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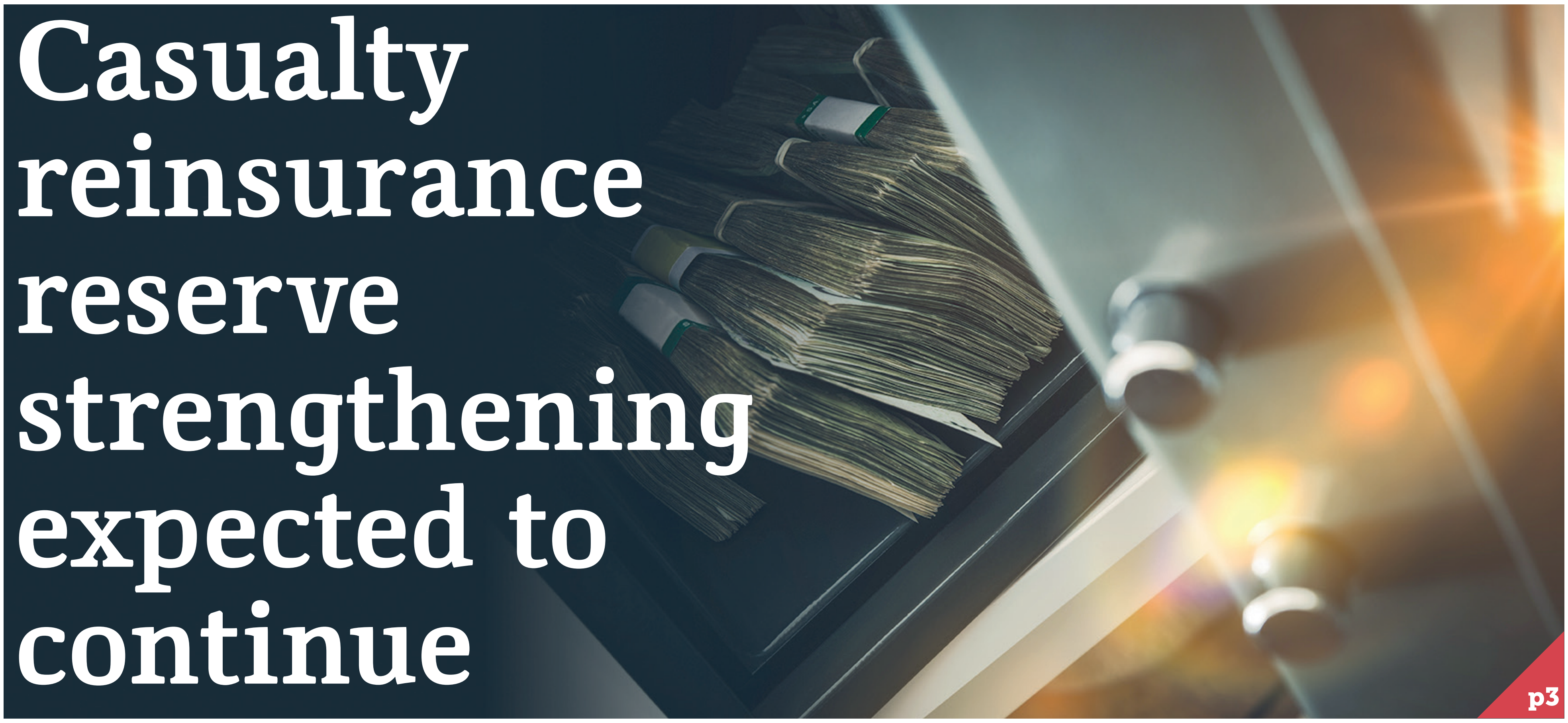
Casualty reinsurance reserve strengthening expected to continue

