Multinational Underwriting Services
GLOBEX UPDATE

Events, developments, and opportunities in the international marketplace

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Key words in this issue: *Vietnam, UK Hikes IPT, Cyber Insurance …*

Vietnam – Finance Ministry Restricts Reinsurance

Foreign insurers operating in Vietnam may no longer be able to transfer all reinsurance premiums overseas, following a decree to restrict these transfers. This is a result of a decree drafted by the Finance Ministry in order to control the premiums re-insured by companies based outside Vietnam. The step would also control the amount of foreign currency that local insurers transfer to their partners abroad in reinsurance premiums. According to the Association of Vietnam Insurance (AVI), overseas reinsurance premiums currently account for a third of the domestic market's total premiums collected, meaning one-third of insurance revenues are sent outside Vietnam. A large portion of the cover that local insurers provide to customers is typically based on reinsurance contracts, which can be a constraint for businesses. With the exception of Life and Motor vehicle insurance policies, on average, enterprises re-insure over 50% of contract values overseas. In addition, there will be a move to increase the use of local currency (VND) for reinsurance premiums and reduce the number of premiums in foreign currencies, which would help save financial resources for re-investment within the country.

The UK Hikes IPT to Help Improve Flood Defenses

The U.K. insurance premium tax will rise to 10% from 9.5%, an announcement made by the Chancellor of the Exchequer. This follows on the heels of a November hike in the tax to 9.5% from 6%. The tax is paid on Commercial and Personal lines policies. The 0.5% point rise would be used to improve the UK's flood defenses. The increase has prompted debate and also put increased burden on policyholders, many of whom are suffering from ongoing flood damage.

Money Managers Starting to Buy Cyber Insurance

Money managers increasingly are buying cyber security insurance to supplement their technology security strategies to both combat data breaches and deal with repercussions if hackers do break in. About 30% of U.S. institutional money managers had cyber security insurance coverage as of Jan. 1, most of which were firms with more than $10 billion in assets under management. That compares with only 5% at the start of 2014. Companies are concerned with insuring their reputational risk, ensuring they have enough coverage to survive an attack and limit the number of clients who would otherwise be running out the doors after a breach. They are buying insurance strategically. Clients are realizing how technology-dependent they are in operating their businesses and are looking at network interruption coverage for income loss and extra expenses if a security

RECENT SUCCESSES

- Secured fronting policy for Marine Transit in Europe for the world's largest producer of titanium dioxide and other chemicals.

- Placed fronting policies for Professional Indemnity for a major telecommunications company in China, Sri Lanka, Vietnam and Europe as well as a Crime policy for said company in China, Vietnam and Europe.

- Instrumental in securing a Marine fronting policy in China for a global manufacturer of childcare products.

- Placed an Inland Transit local admitted policy for a global aerospace and defense company in Canada.

- Assisted in placing a local admitted Property policy in India and fronting policies in China, France, Japan, Mexico & Russia for a manufacturer of respiratory care products.

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failure interrupts or shuts down their business. Part of the reason to not obtain money security insurance is cost. A typical $1 million cyber insurance policy with a $10,000 to $20,000 deductible for a money liability manager with $1 billion to $5 billion in assets, costs about $10,000 a year in premiums. Those costs can be onerous when added to firms' required compliance costs to meet regulations under Basel III and the Dodd-Frank Wall Street Reform and Consumer Protection Act. Costs actually can vary depending on what kind of coverage a manager is buying — first-party or third-party. First-party policies usually involve immediate breach damage and cost coverage, forensic investigations into the causes of the breach, credit monitoring and remediation. Third-party policies generally cover liability claims by customers or regulators, legal costs, settlements and penalties. In some cases, third-party policies also will include reputational costs, including any public relations or media efforts to limit the damage to a company's reputation.

Drones: Acceptable Risk Levels

A task force of manufacturers, aviation industry associations and others who have a vested interest in small unmanned aircraft systems are meeting to determine an acceptable risk level when drones fly above people. The Federal Aviation Administration (FAA) proposed that the aviation rule-making committee, comprising 26 entities including AT&T Technologies, Intel Corp. and Google, should offer recommendations for safely operating “certain” unmanned aircraft systems (UAS), when flying over people or under a covered structure. Last year the FAA was thinking of creating a new class of “micro” drones, any UAS less than 4.4 pounds and made out of materials that “break, distort or yield on impact,” to minimize damage if it crashed and struck a person or object. The intention was to allow micro drones to fly over people. However, the FAA decided not to have weight as the defining factor. Instead, a safe operation category will base UAS rules on performance criteria such as speed. Some of the considerations in making the performance-based choices are current and past research on human injury thresholds, hazard and risk assessment methodologies and “acceptable levels of risk” for bystanders not involved in operating the drone. The committee has also been asked to figure out how manufacturers can prove a UAS meets the performance-based safety requirements and find ways for the FAA to verify that the UAS comply. The FAA has also started requirement of the registration of all UAS weighing more than 0.55 pounds. Civil penalties for not registering a drone include a fine of up to $27,500. Criminal penalties could mean fines of up to $250,000 and up to three years in prison. Nearly 300,000 owners registered their drones within the first 30 days after the FAA's online registration went live. That system is only for hobbyists, but the agency is working to open it to commercial operators by end of March 2016.

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