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Jerry Wallis at jwallis@irua.org, Maria Sclafani at mcs@irua.org, or Vickie Dimond at VDimond@demotech.com

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Introduction

BY JERRY WALLIS, IRUA EXECUTIVE DIRECTOR

The year is flying by and time for another edition of the *Journal of Reinsurance*. This time around we have three excellent articles that provide good food for thought as well as detailed technical information that has been the hallmark of the publication for over 27 years.

Our first article is written by Rod Thaler and reflects his passion for the subject of residential catastrophe loss mitigation. His paper entitled *Re*Insurers as Catalysts Mitigating the Impact of Climate Change Now thoughtfully propels the reader through the personal and societal benefits of promoting loss mitigation arising from natural catastrophes. He makes the case well that, with the (almost) undisputed climate changes taking place leading to more frequent and extreme weather affecting the planet, the reinsurance/insurance industry is uniquely positioned to help society manage catastrophe risk in an efficient and beneficial manner. Rod is the Founder of RT Mitigation having retired in 2020 following a near-45 year career as a reinsurance broker, much of which was spent managing catastrophe risk and providing technical solutions for client companies globally.

Staying with catastrophe losses, article two is an excellent thesis by Thomas Johansmeyer of PCS, a Verisk business, entitled: Could Political Risk Become the Next Source of Cat Loss Inflation? Tom kindly presented a webinar for the IRUA in June this year, and his article is a thought provoking thesis on the political, regulatory and institutional actions following a major loss event that can, and has, impacted insurer/reinsurer losses. Mr. Johansmeyer has had strong exposure to the reinsurance industry through stints at Guy Carpenter and Deloitte and has led PCS from a North American focused business to one of significance in Latin America, Asia Pacific and Turkey. As a side issue, he has also joined the IRUA Industry Advisory Panel of the *Journal of Reinsurance* so we can expect more input (and output) from him in the future.

Our third and final article is again by a repeat author and good friend of the IRUA, Vincent Vitkowsky. Mr. Vitkowsky is a well-known attorney and prolific author and is a Partner in Gfeller Laurie LLP in New York. This paper was co-authored with, now former, colleague Stacey Samuel who has moved to a leading insurer. This exhaustive work entitled: A Legal Guide to Insurance Coverage for Violent Protests, Terrorism, Insurrection, and Revolution takes a detailed look at the coverage the issues arising from these all-too frequent occurrences and legal decisions arising from such coverage disputes. This excellent reference tool should be of great assistance to claims professionals and continues Vince’s scholarly works over many years.

IRUA News

2021 has been an extremely active year as respects educational events and by the time you read this we will have held 10 excellent virtual events covering a multitude of subjects. These events can be found on our “Schedule of Events” listed in the back of this issue or on our website at www.irua.org.

In 2021, we began an new and innovative series covering a 24-month period called the Reinsurance Basic Syllabus Program. This will total 12 one hour events to provide a good grounding in reinsurance basics and best practices. Thus far, we have offered Reinsurance Casualty Underwriting Audits; Reinsurance Property Underwriting Audits; and All About Reinsurance Structures. Coming up in October we have Actuarial Principles for the Non-Actuary. In 2022, we have more in the planning stage – including an Introduction to Reinsurance; Contracts; Cat Modeling for Underwriters & Brokers; Reinsurance Markets; Property Underwriting for Non-Property Professionals and a similar session on Casualty Underwriting for Non-Casualty Professionals. We have several people enrolled in this Program and they will receive suitable recognition and a certificate upon meeting the requirement of participating in 10 of the 12 sessions.

Our Conference Committee is well into planning our next marquee event – the 2022 Annual Meeting & Conference scheduled for April 25 – 27, 2022 at the same location – the Marriott Harbor Beach Resort in Fort Lauderdale, Florida. We are very excited to announce that this will be a Joint Conference with Demotech, Inc. so expect some new, relevant and exciting conference topics to make this even more of a must attend event.

Registration is already open on our website so plan on attending the expanded and enhanced event which is open to both members and non-members.

If you are not receiving our e-mails and IRUA Newsletter, please let us know and we will add you to our free subscription list.

As always, we remind you that all member company persons, individual members and *Journal* subscribers can access, free of charge, all articles published since 1993 by following the JOR Archive link on the website homepage at www.irua.org.

Best regards,

Jerry Wallis

IRUA Executive Director and the JOR Team
(Re)Insurers as Catalysts Mitigating the Impact of Climate Change Now

BY RODERICK P. THALER

About the Author
Mr. Thaler graduated, with Honors, from Harvard College and did post-graduate studies at St John’s School of Risk Management. Since 2017 Mr. Thaler has been largely focused on the need to actively accelerate natural catastrophe mitigation for residential homes in key catastrophe prone states. His near total immersion into solving ways to engage public and private sector leaders to support residential catastrophe mitigation, has progressed unabbrated during the Pandemic. He has applied executive level insights scrutinizing resiliency benefits to diverse siloes, to reinforce the collective benefits that public and private organizations can derive by fortifying homes. Rod has an unrelenting passion for catastrophe mitigation, that goes back to 1976, a few years before FEMA was created, when he began his career as a catastrophe reinsurance broker.

He is the Founder of RT Mitigation having retired from Holborn Corporation in February 2020. Prior to joining Holborn in 2015, Rod was Vice Chairman of the Americas at Aon Bentfield for nine years where he co-led Aon’s Global Reinsurance Clients(GRC), charged with identifying best risk management innovations globally. Prior to joining Aon, Rod was a member of the Willis Re NA Executive Committee, and played an active role in reshaping Willis Re from 1999 to 2006. Creating diverse new revenue production sources helped to make Willis Group one of Kohlberg, Kravis, Roberts’ (KKR) best investments.

Mr. Thaler graduated, with Honors, from Harvard College and did post-graduate studies at St John’s School of Risk Management.

