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NEWS

AIG names Zaffino CEO and plans life unit spin-off

Global giant announces $790m in Q3 catastrophe losses

John Shutt, Los Angeles
US correspondent

AIG president, Peter Zaffino (*pictured*), will succeed Brian Duperreault as the insurer's chief executive next March, the company announced.

The global re/insurer also intends to spin off its life and retirement business into a separate company to focus on its property/casualty business.

Duperreault will become executive chairman, while incumbent independent chairman of the board, Douglas Steenland, will become lead independent director. Those moves are also effective from March 1.

AIG did not provide details of the life and retirement unit's spin-off, but said it would create a simplified structure unlocking significant value for shareholders.

"Our businesses can be further strengthened by separating life and retirement from AIG, which we believe will enable each entity to achieve a more appropriate and sustainable valuation," Zaffino said.

The moves mark a turnaround from four and five years ago, when the group opposed calls by activist investors Carl Icahn and John Paulson for AIG to split up and shake up its board.

The New York-based group also announced its third-quarter results will reflect around $790m in pre-tax catastrophe losses, net of reinsurance, all to be posted by its general insurance division.

Around $605m of the losses are tied to windstorms and tropical storms in the Americas and Japan, as well as US wildfires.

The remaining $185m relates to the Covid-19 pandemic, primarily in the travel, event cancellation, trade credit, property, agriculture and casualty books of business.

Duperreault said the events had little impact on the company owing to "our underwriting discipline, reinsurance programmes, revamped risk appetite and the strength of our balance sheet".

Quarterly results will also reflect a $9m pre-tax charge arising from the group's annual actuarial review of its life and retirement and legacy segments.

AIG is scheduled to release its third-quarter results on November 5.

Arch swoops on Beazley for A&H, contingency head

Arch Insurance has named Chris Rackliffe head of accident and health (A&H) and contingency, *writes Stuart Collins*.

A market-leading figure in the A&H and contingency market, most recently holding the position of head of contingency and A&H at Beazley, Rackliffe brings more than 25 years of experience to Arch.

Before joining Beazley, Rackliffe was a managing director at HCC Specialty, where he was responsible for contingency and sports disability insurance.

Based in London, he will be responsible for the continued development and growth of Arch's A&H and contingency portfolio.

He will join Arch in late 2021.

Lino Leoni, chief underwriting officer for specialty, energy, marine and financial lines at Arch, said the insurer saw "significant opportunities within the contingency insurance arena to strengthen our market position".

Chris Rackliffe brings more than 25 years of industry experience to Arch Insurance

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Insurance Day is the world's only daily newspaper for the international insurance and reinsurance and risk industries. Its primary focus is on the London market and what affects it, concentrating on the key areas of catastrophe, property and marine, aviation and transportation. It is available in print, PDF, mobile and online versions and is read by more than 10,000 people in more than 70 countries worldwide.

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Insurance Day, Informa, Third Floor, Blue Fin Building, London SE1 0TA

Editor: Michael Faulkner
+44(0)20 7017 7084
michael.faulkner@informa.com

Deputy editor: Lorenzo Spoerry
+44 (0)20 7017 6340
lorenzo.spoerry@informa.com

Reporter: David Freitas
david.freitas@informa.com

Global markets editor: Rasaad Jamie
+44 (0)20 7017 4103
rasaad.jamie@informa.com

Business development manager: Toby Nunn	+44 (0)20 7017 4997
Key account manager: Luke Perry	+44 (0)20 7551 9796
Advertising and sponsorship: Deborah Fish	+44 (0)20 7017 4702
Classified and legal notices: Maxwell Harvey	+44 (0)20 7017 5754
Head of production: Liz Lewis	+44 (0)20 7017 7389
Production editor: Toby Huntington	+44 (0)20 7017 5705
Subeditor: Jessica Sewell	+44 (0)20 7017 5161
Events manager: Natalia Kay	+44 (0)20 7017 5173
Editorial fax:	+44 (0)20 7017 4554
Display/classified advertising fax:	+44 (0)20 7017 4554
Subscriptions fax:	+44 (0)20 7017 4097

All staff email: firstname.lastname@informa.com

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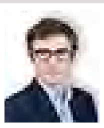
NEWS

Swiss Re sees double-digit growth in cyber premiums

Ransomware losses to drive up rates and boost demand despite Covid-19

Lorenzo Spoerry
Deputy editor



Cyber re/insurance premiums are defying expectations and the trauma of Covid-19 and continuing to grow at double-digit rates.

