

PCS® Global Risk Loss Report FY2017

PCS® began to expand into specialty lines in 2017, launching two new solutions: PCS Global Marine and Energy™ and PCS Global Cyber™. While there were no new major risk loss events for marine and energy that meet the PCS threshold, the cyber sector was quite active. PCS identified and produced estimates on three affirmative cyber risk loss events in 2017, with aggregate estimated losses of \$430 million. Two exceeded \$100 million, with one of them the largest cyber loss event on record with PCS.

PCS plans to continue to grow into the global specialty lines, with PCS Global Terror™ coming in the first quarter of 2018 and other global specialty lines loss reporting products planned for the future.

PCS Specialty Lines Methodology

PCS identifies risk loss events in the global specialty lines space. Regardless of the threshold for event designation, every loss event is resurveyed at least once, with such activity coming quarterly. And for a new loss reporting solution launch, PCS leaves all historical events open for at least one resurvey period before closing. All losses are reported in U.S. dollars (not adjusted for inflation), with the following event designation thresholds:

- PCS Global Marine and Energy: \$250 million
- PCS Global Cyber: \$20 million
- PCS Global Terror: \$25 million

Thresholds for all specialty lines loss reporting solutions are determined based on feedback from a wide range of market participants (insurers, reinsurers, intermediaries, and other stakeholders). Also, they are designed to be tested. Rather than set high attachment points relevant only to industry loss warranty (ILW) trading, PCS seeks thresholds that will be reached with sufficient regularity to demonstrate the effectiveness of the loss reporting platform and provide ongoing value for internal use (rather than simply as a trigger for risk transfer).

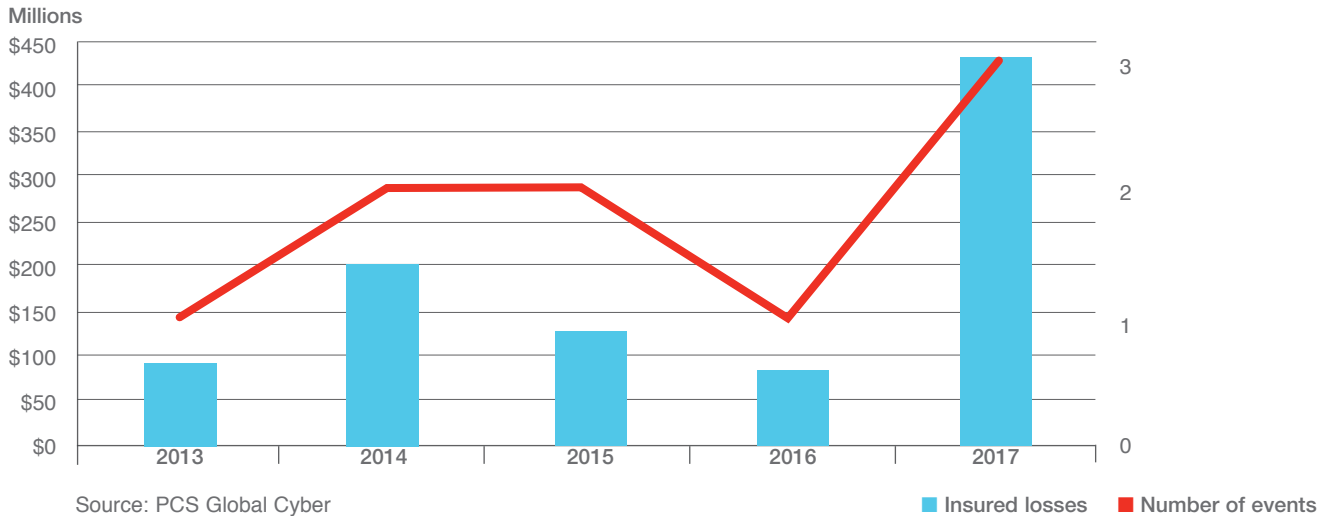
PCS arrives at estimates by collecting projected industry loss estimates from stakeholders and then using interview techniques and a wide range of underlying information to arrive at a single number. We welcome any questions about this process as well as willingness from new players to participate in the loss estimation process.