Abstract
As many different industries, including (re) insurers are addressing the causes of Climate Change, (Re)Insurers can provide more tangible leadership applying indigenous catastrophe risk expertise to help people mitigate the effects of Climate Change. The time to act is now, not next year, using our core competencies in managing catastrophe risk, to spur others to become actively engaged in supporting residential catastrophe mitigation nationwide.

The ideas expressed herein have not been developed in a vacuum by a Washington think tank. Rather, these are the ideas of a catastrophe risk practitioner for over 4 decades having been immersed in a dedicated project for more than three years to expand funding sources for residential catastrophe mitigation, which of necessity has included a deep dive into one state’s interaction with FEMA, so as to create an informed basis for recommending positive changes.

INCREMENTAL IMPROVEMENT IN NATURAL CATASTROPHE MITIGATION EFFORTS WILL NOT MOVE THE DIAL
The economic consequences of not taking more significant steps now to mitigate potential catastrophic events can be devastating. There are many lessons learned from the Pandemic, beyond the personal tragedies. We are living with the economic consequences; a weakened economy that is ill prepared to shoulder large natural catastrophes body blows.

FEMA ALONE IS NOT THE SOLUTION
While FEMA’s main focus for disbursing BRIC funding, understandably is on infrastructure, and multi-jurisdictional or community projects, it could be a pyrrhic victory for those communities or counties post event if the accumulation of debris removal expense due to the sheer number of homes losing their roofs, collectively causes local budget havoc, severely impacting local funding available for essential services such as school, police & health services. With the prospect of an increase in the frequency of severe natural catastrophes due to Climate Change, business as usual will not carry the day. FEMA is stretched on COVID-19, disaster recovery, and larger infrastructure mitigation. So, with limited Pre-Disaster Mitigation (PDM) funding for homes, this simply magnifies the need to be more efficient, and to create force multipliers.

RECOMMENDATION: FEMA SHOULD INCENTIVIZE STATES TO CREATE RESIDENTIAL CATASTROPHE MITIGATION
Necessity has been the mother of invention in previous times of national challenge, spurring greater private sector initiatives to make government more efficient. A report titled, “Force Multipliers for Mitigation; Coming Together to Do More”, was recently submitted to FEMA Mitigation leadership in Washington, DC. This report provides a detailed outline of the many
force multipliers to exponentially broaden the reach of home mitigation for hurricane and tornado, and aspirationally, to apply a similar process to address other peak catastrophe perils over time. The ability to elevate the discussion of natural catastrophe preparedness, can create closer coordination of best mitigation practices between states, helping to take tangible steps to address climate change.

WHY STATE RESIDENTIAL CATASTROPHE MITIGATION PROGRAMS?
FEMA spurring the creation or expansion of state home mitigation programs would create an additional distribution system to efficiently spread mitigation, not unlike insurers creating more efficient distribution channels for simpler personal lines insurance products. Also, this approach would enable FEMA to concentrate on larger infrastructure and community mitigation projects which indisputably require more of FEMA’s time and expertise. Facing budgetary pressure, FEMA will be focusing on many pressing issues so that resources remaining for residential mitigation will likely be relatively small, certainly not the needed quantum leap in resources and efficiencies

FEMA INCENTIVIZING STATES TO BUILD RESIDENTIAL MITIGATION SERVES A LARGER AGENDA
Introducing private sector efficiencies in managing the application process for mitigation funding and data reporting can be achieved by incorporating portfolio management processes as used in treaty reinsurance. Making the process easier for homeowners (and for states) is critical to accelerating home resiliency nationwide.

Spurring states’ outreach to private sector partners on far less complicated projects, with multiple states as “innovation labs for mitigation” would likely foster greater awareness of more creative ways to engage the private sector, potentially multiplying the value of each FEMA Pre Disaster Mitigation dollar, which is a high FEMA priority.

Sharing lessons learned by the existing state mitigation programs will provide valuable insights from AL, SC, and NC. (See video on fortified homes in recent Hurricane Sally). Focused sharing of best practices can be accelerated through dedicated virtual conferences, but in the meantime simply sharing some links provides a snapshot of the value of fortifying homes, and a proof statement that state wind mitigation programs are effective.

Institute for Business and Home Safety; science with proof statements
• The science and technology behind the FORTIFIED Home™ standard
• Enhancements leading to FORTIFIED Home™ based on empirical evidence
• Hurricane Demo at the IBHS Research Center
• Hurricane Sally impact on Alabama
• National recognition for Strengthen Alabama Homes Build Strong DC Forum 2019

Note: The author remains independent of IBHS though he does applaud the quality of IBHS’ work. However, if other organizations develop more suitable standards for mitigating residential catastrophe risk, states and their citizens should be able to avail themselves of the optimal risk management solution, regardless of what organization develops such new solutions.

TECHNOLOGY EXISTS TO MATERIALLY REDUCE THE CATASTROPHE RISK EFFECTS OF CLIMATE CHANGE
The insurance industry is uniquely well positioned to apply its core strength in catastrophe risk management that can help spur other industries and multiple layers of government, to make it a priority to accelerate the process of hardening homes to natural catastrophe damage. As diverse industries become engaged in supporting residential catastrophe mitigation, whether for their employees, to support their communities or in support of their larger corporate ESG mission, (re)insurers will benefit from the resulting increase in resilient homes, which might be described as a “de facto quota share” benefitting (re)insurers. There is more discussion of customizing various “Mitigation Products’ to appeal more specifically to a business’ operating, branding, marketing or ESG priorities, in the report to FEMA referenced above.

NARROWING THE DAMAGE PATH OF TORNADOES AND HURRICANES

A high percentage of wind damage occurs at wind speeds less than 115mph which can be protected, covering a high percentage of the wind field, lessening the impact of post event demand surge. Think of a 200-mile-wide hurricane wind field and ask yourself why should we continue to allow damage to occur in ¾ (or more) of the wind field at wind speeds less than 115 mph, that could be prevented?