Anthony Cordonnier, who heads Swiss Re's cyber reinsurance business, told *Insurance Day* he forecasts premium growth of between 20% and 30% in 2021, in line with previous years, even excluding the impact of rate increases.

Based on Swiss Re's assumption for a total market size of \$5.5bn in 2020, this would put the total size of the market at between \$6.6bn and \$7.15bn next year.

The cyber re/insurance market has been boosted by the growth of ransomware in recent years, including the trend for cyber criminals targeting smaller companies, and this "solid pipeline" of business is on the rise, Cordonnier said.

Swiss Re had expected the Covid-19 pandemic to lead to a slowing of cyber business because of the number of companies suffering, but the line is instead showing strong momentum, as more and more businesses see cyber risks as threatening their very existence.

By some measures, the impact of this sharp increase in ransomware claims is equivalent to a deterioration of 10 points on the loss ratio.

These rising losses are leading to rate increases in a line that has been softening for a number of years. These rate increases began in the fourth quarter of 2019 and have accelerated in the third and fourth quarter of 2020.

Unless there are changes in reinsurance too, "profitability is going to be a challenge", Cordonnier said. Further improvements in ceding commissions and non-proportional rates are expected at the upcoming January 1 renewals, he said.

"[That]'s what we saw at the mid-year renewals and the situation hasn't really changed ahead of January 1, 2021," Cordonnier said.

The other key concern for cyber re/insurers remains aggregation risk, reflected by strong demand for aggregate excess-of-loss cyber reinsurance covers.

But the enormous aggregation potential of cyber means there are hard limits to the insurability of the risk. Some have suggested the insurance-linked securities market, which taps the enormous potential of the capital markets, could serve to bridge the gap.

But devising sensible policies is fraught with problems, in terms of agreeing wordings, modelling and also drawing a line between non-state (and therefore insured) and state-backed attacks (which would be uninsurable).

Black insurance professionals face career barriers

Almost three-quarters of black insurance professionals in the Lloyd's market believe they have experienced barriers to recruitment, twice as many as their white counterparts, according to Lloyd's Ethnic Diversity in the Workplace report, *writes Stuart Collins*.

Seven out of 10 black respondents said they believe they have experienced barriers to promotion, almost half as many more than their white counterparts, according to the report, which is based on data collected from more than 900 employees in the market during July.

The report found almost two-thirds of black respondents consider "visible representation" in an organisation a key factor that increases their likelihood of applying for a role, while nearly seven out of 10 said they are significantly more likely to apply for a job based on their perception of an organisation's "commitment" to diversity and inclusion.

Reinsurance hardening 'set to last for years'

Reinsurance rate hardening could last for years, driven by a combination of factors including large losses and macro-economic drivers, analysts said, *writes Lorenzo Spoerry*.

Current trends are reminiscent of those seen in the market between 2000 and 2003, when rate rises were fuelled by large losses such as the September 11, 2001 terror attacks, financial market volatility (including the dotcom bubble) and the need for further reserving, analysts at Jefferies said.

"Looking to 2020, and it appears that a similar range of inflationary factors are evident," the analysts said, pointing to the current reserving crisis in casualty, high catastrophe losses since 2017, and the impact of Covid-19 on non-life underwriting and the financial markets.

There are also increasing concerns among some capital providers that climate change trends are making hurricanes and North American wildfires more frequent or more destructive.

"It seems possible to us that this long-awaited hard market turn could last for multiple years, as was the case over 2000 to 2003," the Jefferies analysts said.