PCS Global Cyber Update

Cyber insurance is still in its infancy, but loss trends in PCS Global Cyber show that the industry is already in the process of maturing—rapidly. Since 2013, the inception of the service, PCS has identified nine cyber risk loss events with insured loss estimates of at least \$20 million. In all but two cases, the estimates involved blowing past policy limits, with economic losses far in excess of the insurance coverage available to the claimants. The two remaining events are still open.

With more than \$400 million in aggregate across three events, 2017 become the most active year for cyber risk losses in market history. All three were designated shortly after the formal launch of PCS Global Cyber in September 2017. The last year with more than one risk loss covered by PCS Global Cyber was 2015, which showed aggregate losses of only \$125 million. The prior year also had two events—and \$200 million in aggregate losses.

Historical Global Cyber Risk Losses



Part of the reason for the sharp increase in large losses is the availability of larger coverages. The 2013 and 2014 losses came with policy limits of around \$100 million. Today, there are programs in place that offer \$500 million in protection—sometimes more. However, the economic losses still tend to exceed those limits. Equifax and Merck, for example, have economic losses estimated to be in excess of \$1 billion. Further, there are still some companies that lack cyber coverage, and they were affected by events like Petya/NotPetya. Maersk and FedEx, for example, had large economic losses but didn't have any cyber protection in place.

2017 PCS Global Cyber Insured Risk Loss Events

Event Name	Event Type	Status	Notes
Nuance Communications	Wiper	Preliminary estimate	Part of NotPetya
Merck	Wiper	Closed	Part of NotPetya
Equifax	Breach	Closed	Economic losses expected to exceed \$1 billion
Southwest	System failure	Open for resurvey	So far, unlikely to exceed coverage limits in place

Source: PCS Global Cyber

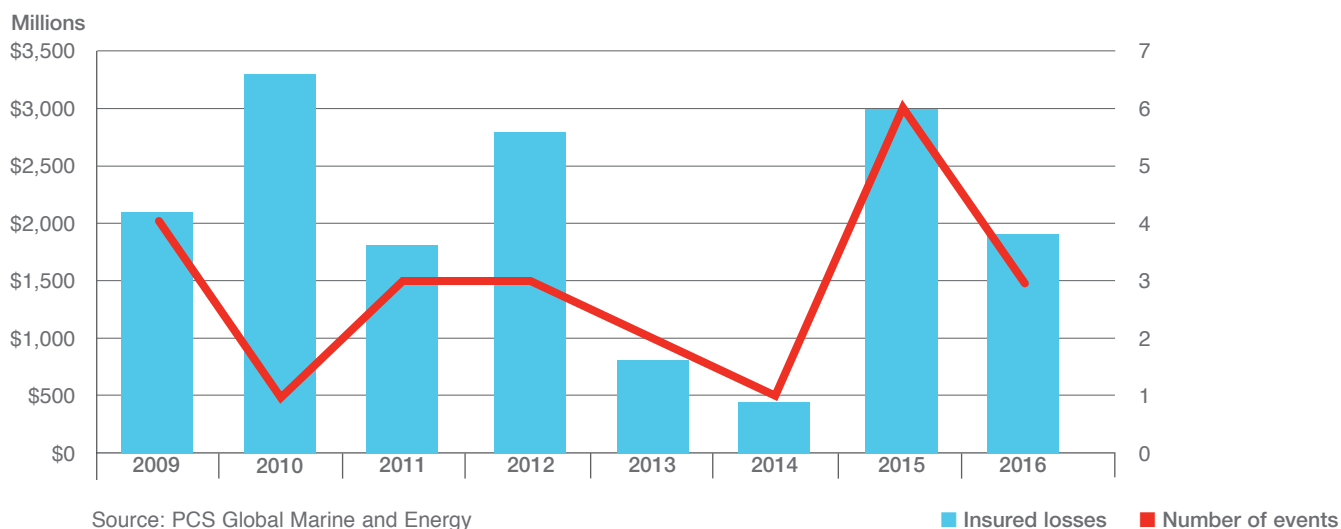
PCS Global Cyber reports only single risk losses worldwide, although we do have plans to expand the platform into cyber catastrophe events as well. So far, since 2013, PCS has identified only one cyber catastrophe with sufficient insured loss to warrant investigation—Petya/NotPetya. Earlier cyberattacks affecting multiple companies occurred at a time of low affirmative cyber insurance penetration. Low levels of insured loss would keep those events from being considered under our methodology. We hope to launch an expanded PCS Global Cyber methodology—to include cyber catastrophe events—in 2018.

