



Breaking Our Addiction

Bringing ILS Beyond Property-Catastrophe Risk

SERVE | ADD VALUE | INNOVATE



What's the Problem With Prop-Cat?

- Established markets are so ... *established*
 - Rates continually get compressed
 - There's little room for growth
 - We may see more deals, and we may see bigger deals ... but that only gets us more of the same
- End investors didn't see prop-cat as a destination – just a first stop
 - Interested in more forms of insurance risk than just cat
 - Some activity has occurred (WC, M&E, terror, a bit of cyber, some broader casualty)
 - Need to institutionalize – and perhaps commoditize(?) – new forms of risk
- We're stuck with our addiction to the familiar, and breaking it requires:
 - Access to original risk from new regions and LOBs
 - Repeatable (and sustainable) innovation

A Summer of Progress

- First offshore energy ILW traded using the PCS Global Marine and Energy loss index
- New cyber risk loss index released, with rapid client adoption
- Cedents and markets began discussing new ways to manage their risk and capital for a wide range of LOBs
- Real opportunities to introduce new original risks began to emerge



First PCS marine & energy ILW traded, Twelve Capital backs it

by ARTEMIS on SEPTEMBER 12, 2017

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energy industry loss warranty (ILW) transaction has been Global Marine and Energy non-elemental industry loss index and reinsurance linked investment manager Twelve Capital to back the deal.

[service earlier this year](#), with the service becoming the firm's property catastrophe risks, into specialty risks from the energy and reinsurance arena.

ed for trading industry loss trigger transactions, such as ILW's, but they have always been catastrophe risk exposed, so using the marine and energy index as a trigger is the first in

News

PCS launches global cyber industry loss index

September 5, 2017 by Canadian Underwriter

Keywords

- aggregation
- Capsicum Re
- Clive O'Connell

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Property Claim Services (PCS) announced that it has launched PCS Global Cyber, a new loss aggregation service that provides "industry loss estimates for individual affirmative worldwide cyber events with insured losses of at least \$20 million industrywide."

AND THEN IT HAPPENED

The Rest of the Year Was Like Nothing We've Ever Seen

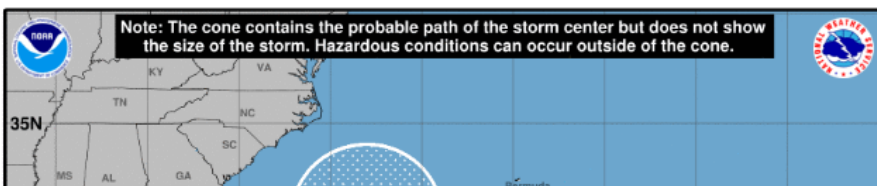


PROPRIETARY AND CONFIDENTIAL

CATASTROPHE
BULLETIN

CATASTROPHE SERIAL NO. 1745

DATES: September 19, 2017 To September 20, 2017
STATES: Puerto Rico, U.S. Virgin Islands, and Possibly Other Areas.
PERILS: Flooding, Hurricane, Wind
STORM FAMILY: Hurricane Maria



- PCS designated 13 catastrophe events in the last four months of 2017 ... overshadowing **three new cyber events**
 - 3 major hurricanes: Harvey, Irma, Maria
 - 3 Northern California wildfires:
 - 3 Southern California wildfires
 - U.S. 2H2017 insured losses XS \$70 billion
- Months of progress on innovation (necessarily) took a back seat to handling U.S. prop-cat events
 - Understanding the losses
 - Identifying trends
 - Actively managing risk and capital
- **All just in time for the 1/1 reinsurance renewal!**

Meanwhile, the rest of the world wasn't quite ready to give up the spotlight. There was a lot more to the year than cat losses!

