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Going Viral: The Challenges in Reinsuring Viruses

14 July 2020

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Learning Objectives

1

Viruses

Commonalities of ransomware and pandemic viruses

2

Insurance Context

How various classes of insurance are affected by viruses

3

Reinsuring Virus Events

Current methods for reinsuring virus 'events'



Viruses



“Slimy liquid, poison”

late Middle English (denoting the venom of a snake): from Latin, literally **‘slimy liquid, poison’**. The earlier medical sense, superseded by the current use as a result of improved scientific understanding, was **‘a substance produced in the body as the result of disease, especially one capable of infecting others’**.

noun

1. an **infective agent** that typically consists of a nucleic acid molecule in a protein coat, is too small to be seen by light microscopy, and is able to **multiply** only within the living cells of a host.
2. **a piece of code** which is capable of **copying itself** and typically has a detrimental effect, such as corrupting the system or destroying data.

Source: lexico.com



Two Types of Virus

Google

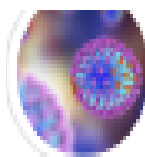
virus

Google Search

I'm Feeling Lucky



h1n1



influenza



antivirus



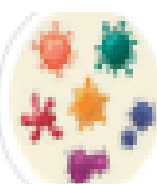
computer



ebola



flu



vector

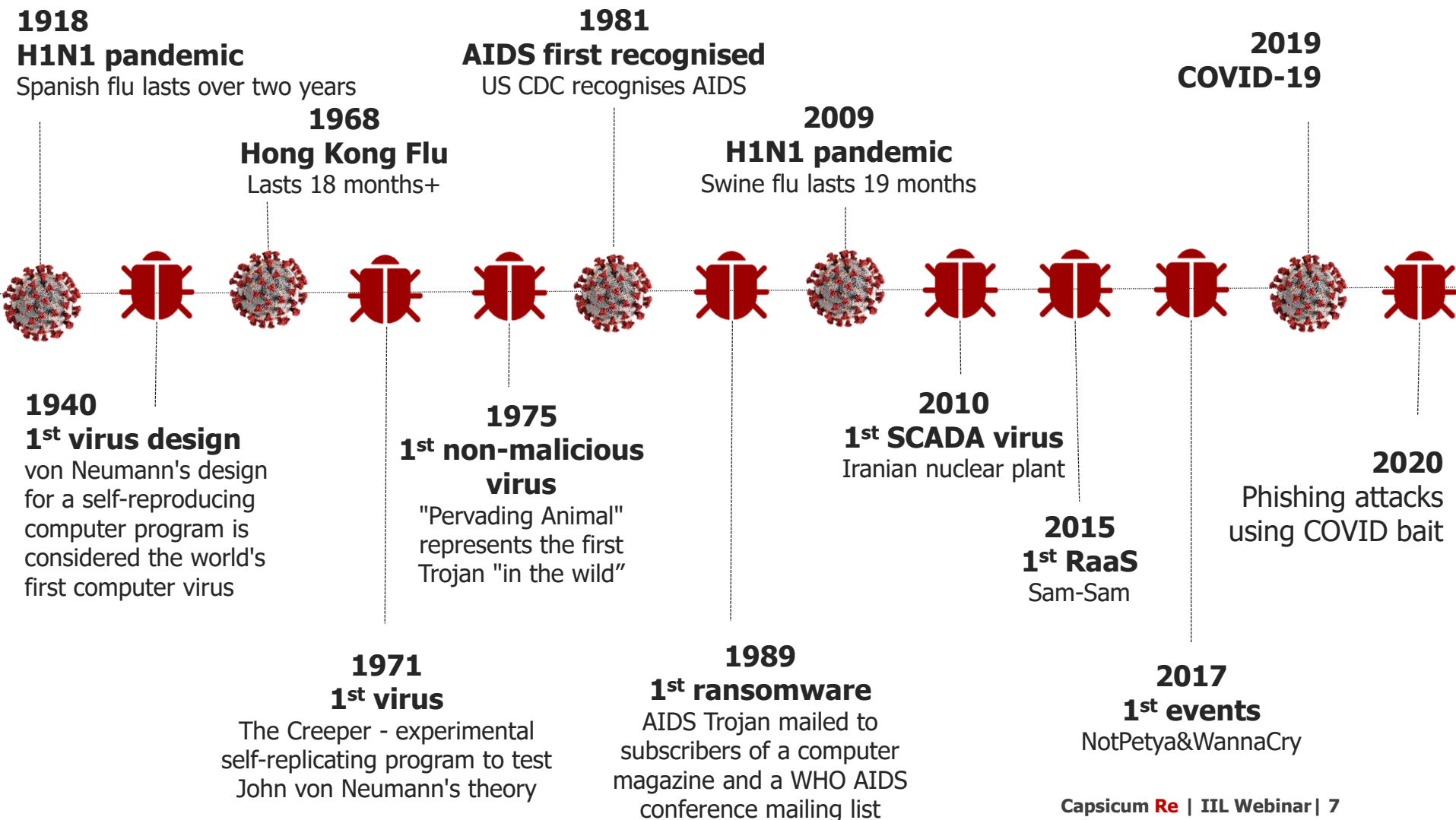


malware



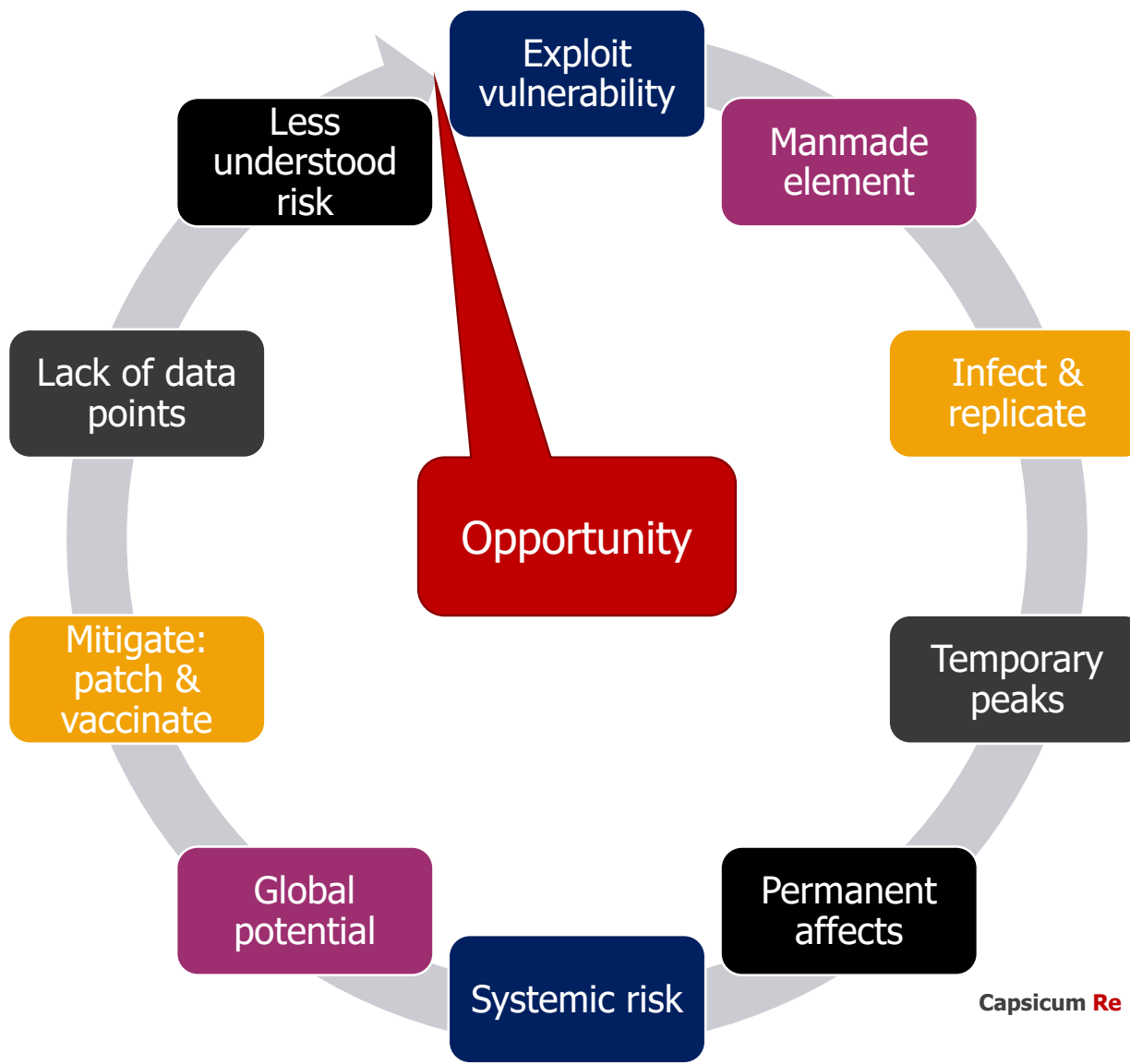
spyware

A Tale of Two Virus Types





Virus Commonalities























Insurance Context



Non-Life Insurance LOB & Coverage

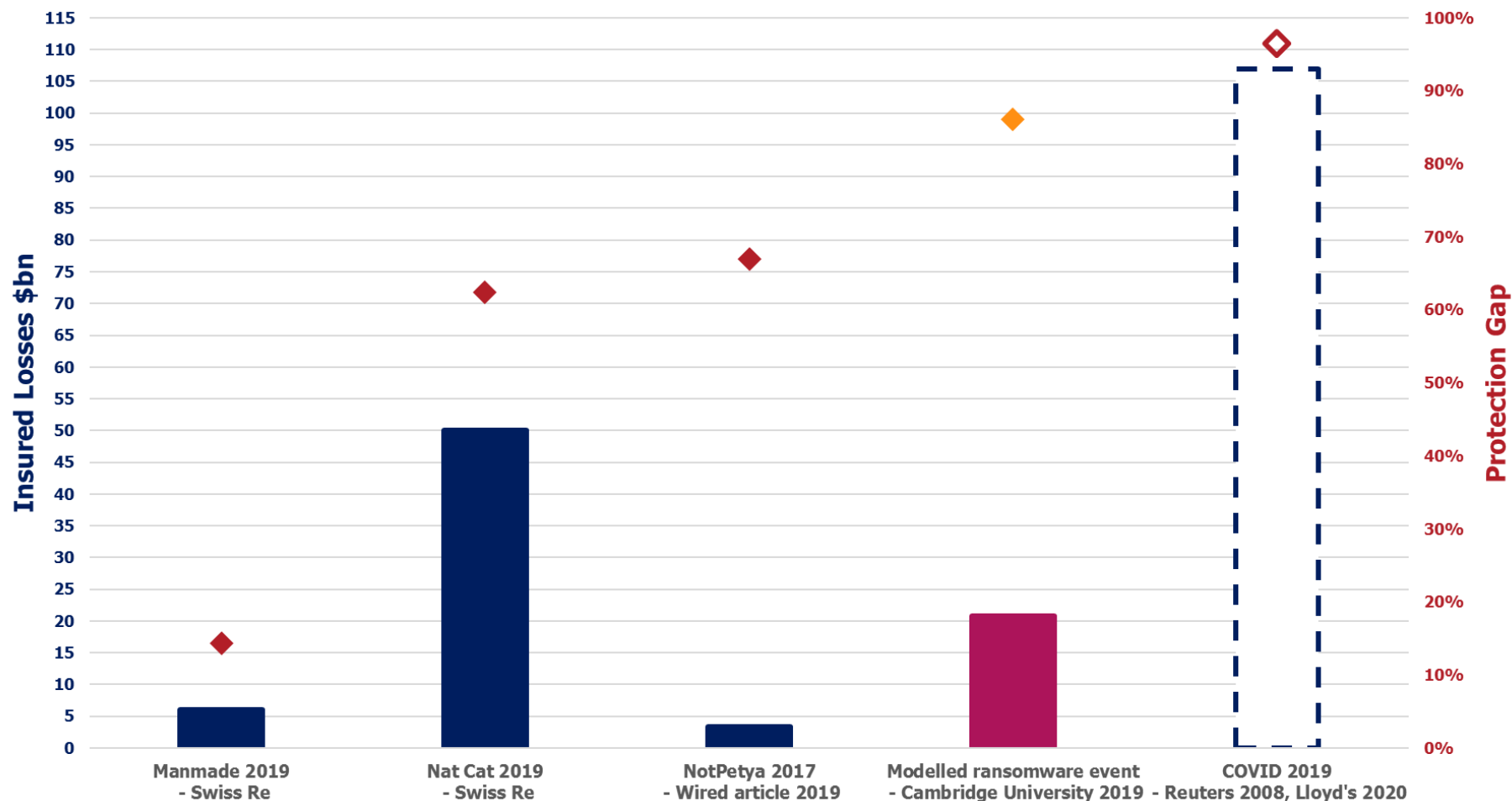
Coverage*	Class of Business	Pandemic	Ransomware
Injury, death	PA, Medex, Travel Medex		
Travel delay, cancellation	Travel		
Event cancellation	Contingency		
Physical Damage	Property, Cyber		
PD Business interruption	Property, Cyber		
Non-PD Business interruption			
Extortion	K&R, Cyber		
3 rd party liability	Casualty, Cyber		
Insolvency	Surety, Credit, Mortgage		
Crisis management costs	Cyber		

