesting reinsurance contracts over multiple years.



While the outcome of the 2021 TRIPRA reauthorization cannot be predicted, the lessons learned from the lag in the 2015 renewal decision were so impactful to the insurance industry and businesses in general that we do not anticipate that any party wants to replay the sequence of events that transpired. Despite more bipartisan support for the law today, the potential for renewed debate should not be taken for granted, especially in the current political environment and during a presidential election year. Even contemplating less resistance to a 2021 reauthorization, changes to TRIPRA's coverages and retentions at a minimum should be expected and contingencies planned for.

A.M. Best has already begun their review and warning carriers that are highly reliant on the federal terrorism reinsurance program that they face the risk of rating downgrades if the program is either not renewed or is reauthorized with notable net increases to their TRIPRA retentions.

All carriers impacted should be formulating mitigation strategies that include identifying vulnerabilities and making sure they can non-renew and reduce exposures, as well as securing additional reinsurance protection, all within a short time frame. Identifying these risks requires carriers to model data correctly to assess risk and prepare appropriately. Over the past several years, highly sophisticated terrorism modeling has evolved to consider the complexities of smaller, human-focused terrorism events. Guy Carpenter's Sunstone™ model, for example, can rigorously contemplate an extensive global terrorism target database with over 600,000 U.S. locations. It includes state-of-the-art drill down deterministic applications for select cities, such as crowd flow analysis and the latest 3-D Computational Fluid Dynamics modeling.

If it appears that the terrorism backstop will not be in place beyond 2021, large and medium insurers may need to begin to issue short-term policies and/or provisional notices of cancellation in upcoming renewals. In addition, they may need to consider increased rates or further restrict deployed capacity as they reassess their aggregate exposure.

If TRIPRA expires or is renewed with significant cedant net retention increases, exposed insurers with less than USD 500 million in surplus and exposure to terrorism may need to purchase additional reinsurance to help protect capital and satisfy rating agencies and regulators.

No matter the outcome of the TRIPRA renewal, it is certain that rating agencies will continue to emphasize stress tests and assess ratings against specified criteria, including scenarios where the industry trigger falls short and there is no TRIPRA backstop protection.

Ultimately, uncertainty about TRIPRA's renewal may impact the nature and availability of (re)insurance coverage. Reinsurance protection can assist insurers in countering some of the potential effects of non-renewal or alteration of the program. Guy Carpenter helps clients by creating tailored reinsurance covers that match insurers' capital and risk levels for maximum efficiency. Exposed carriers with notable reliance on the backstop should be increasing the accuracy of their data and their modeling output. Guy Carpenter can provide clients with guidance in proactively addressing their plans for terrorism exposure assessment modeling and mitigation via a variety of reinsurance-based solutions. ●



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Frank Nutter: Why TRIA renewal is critical

Reactions talks to RAA's president about the importance of maintaining a government backstop for terrorism risk, as well as closing the protection gap.

The Reinsurance Association of America is calling for the renewal of TRIA (in its current incarnation) at the end of 2020. Why does the federal backstop remain a top priority?

The backstop has facilitated an insurance and reinsurance market for terrorism in that it offers a safety net against extraordinary loss. So everyone, including policyholders and insurers, believe it's important to continue the stability that is provided by the program.

The program requires insurers to offer coverage for acts of terrorism as part of their commercial offerings, so that has definitely created a viable insurance market. And the reinsurance market has sought to help insurers increase their retained risk, which has increased over time since the program was created.

The RAA's position is the program should be extended as it is. We do feel there are some issues that deserve study, which should be required as part of the reauthorization, such as clarification around cyber risk. If a commercial insurance policy covers cyber risk then it is covered under TRIA, but what is not as clear is what an act of terrorism as related to cyber actually is, as distinguished from a commercial act involving cyber.

How important is the role of reinsurance in covering peak natural catastrophe exposures?

For the most part what you find looking at past natural catastrophe events is that 40% to 60% of the insured losses get passed on into the reinsurance sector, so it's clearly a core part of what the reinsurance sector does is providing a safety net for insurers' exposure to severe but infrequent events, such as natural catastrophe. The reinsurance market views natural catastrophe risk as a core part of its role, and that relates to any form of natural catastrophe peril.



How can the protection gap (the gap between economic and insured losses) be better addressed and what are some of the potential solutions?