The current market turn, they pointed out, is likely to be more material than that seen in 2018, when pricing corrections were used merely to pay back especially large losses, but did not lead to a multi-year hard market turn.

UBS analysts have forecast that catastrophe business will renew in January with rate increases of close to 10%. European cat business, meanwhile, is expected to see rate hikes of between 5% and 10%.

Munich Re board member Doris Höpke told *Insurance Day* that programmes with loss exposures would see "significant" rate increases, with some seeing "double-digit" rate increases, Höpke said. Additionally, loss-free accounts should not expect to renew flat or with rate decreases.

But brokers said reinsurers should temper their expectations.

"Reinsurers were hoping for double-digit increases across the board but it now looks like increases, if any, will be more moderate than first predicted," said Massimo Reina, chief executive for continental Europe at Guy Carpenter, writing in *Insurance Day.*

At least \$28bn of industry capital has entered the re/insurance industry in recent months. Of this, at least \$15bn has been dedicated to the property/casualty and reinsurance sectors, according to Guy Carpenter.

Reinsurers up asset risk to maintain capital buffers

Large reinsurers have retained a "smaller, but positive" capital buffer amid the Covid-19 pandemic, S&P Global Ratings has found, *writes David Freitas.*

Stress tests, conducted on the 20 largest reinsurance companies, underlined poorer capital adequacy in the wake of the coronavirus pandemic.

But the results did not represent large changes to the sector's overall capital adequacy, according to the rating agency.

Riskier asset allocations have brought the sector higher investment returns that have prompted capital to remain high on average, it added.

S&P said the sector is more exposed to underwriting, reserving and catastrophe risks compared with the risk the industry is taking on investments.

Underwriting represents around two-thirds of reinsurers' capital needs. For primary insurers it represents less than half.

This is a reaction to the persistently low interest rates across the market and years of decreasing prices amid a competitive environment for reinsurers and an increasing number of natural catastrophes.

"Both investment and underwriting have suffered and reinsurers have sought profitability elsewhere," S&P said. "They found it in revising their investment guidelines and increasing their tolerance for credit risk."

Reinsurers have therefore added more weight to their riskier assets across the portfolio, the rating agency said.

ANALYSIS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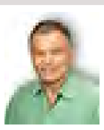
Covid-19 accelerates the digital transformation of P&I market

As for the commercial specialty lines market, the pandemic has had a transformational effect on the digitalisation of marine mutuals' processes, but there are important differences


Rasaad Jamie
Global markets editor

In common with the rest of the insurance industry, the mutual marine protection and indemnity (P&I) sector has found the Covid-19 pandemic a challenging and transformative experience, although one it sees itself as having effectively contained the initial onslaught from.

The P&I sector also sees itself as more than ready to deal with any other challenges, including the costly string of major casualty losses incurred this year, as well as a rising number of emerging risks such as cyber, which have been exacerbated by the pandemic.

The pandemic has served to accelerate digital transformation programmes in the P&I sector in much the same way as it has done in the broader insurance market. But there are important differences.

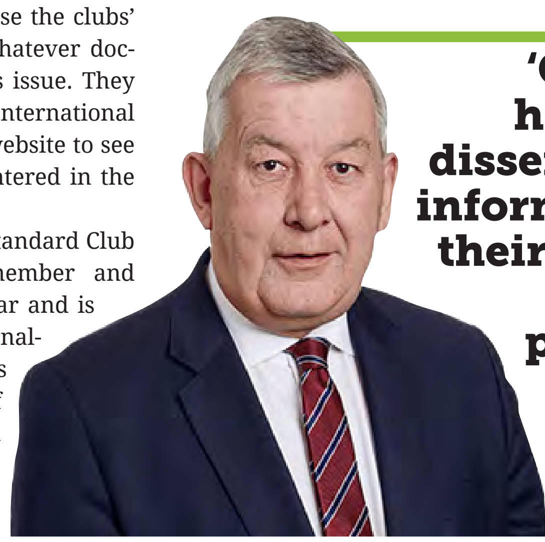
Unlike in the commercial specialty lines market, the pandemic has not created any greater sense of urgency on the part of the P&I clubs to embrace technology. Pre-pandemic, there had been a drive for some time by clubs to engage with new technologies such as artificial intelligence, blockchain and smart contracts to understand the implications of these technologies within their own businesses. "The pandemic has just reinforced our commitment to embracing technology as a way to improve our service and as the means by which we provide that service," Nicholas Mavrias, a senior claims executive at the Standard Club, says.