*depending on wording



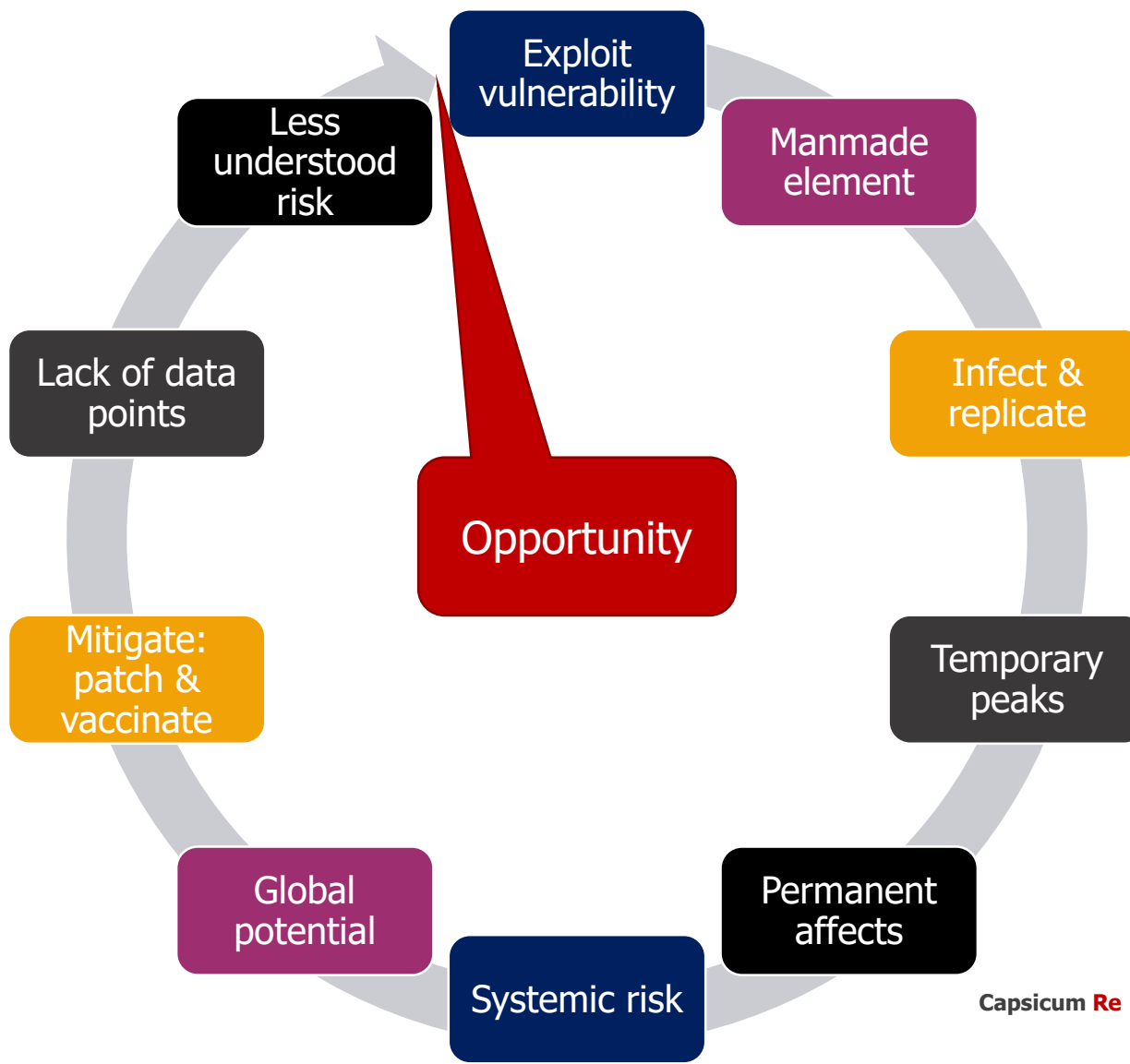
Virus Protection Gap

Insured Losses vs Protection Gap



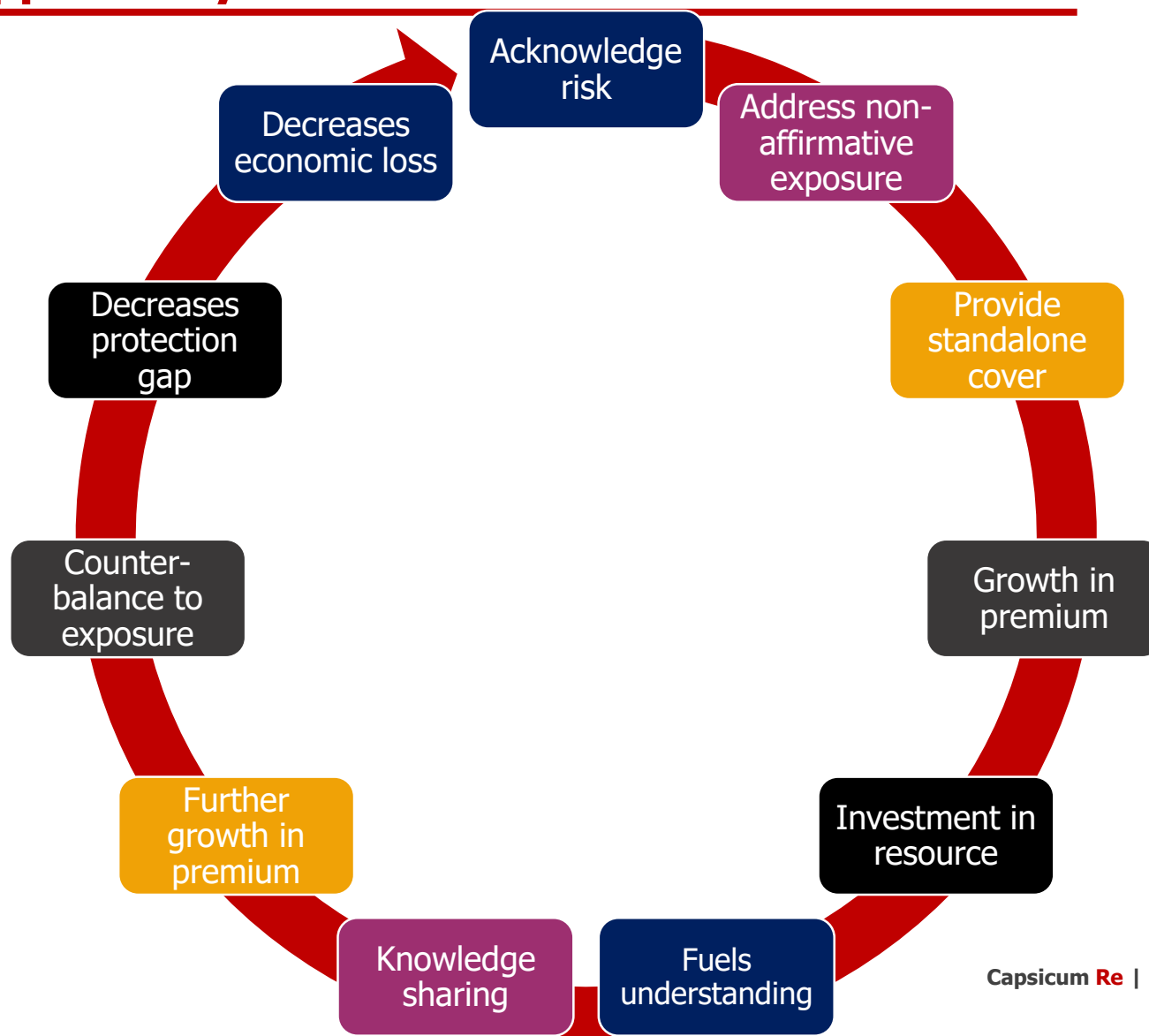


Virus Commonalities





The Opportunity





Reinsuring Virus (Events)



Current Structures

Aggregate Stop Loss

- Aggregate all losses in reinsurance period
- Independent of events
- Can be expressed as LR %
- Standalone Cyber and Medex

Parametric

- Not related to indemnity
- Trigger paramount
- Cat Bonds, parametric ILWs

Clash

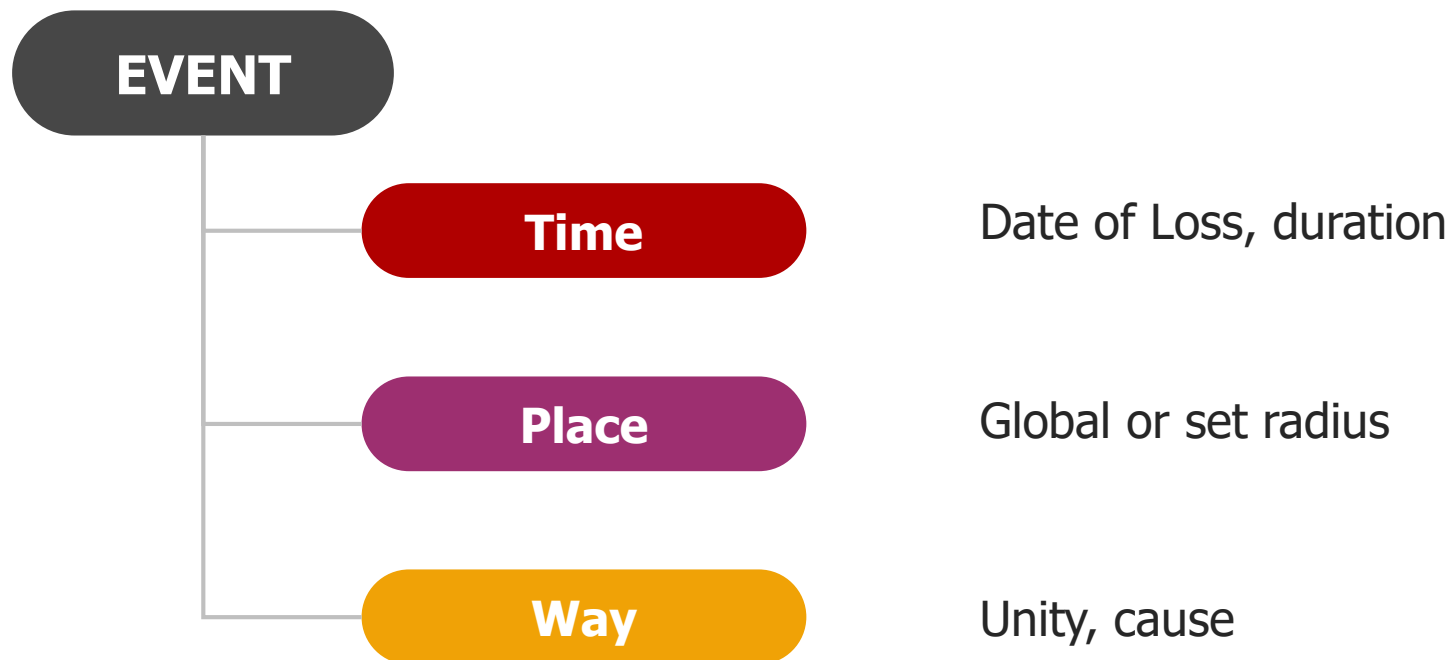
- Multiple insureds or multiple policies for single insured
- Claims Series clause ~ Event Definition
- Casualty event