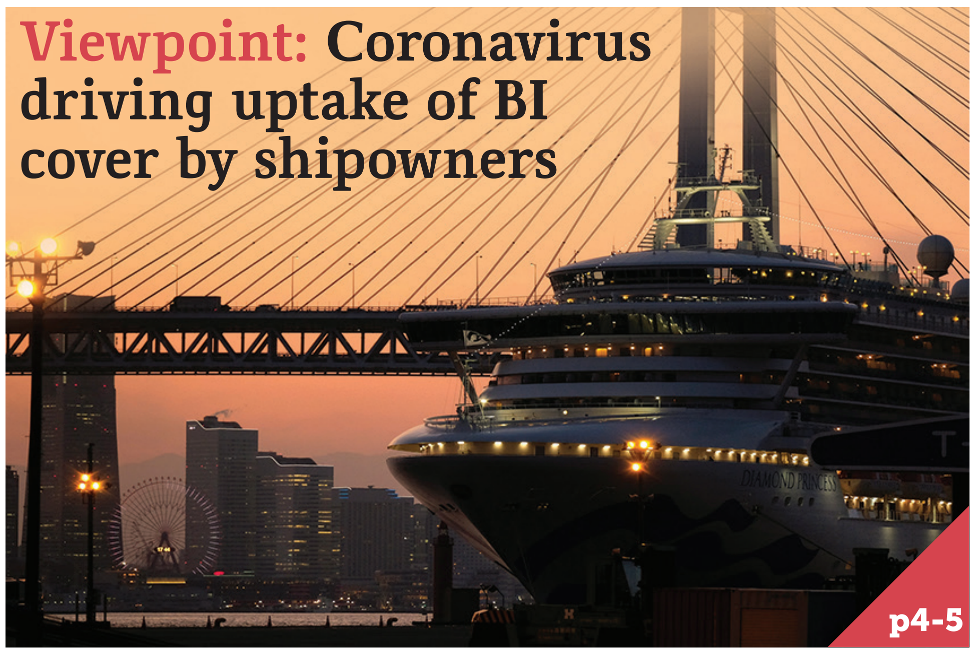


p3

Aon reshuffles its leadership team and creates regional CEOs

p2

Viewpoint: Coronavirus driving uptake of BI cover by shipowners



p4-5

NEWS

Aon reshuffles its leadership team and creates regional CEOs

Michael O'Connor to leave, making Eric Andersen sole president

Lorenzo Spoerry
Deputy editor

Eric Andersen has worked with Michael O'Connor as Aon co-presidents since 2018

Aon has announced the promotion of Eric Andersen as sole president of Aon and the creation of new regional leadership teams.

Michael O'Connor and Eric Andersen have worked as Aon co-presidents since May 2018. O'Connor's departure means Andersen will remain as sole president, reporting to chief executive, Greg Case.

Aon also announced integrated regional centres – North America, Latin America, Europe, the Middle East and Africa (EMEA) and Asia-Pacific – will be led by a single chief executive. That chief executive will ensure the firm goes to market "as one fully integrated firm", Aon said.

Andersen will take on reporting responsibility for global solution line leaders and new regional chief executives. He will lead the search for those chief executives.

Case said Andersen was a "true believer in the power of Aon United", whose leadership "will be critical in fulfilling the potential of one firm".

Liam Caffrey, chief executive of Affinity, will depart the company, it was announced.

Aon said the shift to a "fully integrated model" is consistent with the firm's emphasis on "delivering the best of the firm to clients and a natural next step in its decade-long evolution into a leading global professional services firm".

"Previous structural changes, including the adoption of a single profit-and-loss structure, the move to a single Aon brand and the creation of a single operating committee, laid the groundwork for this important step and remain critical," the company added.

In addition, Aon announced John Bruno will take on the role of chief operating officer of Aon, alongside his existing role as chief executive of Data & Analytic Services.

"John's experience as a technologist and business leader gives him a unique appreciation for how we can apply technology to increase operating leverage that powers the Aon United blueprint and delivers more value to clients," Case said.

Case also praised the departing O'Connor and Caffrey, saying the former had "build a lasting legacy" and the latter had played "several high-impact finance and operational roles" during their time at Aon.

The changes announced will be effective March 1.

Guy Carpenter inks deal with Karen Clark & Co

Guy Carpenter has entered into a global, multi-year agreement with Karen Clark & Co (KCC) to license the modelling firm's catalogue of natural catastrophe models, execution software and analytics, *writes Lorenzo Spoerry.*

Guy Carpenter has become the first intermediary to gain access to KCC's RiskInsight product.

Rob Bentley, chief executive of Guy Carpenter Strategic Advisory, said the partnership "represents a meaningful step change in giving our clients choice as they consider and embrace a different future".

'KCC's innovative, contemporary suite of natural peril models, software, visualisations and scientific approaches will enable our clients to confidently make important and transparent business decisions'

Rob Bentley
Guy Carpenter Strategic Advisory

"KCC's innovative, contemporary suite of natural peril models, software, visualisations and scientific approaches will enable our clients to confidently make important and transparent business decisions across a breadth of underwriting, portfolio management and risk transfer use cases," he added.

