

GUY CARPENTER



Harry Oellrich
is a Managing
Director at Guy
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Internet-Related Business Risk Part Two

In this, the second installment of a two-part interview on Internet-related business risks, Harry Oellrich, Managing Director of Guy Carpenter, discusses some of the new stand-alone Internet insurance policies that are now available and how Guy Carpenter is helping insurers quantify their risks and select the risk transfer options best suited to their goals.

Harry is presently responsible for several large clients within the global accounts department in New York. Additionally, he is a member of the firm's Professional Liability Initiative and Professional Liability Practice and is coordinating its e-commerce reinsurance activities.

Topics At A Glance:

- Stand-Alone Internet Insurance Policies
- Guy Carpenter's Role
- The Future

Stand-Alone Internet Insurance Policies

Guy Carpenter Views: How are insurers responding to the need for stand-alone products to address Internet risks? What standards are they using to underwrite these risks?

Harry Oellrich: Over the last year or so, a number of policy forms have been created and unveiled to meet client needs.

The two products with which we at Guy Carpenter are most familiar are Marsh's NetSecure and AIG's NetAdvantage Security+. These products, which have been available for several months, have been met with considerable interest in the marketplace.

The development of these products involved our collaboration over several months with a small panel of forward-thinking reinsurance underwriters to develop a detailed understanding of the original exposures and the terms and conditions written into the forms to address them. Reinsurers provided valuable input into the original products during their extensive educational and treaty due diligence process, resulting in several changes to the original policies. Only then was a reinsurance structure built to enable reinsurers to support the sizeable capacity needed to underwrite these products.

In Part I of this interview, I mentioned that a security assessment is a critical component of the underwriting process undertaken on each insured applying for coverage. Based on the so-called British Standard 7799, an assessment

by an independent Internet security firm must be performed, which then becomes a significant component of the insurer's evaluation of that prospective insured. These expert assessments provide the insurer with the expertise, insight, and confidence needed to quote these new coverages.

GCV: Can you describe some of the stand-alone products that are currently available? What do they cover?

HO: The policies we have worked with have three major components: property, liability, and crime. They may be written either as difference in conditions coverage to wraparound coverage granted under existing policies or as stand-alone primary policies.

Prospective insureds can elect the full array of coverages, or they can choose from a menu of coverage options only those sections that they feel are needed. All sections selected are then subject to an overall policy aggregate limit of liability during the policy term and possibly to sublimits and deductible provisions as well.

In addition, the business interruption section of the property component is subject to an additional deductible comprised of an hourly waiting period that must be met prior to recovery.

Guy Carpenter's Role

GCV: What is your role in this market? Can you describe the process of working with clients to help them manage their Internet exposures?

HO: Thus far, our role has been one of collaboration. We have worked closely with a carefully selected group of reinsurers that have shown a commitment to familiarizing themselves with the new exposures and products being developed to manage them.

These reinsurers have the vision necessary to undertake a time-consuming, long-term project that has a modest short-term payoff, but perhaps an unlimited long-term potential. The immediate return for these reinsurers is that they are positioned on the cutting edge of the ongoing process of developing a reinsurance marketplace for an exciting new collection of insurance products.

Before any steps in the product development process could be taken, all parties involved-which obviously included Guy Carpenter-needed an education on the technology, processes, and exposures present in the Internet and e-commerce business models. Only then could reinsurance treaty structures and terms be contemplated and negotiated.

As clients expand their e-business product offerings, Guy Carpenter, along with the reinsurers with which we work, have the understanding necessary to quickly and affirmatively evaluate and respond to requests for reinsurance support.

GCV: Are your clients concerned about both first-party and third-party Internet exposures? Would risk management strategies differ for each kind of risk?

HO: Ceding companies are understandably concerned at this

point with both kinds of risk. Any time a new product is created and sold, insurers must proceed cautiously, as no historical information exists to support pricing, exposure to loss, and so forth. Reinsurance is often used to support the rollout by mitigating the magnitude of unknown exposures.

Two distinct strategies seem to be emerging for managing e-commerce risks. The first will be to employ limits-exposed "risk" reinsurance to support limits put out to individual insureds for all coverage sections in the aggregate. The second will be to obtain "catastrophe" protection to reinsure against an untoward or unacceptable accumulation of risks or insureds involved in one event or occurrence.

This catastrophic exposure, which emanates from the business interruption (BI) segment of the property component of these new Internet policies, is of particular concern to both insurers and their reinsurers. Over time, as more accounts are written, the BI exposure – which we have nicknamed "cyber hurricane" – will accumulate and must be quantifiable and adequately addressed.

GCV: What are some of the unique capabilities that Guy Carpenter offers to clients in this area?

HO: Guy Carpenter began preparing for this exciting new niche opportunity even before the formal introduction of the new Internet liability policies discussed earlier.

We are actively involved in ongoing discussions designed to understand, sufficiently define, and then address the "cyber-hurricane" exposure. Thus, when writings and exposures reach critical mass, we will have worked to have a mechanism in place for addressing them as well as a marketplace for the solutions that we develop. Without this marketplace, writings of these coverages will quickly be limited.

Should traditional markets be unwilling or unable to protect against "cyber hurricane," Guy Carpenter has the necessary access to nontraditional methods of addressing these risks. For example, we can explore the use of capital markets or the design of a specific reinsurance vehicle as we have done in the past with Centre Re, Mid-Ocean Re, ACE and XL.

In summary, we have made the commitment to understand these exposures and are prepared to work with our clients and reinsurers to meet their evolving needs in e-commerce.

The Future

GCV: How do you see Internet risk evolving over the next few years? What insurance products do you expect to see? How is Guy Carpenter preparing for the future?

HO: In coming months, we will likely experience the intensification of a debate over what coverages, if any, are granted under traditional property and casualty policies. Similarly, on the reinsurance side, we will see whether coverages can be efficiently run against a ceding company's existing property and/or casualty catastrophe protections.

In a very short time, a vast number of businesses will be selling their goods and services over the Internet. Each of these businesses will need to evaluate and address its related exposures. This provides a nearly limitless marketplace for

insurers and the reinsurers willing to grapple with these risks.

Current products addressing Internet risks will likely be modified to take advantage of the knowledge being gained as the market develops. New products and players will undoubtedly enter the marketplace. As with everything else that has to do with Internet technology, these developments will happen in an unprecedentedly short time frame compared to what would be expected in the traditional bricks and mortar world.

Guy Carpenter has committed the resources necessary to put us at the forefront of this field. The next few years will be very exciting, as they will dictate the future direction and magnitude of this rapidly evolving marketplace.

A managing Director of Guy Carpenter, **Harrison D. Oellrich** is responsible for several large clients within the Global Accounts Department.

Mr. Oellrich began his career with Guy Carpenter in 1979 and has negotiated and placed a wide variety of property and casualty reinsurances for several of Guy Carpenter's most prestigious clients during his nearly 20 years with the firm.

A graduate of Hofstra University, he earned a BA in Political Science and an MBA with a concentration in Management while studying there. He can be reached via e-mail at marketing@guycarp.com

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