In the U.S. the protection gap is notable for flood as well as earthquake. In California, which has the country's largest earthquake exposure, [about] 10% of persons at risk to earthquake losses have insurance. The reinsurance sector has provided significant financial support to the California Earthquake Authority as part of its effort to get more people insured. We have thought for a long time that regulators of banks and financial institutions should give more thought to requiring earthquake coverage as part of any mortgage on an earthquake-exposed property. That's not a requirement now, but is something we believe should be studied and pursued as a way to close the insurance gap related to earthquake.

With regard to flood, we have advocated that as part of the reauthorization of the National Flood Insurance Program (NFIP), in addition to the risk transfer that the program did into the reinsurance sector, FEMA – which oversees the NFIP – should be given authority to explore financial relationships with insurers that want to develop a private market. Unfortunately the NFIP's reauthorization has been in fits and stops – 10 short-term reauthorizations. Our hope is that a permanent reauthorization would include additional authority for FEMA to explore private-sector insurance options.

The challenge the insurance industry has had with flood is concern in getting adequate rates at the state level. We have supported changes in laws and regulations that would provide insurers with more rate and coverage flexibility as part of the effort to get them to explore the private flood insurance market.

What are some of your priorities at the RAA as you look ahead to 2020?

They fall into two categories. A significant priority will be implementation in the U.S. of the Covered Agreement that was entered into in 2017. The NAIC has approved a new model law that would implement the Covered Agreement in every state, as well as recognize jurisdictions such as Switzerland, Bermuda and Japan as reciprocal jurisdictions, giving them the same status the EU has under the Covered Agreement.

The second area is to explore risk-transfer opportunities with federal or state programs, public private partnerships with the reinsurance sector, for programs with insurance or credit risk at a federal or state level. The NFIP in 2017, 2018 and 2019 did in fact buy reinsurance, the Export and Import Bank has also purchased reinsurance and the secondary mortgage market – that's Fannie Mae and Freddie Mac – also have a risk-transfer program. So we're exploring extensions of those as well as other programs at a federal or state level. ●

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The (potential) cost of personal data

Why insurers should be paying close attention to the California Consumer Privacy Act.

In January 2020, a landmark piece of consumer protection comes into effect in California that will have profound but as yet uncertain implications for the cyber insurance market in the U.S.

The California Consumer Privacy Act (CCPA) permits any resident in the state to see what information a company or organization has about them, as well as a full list of third parties with whom the data has been shared. It also provides citizens with the right to access the data, request deletion of the information that has been collected, and prohibit the organization from selling this data on to third parties.

The law applies to companies that serve California residents and have an annual turnover of at least $25 million; companies of any size which retain the personal data of 50,000 people or more; and those which collect more than half of their revenues from the sale of personal data.

Furthermore, the CCPA is far more explicit on what constitutes "personal data" – no longer confining it to the established types of information most organizations are familiar with, such as names, addresses and dates of birth.

It is likely that other states will adopt similar legislation, in part due to pressure from consumers demanding equivalent protection to residents of the Golden State.

What's at stake

Under the new guidelines, there are now provisions for consumers to sue for statutory damages of up to $750 for each privacy violation. However, there is still considerable uncertainty about what constitutes a specific violation. Consequently, the insurance industry will need to watch closely to obtain clarity over its application, especially when drafting or amending cyber insurance products and underwriting parameters to reflect the change in law.

For example, if a cyber attack results in the unauthorized release of 100,000



personal records, it is unclear whether that will be considered a single violation or 100,000 unique violations – bringing with it varied potential for damages. As the act is tested in due course this will become clearer, but in the interim underwriters are likely to require a cautious approach.

As you might expect, most businesses are ill prepared for the changes and will be unclear as to their conformance with the law at the point the legislation comes into effect. It has echoes of the panic and lack of preparedness among European businesses in the run-up to the introduction of the European Union's General Data Protection Regulation (GDPR) in May 2018. The act provides much needed protection to consumers, but in broadening the definition and applicability of the data it seeks to govern, its applicability and interpretation will inevitably create challenges – both for businesses managing the risk and for insurance companies seeking to underwrite the exposure.

The CCPA legislation in California represents, in some ways, a familiar return to the genesis of cyber insurance products. The first cyber insurance policies were created to protect businesses from data breaches perpetrated by criminals or hostile countries. However, recently the value of cyber insurance has become much broader and synonymous with aiding businesses with recovering from more disruptive cyber events. Increasingly, adversaries have focused on ransomware attacks and directly disrupting business activities. Specifically, ransomware attacks have focused on extorting fees from businesses by locking out their systems until a fee is paid.