Karen Clark, KCC's chief executive, said Guy Carpenter's "impressive team of catastrophe modelling experts" will be able to "fully leverage the KCC models and applications to their clients' advantage".

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First published in 1995, *Insurance Day* has become the favourite publication for the London market, which relies on its mix of news, analysis and data to keep in touch with this fast-moving and vitally important sector. Its experienced and highly skilled insurance writers are well known and respected in the market and their insight is both compelling and valuable.

Insurance Day also produces a number of must-attend annual events to complement its daily output, including the *Insurance Day* London Market Awards, which recognise and celebrate the very best in the industry.

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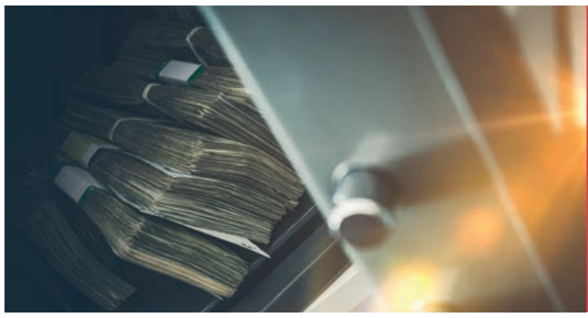
NEWS

US casualty reinsurance reserve strengthening expected to continue

More reinsurers likely to follow Swiss Re in reserve strengthening, analysts warn

Scott Vincent
Editor, news services



Social inflation is likely to force reinsurers to strengthen US casualty reinsurance reserves

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More reinsurers are likely to report US casualty reserve strengthening as the industry struggles to get to grips with social inflation, analysts have warned.

Last week's full-year earnings reports saw several primary and reinsurance companies report negative reserve movements for US casualty classes, with Swiss Re most heavily affected.

The company reported $654m of reserve strengthening in its property/casualty reinsurance business, with an additional $208m of strengthening in its Corporate Solutions unit.

Philip Kett, equity analyst at Jefferies, said "it would not surprise us" if other reinsurers were to report similar claims inflation in their own portfolios, given Swiss Re writes many of its contracts as part of a panel.

In addition to Swiss Re, Axa XL and Allianz Global Corporate & Specialty reported negative reserve movements of €600m ($651.1m) in their full-year earnings.

Kett said: "The fact high-quality insurers such as Allianz are reporting large charges should indicate this is an industry-wide event few will have been able to avoid."

One of the companies not to incur a material reserving charge during the latest earnings season was Zurich, which had reduced its North American liability premiums 31% since 2016.

Kett said Zurich could at present be benefiting from its large workers' compensation book, which is recording high reserve releases at present.

"We are increasingly concerned these releases will run down and casualty reserving issues could potentially emerge," he said.

While US casualty claims inflation was already a concern to the industry before the most recent earnings season, the fourth quarter has seen a notable deterioration in expectations among re/insurers.

Edi Schmid, group chief underwriting officer at Swiss Re, said there was a significant increase in the severity and frequency of large US liability claims towards the end of last year.

Swiss Re said the problem could date back to underwriting from around 2013 onwards. Given the heightened environment around tort and social inflation, Schmid said the reinsurer had also increased its initial loss picks for the 2018 and 2019 underwriting years on the back of the deterioration in the fourth quarter of last year.

He said the issues remain much more pronounced in the large corporate space, affecting lead umbrella and excess and surplus policies. This can also include commercial motor-related losses, such as large verdicts in the aftermath of a trucking accident where the excess claim is then picked up by the umbrella policy.

Schmid said the market was now at an "important juncture", with the elevated tort environment requiring careful monitoring in 2020. "Hopefully it's going to peak soon, but we think it's going to get a bit worse, which we factored in. We also have to understand what is happening in the underlying insurance market, which is seeing significant cuts of limits for liability risk alongside significant rate improvements."

Axa XL provided some detail of the changes to underwriting conditions, revealing it had reduced its capacity for umbrella layers to €10m from €25m.

For US excess casualty layers, Axa XL said pricing increases were in excess of 40% during January, prompting the business to take advantages of opportunities in the space.

"There are not many times in the cycle you will see such high levels of price increase," Axa Group chief financial officer, Etienne Bouas-Laurent, said.

Those without exposure to legacy losses could be in the best position to capitalise. Lancashire, which has not previously operated in the casualty space, said it is watching market developments with interest.

In a recent interview with *Insurance Day*, Lancashire's chief executive, Alex Maloney, said the company would consider moving into the casualty space if the market environment becomes favourable and had already looked at one opportunity it had decided not to pursue.