These days, the ability of clubs to issue documentation electronically through their websites and trading platforms is very much taken for granted in the 160-year-old P&I insurance market. "Clubs have a long history of digitally disseminating general information directly to their members by way of circulars, loss prevention advice and sanctions notifications," Ian Harris, director in the marine division of broker Tysers, says.

Shipowners, port authorities, brokers and others use the clubs' websites to access whatever documentation the clubs issue. They can also access the International Group of P&I Clubs website to see whether ships are entered in the International Group.

For example, the Standard Club launched a new member and broker portal last year and is adding new functionality to the portal this year with the goal of making more data and insight available to members. But the club's general vision of technology and digital transformation has not changed in any significant way post-Covid. "We were already committed to investing in technology to offer an enhanced service," Mavrias says.

Similarly, the pandemic has not made a difference to the digital transformation plans of the UK P&I Club, which, when the pandemic hit in March, was able to move all of its services and functions seamlessly to a remote distributed model overnight without compromise on quality of service, according to Filip Koscielecki, a senior claims executive at the club. "The impending P&I renewal season, albeit different, will not be hindered thanks



'Clubs have a long history of digitally disseminating general information directly to their members by way of circulars, loss prevention advice and sanctions notifications'

Ian Harris
Tysers

to the already implemented and progressing technological transformation," he says.

No common platform

But, unlike in the commercial specialty lines sector, there are no plans to create centralised business processing or trading platforms in the P&I sector, according to Paul Jennings, chief executive of the North P&I Club and chairman of the International Group. "As a group, we have talked about having a common platform for doing that in the future, but it would only be sensible if we felt it was going to be more cost-effective and more efficient. At the moment, we have not actually been able to identify how we can do that in a more efficient way," Jennings says.

In particular, the P&I sector currently does not see the need for a market-wide risk placing platform. This has to do with the ease of the placement of risks in the sector, according to Jennings. There is, he says, no direct comparison between the need for a risk placing platform in the Lloyd's and London market and the need for such a platform within the P&I sector, where risks get placed on a 100% basis with one club, with very few exceptions.

"Every ship is insured 100% with one of the International Group clubs, so it is one transaction and one set of electronic documentation. The placement of the risk and the transmission of the documentation and the processing thereafter are all very straightforward. The transactional or frictional costs are far less than they are in the Lloyds and London market when risk is placed with multiple insurers," Jennings says.

Mutual business model

For many in the P&I market, the main reason that Covid-19 has not had an impact on the clubs on the technology front to the same extent as other specialty lines markets is because the P&I business model operates on a mutual, non-profit basis.

Koscielecki says the absence of constant commercial pressures to grow revenues decreases the role of technology as a key means of winning or maintaining market share during Covid times. "The key performance indices in the P&I world are different from the ones used in the commercial insurance world. Consequently, the nature and objectives of P&I clubs' technology/digital transformation programmes are slightly different," he says.

In P&I, the value of the digital change is measured by benefits brought to members through improvements in underwriting, loss prevention and claims handling, he argues. Consequently, digital transformation has a slightly different connotation for the P&I market. The benefits it has to offer will not come through resolving problems that are more inherent to the commercial insurance markets. "This is not to deny that there is a growing need to derive benefits of digitalisation from more accurate underwriting, loss prevention and claims handling," Koscielecki says.