Safer Cars, Safer Homes... It Is Not a Coincidence
There are good examples of how Residential Mitigation programs in a few
states already make it easier for homeowners to fortify their homes against hurricanes and tornadoes. (Alabama, South Carolina and North Carolina). Not unlike the rapid advances in auto safety led largely by the Institute for Highway Safety, The Institute for Business and Home Safety is rapidly making strides in eliminating hurricane wind damage in all but the most severe events. The common denominator is that these organizations have been backed by insurers and reinsurers, actively focused on reducing risk.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) IMPERATIVES CAN HELP SPUR RESIDENTIAL CATAS-TROPHE MITIGATION BY EMPLOYERS AND OTHERS

It is possible to build resiliency even with stressed state budgets, and a big new factor is that fortifying homes helps businesses address corporate ESG priorities while achieving meaningful operational as well as branding benefits. Keeping roofs on homes avoids more household toxic waste going into landfills post event, while providing personal protection, as well as shielding local budgets for social services, police or health care from drastic cuts if towns are faced with staggering debris removal costs due to more homes being destroyed.

**There Are Many Benefits to Systematically Spread Fortified Homes Nationwide**

- Compelling economics for homeowners / helping the economy while protecting people.
- Social and environmental / fortifying homes in impoverished areas, avoiding more toxic waste.
- Uniting diverse segments of society / reinforcing trust that government can be efficient.

**ECONOMIC BENEFITS OF EXPANDING STATE MITIGATION**

**State Economic Benefits**

The University of Alabama Center for Business and Economic Research has studied the economic impacts of the Strengthen Alabama Homes (SAH) state wind mitigation program, in Baldwin and Mobile counties, focused on output, value-added, earnings and employment. Output refers to total or gross business sales and contains value added, which is contribution to gross domestic product (GDP) or the value of goods and services produced on a value-added basis. Earnings impacts are part of the value-added and are the wages and salaries of the workers recognized by the employment impact.

**Economic Impact of Strengthen Alabama Homes**

Source: “Economic and Fiscal Impacts of an Increase in Consumer Spending on Baldwin and Mobile Counties and the State of Alabama.” University of Alabama Center for Business and Economic Research. A copy of the complete study is available here.

Notes: The economic impacts focus on output, value-added, earnings and employment. Output refers to total or gross business sales and contains value-added, which is contribution to gross domestic product (GDP) or the value of goods and services produced on a value-added basis. Earnings impacts are part of the value-added and are the wages and salaries of the workers recognized by the employment impact.

**REDUCING DISASTER PAYOUTS, PROTECTING THE NATIONAL DEBT**

**Catalyst Value to the Nation**

In view of the Pandemic, with the National Debt exacerbated and with the looming need for large infrastructure funding, it has never been more important to find fiscally prudent risk management solutions. Doing nothing to accelerate making more homes resilient will cost far more. The exhibit below simply puts a marker in the ground to give some sense of how more residential state mitigation programs could materially reduce damage based on a few different scenarios. Two key factors are simplifying the process for states to interact with FEMA, and sharing the lessons learned by the initial state programs in accessing private sector support.

The multiplier value increases most steeply when more of the key cat-prone states engage, the size of the BRIC PDM fund grows, and states are able to secure disproportionate support for each PDM dollar used by states to prime the pump with larger employers in their state. Having established a growing number of such state residential mitigation programs creates a built-in distribution system to more efficiently push out much larger PDM funding in the future, and to be able to do so much more quickly.

**National Economic Benefits**

* Above assumes that each state commits $10 million, but in reality, some will commit more or less.
** If DRRA was enacted one year earlier, based upon the larger cat losses, the PDM Funds would be closer to $38 this past year, so if the amount increased by 6-fold but the amount allocated for state mitigation was only doubled, it would still provide a large reduction in damage.
• Widely accepted savings ratio of $1 mitigated = $4 less damage (National Institute of Sciences).
• Idea is to turn each FEMA mitigation dollar into $2 to $3, and increasing the mitigation value from $4 to $12.
• If states are successful in using discounts to secure employers’ commitment to fortify a minimum number of employee or others homes each year, the multiplier value of each PDM dollar could jump much higher, making the above figures very conservative.

Social Benefits of Expanding State Residential Mitigation
Supporting impoverished communities is a huge priority for FEMA. State mitigation programs are better positioned to partner with local community foundations enhancing the quality of housing provided to impoverished communities. The systematic statewide approach, building upon local community foundations’ existing ties to impoverished communities and local business leaders, can be solidified with a diverse array of “mitigation products,” that help customize private sector support.

Collaborating with various professional and academic institutions can help create more empirical evidence to help quantify the value of fortifying homes. Expanding the breadth of analysis to quantify diverse benefits of fortifying residential homes can be spurred by state mitigation programs forging close relationships with leading universities in their state. Some initial areas of university research may include the following:

• Environmental impact, and cost savings by reducing debris removal post event as more roofs staying on homes reduces the amount of toxic household waste going into landfills & streams.
• Quantifying the financial dislocation to towns, municipalities due to the adverse budget impact of unexpected large debris removal costs.
• Quantifying the significant reduction in demand surge construction costs post event by sharply reducing the damage path of the event.

Environmental Benefits of Expanding State Residential Mitigation
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• Quantifying the significant reduction in demand surge construction costs post event by sharply reducing the damage path of the event.

Articulating value
Having conducted over 80 meetings in Alabama, communicating how diverse businesses and government leaders benefit from the greater resiliency that is derived from fortifying homes, is simply articulating value. Similar to convincing different underwriters why a ceding company’s program structure and pricing makes sense in the context of the underlying exposures. This is a journey not a sprint, and will no doubt be aided by ESG considerations as a favoring wind that did not exist heretofore.

Adapting best practices
Let nothing evade your eyes, plagiarize! Applying more efficient practices from treaty reinsurance to ramp up capacity to mitigate more homes while controlling the cost, reducing the processing time, and maintaining transparent controls.