"What you are seeing right now in the casualty market is just the start of the reunderwriting process," he said.

Stephen Catlin, chief executive of Convex and former head of Catlin Group, has previously suggested the industry casualty reserve deficit may be between $100bn and $200bn over the past decade, with insurers having significantly underpriced exposures during that period.

Berkshire misses forecast as underwriting loss widens

US re/insurance and investment holding company Berkshire Hathaway saw fourth-quarter operating income fall 23% to $4.4bn, as its after-tax underwriting loss jumped to $857m from $225m, *writes John Shutt, Los Angeles*.

Earnings per share came in at $2,715, missing analysts' forecast of $3,611.

The group swung to net income of $29.2bn from a loss of $25.4bn, owing to a $57.1bn swing in investment gains.

For the full year, the group's net income jumped to $81.4bn from $4bn, thanks to a $73.8bn swing in investment gains.

Pre-tax underwriting income for 2019 fell 79% to $417m, with each of the three insurance segments contributing to the decline, despite a $600m drop in catastrophe losses.

BH Primary Group's income fell 43% to $383m, as its combined ratio worsened four points to 95.8% and written premiums rose 15% to $9.8bn.

BH Reinsurance's underwriting loss grew one-third to $1.47bn, driven by retroactive reinsurance and annuities.

Written premiums grew 2.5% to almost $17bn, led by property/casualty lines.

The Geico motor insurance unit's underwriting income fell 39% to $1.5bn as continued increases in loss severity offset a decrease in cat losses.

The unit's combined ratio added 3.1 points to 95.8%, while written premiums grew 5.6% to $36bn.

$872m

Berkshire Hathaway's fourth-quarter after-tax underwriting loss

IGI names new board members

International General Insurance (IGI) has appointed four new independent board members, who will hold office after the closing of IGI's merger with investment vehicle Tiberius, *writes Lorenzo Spoerry*.

The new board will have two IGI executive officers: chief executive and founder, Wasef Jabsheh, who will serve as chairman of the board; and IGI's president, Waleed Jabsheh.

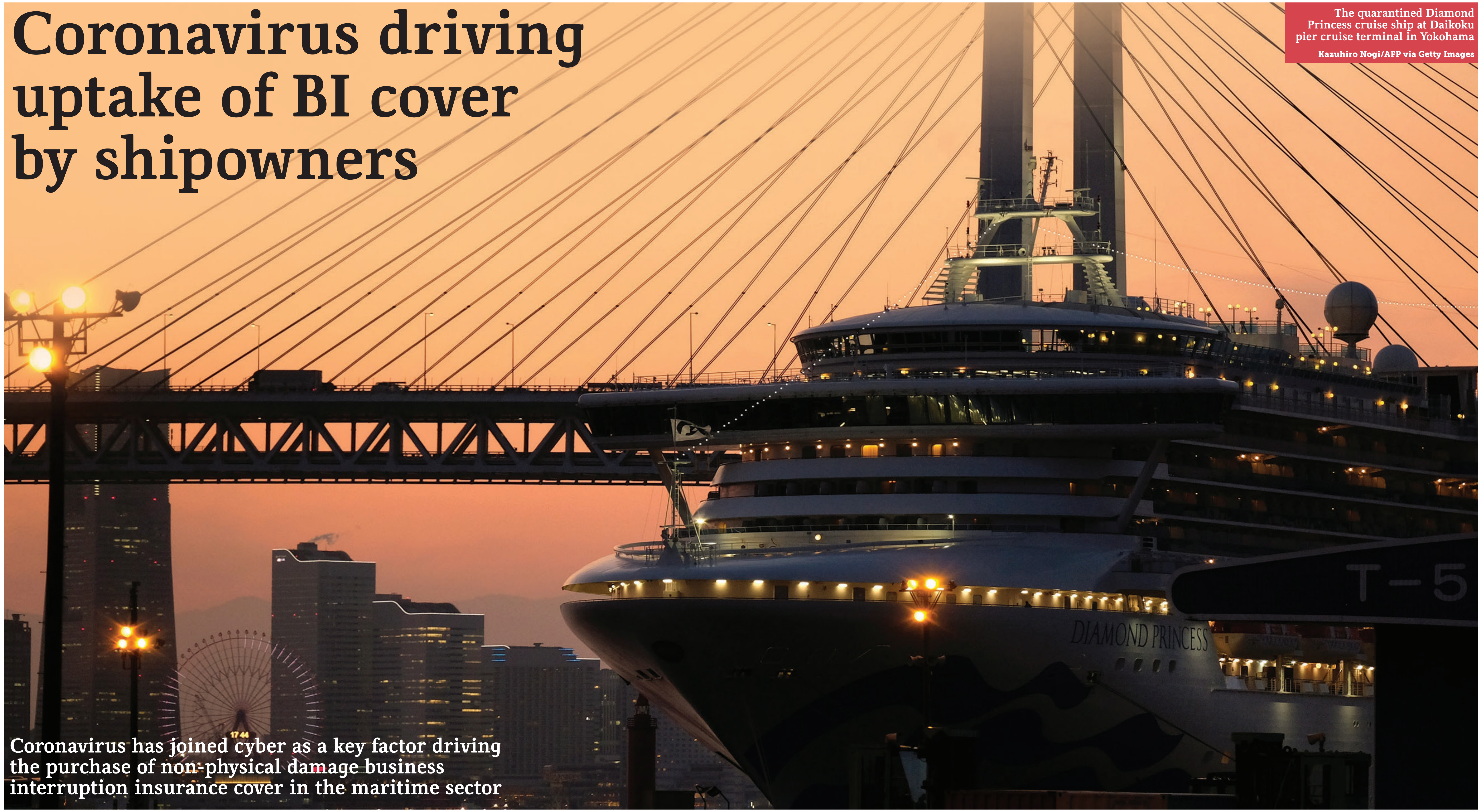
In addition, Tiberius chief investment officer, Andrew Poole, will serve as a director.