> **'The Covid chapter has probably not affected the prospect of achieving success for P&I associations without rushing to embrace technology… the pandemic has, however, confirmed that focusing on technology is the correct and**

Mark Cracknell, managing director of the marine and cargo division at Marsh JLT Specialty, agrees. He says, for the most part, P&I risks are bound on email and the clubs issue soft copy evidence of cover in the form of a certificate of entry, along with the other documents required by the ship owner for various compliance purposes, such as "blue cards". "There are probably ways this process could be improved and made more secure, but any gains would be marginal," Cracknell adds.

Adjacent areas of technology

At the same time, the P&I clubs have been investing heavily in adjacent areas of technology, including in big data and data analytics technology platforms regarding risk behaviour. This, Cracknell says, mirrors the general trend in the commercial specialty lines market for analysing risk information that is generated and "owned" by the underwriting community.

In its own way, the P&I sector is already operating with a great deal of effectiveness in the digital world, Cracknell argues. "While there is potentially an opportunity for a standardised placement platform for P&I risks that would offer a consistent level transparency and contract certainty, P&I business has effectively been transacted 'online' now for a number of years," he says.

Although the arguments for a central risk placing platform or straight-through processing of transactions are less relevant to the P&I sector, where the frictional costs are much lower than in Lloyd's, there is always the need for the sector to evolve to provide the members with the most cost-effective and value added service, according to Mavrias of the Standard Club. To this end the clubs will continue to engage with different technologies.

Progress in this regard, he argues, will require more of an evolutionary rather than revolutionary approach. "As a result, the Covid chapter has probably not affected the prospect of achieving success for P&I associations without rushing to embrace technology. The pandemic has, however, confirmed that focusing on technology is the correct and inevitable step forward," Koscielecki adds.

For Harris of Tysers, the P&I sector, in many ways is already there in terms of its digital progress, while the commercial specialty lines and subscription markets driven by Covid have more recently caught up. "Both the P&I and commercial markets will now continue to evolve their digital offerings and abilities in this new, post-Covid world, while being increasingly aware of the dangers posed by emerging risks such as climate change and cyber attacks," Harris says. ■

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VIEWPOINT

Innovation combined with trust is critical to success at the renewals

There is no right or wrong way for reinsurers to use capital effectively to gain a competitive edge, but relationships and experience will be vital in the coming months

Dan Malloy
Third Point Re

Trusted relationships matter even more in times of flux
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We are in the middle of one of the most crucial renewals periods for reinsurance in a decade.

It is a fact rates and terms and conditions are improving and signs indicate we are entering a hard market – something a whole generation of underwriters and brokers have never experienced. I have been in the business for almost 40 years and this will only be my fourth hard market.

About 18 months ago, there was a point when I wondered who would give first – me or the market. The sheer amount of capital available seemingly had created a permanently soft market, with no signs of hardening. Eventually, at the end of 2019, we started to witness gradual rate increases and, as a result of the impact of the pandemic, further contraction of capital over the course of 2020 has led to tangible opportunities to build books across a variety of lines of re/insurance.

Experience and relationships will be vital in the coming months. Experienced brokers and underwriters need to teach younger generations the art and dynamics of trading in a hard market. Trusted advisers will be needed more than ever and clearly communicating positions and expectations will be critical.

Trust is what this industry was built on and building trust in the time of flux and uncertainty without any face-to-face meetings will be a challenge. I will certainly be dipping into my mental Rolodex and digging out the names of people I have worked with before, who I know and trust.

With so much uncertainty from third-quarter catastrophe losses and ongoing Covid-19, as well as other pressures such as trapped collateral, prior-year development, social inflation and low interest rates, clients are looking for support and security

With so much uncertainty from third-quarter catastrophe losses and ongoing Covid-19, as well as other pressures such as trapped collateral, prior-year development, social inflation and low interest rates, clients are looking for support and security. If you are a valued adviser to a client and able to bring solutions to the table at a time when they are desperately needed and really valued, that is when you cement relationships.

Class of 2020

A long time ago, I was a biology major and, believe it or not, there are parallels between the study of living organisms and the reinsurance market. Nature abhors a vacuum and things will move into a space to fill it. How that void is filled has infinite variability. The same applies to the reinsurance market – there is no right or wrong way to use capital effectively to give carriers a competitive edge. We are already seeing capital being put to work in many different forms, including activity in the anticipated "Class of 2020" start-ups and scaling up of existing entities.