Quota Share

- Proportional share of premium and loss
- Efficient way to cover tail risk



Can we consider viruses as events?



- ☐ Wording and case law is important
- ☐ Originating cause > Event
- ☐ Directly vs indirectly



Swine Flu (2009-10)

Dow Jones Industrial Average Level % Change

2009 Flu Pandemic

Begins: 3/17/2009

Ends: 8/11/2010

**17 months
Global
H1N1**

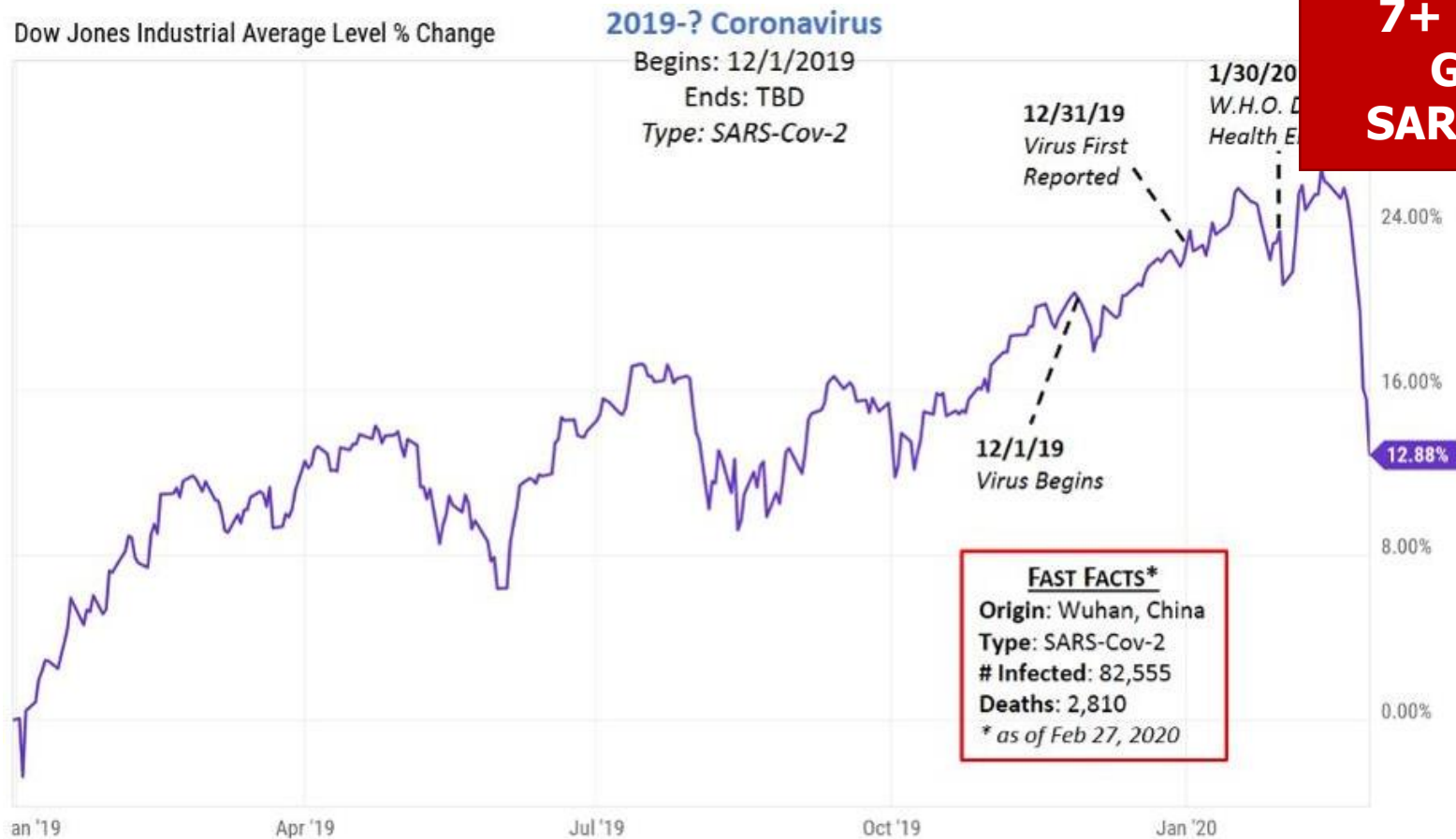


Feb 27 2020, 2:37PM EST. Powered by **YCHARTS**

Source: <https://www.forbes.com/sites/mikepatton/2020/02/28/how-stocks-reacted-during-past-flu-pandemics-and-steps-you-can-take-to-minimize-losses/>



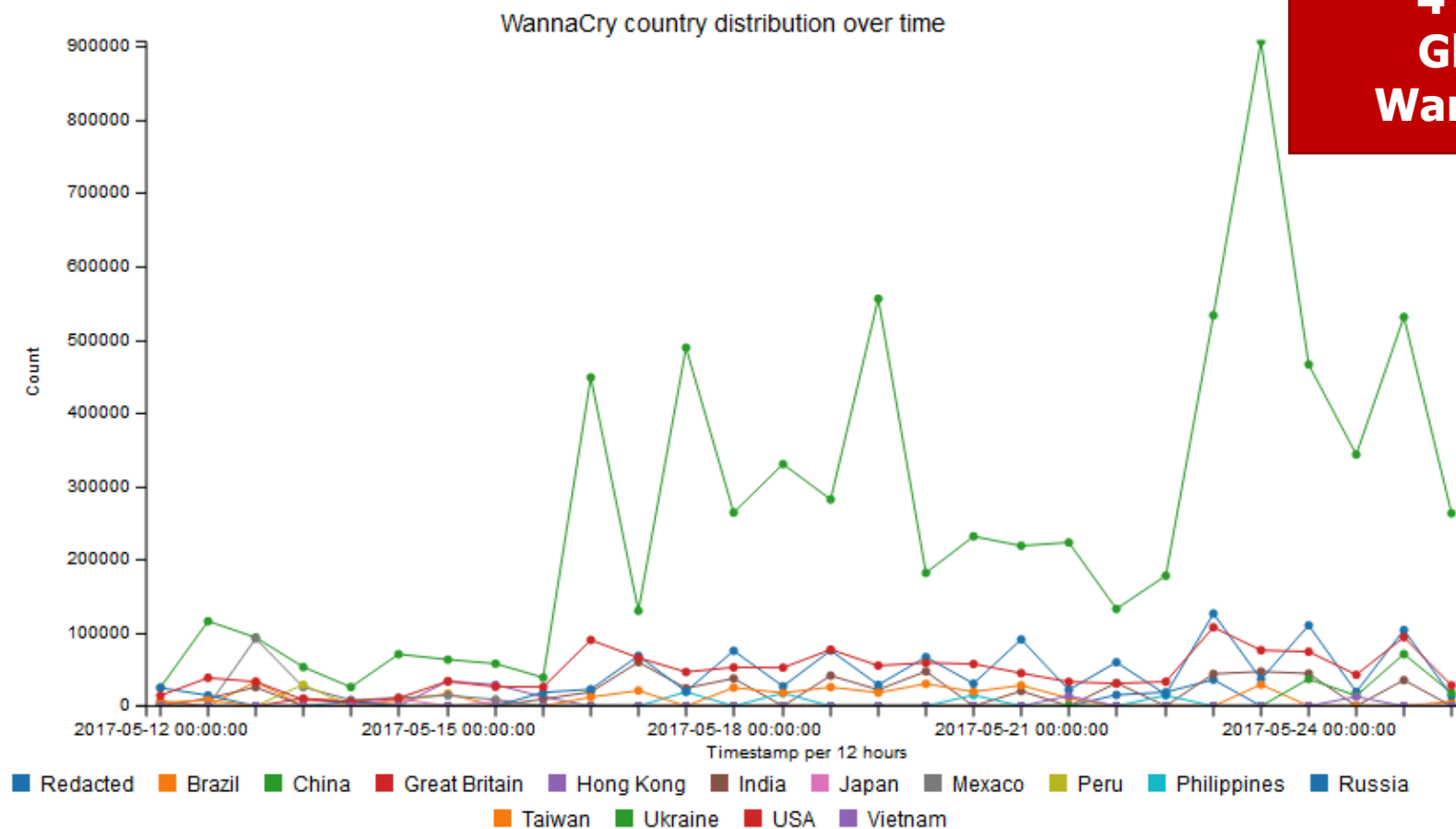
COVID-19 (2019-)