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With a plethora of new products and distribution ideas reshaping the (re)insurance industry, it is natural to think about unleashing the power of a new distribution system for FEMA, though that is not something that would naturally be raised internally by FEMA leadership. Having come through the Pandemic, witnessing the ubiquitous role of FEMA as the national backstop for all manner of emergencies, it is high time that FEMA’s capabilities be reinforced with state-based residential catastrophe mitigation programs, creating a quantum leap in the broad reach of mitigation while simultaneously accelerating its implementation. All the while, FEMA’s role as thought leader on Mitigation is enhanced, as it will increasingly be at the nexus of identifying and sharing best mitigation practices among all states.

The ideas expressed herein only scratch the surface, much like an iceberg where only a relatively small portion is visible at the surface. More will be revealed in the coming months as we need to accelerate the pace of innovation. And yes, the (Re)insurance industry can lead by example!
Could Political Risk Become the Next Source of Cat Loss Inflation?

BY THOMAS JOHANSMeyer

Abstract
Catastrophes seem to be getting larger and more frequent. The number of catastrophe events designated by PCS®, a Verisk business™, in the United States has reached record-setting territory every year for the past five years. And the number of events reaching an industrywide loss threshold of at least US$1 billion has reached record levels in 3 of the last 4 years.

In reviewing the context around catastrophe losses since 2017, PCS noticed several political risk indicators that have the potential to impact catastrophe events in the near future. Whether it’s because of a slow response to address a catastrophe in progress or political wrangling that delays or disrupts the flow of post-event aid, early institutional decisions could impact re/insurer loss ratios for years to come. Political risk, consequently, could impact re/insurer risk and capital management in the natural catastrophe space.

It’s difficult to isolate the potential drivers of this trend, and there are many working theories in play – from regulatory change to exposure inflation to climate change. And there could very well be at least a kernel of truth to each. However, we’ve found that the factors behind industry loss in the United States could include some subtler factors that warrant more attention – and which, in fact, should be treated as emerging issues in their own right.

A DEVELOPED MARKET CHALLENGE
The impact of political risk on natural catastrophe response may not seem – at first glance – like the sort of issue you’d encounter in developed economies. Even when faced with a polarized electorate, institutional strain, or other impediments, mature market governments tend to respond well to catastrophe events. In the extreme, using aid to help friends and punish opponents has been seen as more likely to come from a subset of emerging markets typically fraught with political instability and unreliable institutions. That belief simolv may not be fully accurate any loneer.

Over the past four years, the PCS team has noted high levels of annual catastrophe activity in the United States, Canada, and Japan. The accumulation of loss events tends to be exacerbated by the fact that remediation is rarely completed in the same year as a major catastrophe event. Consequently, the recent past remains very much a part of the present.

Let’s take a closer look at Hurricanes Harvey and Irma. They caused several significant challenges for the re/insurance industries – one of them being a shortage of qualified claim adjusters. Two large nearly simultaneous catastrophe events are difficult in general, and Irma was worsened by the fact that it was the first major hurricane in Florida in over a decade. The event revealed local legal and regulatory issues that resulted in ongoing loss creep for which the re/insurance industry wasn’t fully prepared. Since then, several large catastrophe events have experienced responses that some believe to appear politically imbalanced, to include the 2020 wildfires in California and the Pacific Northwest.

Political risk clearly came to bear on post-catastrophe response in the United States, and that provides greater insight into the global implications of political risk on natural catastrophe events. Along with the important political and social implications – which other institutions are better equipped to examine – PCS has found that the re/insurance industry could also feel the impact of slow aid and relief responses driven by imbalances in power and authority. The politicization of post-catastrophe response could affect the industry’s performance and its ability to serve end customers over the long term.

NATURAL CATASTROPHE CLAIM INFLATION FROM POLITICAL RISK
As we begin to see political risk encroach more directly on catastrophe response, it’ll be important to measure the impact on re/insurer performance, as difficult as that may be. It’ll require that the global re/insurance community identify the ways in which government response could result in higher post-catastrophe remediation costs of the sort that would ultimately reach their balance sheets. PCS has found five fundamental issues as a starting point:
1. Understanding the natural threat
2. Initial event response
3. Impact of the pandemic on claim handling
4. Ideological gridlock
5. Voting behavior in catastrophe-prone states
It’s no secret that early intervention before and during a catastrophe can help save lives and protect property, and that includes not just the timeliness of the response, but also the quality of it.

Understanding the natural threat: Traditionally, the re/insurance industry didn’t believe there were many perils that could become large enough to impact mobility profoundly in a catastrophe-affected area. Hurricanes and earthquakes were seen as the “big” perils. That’s changed over the past 25 years. In addition to the potential impact of a terror event (PCS designated the September 11, 2001, terror attacks as “fire and explosion”), wildfire has also demonstrated that it can provide far more local disruption than previously believed. The same is true for severe convective storms with large tornadoes. Re/insurers need to take a broader view of the sorts of perils that could become large enough to impact mobility profoundly in a catastrophe-affected area. Hurricanes and earthquakes were seen as the “big” perils. That’s changed over the past 25 years. In addition to the potential impact of a terror event (PCS designated the September 11, 2001, terror attacks as “fire and explosion”), wildfire has also demonstrated that it can provide far more local disruption than previously believed. The same is true for severe convective storms with large tornadoes. Re/insurers need to take a broader view of the sorts of perils that could become large enough to impact mobility profoundly in a catastrophe-affected area.

The notion that such events could keep voters from polling places thus translates to a potential direct impact on the fundamental mechanism of representative democracy. And that means natural catastrophe risk could in turn impact the institutions that would then determine post-catastrophe response policy. Essentially, political risk and natural catastrophe risk could be wrapped up in a self-reinforcing loop.

Initial event response: It’s no secret that early intervention before and during a catastrophe can help save lives and protect property, and that includes not just the timeliness of the response, but also the quality of it. Political decisions play a crucial role, particularly when it comes to the speed and quantity of support during and immediately after an event. Even simple measures such as budget changes, agency reorganizations and priority resets as the majority party changes could impede disaster response and thus potentially increase insured losses. Further, political risk could exacerbate the effects of simultaneous (or near-simultaneous) catastrophe events, which further strains resources.