The independent board members are: David Anthony, a former senior ratings analyst for S&P Global Ratings and a former chairman of S&P's insurance ratings committee; David King, chairman of IGI's audit and risk committee. He also serves as chairman of the board of directors of Forex Capital Markets; Michael Gray, chief executive of Tiberius and chief executive of The Gray Insurance Company, chairman of the Louisiana Insurance Guaranty Association and director of both American Insurance Association and the Property Casualty Insurers Association of America; and Wanda Mwaura, an accountant who most recently served as chief accounting officer and head of external reporting at PartnerRe.

After the deal with Tiberius completes, IGI will be domiciled in Bermuda and will be listed under the Nasdaq ticker IGIC. Some $120m will be added to IGI's balance sheet, taking its pro forma market capitalisation to more than $550m.

IGI said the deal would provide the financial firepower to support growth and entry into new lines of business at a time of "attractive" worldwide market conditions.

Coronavirus driving uptake of BI cover by shipowners



The quarantined Diamond Princess cruise ship at Daikoku pier cruise terminal in Yokohama
Kazuhiro Nogi/AFP via Getty Images

Coronavirus has joined cyber as a key factor driving the purchase of non-physical damage business interruption insurance cover in the maritime sector

80,000 Approximate number of coronavirus cases worldwide

2,360 Deaths from coronavirus

635 Cases of coronavirus on the Diamond Princess cruise liner, the largest number of infections outside mainland China

Richard Stevens
Standard Club

The coronavirus that manifested itself in China at the turn of the year has spread over the course of several weeks to more than 25 countries. At the time of writing almost 80,000 people worldwide have been infected, with the number of confirmed deaths at 2,360.

Although there is now some suggestion the rate of infection in China is slowing – with officials there saying the outbreak will be over by April – there is no doubt the number of cases and the scale of the outbreak will continue to increase.

The most obvious mainstream media example of the virus affecting the maritime industry is the quarantine of the cruise liner *Diamond Princess*. That ship remains docked in the port of Yokohama, Japan with 635 confirmed cases out of a total passenger complement of 3,700. The ship is the site of the largest number of infections outside mainland China.

However, there are other visible signs of the virus having an impact on or having the potential to affect maritime trade.

The Standard Club has already received numerous enquiries from its shipowner members worldwide regarding the virus and the impact it may have on their trading patterns, the legal implications and – from a human perspective – the risk to their crews (or passengers). It is obvious from a review of publications released that other protection and indemnity (P&I) clubs have received similar queries.

Trying to provide definitive guidance to shipowners has been and continues to be a difficult task when the situation from country to country is changing on a daily basis. What is clear is the mortality rate of the virus is thankfully quite low.