WannaCry 2017

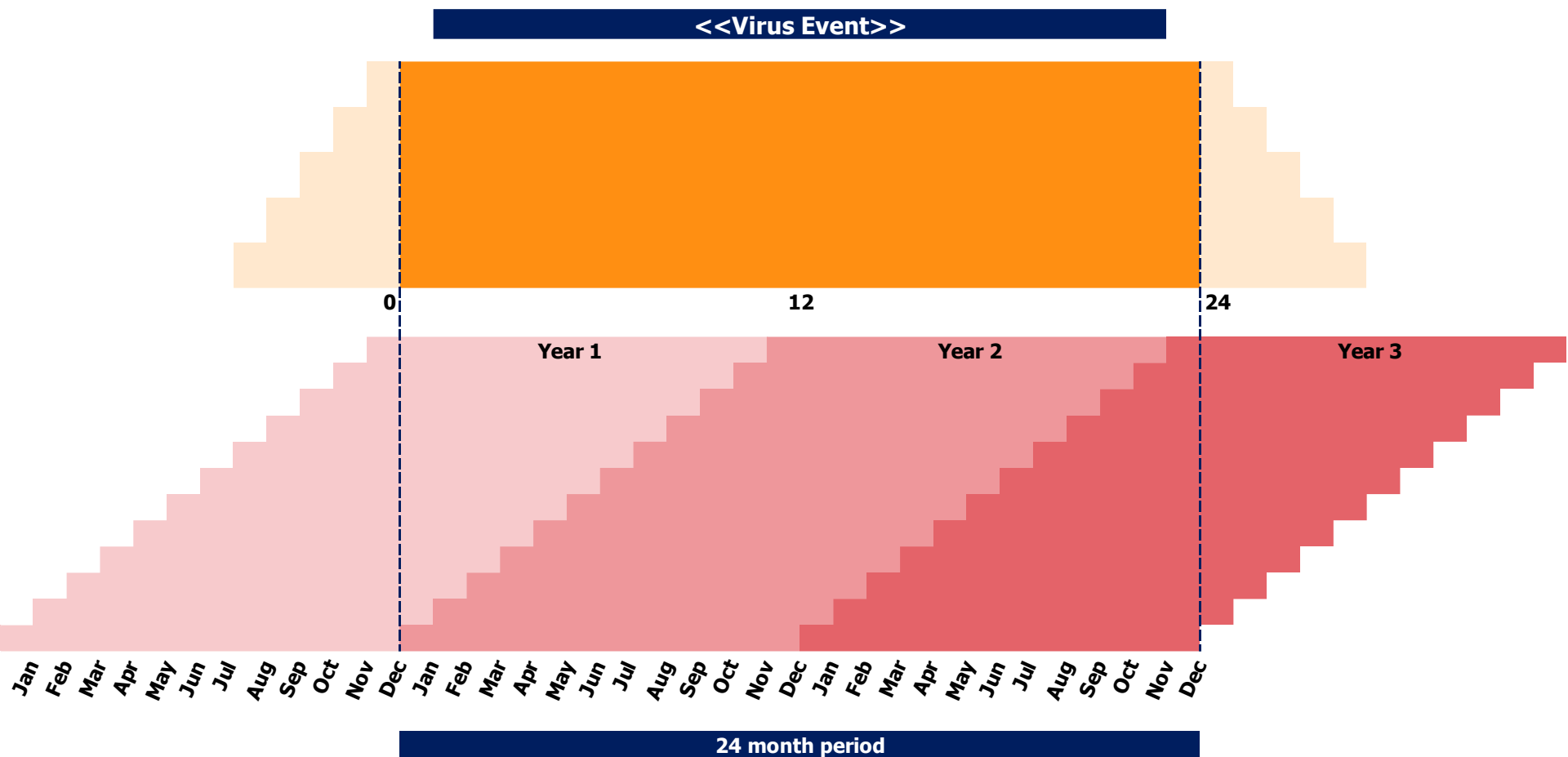
**4 days
Global
WannaCry**



Source: <https://www.bleepingcomputer.com/news/security/new-data-shows-most-wannacry-victims-are-from-china-not-russia/>