These attacks, however, can often have unintended consequences, resulting in far wider damage than an adversary originally intended. Ransomware is often designed to spread automatically and it does not necessarily discriminate or select for (or against) specific targets. The most pertinent example of this is the NotPetya attack, which targeted systems primarily in the Ukraine in June 2017. As a result of that event more than 80 companies initially fell victim to the malware, irrespective of whether they were initially the intended target. Infections of NotPetya were reported in countries as far-reaching as France, Germany, Italy, Poland, the UK and the U.S.

As a result of this and similar malware attacks that have triggered widespread disruption, cyber insurance policies and the market have evolved to highlight the importance and utility of business interruption coverage to clients. The Internet of Things (IoT) and the greater interconnectedness of businesses and organizations around the world will continue to threaten an organization's resilience to disruptive and non-discriminatory cyber attacks.

Nevertheless, with the changing regulatory landscape in California and the U.S., insurers will need to re-evaluate their established pricing methodologies and underwriting approach. Data privacy exposures are not going away, and the insurance sector needs to continue to be responsive to the risks and threats posed by an ever-changing regulatory and technology landscape. ●

Daniel Carr is Chief Innovation Officer and Cyber Lead at Occam Underwriting.

Make InsurTech work for you

SCOR has taken a lead on investing in InsurTech. Adrian Jones, leader of SCOR's P&C Ventures team, explains how insurers can make new technology work for them.

Why did SCOR want to get involved in InsurTech start-ups?

Entrepreneurship has always been part of insurance, perhaps to the surprise of newcomers who use words like "dinosaur" to describe insurers. SCOR has a long history of supporting entrepreneurs, who play a critical role in bringing creativity, experimentation, and expansion of risk-taking to our industry. In 2017, we centralized our efforts into a group called P&C Ventures to be more effective at delivering our support.

Is there a talent gap in the insurance industry, preventing insurers doing more in the InsurTech space?

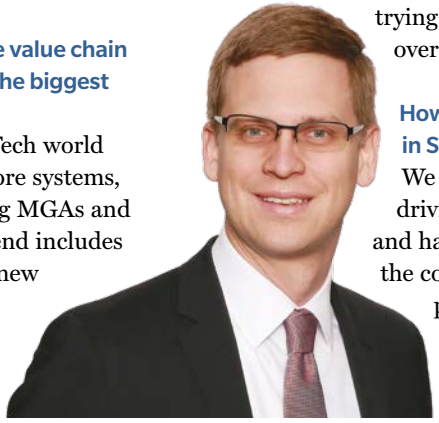
I recently counted over 50 senior people who have come into our industry because of InsurTech. If there is any gap, it is one of attitude. Skills from outside our industry can be highly effective when applied to insurance.

Talent gaps close when we cast a wide net for talent, give high-quality training, give early responsibility, create a sense of purpose (insurance helps people in their time of need), and offer competitive pay.

Talent gaps widen when senior management points out that they all have 30 years of experience in insurance. Talented young people have less patience than their elders to wait decades before having a voice.

At which points in the value chain can InsurTech make the biggest impact?

We divide the InsurTech world into the front-end, core systems, and claims (excluding MGAs and carriers). The front-end includes companies bringing new forms of data to the underwriting process, improving the speed and accuracy of risk selection, and improving the purchase and renewal process for consumers.



In the middle there are companies building core systems from modern insurance software based on APIs, cloud, and modularization. These range from agency management through reinsurance and risk aggregation systems.

Then in claims, there are firms designing interesting claims platforms and fraud detection tools.

Many insurers have formed innovation groups in the past few years, and recently some insurers have trimmed their investments in innovation. Why?

"Innovation" can justify doing anything or nothing at all. The effective groups that we've seen are fully part of the core business, led by a respected leader, and tasked firstly with solving a specific problem for the core business.

They need a budget – but not too much, since necessity is the mother of invention.

They need to be able to deploy capital too. It's one thing to buy a proof of concept; if you want to drive a real partnership, bring some investment capital too. Success requires oversight, not letting the unit do whatever they want and reporting back. However, the oversight must be given with a bias towards taking action, trying new approaches, and overcoming hurdles.

How do you apply this advice in SCOR P&C Ventures?

We spend half our time driving internal innovation and half of our time outside the company helping our portfolio companies, meeting venture capitalists, and meeting entrepreneurs.

