



Cyber Risk: The pandemic effects on insurance/reinsurance contract and market InsurTech

Date: 16th April, 2020

Speakers:

- Daniel Seoane, partner at Beccar (Argentina)
 - Carlos Estebenet, partner at Bullo (Argentina)
 - Alex Horvitz, CEO at HCS Capital (Chile)
 - Yves Hayaux du Tilly, partner at Nader Hayaux and Goebel (Mexico)
 - Toby Clowes, Director and Head of Cyber at Price Forbes (UK)
 - Moderator: Anu Khurmi, Templar Executives (UK)
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On 16 April, The Mexican Chamber of Commerce in Great Britain (MexCC) in Collaboration with the Argentine British Chamber of Commerce (BACC), The British Colombian Chamber of Commerce (B&CCC) and The Caribbean Council **hosted a webinar with** international experts from Beccar Varela, Bullo, Capital Partners, HCS Capital, Nader Hayaux and Goebel, Price Forbes, and Templar Executives to discuss “Cyber Risk: The Pandemic effect in the insurance/re-insurance and insur-Tech market”.

In broad terms the speakers concluded that:

- The current crisis is leading to a situation of increased demand in claims due to business interruptions.
- We were already seeing a growing trend in cyber risks and cyber insurance but the current situation that demands us to work from home is increasing businesses exposure and vulnerability to cyber-attacks.
- While the outlook for insurance is optimistic, there is a lot of uncertainty. Insurance like any other sector is challenged on the ways it can be proactive and transform its services considering a potential loss on the liquidity of its clients with the option of remaining flexible whilst protecting the balance sheets.
- The insurance sector has a key role to play, beyond the claims on business interruption, it will be determinant in supporting costumers and societies in the recovery phase.

The webinar was opened by the moderator Anu Khurmi from Templar Executives UK who introduced Carlos Estebenet from Bullo Abogados in Argentina



Carlos gave an overview into the Argentinian situation where the government decreed stay home orders that are expected to stay at least until the 26th April but are likely to be extended.

Argentina is facing this crisis with particularly high inflation rates and is trying to cope with strengthening health and social services. Each province has a margin to enforce stricter measures or easing those imposed by the Federal administration.

As part of the measures the administration took to alleviate the current crisis, dismissals were banned for the next 60 days, foreclosures were suspended as well as evictions, and taxes obligations were extended

The disruption of operations could trigger conflict for insurance companies and given that the payment chain is affected it is yet to be determined how to deal with the clients in case they cease to pay premiums. Flexibility will be key to avoiding disputes and the behavior of the parties will be essential in determining how this extraordinary situation evolves.

The current and potential conflicts in the insurance businesses' relation to COVID19 include event cancelation or postponement, business interruption, life and health insurance (does pandemic exclusion apply), civil liability and cyber insurance. Cyber risks increase due to the intensive use of home networks that increases our network exposure and vulnerability

Another factor will be the labour compensation for everybody working in the public health sector that is exposed to the disease.

The solution of disputes will be dependent on the wording of the policies such as if business interruption is covered given that a pandemic could be included as force majeure or whether there is a communicable disease exclusion. Also, in the case of aggregation or how we define when there are two conjoint events to cover civil liabilities.

It will also be interesting to see what will happen with coverage in policy renewals after this crisis. We must be aware that unorthodox solutions will be necessary in these extraordinary times

Daniel Seoane, partner at Beccar Varela (Argentina) continued to deepen into the Argentinian context and to explain how insurance companies are coping with this situation.

Recent changes in regulations allowed for the electronic signing of policies and premium collection via credit card, thus, no manual process is necessary and third-party claims is the only process that requires in person interaction. This has given insurance companies an opportunity to issue policies digitally.



In terms of remote working and cyber risks, disclosure of personal data and malicious software is a major risk posed to third parties. However, cyber coverage should not be disrupted if the insured continues to comply with the coverage

Alex Horvitz, CEO at HCS Capital (Chile) addressed the ongoing trends on the cyber insurance market.

Cyber risks have increased along with the number of actors and over a million ways to attack companies to disrupt their services and for monetary gains from 2014 to 2018.