Ultimately, for re/insurers, the outcome could be longer claim lifecycles, as well as the exacerbation of claimant losses from natural catastrophe events. Think about what supply chain delays and claim adjuster shortages could mean following a hurricane that involves more water than wind (such as Hurricane Harvey). Longer waits for remediation result in increases in mold losses, which could drive the industrywide insured loss higher.

Impact of the pandemic on claim handling: Even if the confluence of natural and political risk doesn’t occur again before COVID-19 is under control, the global re/insurance industry should take seriously the implications of a pandemic on the claim lifecycle. Large-scale relief efforts and mass evacuations tend to result in close conditions, which can facilitate increased virus transmission – and the event’s industrywide insured losses. Pandemic risk mitigation measures – such as social distancing and the use of personal protective equipment – could help, but they still have the potential to increase costs relative to catastrophe response not shaped by pandemic conditions. In the extreme, political factors could turn relief efforts into cases of significantly increased transmission. Alternatively, the fear of creating a “superspreader event” could result in suboptimal disaster response. Access issues, illness shrinking the pool of available labor, and supply chain disruption could also be exacerbated by political decisions, ultimately elongating claim lifecycles, impacting reconstruction efforts, and otherwise increasing the industrywide insured loss associated with a catastrophe event.

Ideological gridlock: Narrow majorities could result in slower government decision-making and policy implementation, which may delay swift approval and distribution of post-disaster aid and relief. In fact, ideological gridlock could cause the absence of a decision to become a de facto decision in itself, with claim lifecycles, increases in post-disaster loss conditions, and other factors not only affecting local communities but also increasing the insured losses from an event. The resources needed to repair damage in the public domain – such as roads – could directly impact re/insurer catastrophe performance. Unrepaired roads, for example, could impede the flow of adjusters, contractors, and materials to the communities affected – leading to the longer claim lifecycles that tend to drive higher losses. In the end, ideological differences in a thinly divided government could cause the delays in making safe access possible that could then push loss ratios higher.

Voting behavior in catastrophe-prone states: Political risk becomes most pronounced when support is apportioned based on the political leanings of unaffected areas. Each state, of course, elects officials to represent them. In aggregate, though, they may rely on support (and compromise) from other states not affected by that same event. Representatives from Kansas, for example, have a voice in the direction of federal aid to Florida after a hurricane. Further, there is the risk that a state could have supported for the president the party that ultimately lost, leaving them potentially exposed (in extreme cases) to a wide range of outcomes.

The situation could be made more complex by political risk if a state affected didn’t vote for the majority party. Think about a multistate catastrophe event in which most states voted with the majority and some went for the minority. Of those supporting the minority, some results were narrow, and others were not. The result could be uneven federal aid disbursed to the same catastrophe event. “Favorable” states could receive swift support. Those that lost narrowly could as well, given that helping voters in those states could be seen opportunistically for future elections. And finally, those states that remain may not have the same political value and thus could take longer to receive less. It’s an uncomfortable prospect, but certainly a realistic one.

PREPARING FOR THE CONVERGENCE OF POLITICAL AND NATURAL RISK

Five years ago, this topic would likely have been raised as a hypothetical. We’d ask, “In the extreme, how could political risk creep into natural catastrophe losses?” Recently, our market (and society) has seen that the convergence of these two risks isn’t just real, but realizable. On only a limited basis so far, the global re/insurance industry has been able to understand how political polarization could come to bear on their ability to respond to catastrophe events while managing their capital (a crucial combination). Unfortunately, the impact of political risk on industrywide catastrophe losses could be much greater than what has manifested over the past four years.

When Hurricane Zeta passed through Georgia and North Carolina shortly before the 2020 U.S. presidential election, it became clear that a natural
For example, https://www.forbes.com/sites/alisondurkee/2020/10/16/trump-administration-refuses-to-give-california-federal-aid-for-wildfires/?sh=2f38c6633416

1 For example, https://www.forbes.com/sites/alisondurkee/2020/10/16/trump-administration-refuses-to-give-california-federal-aid-for-wildfires/?sh=2f38c6633416

For further information visit the IRUA website at www.irua.org or email info@irua.org

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The IRUA welcomes your comments and suggestions, as well as information regarding errors or omissions that call for correction. Please send your electronic message to mcs@irua.org.

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A Legal Guide to Insurance Coverage for Violent Protests, Terrorism, Insurrection, and Revolution

BY VINCENT J. VITKOWSKY AND STACEY L. SAMUEL

About the Authors
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Stacey Samuel has represented insurers in coverage counseling in both property and general liability litigation, as well as in all aspects of associated coverage litigation, including bad faith claims. At the time this paper was written, Stacey was an associate at Gfeller Laurie LLP. She now works at a leading insurance company.

Abstract
In 2020, protests transforming into violent episodes were widespread and frequent. They are expected to recur in 2021. This threat has been compounded by another. As the Office of the Director of National Intelligence reported in March 2021, Domestic Violent Extremists “who are motivated by a range of ideologies and galvanized by recent political and societal events in the United States pose an elevated threat to the Homeland in 2021.”

This Paper addresses insurance coverage for four types of violent perils. First, there are protests that transform into riots or civil commotion. Sometimes they are aggravated by participants behind the scenes, elevating the level of violence by supplying, say, Molotov cocktails or other weapons, or using social media to organize flash riots. Next, terrorist or terroristic groups or individuals can bring death and destruction. Third, individuals, groups or movements with a range of political motivations and aspirations can become violent (“militant activists”). Finally, the most violent end of the spectrum includes revolution, civil war and coup d’état.

The lines between these perils can be blurred. Motives and causation can be difficult to determine. But in evaluating applicable insurance coverage, the distinctions are important. As specific cases arise, full analysis of the facts and the applicable state and federal laws is essential.