We are fully embedded in our business. We started by helping to identify start-ups who could bring us premium that our underwriters have difficulty accessing in traditional markets, then securing the relationship over the long-term with an investment. Thus we involved our underwriters and helped them build their business.

Meanwhile, we've helped other parts of the business sort through companies who could help solve their problems and have structured projects with them.

We have a Ventures Committee, led by our CEO and me, that meets at least monthly to review our work, ensure we are working on the highest-value problems, and help us work through internal processes.

Blockchain is a hot topic: is SCOR involved in this technology; what potential does it hold for reinsurance transactions?

What's interesting isn't blockchain per se, but the way industry players have come together to develop better solutions using blockchain.

B3i is an example of such an initiative. B3i is 100% owned by 18 insurers and reinsurers from around the world, including SCOR. The company is developing solutions with insurers, brokers, and reinsurers to reduce the friction in risk transfer. The first product will be used to facilitate the placement of large reinsurance treaties at 1/1/20, so we are at the point where there are real use cases, not just experiments and proofs of concept.

Can P&C insurers afford not to engage with InsurTech?

For leaders who plan to leave the business soon, their company's existing competitive advantage will probably endure. But great people plant trees under whose shade they know they will never sit. ●

Matchmaking emerging tech & insurance

DeerCreek Managing Partner Michael Wasyl discusses his company's mission and the value of blockchain solutions to re/insurance processes.

For the benefit of those who don't know, what is DeerCreek, and how do you see the firm intersecting with the re/insurance industry?

DeerCreek is a corporate innovation and growth strategy company focused on bridging the gap between emerging technology and enterprises within the Banking, Financial Services and Insurance (BFSI) sector. We have found that insurance and reinsurance have been generally slow to adopt and implement emerging technology to improve both the flow of information across enterprise and the client experience. We see manual processes, document handling, and human error resulting in missed opportunities to match capital to the appropriate level of risk.

We seek to bring efficiencies to the insurance business by aligning underwriters, brokers, and customers with practical solutions driven by emerging technology in automation, blockchain, and machine learning.

What's your assessment of blockchain adoption in the U.S.? Is it gaining momentum?

Blockchain in the U.S. market gained momentum in 2017 due to the excitement around decentralizing financial markets and speculation on possible use cases. Now in 2019, we are seeing a new level of maturity despite the slowdown in new venture capital investment dollars. Public blockchain is advancing as a durable network of record and permissioned blockchain is being utilized to develop secure and transparent solutions for multi-enterprise collaboration, identity, tracking, records management and asset tokenization.

Going into 2020, momentum is gaining in enterprise. Firms have organized industry specific consortia leveraging permissioned blockchains like Hyperledger Fabric, R3 Corda, and JPM Quorum to run pilots and POCs. These POCs have shown great promise for the reinsurance value chain, creating better auditability, transparency, standardization. B3i currently leads as the most prominent consortium addressing problems faced by the reinsurance industry and is a valuable testing ground.

What are the advantages to blockchain solutions that perhaps haven't been effectively communicated to top-level decision makers?

We know there are billions of dollars lost every year to fraud, manual workflows, and lack of auditability in the insurance industry. The effort is not only to drive cost savings, but discover if these efficiencies can stimulate new revenue opportunities and ultimately better relationships with the insured or under-insured.

It is not about what blockchain is in isolation, but what it can do as part of a total solution. Blockchain can be the infrastructure for better underwriting models, improved compliance and streamlined claims processing, all resulting in better-priced risk and new opportunities to pursue customers who were previously neglected or under-insured.



DeerCreek recently entered into a partnership with Hong Kong-based CryptoBLK to help bring industry-leading Blockchain products to the North American market. What was it about the firm that makes it an attractive partner?

CryptoBLK is a global technology company focused on developing, deploying and operating blockchain and distributed ledger technology (DLT) systems. After canvassing the market, there weren't many teams able to execute with the level of professionalism and technical proficiency as CryptoBLK. With CEO Duncan Wong's experience working with enterprise, central banks, and governments, CryptoBLK was a natural fit as a solutions partner. We are excited to bring their solutions and delivery capabilities to the North American Market.

With Microsoft and CryptoBLK partnering as well, how does DeerCreek add to that equation?