Monetary losses from these attacks have increased by more than 300% and the trend is expected to grow in 2019 and even more in 2020. All industries are exposed and have been targeted, but it is worth noting that 71% of attacks targeted SMEs which are easy preys due to limited resources to protect data.

The COVID19 Pandemic has accelerated many digital transformation trends: ecommerce, telecommuting, which in turn creates new vulnerabilities that need to be addressed (including fintech). We see a massive increase in the use of video conferences. Increased traffic translates into networks and VPNs that are attractive for hackers.

We are also seeing huge jumps in e-commerce, a trend that is expected to continue growing and sustained. By 2022 the e-commerce industry will be worth around 6 trillion dollars.

Cyber liability insurance means protecting client and being ahead of the threats and trends. How to understand risk level and help client manage that risk, implies knowing technological solutions. Cyber insurance is not your typical insurance product, it is a new product that demands an active understanding and handling of your client to help manage the risk.

The frequency and severity of cyber-attacks keeps on increasing, as is the sophistication of attacks. Nevertheless, the level of innovation in cyber defense also increases exponentially. The need for cyber defense is there and it will continue to increase at an accelerated pace

There is an opportunity for the insurance companies to better understand this new risk and work together with their clients to manage it with continuous assessment and the latest available technology to face it.

Yves Hayaux du Tilly, partner at Nader Hayaux and Goebel (Mexico) shared insights on the Mexican case and challenges.



Mexico restricted activities for a month but the government's response was considered to be late, and every jurisdiction in Mexico is handling the pandemic differently. Insurance in Mexico can continue operating as a critical business. It is yet to be determined when will business interruption policies and claims will be triggered.

Mexico was also hit by the flu swine in 2008, which set a precedent in the understanding and approach to these types of situations, but the scale of the problem is much different this time.

Whatever the London market thinks is not necessarily relevant in the Mexican market, Mexican insurance companies are liable to the Mexican contract law, thus we cannot assume that policies would apply equally in London and Mexico

Policies of all risks, with added business interruption coverage, unless explicitly said so will put pressure on the insurance companies to approach it from a commercial perspective.

On the operation and regulatory aspects of contingency plans, it is understood that financial institutions are required to have contingency plans, as expected for insurance companies as well as all service providers. These plans are being stretched to their maximum capacity.

On the claim and the solvency side, we should consider the fact that securities are not in their best moment right now. Regulators are recommending insurance companies to waive the rights of dividends underpinning the effects for the upcoming months

In Mexican Insurance Contract Law policies can be cancelled after 30 days of being overdue, which raises a concern on how this situation will unfold.

Fintech law has fallen short of expectations, thus Yves recommended reviewing cyber risks policies.

Toby Clowes, Director and Head of Cyber at Price Forbes (UK) gave an outlook into the London market status and its evolution.

This situation is teaching us that how will we work in the future, and how business is conducted will be transformed.

Insurers are protecting their balance sheets that can be harmed from diverse insolvencies. Businesses are being pushed into a situation that they have not been in before, and this crisis is going to determine premium adjustments for the coming years



Cyber insurance demand is increasing given that the criminal aspect in terms of hackers is evolving. The black-market economy for data and is incredibly valuable and it has proven to be threatening specially to retail services and the healthcare industry.

Cyber extortion is a new form of business disruption and it became a new trend in 2016 and 2017 with the increased digitalization of services. In the current pandemic these services will inevitably be targeted.

Policies are well designed to cover clients to cover breach costs, however 60% of SMEs that are not insured against cyber risks are expected to go bust within a year.

The weakest link in terms of cyber security is always individuals, your employees.

We can expect an increased number of attacks and thus claims in the following eighteen months which will drive premiums up harming new potential clients.

Overall, expert speakers agreed that insurance services will have to adapt to the circumstances, and though they may be constrained by particular country laws and restrictions in place, the behavior and flexibility of parties will determine the future of prices and services. Cyber insurance will become even more relevant; therefore it is important to design products and services that can insure clients from cyber threats. Given the rise of demand in claims, insurance services must be proactive in designing an approach to help businesses manage the crisis and through the recovery phase.

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