This shake-up of the status quo is far from unique. Bermuda has seen wave after wave of start-ups spawned from capital crunches caused by market dislocation from major events. The liability crisis of the mid-1980s gave rise to Ace (now Chubb) and XL Group (now Axa XL). The Class of 1992 reinsurers launched on the island in the wake of Hurricane Andrew. Another wave of Bermuda-based reinsurers launched in 2001 after the September 11 terror attacks and there were further start-ups in 2005 following hurricanes Katrina, Rita and Wilma.

It goes without saying any impact of the coronavirus crisis on our businesses and the reinsurance market is secondary to the very real impact the virus has had on so many human lives and this is a stark reminder of how the re/insurance industry functions. The full impact of the crisis on the global community is yet to unfold and there are many medical, social and economic hurdles to overcome, but crises are what drive our industry to develop, innovate and contribute to bolstering future resilience.

Lockdowns have affected countries all over the world and every sector of the economy. This has resulted in a fundamental reset of the way in which all types of companies operate, with millions of staff forced to switch from the office to working from home almost overnight – and with a remarkable degree of success.

The new working environment has also forced us to reassess the way we write risk. Before Covid-19, our underwriters relied on personal interaction with clients and potential clients, which allowed them to build up a chemistry that helps to give them a nuanced view of the risk. We are no longer afforded that luxury, so we are having to rethink the way we do our due diligence before deciding on whether to underwrite a risk.

Professional development

One significant issue for business leaders and senior management in a virtual, work from home world is the challenge of professional development for younger staff. Particularly when moving into a more challenging trading environment, it is vital to give the next generation the sort of support and experience that allows them to expand their responsibilities. We need to consider professional development – almost 15% of our staff have been hired since lockdown.

I think it is hard for younger members of the team as they cannot watch and learn on the job in the same way they can in an office, but in fact it is us "oldies" who miss the interaction. It is invaluable for me to be sitting next to my team and be able to quickly ask their opinion. Now that two-minute chat across a desk needs to be half an hour on Zoom. I am sure our newest team members, who are widely connected virtually, will learn and absorb the business and perhaps teach the old dogs some new tricks.

The pandemic has accelerated the positive rate momentum and conditions seem to be trending to a favourable January 1 and beyond, so as the January 1 renewals date creeps closer and closer, the market is "heads down" to make the most of the best rates and terms and conditions we have seen in years.

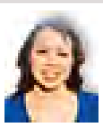
Next year is set to be an exciting one as an underwriter. ■

Dan Malloy is chief executive of Third Point Re

VIEWPOINT

Ransomware is transforming the cyber risk landscape

Ransomware is fast becoming a systemic and high-severity risk across a range of exposures

Darren Thomson and Yvette Essen
CyberCube

One of the most significant challenges facing the cyber insurance industry has been the growth and development of ransomware activity. Since WannaCry in 2017, the sophistication of cyber threat actors has dramatically increased and ransomware attacks will continue to proliferate.

Insurers are assessing how the ransomware threat is evolving. Taking a forward-looking view of risk can help carriers to anticipate how attackers are evolving their techniques to create widespread impact.

Analysis of ransomware activity this year shows some clear trends. These include: the nature of attacks is changing, with more focus on enterprises (rather than individual consumers), larger payment demands and more targeted approaches deployed. Recently CyberCube has observed the emergence of a trend called "double-dipping", where attackers are demanding more than one ransomware payment. Furthermore, Covid-19 and increased working from home practices have increased the opportunities for attackers.

The property/casualty (P&C) insurance sector is increasingly aware ransomware has shifted away from being what was always traditionally a fairly consumer-orientated attack type to more of an enterprise attack type. Criminals are realising they can use a variety of techniques to focus on the enterprise, which can lead to some really meaningful things in terms of monetisation.