Placed into perspective, despite comments from Mark Carney, governor of the Bank of England, that the virus is "already bigger than Sars" from an economic point of view, this virus is clearly not in the same league as the Ebola outbreak some years ago in west Africa, which prompted the Baltic and International Maritime Council (Bimco) to publish its recommended infectious or contagious disease clauses for voyage and time charterparties.

Trying to provide definitive guidance to shipowners has been and continues to be a difficult task when the situation from country to country is changing on a daily basis

Nevertheless, Covid-19 – the name of the disease caused by the coronavirus strain – does (and no doubt will continue to) cause logistical and commercial difficulties for shipowners.

Of the queries received by the Standard Club relating to the virus, a number have been raised frequently. These relate, as might be expected, to general health precautions to be taken, the legal implications of the outbreak and the consequential delays to ships and trade.

Education

The health advice given to shipowners (or rather to their crew and passengers) centres on education in relation to the virus. These include its symptoms, having procedures in place to swiftly identify individuals who may be demonstrating symptoms and keeping confirmed cases under isolation with appropriate treatment.

The World Health Organization, as well as bodies including the International Chamber of Shipping and the International Seafarers' Welfare Assistance Network, have published similarly themed and worded guidance, much of which centres on simple and easy-to-implement measures to prevent the spread of the virus. Those measures are arguably the minimum shipowners should be undertaking.

Notwithstanding this, given the virus has an incubation period of two weeks, during which time individuals are asymptomatic, there is clearly no feasible means of completely preventing the spread of the virus.

Within the maritime context, therefore, with regular crew changes, crews of varying nationalities and calls at ports worldwide, exposure to the virus is perhaps inevitable. With that in mind, the apparent low mortality rate is something to be thankful for.

That is, of course, not to be taken as admitting defeat and alleviating a shipowner of its responsibility to crew, but rather an acceptance of the reality of the situation while taking the necessary precautions to protect crew and passengers so far as is feasibly possible.

Aside from the purely health related-concerns, much has been written about the legal implications of the virus. The aforementioned Bimco clauses are clearly a sensible and pragmatic way of apportioning liability between owners and charterers and would be applicable in this situation. During the Ebola outbreak it was recommended by P&I clubs and industry bodies those clauses be incorporated into new fixtures and experience shows these are now often included.

Absent those clauses, the usual legal principles of unsafe ports/berths, the provision (or otherwise) of free pratique and deviation must be considered on a case-by-case basis in light of the virus.

There are apparently now also legal issues surrounding the installation of sulphur fuel scrubbers at Chinese yards and instances of force majeure notices being given when the yards are unable to function as a consequence of the virus.

As with all such issues, shipowners must often incur expenditure on legal advice to understand the implications.

A third issue that has arisen concerns delays to ships as a consequence of the virus. Increasing disruption is being reported in Chinese ports owing to the reduction in available labour. The extension of the lunar new year holiday is a clear driver of this but in other instances it appears to be the result of individuals being anxious about infection risk and choosing to absent themselves from the workplace, rather than through the official closure of facilities.

Enhanced screening

In other Asia-Pacific locations, enhanced screening and isolation arrangements are being imposed because of the virus.

The quarantine of passengers on board the *Diamond Princess* has already been mentioned and there are other similar scenarios with cruise ships temporarily detained in Hong Kong and New Jersey and other ships unable to make port at all because of concerns about infection.

Typically, unless there is physical damage, business interruption insurance policies may not respond and exclusions for communicable disease or virus outbreaks are not uncommon.

Nonetheless, specialist products are available. "Non-physical damage business interruption" cover is a growing area of interest, driven inevitably by the Covid-19 outbreak and other "existential" risks like cyber.

An example of such a product is the Standard Club's strike and delay insurance, which offers protection against the cost of delays to owned or chartered ships.

Purchasers can select a combination of up to 29 named perils, including those being encountered by operators as a result of the current virus.

Accordingly, if delays arise as a result of quarantine of the ship, illness on board, import or export restrictions are invoked or the ship is affected by a mandatory port closure after the order to proceed, the product indemnifies the shipowner for the daily hire or operating cost declared in advance.

Under the club's product, up to 20 days' coverage is available, with deductibles from one day depending on the specific risks. This could be a welcome lifeline to shipowners struggling financially as a consequence of delays caused by the virus.

