Reinsurance Predictions 2024

For further information or enquiries, please contact:

Julian Miller
Partner
jmiller@dacbeachcroft.com
+44 (0) 20 7894 6859

Jon Ogle
Partner
jogle@dacbeachcroft.com
+44 20 7894 6326

DAC BEACHCROFT
Member of **Legalign Global**

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1. The insurance market will continue to develop new forms of cover for war risks

Generally speaking, insurance of war risks has been confined predominantly to marine and aviation hull, although there are classes which may be viewed as adjacent, such as political risk, political violence and terrorism. Cyber underwriters in the Lloyd's market have been specifically directed not to write state-backed cyber-attacks. While not an absolute ban, engagement with Lloyd's is required for such risks to be written. Developing war risk products is not straightforward. There are different ways to approach this topic. One option may be to develop a simple buy-back for policies which otherwise exclude war. Another option is to adopt a parametric trigger, based, for example, on disruption to critical national infrastructure. With the escalation in geopolitical risk, the need for insurance solutions has become more pressing.

2. War or terrorism – the reinsurance question

2023 has seen further ideological and national instability, resulting in various violent acts. It is often difficult to identify the appropriate classification of such acts, including the dividing line between acts of terrorism and acts of war. This is particularly pertinent to reinsurers that may exclude terrorism losses but not war, and vice versa. To further complicate matters, political violence designations under a local insurance contract may not be the same under the corresponding reinsurance contract and contracts may include aggregation language for acts of terrorism (e.g. a 72 hours clause) but not (of course) for acts of war. As a result, we will see increased reinsurance disputes activity around differentiating terrorism and an act of war.

3. Is ESG the new asbestos for reinsurers?

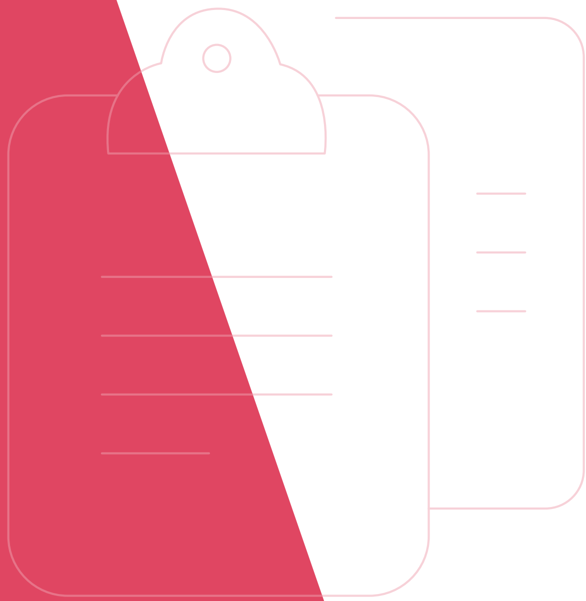
Asbestos has had a significant impact on global reinsurers. Reinsurers have entered liquidation and losses remain from asbestos exposure in the 1960s. For reinsurance contracts with damage occurring triggers, exposure may date back to any period in which the claimant was exposed to asbestos. There are similarities with ESG claims, especially climate change litigation, which relate to exposure over several years, if not decades. Companies, whose practices or products are found to contribute to climate change, may face claims for damages. We expect reinsurance contracts responding on a damage occurring basis to see increased activity as cedants seek to maximise recoveries by notifying losses to multiple years of account, which means reinsurers from years ago will have to dust off their reinsurance contracts.

4. Is there scope for parametric triggers in cyber (re)insurance?

We predict that a cyber loss index is only viable with cross-border co-operation and government imposed reporting obligations. There would need to be wide agreement that data should be submitted to a single entity. This would require an obligation to participate, rapid responses, processing and publication of consolidated data. A common approach to data privacy would also be essential. In light of these obstacles, another model is for a single company to assess whether cover has been triggered, based on agreed objective standards and its own metrics. Intangic has undertaken interesting work in this area and we watch their progress with interest. Another issue is whether a cyber loss index could trigger exclusions rather than cover. This might be part of the solution to alleviating regulators' concerns about state-backed cyber-attacks. We anticipate further innovation as the market grapples with these challenges.

5. There will be greater focus on autonomous vehicles and cyber risk

As vehicles become increasingly connected, there will be an increasing exposure to cyber risk. Cyber-attacks can take many forms and may target a single vehicle, or type of vehicle, or all vehicles that have adopted common operating systems. Beyond the constraints of Part VII, Road Traffic Act 1988 and Part 1, section 2, Automated and Electric Vehicles Act 2018, insurers need to consider to what extent such risks should be written as standard and whether they should be sub-limited or excluded. Such risks also require consideration in relation to reinsurance contracts. These may not be entirely back to back to the extent that motor policies protect against more risk than is mandated by the Road Traffic Act.



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