Historically, ransom demands were seen in the $200 to $1,000 range (a price many individuals are able to pay). Compare this with $10,000 or $1m, which is what can be achieved via a successful raid on medium-sized to large corporate organisations or even a government entity. As many enterprises are not running the very latest version of Windows and are not patched properly, they have become an easy target for cyber criminals, particularly through the vector of emails.

Most consumers now spend the majority of their "IT time" on mobile devices, with their critical files backed up automatically to the cloud, and their data tends to be of somewhat limited value (for example, credit cards can be changed). Corporations, on the other hand, still rely heavily on Microsoft Windows (a much more vulnerable attack surface than an iPhone, for example). In addition, businesses stand to lose more, including (but not limited to) intellectual property, customer data and larger sums of money.

A recent development in advanced, enterprise-grade ransomware has seen confident cyber criminals (they are confident right now, having demonstrated very clearly that enterprise-class ransomware attacks are both possible and lucrative) stage attacks that demand not one but two ransom payments.

The typical ransomware model has indicated the successful payment of a ransom will deliver a decryption key that will release data from an encrypted state and allow the victim the luxury of continuing to function without the disruption of trying to retrieve data from back-ups.

More recent ransomware attacks, such as the "Maze" attacks of 2019, have started to do more than just encrypt data. Lately, criminals have taken to making a copy of the targeted data outside the victim's network (data exfiltration in cyber security parlance), as well as encrypting it in situ. This provides the opportunity for the criminal to make an initial ransom demand in return for a decryption key and a second, separate demand to ensure the copied data does not fall into the wrong hands.

A trend called 'double-dipping', where attackers are demanding more than one ransomware payment, is expected to continue

SynthEx/Shutterstock.com

An example of a "double-dipping" attack occurred in 2019 at Allied Universal, a US security staffing company. When Allied Universal denied its attackers ransom money (approximately $2.3m), the thieves threatened to use sensitive information extracted from Allied Universal's systems for a spam campaign impersonating Allied Universal. The "second dip" here was a second ransom demand, which requested more than double the original sum.

Covid-19

During recent months, there has been a growth in ransomware attacks during the Covid-19 pandemic. Coronavirus has exacerbated the situation as an increasingly remote workforce has brought with it certain security and risk challenges and requires a new way of thinking in terms of keeping these users and their data secure.

For example, criminals are likely to benefit from the fact many small businesses are generally unprepared for secure home working. Unpatched operating systems, lack of security awareness training, use of unsecure home devices and poor security hygiene (poor passwords, for example) are all likely to manifest in the small business sector as more people are forced or choose to work from home in the future.

After an attack takes place, businesses can use a strengths, weaknesses, opportunities and threats (Swot) approach to understand what happened, whether systems can be renewed, what back-ups are in place and how quickly they can be restored. This is a retrospective analysis using the Swot factors of the situation to learn lessons from the experience.

From an insurance perspective, cyber policies typically include business interruption costs, forensics expenses, legal liability, data breach notification costs, the costs of technology to replace software, the compensation of the ransom itself, regulatory fines in a particular jurisdiction (where insurable) and investigative costs.

Given the costs involved after a ransomware attack, P&C insurers should make sure cyber-oriented staff are fully briefed on ransomware trends so they can advise customers appropriately and so insurance products can be properly priced and managed.

CyberCube expects the nature of ransomware to continue to develop and to play an important part in the toolkit for cyber attackers. It offers the potential for systemic and high severity risk of many types including business interruption, contingent business interruption, financial loss, regulatory penalties and more.

The evolution of ransomware tactics that target the enterprise and the emergence of more sophisticated groups means that this type of cyber risk is (or will rapidly become) a strategic issue for every business.

It is reasonable to expect this "double-dipping" ransomware trend, along with the general move towards targeting corporations with ransomware will increase severity and impact in the ransomware domain in the months and years to come. ■

Darren Thomson is head of cyber security strategy and Yvette Essen is head of research at CyberCube

insuranceday

Moody's warns deteriorating economic conditions will push up insolvencies in the months ahead

JoeClemson/Shutterstock.com

Trade credit insurers to remain 'resilent' through 2020

The likes of Atradius, Coface, and Euler Hermes have benefited from government support in the crisis

Lorenzo Spoerry
Deputy editor

The three leading trade credit insurers will remain resilient in 2020 despite the impact of the pandemic, Moody's Investors Service has said.

