DAC BEACHCROFT

50 predictions: Reinsurance

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Is there a role for crypto-currency in reinsurance?

The hallmarks of crypto-currencies since their emergence in 2009 have been a high degree of volatility, with wild swings in value sometimes on a daily basis, and the proliferation of different currency units. At the time of writing, there are approximately 1,560 currencies being traded. A further hallmark has been the emphasis on speculative investment rather than function.

Reinsurance potentially lends itself to a dedicated cryptocurrency. This would be used in a closed system accessible only to brokers, insurers and reinsurers. Given the low cost and high speed of transmission, plus the elimination of exchange rate losses, this is potentially attractive. To be taken up, there would need to be a currency with a stable value and the market would need to agree upon a single currency (or a very select number). This may be a little way off but as crypto-currencies mature and become an everyday part of commercial life, they may offer real benefits to the reinsurance market.

Natural catastrophes will provide key coverage decisions for the reinsurance market

In recent years, more decisions in property coverage cases have been handed down in New Zealand than in the UK. This trend is now slowing as the remaining appeals in New Zealand are resolved. The slack may be taken up as the hurricane losses of 2017 start to come to a head, to the extent that English law governs the reinsurance claims.

A recurrent theme in English law is where there are two proximate concurrent causes of a loss (for example, hurricane and flood). As a general rule, if one cause is covered, and one is excluded, the loss is not covered. If one cause is insured, and another is not insured, the loss is covered. In some cases, this can produce unexpected results and it can be hard to determine whether the losses are concurrent or successive (for example, a hurricane followed by flood). Claims handlers should be vigilant to the relevance of these principles and any challenges to their application.

Reinsurance will play a vital role in managing cyber exposures

The Lloyd’s Market Association report, *Cyber Risks and Exposures* (January 2018), highlighted three concerns for underwriters: frequency of losses, severity of losses and systemic losses. These all lie at the heart of reinsurance and this must be a strong signal that reinsurance has an important role in managing cyber risk.

This role has not yet been widely recognised, with relatively little take-up of stand-alone cyber reinsurance. This may take time to progress, given the relatively slow take-up of stand-alone cyber insurance outside the US market. While there were significant cyber incidents in 2017, such as WannaCry and NotPetya, it appears that it may still take a widespread catastrophic loss to jolt the market forward. The Prudential Regulation Authority has been actively highlighting the importance of managing cyber risk and views insurance as part of a package of measures needed to manage this exposure. We view reinsurance in much the same terms.

Key developments

Counter-Terrorism and Border Security Bill

Cyber, conflict and cover: time for a re-think?

Natural catastrophes: can the market withstand the storms?

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