PROTESTS TRANSFORMING INTO RIOTS OR CIVIL COMMOTION
Peaceful protests or demonstrations can turn violent. When this happens, coverage, if it exists, comes from commercial property and casualty insurance for riots, civil commotion, vandalism and malicious mischief. These perils can be identified specifically as covered causes of loss, or otherwise are covered because the policy does not exclude them.3 When policies affirmatively cover these perils and define them, the definitions are key. But often, they are undefined. Then, various sources help supply definitions. Some case law provides definitions specifically in the context of insurance coverage. Other cases and statutes provide definitions under criminal law. Other definitions come from general usage and understandings. All of these need to be considered.

RIOTS
Insurance coverage is a matter of state law, so definitions may vary from jurisdiction to jurisdiction. With respect to riots, one leading case has held that they have four common elements: “1) unlawful assembly of three or more people (or lawful assembly that due to its violence and tumult becomes unlawful), 2) acts of violence, and 3) intent to mutually assist against lawful authority […] [and] some degree of 4) public terror.”4

An alternative formulation provides that “[w]henever three or more persons, having assembled for any purpose, disturb the public peace, by using force or violence to any other person, or to property, or threaten or attempt to commit such disturbance, or to do an unlawful act by the use of force or violence, accompanied with the power of immediate execution of such threat or attempt, they are guilty of riot.”5
More simply put, another court has said that “[a] riot is a disturbance of the peace by three or more persons unlawfully assembled together and acting in a violent and tumultuous manner.”

One court has required that the violent acts be performed in public. In it, students broke into school campuses, ransacked, and set fire to them. The policy provided that losses within a 72-hour time frame and stemming from “riots” constituted a single loss. In determining whether the students’ actions constituted a riot, the court found that vandalism, arson or other such acts, destructive as they may be, do not constitute a riot if they are conducted away from public view with the intent they remain unobserved.

As noted, some cases require a riot to include an element of public terror. In one, a landlord’s dwelling suffered damage due to drug dealers causing trouble in a “loud and boisterous” manner. The landlord’s insurer sought a declaratory judgment, requesting that the court find that the loss was not caused by a riot or civil commotion, which was covered in the policy. In determining whether the “loud and boisterous” drug dealers caused a riot, the court included “public terror” in its definition. It further stated that “[w]ithout the element of public terror, any minor public disturbance could legally be a riot.” The court ultimately found that the damage was a result of vandalism and malicious mischief, not riot and civil commotion, and therefore there was no coverage under the policy at issue.

A leading legal encyclopedia has synthesized these rules and defined the term riot as “a tumultuous disturbance of the peace by several persons, assembled and acting with a common intent, either in executing a lawful private enterprise in a violent and turbulent manner, to the terror of the people, or in executing an unlawful enterprise in a violent and turbulent manner.”

**CIVIL COMMOTION**

Civil commotions are similar to riots, but the term is generally construed to require a more serious disturbance, or a series of disturbances. For example, one court has defined civil commotion as a “temporary, primarily civilian disturbance, of a degree greater than a riot, but less than armed insurrection, wherein the civil peace is disrupted by violence and/or acts of civil disorder.” The case concerned looting losses in Panama, occurring during a period in which the Panamanian National Assembly had declared a state of war between the US and Panama following the 1989 US invasion to capture the de facto leader Manuel Noriega. Although the policy had a War Exclusion, it also had a buy-back endorsement providing coverage for “civil commotion assuming the proportions of or amounting to a public uprising.” The court rejected the argument that the term “public uprising” connoted an element of internal political revolt. Instead, the court construed the term “public uprising” to refer only to the extent or magnitude of the civil commotion, not its nature, and found that coverage existed.

**VANDALISM AND MALICIOUS MISCHIEF**

These penalties are more common, so most jurisdictions have developed their own definitions, which can vary widely. Most simply, vandalism consists of damage or destruction of property solely for the sake of causing damage. Examples of more elaborate definitions include “[willful or malicious destruction or defacement of things of beauty or of public or private property,” and “ignorant destruction of property […] in conscious or intentional disregard of the rights of another.” Malicious mischief is most commonly defined as acts that result in damage or destruction that might not have been intended, or some similar formulation.

TRIA requires the act of terrorism be certified as such by the Secretary of the Treasury in consultation with the Secretary of the Department of Homeland Security and the Attorney General. The attack must be in the US or against certain US property abroad (things like air carriers, vessels, or the premises of US Missions). There’s been an important recent change -- the terrorists can be either foreign or domestic.

**LOSSES COVERED**

Where coverage exists, it can extend to property that is destroyed, damaged, burned, or looted, as well as graffiti damage and debris removal. There can also be lost income, and costs incurred to protect against future, imminent harm or continued damage. Some policies provide coverage even in the absence of physical loss or damage. For example, in one case coverage existed for business interruption of a movie theater after a governor imposed a curfew following a riot.

**NUMBER OF EVENTS OR OCCURRENCES**

A key issue of interpretation is the number of occurrences, which affects deductibles, limits and sublimits. A business could have several losses at a single location, or losses at multiple locations, in the same city, or in different cities, at the same time, or different times. How many occurrences are there? In Spring 2021, Nordstrom sued its insurers in connection with the disturbances following the death of George Floyd. It alleges it had losses in all 350 stores in the US and Canada, including not only those that were physically damaged, but those that had to be boarded up and closed. Nordstrom says it suffered at least $25 million in damages. According to Nordstrom, this is all one occurrence, so there is a single, $1 million,
deductible. The action was pending at the time of publication.

Case law provides little guidance. One court took up the question of whether a workers’ strike was an “event” under the policy, and if so, whether acts of vandalism or sabotage occurring on different dates were a “series of losses” arising from the strike, and therefore treated as a “single loss.” The court held that the evidence did not show that the workers strike caused the 228 separate acts of vandalism, and further found that neither the insured nor the insurer intended that a strike would constitute an “event” capable of triggering the single deductible clause.14

Policies can sometimes limit the period of time to aggregate losses, or limit the applicable geographic scope, or both. One common limitation is that different losses can be combined into a single occurrence if they took place within a 72-hour period.

