

News Release

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Cyber, Terrorism and New Compensation Structures Highlighted as Critical Emerging Risks in Guy Carpenter Report

New York, September 15, 2014 – Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist and a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), today published a new report highlighting emerging risks facing the (re)insurance sector, including cyber-attacks, terrorism and new compensation structures for long-term bodily injuries. The report seeks to identify and categorize these risks that are now confronting the sector, as well as analyze their implications on businesses and (re)insurers.

In this report, Guy Carpenter places emerging risks in three categories: technological, crystalizing and aggravating; and also discusses reserving and modeling as part of the emerging risk management process.

The first category of emerging risk – technological – includes risks that are genuinely new and that emerge from new technologies and processes. Guy Carpenter takes an in-depth look at cyber risk as an example of a technological emerging risk. The crystalizing category contains those risks that are not novel but whose implications are evolving. The report assesses emerging compensation structures for long-term bodily injuries in the form of periodic payment orders as an example of a crystalizing risk. In the final category of emerging risks – aggravating – are those perils that are relatively well-known but their incidence and impact are becoming potentially more serious, such as terrorism.

The rise of casualty catastrophe models that have been developed to quantify these risks is also examined in the report. The final section looks at reinsurance responses to the threat of emerging risks, their impact on loss reserving cycles and how to mitigate those cyclical effects.

“Uncertainty can be lurking on an insurer’s balance sheets in the form of a casualty catastrophe or an emerging and not as yet fully understood risk such as cyber,” said Morley Speed, Managing Director, GC Securities. “Whatever the category of emerging risk, the main challenge lies in modeling and quantifying the potential impacts. Only in this way can insurers leverage their key capability, which is the creation of value by risk management,” Mr. Speed said.

CYBER RISK

According to Guy Carpenter, cyber-attacks are now seen as one of the most serious economic and national security challenges facing governments around the world. They also present a set of aggregations/accumulations of risk that spread beyond the corporation to affiliates, counterparties

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and supply chains. Companies are uncertain of how much coverage to acquire and whether their current policies provide them with protection.

Marsh, a global leader in insurance broking and risk management, estimates the US cyber insurance market was worth USD\$ 1 billion in gross written premiums in 2013 and could reach as much as USD \$2 billion this year. The European market is currently a fraction of that, at approximately USD \$150 million, but could reach as high as EUR900 million by 2018, according to some estimates.

Earlier this year, Guy Carpenter announced the launch of its Cyber Solutions Specialty Practice, which focuses on the development and delivery of innovative cyber reinsurance solutions to address the rapidly increasing risks associated with cyber security. Guy Carpenter's Cyber Solutions Specialty Practice has assisted in placing standalone cyber liability treaties for mature and emerging portfolios, and created innovative solutions for regional and mutual carriers. Guy Carpenter's industry leading practice has been successful in helping clients assess cyber portfolio volatility, and structure reinsurance solutions that address this in the most cost-effective manner.

EMERGING COMPENSATION STRUCTURES

In its report, Guy Carpenter found that compensation for provision of long-term care for bodily injury is becoming an increasingly challenging problem for society in general and insurers in particular. For severe bodily injury cases in the United Kingdom, claimants are now highly likely to opt for an annuity/periodic payment order (PPO) rather than a lump sum. As a consequence, the uncertainties that previously had been transferred to the claimant are now retained by the insurer and to a certain extent, its reinsurers.

TERRORISM

Given the growing population, regional conflicts, the expansive reach of social media for extremists to spread their messages and recruit, as well as the diversity of possible attack modes to cause human and economic loss, Guy Carpenter cites terrorism as an emerging risk. Currently, there is uncertainty in the US terrorism market coming from the fact that the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) is scheduled to expire on December 31, 2014 and US lawmakers have not yet authorized a renewal program.

CASUALTY CATASTROPHE RISK MODELING

According to Guy Carpenter, casualty or liability-based catastrophes have become increasingly frequent and severe over the past decade, exposing (re)insurers to more risk than they may have realized and reserved for. Until recently, casualty insurers had little choice but to accept this risk as losses emerged. The maturation of enterprise risk management practices and the development of new niche, open platform and casualty-specific catastrophe models signal a change. It is becoming possible to model the accumulation of an increasing number of casualty risks, whether technological, crystalizing or aggravating, both knowable and manageable.

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RESERVING RISKS

The final section of Guy Carpenter's report looks at reinsurance responses to the threat of emerging risks and their impact on reserve cycles. "In assessing the impact that emerging risks could have on insurance cycles there has to be an understanding of the magnitude of any change in ultimate loss and the likely timing of the recognition of that change," stated Victoria Jenkins, Managing Director, Head of Technical Innovation EMEA. "A reconsideration of the construction of reinsurance buying strategy is needed to mitigate the effects of the insurance cycle."

The full report, *Ahead of the Curve: Understanding Emerging Risks*, is available for download at www.GCCapitalideas.com.

TAGS/KEYWORDS

Guy Carpenter, cyber risk, cyber-attack, PPO, periodic payment order, MetaRisk® Reserve™, Cyber Solutions Specialty Practice, i-aXs®, GC Risk Profiler, GC RealCat, casualty, TRIPRA, Morley Speed, Victoria Jenkins

About Guy Carpenter

Guy Carpenter & Company, LLC is a global leader in providing risk and reinsurance intermediary services. With over 50 offices worldwide, Guy Carpenter creates and executes reinsurance solutions and delivers capital market solutions* for clients across the globe. The firm's full breadth of services includes line-of-business expertise in agriculture; aviation; casualty clash; construction and engineering; cyber solutions; excess and umbrella; excess and surplus lines; healthcare & life; marine and energy; mutual insurance companies; political risk and trade credit; professional liability; property; retrocessional reinsurance; surety; terrorism and workers compensation. GC Fac® is Guy Carpenter's dedicated global facultative reinsurance unit that provides placement strategies, timely market access and centralized management of facultative reinsurance solutions. In addition, GC Analytics®** utilizes industry-leading quantitative skills and modeling tools that optimize the reinsurance decision-making process and help make the firm's clients more successful. For more information, visit www.guycarp.com and follow Guy Carpenter on Twitter [@GuyCarpenter](https://twitter.com/GuyCarpenter).

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