Although the situation may deteriorate further before a complete picture can be seen of the impact of Covid-19, the maritime industry appears to be in a relatively strong position to ride out this particular storm. ■

Richard Stevens is divisional claims director of the Standard Club

VIEWPOINT

Separating fear from real danger in corporate risk mitigation

Willis Towers Watson's ranking of the most dangerous risks facing businesses underlines the volatility of the corporate risk landscape, but also the need to distinguish between fear and real danger

Dave Ingram
Willis Re

Willis Towers Watson's latest poll of insurance executives shows significant shifts in the risks they believe are the most dangerous for their business. Five of last year's top 10 most dangerous risks have dropped to a lower (and in some cases, much lower) ranking and five previously lower-ranked risks have taken their place.

Such changes are common. Risks typically fall in rankings like this because of high levels of concern and awareness but when they fail to produce any problems or losses, concern fades. Similarly, new risks climb in the rankings because of increasing awareness, often associated with problems or losses or the fear they will soon produce problems or losses. Although the poll asks about "danger", what we often get is more related to "fear."

The top 10 most dangerous risks for 2020 chosen by the 101 insurance executives who answered our poll are:

1 **Cyber security and cyber crime** (up from two in 2019). Insurers have greater reason to worry about cyber crime than other businesses. In addition to the usual potential for direct attacks to their business, insurers also may have to pay for losses experienced by their policyholders. In some cases, the coverage for cyber crime-related losses falls under more general types of insurance coverage that was not anticipated when the insurance policy language was written.

2 **Disruptive technology** (up from 17 in 2019). For several years industry observers have expected tech giants to make incursions into the insurance market. Beginning in 2018 and mushrooming last year we have seen more insurtech offerings for insurance. Insurers need to decide which of these innovations to adopt and which to pass up – a decision fraught with danger.

3 **Pricing and product line profit** (same rank as 2019). This is the only risk in the survey to have the exact same ranking as last year. The concerns about legislation and regulatory risk, interest rates and natural catastrophes add up to intense pressure on profits.

4 **Legislative and regulatory fears** (up from six in 2019). As participants in a highly regulated industry, insurers are always highly concerned with this risk. While at the federal level there are major changes being made to regulations that are typically thought to be in favour of businesses, insurers generally operate under state laws and regulations, which for the most part have not changed as much. The law of unintended consequences may bring greater problems to insurers under this mixed environment. In addition, insurers that offer liability coverage may be worried about court cases that challenge tort caps. Also worthy of considering is that as states are legalising marijuana, there is a ripple effect of new claims in many insurance lines.

5 **IT/systems and tech gap** (down from four in 2019 and two in 2018). Still a high concern, but slowly drifting lower. The next concern in this area is a jump to a completely different type of technology. Insurers are worried about whether the need to bring along legacy business will doom them to lose out in competition to the newest tech-driven start-ups.

Cyber security and cyber crime has risen to the top of the list of insurance executives' fears
sdecoret/Shutterstock.com

6 **Interest rate change** (up sharply from 26 in 2019). A little more than a year ago, interest rates looked like they were going to continue to gradually head upwards to levels that would make it easier financially for insurers to run businesses where they hold other people's money, sometimes for long periods of time. During 2019 that trend reversed and interest rates ended 2019 a full percentage point or more lower than they started and almost 1.5% lower than their peak in late 2018.

7 **Competition** (down from five in 2019). Insurance industry growth in total tracks well with nominal GDP growth over time, but there are winners and losers. The top 50% of companies have been growing at twice the GDP growth rate on the average, while the bottom 50% of companies have had near-zero average annual growth. So far, no tech-based start-up has roared into the insurance sector and stolen everyone's lunch but most executives are worried something will happen very soon that negates whatever competitive advantage they have worked so hard to develop.

8 **Natural catastrophe** (up sharply from 28 in 2019). Recently we reported insured losses from natural catastrophes in 2019 were down 33% from 2018, which was down 44% from 2017. One might think this very favourable trend might lead to optimism about natural catastrophes but instead concerns remain very high. It is likely this is a result of a suspicion the "new normal" is for erratic and more severe weather incidents as a result of climate effects.

9 **Climate change** (up very sharply from 53 in 2019). Many insurance industry observers have said climate change has a very long-term horizon, while insurance works on a one-year-at-a-time basis. The sharp rise in perceived danger from climate change indicates many in the insurance industry believe with evidence like the wildfires in Australia and California that latency period has passed. The action of the California Department of Insurance to require insurers to renew fire coverage in the state suggests as the impact of climate change is felt, regulators will be looking at insurers to help pay for the impact.

10 **Emerging risks** (up from 15 in 2019). This means people in the insurance industry believe "we don't know what, but something else is likely to hit us hard". It is an indication there is a feeling of ill-defined doom.