A factor that may be important is whether and how the Insurance Services Office’s Property Claims Services (“PCS”) characterizes events. For example, the PCS has characterized losses from the disturbances following the death of George Floyd as a single event, applying to losses over a 14-day period. The losses took place in many states, and for the first time in its history, PCS expanded its designation to include losses in multiple cities and states. However, insurers are not required to follow the PCS designation in making their own occurrence determinations.

WAR EXCLUSION CONSIDERATIONS

Commercial property and casualty policies have “War Exclusions,” which typically exclude many related perils, including insurrection, rebellion, and revolution. A common understanding of rebellion that it consists of organized violent resistance to the state with the purpose of supplanting the state’s power, in whole or in part. An insurrection is commonly understood to be a limited rebellion or a rebellion having less organization than a rebellion.

In some legal decisions, a finding that certain perils caused a loss has defeated the War Exclusion. As an initial matter, the court found a one-year suit limitation was the “efficient cause” of the looting and damage.17

The key point is that the US Government has never certified anything as an act of terrorism. And certainly, in the present polarized political environment, it would be extremely hard to make a designation in the context of domestic terrorism, because whether the terrorists were thought to be from the right or left could warp the analysis.

Many insureds conclude that TRIA is not the best available coverage for terrorism, and that standalone terrorism policies are. Those are addressed below.

MILITANT ACTIVISM, INSURRECTION OR REBELLION

Politically-motivated acts of violence may become increasingly common. This means there could be gaps of potentially uncovered risks between, for example, traditional riots and civil commotion, terrorism as defined by TRIA or otherwise, and other militant activism. Militant activists may or may not have specific intent to coerce or influence civilians or the government.

This is a gray area, full of different actors. Some are motivated by a sense of outrage inspired by a specific governmental action or inaction. Some have political ideologies, on either side of the spectrum, that they want to advance. Some attempt to supplant the government’s power. Some want to bring down the government. Or some may simply like to break things. Several types of coverages may apply.

The first is standalone terrorism insurance. These are specialty policies, developed entirely in the private market. They can be individually-crafted to address an insured’s crucial exposures within a broader range of risks. Terms, conditions, limits and deductibles are individually negotiated.

They are not subject to the certification requirement of TRIA. So terrorism can be defined broadly, for example, as any act or acts committed for political, religious or ideological purposes. Other types of perils can also be covered. For example, coverage can apply to vandalism, or malicious damage (which in these policies is generally defined as physical loss or damage resulting from a malicious political act committed during a public disturbance). Or it may apply to sabotage, which generally consists of a subversive act causing willful physical damage committed for political, religious or ideological purposes.

Standalone terrorism policies can also be designed to provide coverage for strikes, politically-motivated riots and civil commotion, insurrection, rebellion, and revolution. Arguably, some attacks in the US by militant activists might fall into these categories. A few legal decisions used a restricted conception, holding that an insurrection or rebellion must be part of a movement “specifically intended to overthrow the constituted government and to take possession of the inherent powers thereof.”22
REVOLUTION, CIVIL WAR AND COUP D’ÉTAT

Businesses and their supply chains are increasingly multinational, giving rise to uniquely violent international risks, especially in potential flashpoint countries.

Multinational businesses often address this through Political Violence or Political Risk Insurance. These have existed for many years, but grew after the Arab Spring anti-government protests in 2010 and 2011. This insurance is specifically designed to provide coverage along the entire range of escalation, from riots on up. Thus it covers many of the same perils as standalone terrorism insurance, plus others. For example, it covers not only sabotage, insurrection and rebellion, but also revolution, coup d’etat (which is a sudden violent and illegal overthrow by members of a legally armed force), civil war, and counterinsurgency.

Here again, there can be extensions for denial of access, i.e., when businesses are shuttered because authorities have closed the area, even without physical damage to property. There can be another extension for loss of attraction – closed businesses cannot attract business. The loss may be triggered by a specific nearby act of violence, or it may result from general unrest in the country.

Finally, another type of relevant policy is sometimes referred to as Strike, Riot and Civil Commotion Insurance. It started as a niche product, but is spreading. It was originally a response to the War Exclusion, or a Warranty Exclusion for political violence risks in marine policies. An endorsement was developed to provide coverage for many of those risks on all-risk cargo policies. In its original form, it covered physical loss or damage directly caused by strikers, locked-out workers, labor disruption, various types of riots, vandalism and sabotage. It can be extended to include terrorism and other politically and ideologically-motivated acts. Recently, it has migrated to appear in endorsements or extensions in other lines of business.

CONCLUSION

The world is an increasingly dangerous place, with flashpoints everywhere. This Paper was written to help navigate through it.

Footnotes


2 These perils co-exist with and can overlap with mass shootings, which can result from any of them, or none of them, or from no comprehensible reason at all. The most direct insurance coverage available is a specialty product commonly known as Active Shooter Insurance. It typically covers victim lawsuits, building repairs, legal fees, medical expenses and trauma counselling. Reuters reports that the demand is increasing among buyers, especially from the healthcare sector, where deaths or other incidents concerning COVID-19 may trigger violent responses. Noor Zainub Hussain and Carolyn Cohn, Mass shooting insurance in high demand as U.S. emerges from lockdown, May 13, 2021, https://www.reuters.com/article/ususa-shooting-insurance-focus-idCAKBN2CU1NO

3 Some policies, especially in the surplus lines market, affirmatively exclude riots and civil commotion.


9 77 C.J.S. Riot § 1.


19 There are other limitations and requirements that affect whether the US government backstop reimbursing a portion of the losses applies, not relevant to this discussion.