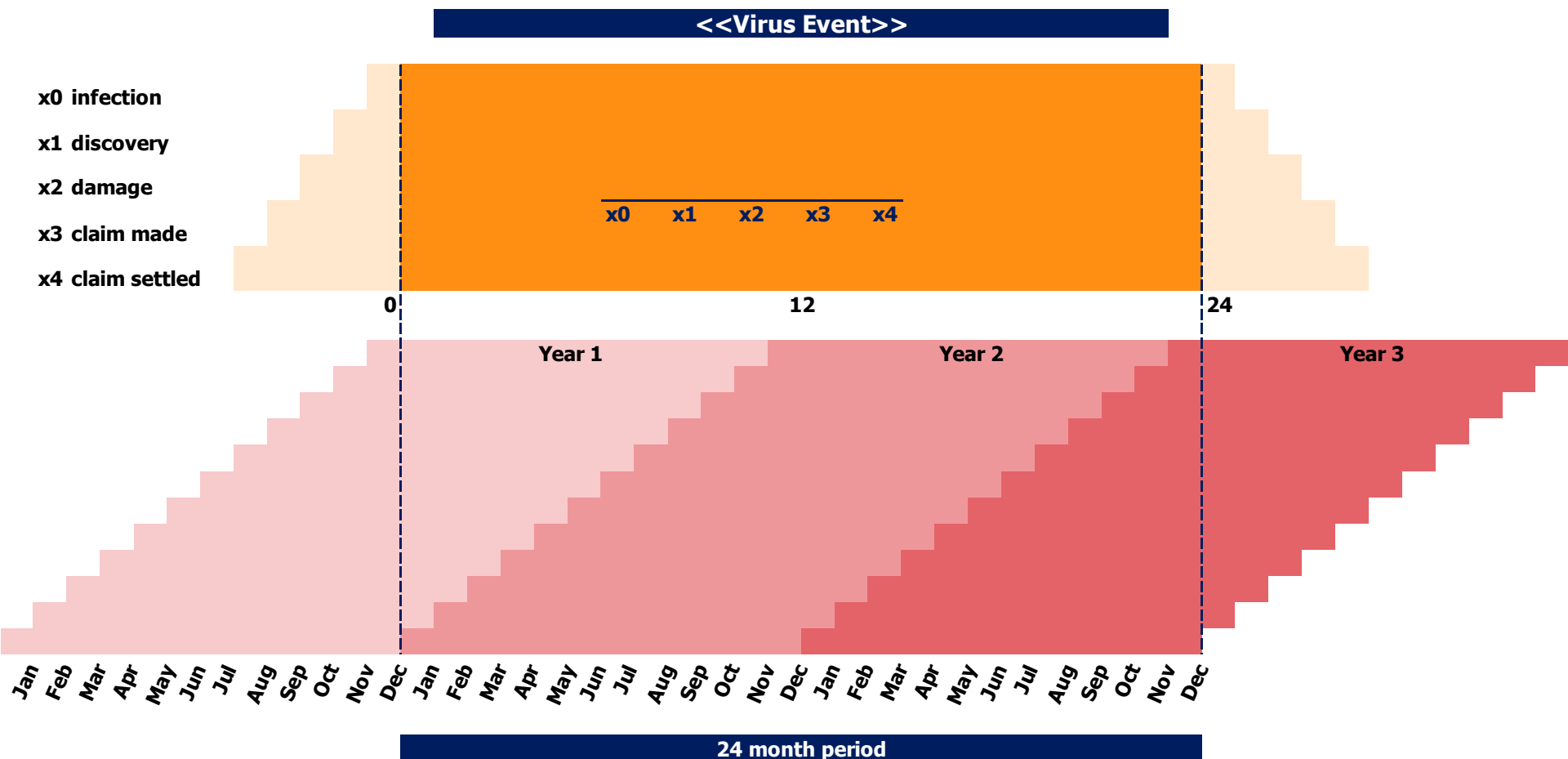


Multiple years can be affected



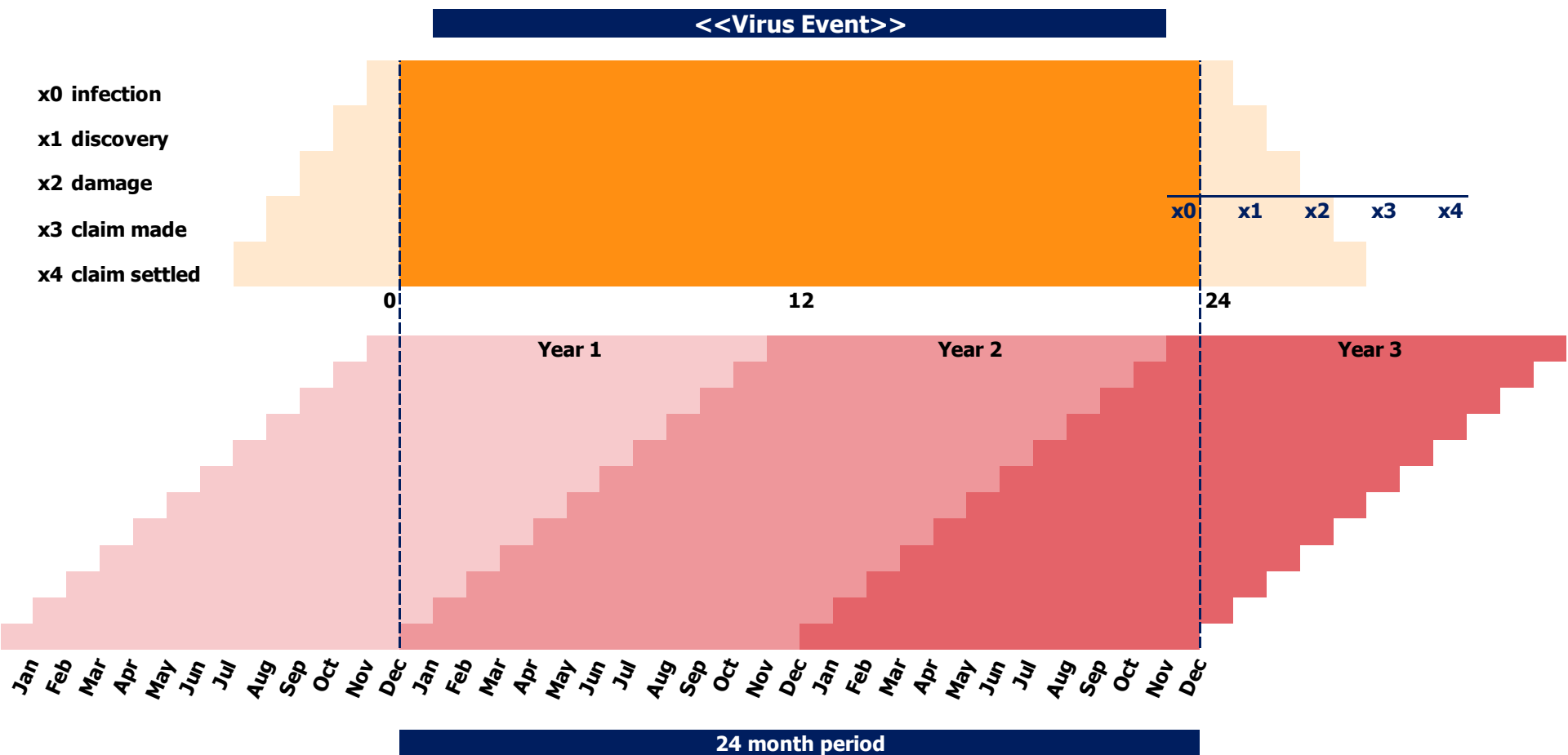


Original policy wording triggers



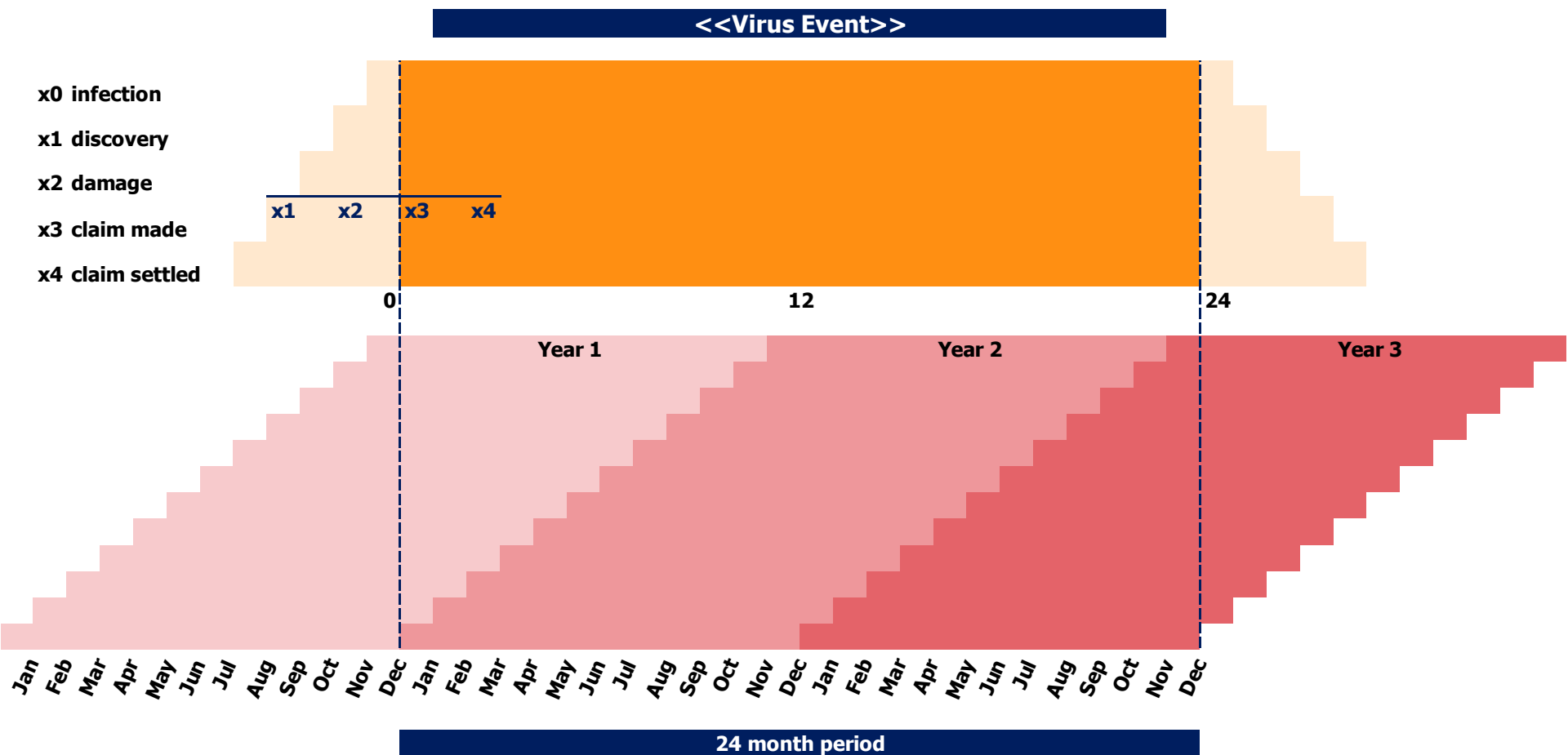


ERPs and Commutation/Sunset