Atradius, Coface and Euler Hermes are expected to face higher claims in the months ahead as deteriorating economic conditions push up corporate insolvencies, leading to an increase in non-payment, the rating agency said.

Their revenues are also likely to decline during the remainder of 2020 and possibly in 2021 as lower trade volumes cut demand for their product.

But they have been helped by direct and indirect support from government, the rating agency said.

Euler Hermes, Atradius and Coface have similar exposure to industries such as hospitality and travel that have been particularly badly affected by the coronavirus outbreak, but their geographic exposure differs slightly.

They have benefited from government stimulus packages to support small businesses, which account for a high share of credit insurers' income. Some European governments have also provided credit insurers with financial guarantees, allowing them to maintain coverage without taking on all the associated risk.

Moody's estimates about half of global trade credit insurance premiums are now backstopped by governments.

Coface net income falls 27% in Q3

French trade credit insurer Coface has reported lower income and revenues in the third quarter of 2020, *writes Stuart Collins*.

Net income fell 27% to €29m ($34.3m) for the third quarter, while underwriting income declined 26% to €34m.

For the first nine months, net income more than halved to €52m as underwriting income fell 49% to €75m.

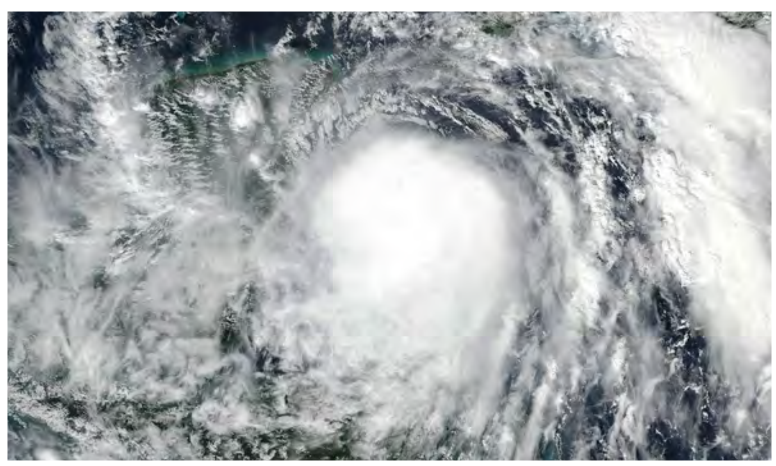
Coface reported a net combined ratio of 77.4% for the third quarter, including a 6.8-point benefit from the temporary impact of government reinsurance schemes aimed at tackling the impact of coronavirus.

Government schemes had a negative €1m impact on pre-tax profit in the third quarter, but a positive €7m effect for the nine months.

Coface's third quarter revenue fell 3.5% to €358m and was almost 2% lower in the first nine months at €1bn, reflecting reduced trade during the economic slowdown.

Rates in the quarter increased 1%, confirming the upward reversal of the cycle that began in the second quarter, the insurer said.

Zeta makes landfall as category one hurricane in Yucatán



Tropical Storm Zeta developed into a hurricane late on October 26 before making landfall on Mexico's Yucatán peninsula as a category one storm, *writes John Shutt, Los Angeles*.

Zeta came ashore just north of the resort of Tulum with maximum sustained winds of 80 mph, although it is predicted to lose power while crossing the peninsula.

The storm was expected to emerge over the Gulf of Mexico yesterday and turn to the northeast, heading toward the central US Gulf Coast, where it is forecast to make landfall on October 28.

Late on October 26 a hurricane watch was in effect from central Louisiana to the Mississippi border, where storm surge of up to 4 ft is expected. It remains unclear whether Zeta will still be a hurricane at US landfall.