20 Home Ins. Co. of New York v. Davila, 212 F.2d 731, 736 (1st Cir. 1954) (quoting the district court and also citing Appleman, Insurance Law and Practice § 3111 (1941)).

21 Davila, supra at 736.
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**Mission Statement**
The IRUA is a not-for-profit corporation, organized for the purpose of providing high-quality insurance and reinsurance education, meaningful networking opportunities, and the dissemination of topical publications and information relevant to the reinsurance industry.
Due to COVID-19, we cancelled our April 2021 Annual Conference and have rescheduled it for April 25 – 27, 2022.

IRUA’s Reinsurance Basic Syllabus Program
For 2021, the IRUA has introduced its new “Syllabus Program” aimed at those who have just entered or who have only a few years of experience in the industry. It is intended to be a “Reinsurance Primer Series” of twelve basic topics to be offered on a rolling 2-year cycle. The first 6 topics are marked with an asterisk*

A Certificate will be awarded to those participants who complete 10 out of 12 topics listed.

2021 Virtual Events Schedule

A WALL STREET VIEW OF THE INSURANCE/REINSURANCE INDUSTRY – January 26, 2021
Back by popular demand! Seth Bair, Managing Director and Co-Head of the Insurance Investment Banking Group at Keefe, Bruyette & Woods will give an up-to-the-minute market view of our industry.

REINSURANCE CASUALTY UNDERWRITING AUDITS * – February 24, 2021
This virtual seminar, presented by Lewis Paul, was geared to all levels of experience in conducting casualty underwriting audits of ceding companies. Topics covered included pre-audit preparation, key areas of focus during the audit, and wrap up strategies. Lewis Paul has 45 years of reinsurance underwriting and executive management experience; and managed the underwriting audit team at PartnerRe for 18 years before retiring at the end of 2020. He is now acting as a consultant on reinsurance underwriting and providing underwriting auditing services.

REINSURANCE NETWORKING GROUP - WHY MEDIATION WORKS – March 18, 2021
Confronting a reinsurance industry that has not yet embraced mediation as a solution, mediator David W. Ichel discussed with our group why mediation really works, how it works in his cases, how Zoom has transformed the world of mediation to an even better place, how to solve a mediation impasse. There followed energetic discussion as to why there has not been greater use of meditation in reinsurance disputes.

IRUA MEMBERS ANNUAL MEETING AND EDUCATIONAL SESSION – April 13, 2021
Following the Annual Meeting, and free and open to members only, we held a Reinsurance Brokers Panel discussion “A New Decade – A New Vision”. IRUA Past President Arlene Kern of Munich Re expertly moderated a superb and lively panel of senior industry brokers: Jay Woods of Guy Carpenter, Lisa Borsuk of Aon and Jeff Irvan of BMS Group.
MANAGEMENT AND PROFESSIONAL LIABILITY – May 12, 2021
IRUA Board member Danny Hojnowski and Senior VP of Trans Re gave an excellent presentation and update on this important and growing line of business as well as a general overview of these classes. He also provided an insight into Public and Private D&O market trends and updated us on E&O trends with a highlight on Large Lawyers.

THE BIG TORT: WHEN EMERGING PRODUCTS RISKS EXPOSURES TRANSFORM INTO NUCLEAR VERDICTS – May 26, 2021
Arch Re Managing Director Joshua Hackett, discussed with Peter Dinunzio, Partner, Clyde & Co., what are the likely next drivers of toxic tort litigation; the underlying theories driving the plaintiff’s bar; known cases and their current status; and underwriting considerations for GL/Pollution/Environmental/Excess coverage forms.

Catastrophe losses seem to be getting larger & more frequent. Thomas Johansmeyer, Head of PCS – a Verisk Company, discussed the phenomenon that PCS has noted in recent years that political risk indicators have played a factor which has, and likely will, impact future insurer/reinsurer risk & capital management decisions.

REINSURANCE PROPERTY UNDERWRITING AUDITS* – July 1, 2021
Munich Re America’s Christiane Gross and John Ferris of JC Ferris Advisors, Inc. gave a detailed and informative presentation discussing and evaluating audit goals, audit types and how to prepare for and conduct a property underwriting file audit. This practical webinar addressed in detail what underwriting topics you should review, how you can differentiate by portfolio and client and how you can address your findings.

ALL ABOUT REINSURANCE STRUCTURES* – August 31, 2021
(12 Noon – 1 pm Eastern)
In this webinar, Duane Hynes of Holborn Corporation reviewed the various forms of reinsurance, including net and gross quota share and surplus treaties in proportional reinsurance, and Risk XL, Cat XL and Agg XL treaties in non-proportional reinsurance. He discussed why ceding companies buy these reinsurance structures as well as the differences between facultative and treaty.

ALL ABOUT SPACS FOR UNDERWRITERS AND CLAIMS PROFESSIONALS – September 13, 2021
(12 Noon – 1 pm Eastern)
Mary Jo Barry of Kaufman Dolowich & Voluck, LLP and Partner Re’s Brad Lo Gatto explained the underwriting, claims, investment and legal aspects of Special Purpose Acquisition Companies – what they are and the issues associated with these in vogue but controversial investment vehicles. Ms. Barry is Co-Managing Partner of the firm’s New York City and Westchester offices and Mr. Lo Gatto CFA, is Senior Investment Analyst in Partner Re US’s Miami, Florida office.

ACTUARIAL PRINCIPLES FOR THE NON-ACTUARY* – October 19, 2021
(12 Noon – 1 pm Eastern)
This session is designed not only for the junior underwriter, broker and other (re)insurance professional, but also for the more experienced professional who is looking to increase their knowledge of basic and intermediate actuarial principles. Munich Re America’s Michael Schummer, ACAS MAAA, will go through the rating process from start to finish and show attendees what trends to look for in the analysis to better price and underwrite your risks. Be better prepared for discussions with your actuarial colleagues!

Please note: Another meeting of the REINSURANCE NETWORKING GROUP are co-organized by the IRUA is being planned for the Fall of 2021 – details to be advised.