Risks that failed to materialise

With four new risks moving into the top 10 there were, of course, four that moved out, reflecting previous concerns either did not materialise or they did and were resolved. Those four risks are:

1 **Strategic direction and opportunities missed** (dropped from one in 2019 to 12 in 2020). The presumption of this risk was there is or will be a golden opportunity that will take the company to the next level. Perhaps this risk has fallen so far because people are recognising success is more a result of a number of smaller good decisions and of hard work, rather than that one golden opportunity.

2 **Customer needs not served by traditional approaches** (dropped from 10 in 2019 to 31 in 2020). This risk dropped the furthest, but it is also covered under this year's number two: disruptive technology. A small change in the polling process made it harder for some respondents to give credit for the same thing twice.

3 **Business operations failures** (down from nine in 2019 to 24 in 2020). Concerns about this risk increased in 2018 and 2019, only to subside back to the level we saw in 2017. Perhaps there were concerns in the past two years the new cloud-based computing approach many insurers adopted was not as safe as the old ways of doing things. After thoughts of impending doom for several years, naysayers have recognised there may well be greater resilience built into major cloud-based services than their previous systems.

4 **Talent and employee relations** (dropped from seven in 2019 to 13 in 2020). Many insurers were afraid retiring baby boomers would take decades and decades of valuable experience with them. Some insurers are finding there are always trade-offs: the retirees leaving do make it harder to keep doing things the way they have been forever but the new employees are more flexible and may just have the right skills and training for the new processes that will be needed for the future. ■

Dave Ingram is head of the enterprise risk management advisory practice at Willis Re

New risks climb in the rankings because of increasing awareness, often associated with problems or losses or the fear they will soon produce problems or losses

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TMK adds physical damage to its cyber proposition

Cyber Ctrl PD+ policy will offer limits of up to $25m

Lorenzo Spoerry
Deputy editor

Tokio Marine Kiln (TMK) has launched an enhanced cyber insurance policy to protect clients against physical damage stemming from cyber attacks.

The policy, called Cyber Ctrl PD+, provides affirmative cover for property damage and ensuing business interruption arising from a cyber attack.

It offers limits of up to $25m and includes all standard cyber insurance coverages, including privacy liability and non-damage business interruption. It is modular, so it can be tailored to specific client requirements.

"As most cyber insurance policies exclude cover for property damage and with property insurance policies increasingly incorporating cyber exclusions, many policyholders could be left with a gap in cover," Paul Gooch, cyber underwriter at TMK, said. "Cyber Ctrl PD+ is designed to fill that gap, but it is not merely a 'wrap' or 'write-back' product.

"Rather, it is an evolution of our established Cyber Ctrl policy, providing clarity and certainty of cover in the event of a cyber physical damage incident," Gooch said.

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Allianz likely to remain committed to AGCS despite losses, S&P says

Allianz Group will remain committed to its industrial line business and subsidiary Allianz Global Corporate & Specialty (AGCS), which reported an underwriting loss in 2019, S&P Global Ratings said, *writes Stuart Collins.*

On February 21 Allianz revealed AGCS posted an operating loss of €284m ($308.4m) for 2019 and a combined ratio of 112.3%, owing to €591m in adverse reserve development. However, the group's operating result increased to €11.9bn.

€284m
AGCS operating loss for 2019, owing to...

€591m
In adverse reserve development

The rating agency said although Allianz's 2019 underwriting performance was toward the lower end of its expectations, it believes the group will maintain its risk-based capital above the AA level.

Operating profit for Allianz's overall property/casualty (P&C) business decreased 11.9% to €5bn in 2019 and fell 42.3% to €861m in the fourth quarter.

But P&C revenues increased 4.7% to €59.2bn in 2019, driven by volume and price increases.

Eiopa backs global capital standard

The European Insurance and Occupational Pensions Authority (Eiopa) has restated its commitment to a global capital standard for internationally active insurance groups (IAIGs), currently being developed by the International Association of Insurance Supervisors (IAIS), *writes Stuart Collins.*

In November 2019, the IAIS published the ICS version 2.0 standard.

Eiopa said it will now work with regulators to ensure the final ICS standard is based on a market-adjusted valuation, capital requirements are sufficiently robust and risk-sensitive and internal models are allowed to be used under sound and prudent criteria.

"The progress made in the latest years, namely the agreement on the ICS 2.0, shows this convergence process is unstoppable," Gabriel Bernardino, Eiopa chairman, said.