With CryptoBLK working with Microsoft to build on Azure, we feel there is a strong bedrock of support and enterprise credibility. DeerCreek rounds out the equation by being the special operations implementation team. We work closely with decision makers in BFSI to transform their organizations from the outside-in. We are excited to partner with CryptoBLK to build a global footprint together. ●



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The 'trust' factor could pay off

QBE North America CIO Ketan Pandit explains the benefits of blockchain adoption for the insurance sector.

Anyone who has ever experienced the need to file an automobile or homeowner's insurance claim can attest that the repetitive interactions with the insurance agent and carrier are time-consuming and frustrating. In the background, the industry is enduring the same aggravations.

Now, thanks to blockchain technology, all of us – consumers, businesses, and the industry itself – can look forward to a future in which insurance transactions are executed more seamlessly and with greater ease, simplicity and speed. This bright tomorrow presumes the industry will put capital and resources into seizing this opportunity across the insurance value chain.

Four industry blockchain consortia have been created for this purpose. The consortia are experimenting with ways to share policyholder data and other information on a platform in a secure transaction environment, eliminating issues related to data accuracy and trust.

Blockchain technology is a trust-based network of distributed ledgers used to record and verify transactions among platform members. Data from each member is bundled together into blocks, which are then linked together in a chain, hence "blockchain." All parties participating in the network share, store and exchange data in this secure environment.

Trust has long impeded enhancements in the industry's value chain – the sequential steps that occur in underwriting an insurance policy, onboarding a customer and processing an insurance claim, among other processes. Data elements must be integrated from multiple stakeholders, including customers, insurance brokers, claims adjusters, motor vehicle departments, regulators, law enforcement, auto repair shops, home inspectors, and so on.

Each of these parties captures and presents information differently and distrusts the authenticity of data other than their own. Consequently, within most insurance companies, the same information is replicated in an array of monolithic databases. These various obstacles slow down the processing of seamless, efficient and fair transactions.

Blockchain technology overcomes these hurdles. For one thing, network members don't need to trust each other's data, since the accuracy of the ledger is without question. The network also facilitates the secure sharing and exchange of information, enabling anonymity of participating entities if requested. Since the ledger is live and viewable at all times by only a network's participants, it (theoretically) cannot be tampered with.

Early frameworks

This value underscores why numerous insurers and reinsurers are engaged in early blockchain experiments. Significant progress is being achieved at a steady pace across three specific adoption scenarios – within enterprises, bilaterally with other industry parties, and multi-laterally with diverse external parties in the insurance ecosystem.

Let's look first at enterprise adoption. Many carriers currently record, aggregate and store information generated by multiple parties in a variety of centralized data warehouses, which slows down data exchange processes. An example is period-end regulatory reporting and compliance. It can take weeks if not months to provide the relevant data to auditors and regulators. Alternatively, by recording the data on a distributed ledger, these varied parties have transparency into the information in real time, minimizing the mad scramble of systems and resources to comply with the reporting requirements at period-end.

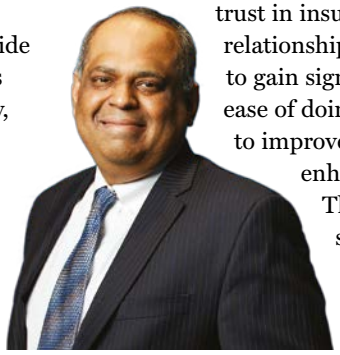
Bilateral adoption of blockchain technology involves the exchange of data among insurance carriers and other industry participants like agents, brokers and reinsurers. The technology eases the way for the partnering organizations to automatically process insurance payments, claims and other transactions via prearranged smart contracts.

Multi-lateral adoption comprises use of a blockchain platform by a broad swath of insurance stakeholders, such as consumers, insurance brokers, claims service providers, payment providers, regulators, and diverse other parties. Leveraging smart contracts, IoT sensors and advanced cryptography, substantial operating efficiencies can be obtained along with reduced costs.

Powerful incentive

The benefits of blockchain technology must be weighed against the investments required for its adoption. In addition to the capital outflow, stakeholders need to shift their mindset to make the changes needed to engage in this new way of working together. Blockchain implementation also creates regulatory, privacy and cybersecurity risks that require supervision.

Nevertheless, the benefits appear to outweigh the risks. Blockchain is a major technology breakthrough that effectively overcomes the fundamental issue of trust in insurance transactions and relationships. Insurance carriers stand to gain significantly – improving the ease of doing business, reducing costs to improve combined ratios, and enhancing brand positioning. The carriers that move first stand to gain the most, transforming into a company trusted by one and all. ●



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