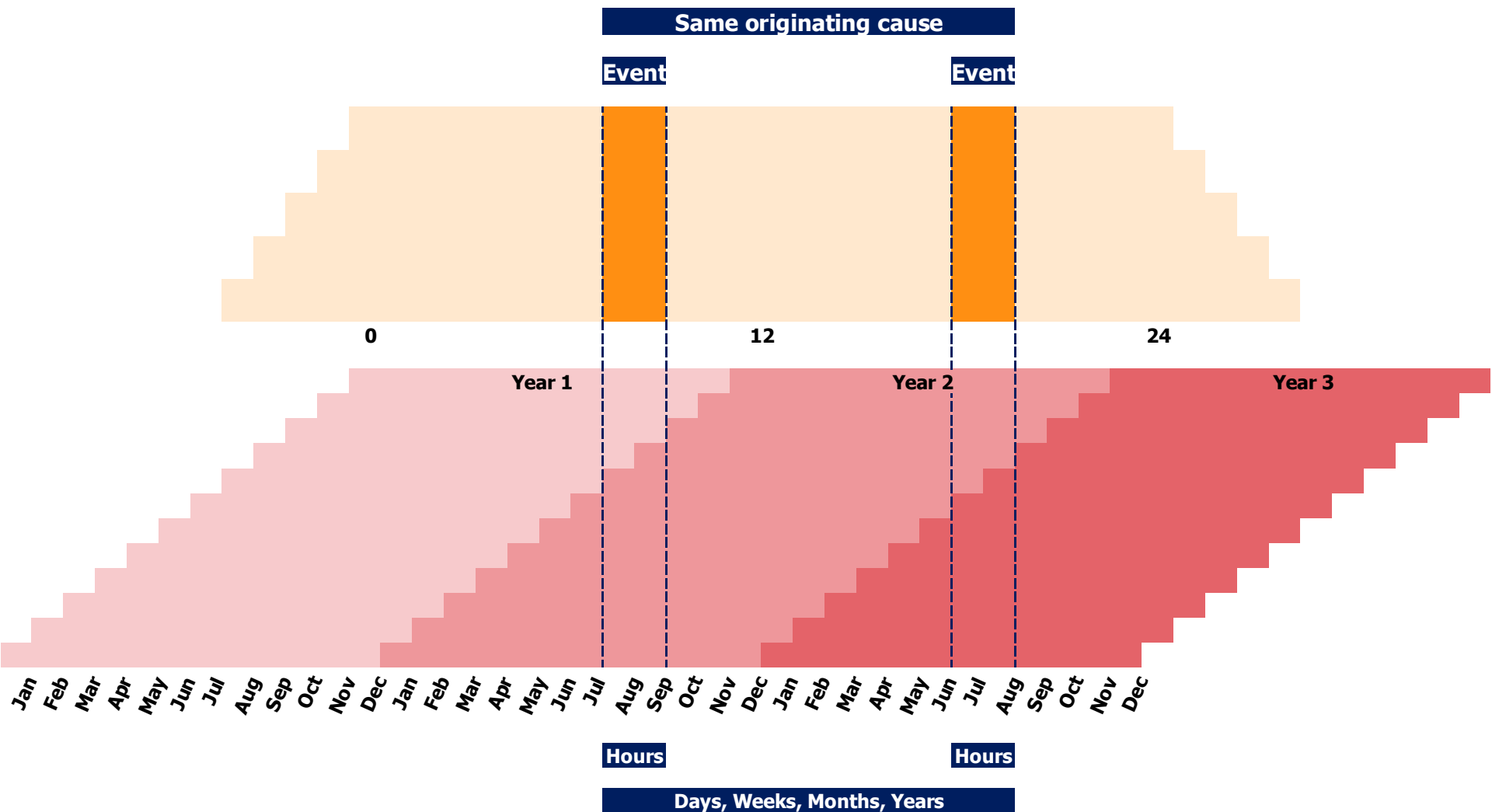


Retroactive dates



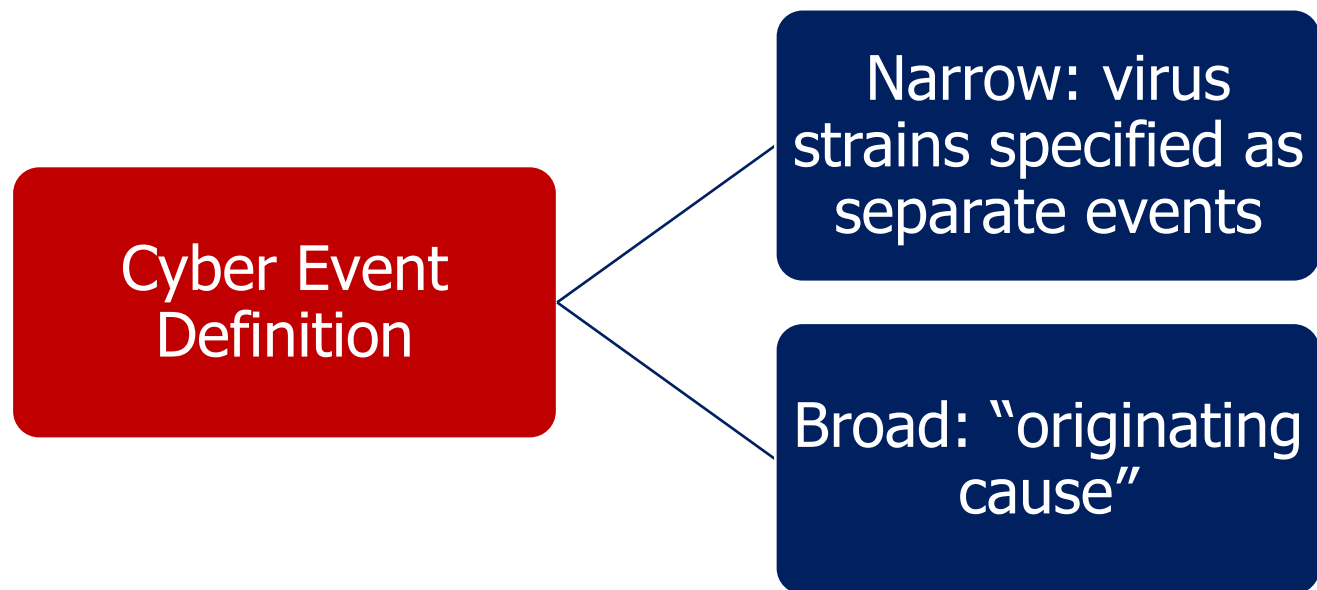


Multiple events or same originating cause





Events > Event Definition



Other features:

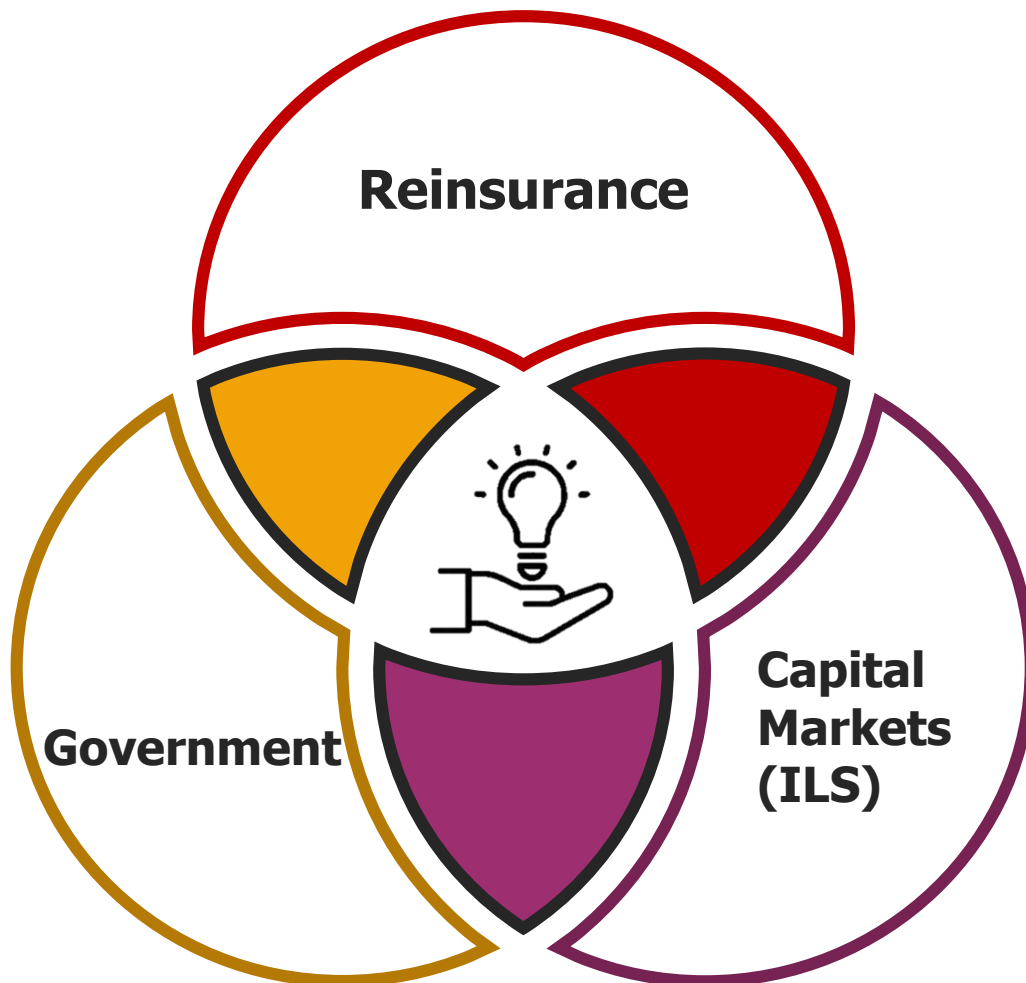
- ☐ Use of the word "occur"
- ☐ Time restrictions may be inappropriate
- ☐ Letter of Intent or examples
- ☐ Reference to expert decision



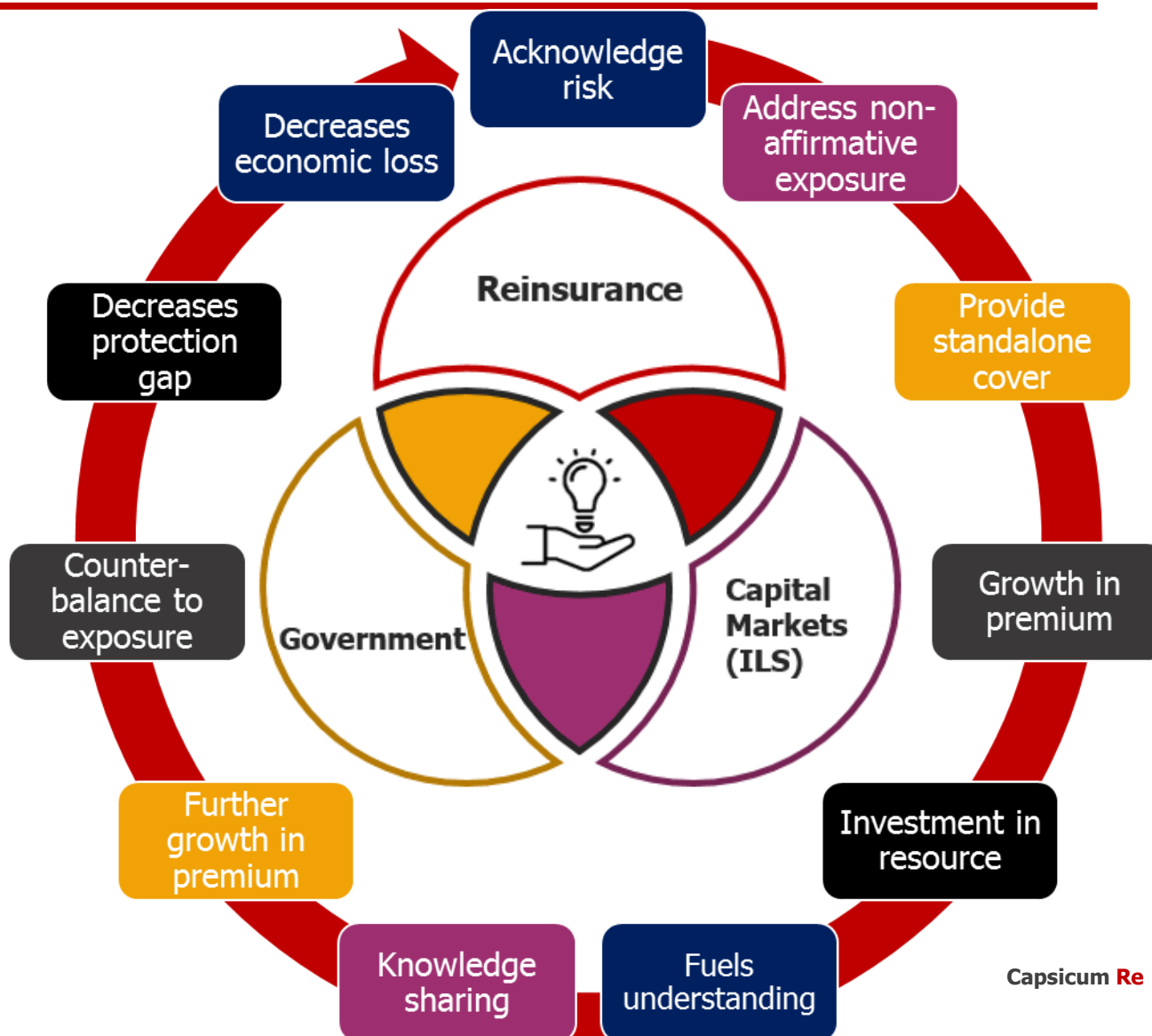
Closing remarks



Antivirus



Antivirus but Proactive





Lesson from One Virus to Another...

“**The H1N1 swine flu pandemic**, which has sparked widespread fear and disruption across the globe, has shone a spotlight on a risk that many companies have disregarded in the past few years,” notes an article on the Lloyd’s of London web site (www.lloyds.com).

Date: **9th July 2009**

Source: <https://www.insurancejournal.com>

a) COVID19, 2019

b) Wannacry + NotPetya, 2017

c) Swine Flu, 2009

d) Financial Crisis, 2008



Thank You



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