2017: The First Big Cyber Loss Year



Left axis in US\$ millions

Source: PCS Global Cyber

And It Could've Been a Lot Worse

- The market is growing in a specific way
 - Vertical growth appears to be slowing
 - Horizontal growth is increasing rapidly
- Result:
 - More programs at \$100-500 mn
 - Some upward movement in limit for underinsureds
 - Increased cyber adoption by uninsureds
 - But, we'll have to wait for \$1 bn to become widely available
- Meanwhile, economic losses would still exceed the largest coverage limits in place
 - 8 of 9 PCS Global Cyber loss events exceeded coverage limits
 - Southwest Airlines is the one exception
- Equifax and Merck likely 2X the \$600 mn thought to be the market's largest cyber program

How 2017 Would Could Have Looked

Insured	Insured Loss	Economic Loss
Equifax	\$125 mn	> \$1 bn
Merck	\$275 mn	> \$1.5 bn
FedEx	\$0	> \$300 mn
Maersk	\$0	\$300 mn
Nuance Comms	\$30 mn	> \$60 mn
Others	\$0	\$600 mn

- With full penetration: industry loss > \$3.5 bn
- With towers at \$500 mn: industry loss > \$2 bn
- At current levels: industry loss = \$430 mn

With data from PCS Global Cyber, Capsicum Re and PCS internal research

Was the Terror Market Affected?

- BP operated Baku-Tbilisi-Ceyhan (BTC) pipeline imports crude oil from Azerbaijan to Turkey
- Supposed bomb damage was discovered on the pipeline in June in Eastern Turkey where the PKK Kurdish are active
- Incident not reported externally but came to light because of the claim to insurers
- If loss XS \$25 mn, it would be a PCS Global Terror-designated event
- No media reports to corroborate the bombing
 - PCS team searched the web a full year before the date and found nothing mentioned
- **Actual insured loss unlikely to reach \$25 mn because ...**

QBE leads \$30mn-\$50mn pipeline terror loss

Bernard Goyder

14 February 2018

An oil pipeline that passes through Turkey has been hit by a terrorist attack that looks set to cost insurers between \$30mn and \$50mn, *Insurance Insider* can reveal.

The insurers were notified of the loss following an attack on the BP-operated Baku-Tbilisi-Ceyhan pipeline last June.

Global insurer QBE is the lead market on the impacted political violence insurance policy, sources said.

The claim represents a significant loss for the political violence market.

Bomb damage was discovered on the pipeline in June in Eastern Turkey. It is not known which group planted the bomb. Eastern Turkey is an area where the Kurdistan Workers' Party (PKK) - classified as a terrorist group by the Turkish government - is active.

It is understood that Willis Towers Watson brokers the policy. The coverage was for property damage only, with no business interruption protection included. Other Lloyd's insurers are understood to have the following lines on the placement.

Investigation the 2017 Turkish Pipeline Bombing

- Pipeline attacks in Turkey usually reach only around \$5 mn (economic) historically
- This particular pipeline was affected by the broad terror event in 2016 (PCS Turkey #1613) and has a history of being hit
- Lack of concrete information about date of loss
- Risk that the claim is being inflated (\$30 mn max given oil price at \$60/barrel – which is a generous level)
- Market sources put the insured loss range at \$20-30 mn, with more investigation needed



Loss event is indicative of the need for an independent loss aggregation solution to facilitate risk transfer

Recent Non-Cat Losses and ILS Market Evolution

- Recent non-cat losses show real implications for global risk and capital management
- ILS markets could become a robust and reliable source of capacity for the likes of M&E, cyber, terror and other LOBs
- The lack of an independent loss aggregation solution has been a significant impediment to progress
- New loss indices for specialty lines have already helped risk transfer move beyond the pilot stage
 - M&E ILW completed in July 2017, with more deals currently under review
 - Aggregate risk loss cyber ILW wordings complete, market looking for a cedent
 - Several global terror ILWs currently being marketed



Following 2017 U.S. cat activity, the reinsurance market is back on track for sustainable innovation!!!

What Could a Cyber ILW Look Like? Moving from Theory to Execution

- Trigger point: US\$5 billion aggregate annual, according to PCS Global Cyber
- Franchise deductible: US\$20 million (PCS Global Cyber event designation threshold)
- Limit: US\$25 million (just a placeholder for illustration purposes)
- Geographic scope: worldwide
- Exclusions (for example):
 - Silent cyber
 - War on land
 - Property damage
 - Etc.
- Other ideas: structured versus binary, different exclusions, higher FD, securitized



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