We invite industry feedback and encourage you to contact PCS (details available at the end of this report).

PCS Global Marine and Energy Update

PCS Global Marine and Energy launched with a historical loss database of 23 events going back to 2009, inclusive of physical damage (hull/platform), cargo, and liability. Of these historical losses, PCS has closed 17 and continues to evaluate Jubilee (February 2016), Tianjin (August 12, 2015), Alpine Eternity (March 21, 2015), MOL Comfort (June 17, 2013), Vessel Rena (October 5, 2011), and SBM Yme Platform (January 30, 2009). The most recent event still open is Jubilee, which occurred in 2016.

Historical Marine and Energy Risk Losses



The two largest historical losses in the PCS Global Marine and Energy database are Deepwater Horizon (April 2010) and Costa Concordia (January 2012), at approximately \$3.3 billion and \$2 billion, respectively. Both events were closed in 2017 after having been left open initially, in accordance with the PCS approach for new specialty lines product launches. The largest still open is the Jubilee event, which had an updated loss estimate reported in the second half of 2017. PCS also published loss estimate updates for Hanjin Shipping (2016), Jubilee (2016), Tianjin (2015), and SBM Yme Platform (2009). The Hanjin event was later removed, as it ultimately failed to meet the PCS Global Marine and Energy event designation threshold.

Representative PCS Global Marine and Energy Loss Events

Event Name	Year	Location	Status
Jubilee	2016	Ghana	Updated
Costa Concordia	2012	Italy	Closed
Deepwater Horizon	2010	Gulf of Mexico	Closed
SBM Yme Platform (Talisman)	2009	North Sea	Updated
Siri	2009	North Sea	Open

Source: PCS Global Marine and Energy

PCS Global Marine and Energy reports only nonelemental risk losses worldwide, although we do have plans to expand the platform into elemental losses as well. The operations team is currently exploring the marine and energy losses associated with Hurricanes Harvey, Irma, and Maria in 2017, although they will not become reported PCS marine and energy loss estimates until the formal expansion of the methodology, which is an objective for 2018.

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PCS Global Terror Update

Despite significant terror activity in 2017, no events caused sufficient insured loss to reach the PCS Global Terror threshold of \$25 million. Verisk Maplecroft reports that nearly 5,000 terror events occurred worldwide last year, resulting in just over 11,000 fatalities and 12,500 casualties. The most active countries by event count were:

1. Iraq
2. Somalia
3. India
4. Mali
5. Nigeria

Somalia had the greatest number of fatalities, at 1,899, followed by Iraq, Afghanistan, and Nigeria. In the United States, Verisk Maplecroft reports three terror events, resulting in nine fatalities and 24 casualties.

The reason for the lack of PCS Global Terror reporting activity is the nature of the recent events. Rather than focusing on “trophy” targets (like the NatWest event of 1993 and the World Trade Center attack of 2001), recent terror activity has relied on smaller events that maximize terror relative to expense and operational risk. Small arms and vehicular activity are effective in making local populations feel unsafe and can cause a significant number of fatalities and casualties. However, most terror insurance requires a certain amount of physical damage—which is unlikely with small arms and vehicular attacks.

Through the development process for PCS Global Terror, for example, PCS found that the Bataclan attack in Paris in 2015 fell just short of the \$25 million threshold, although we continue to monitor the event for loss development. Additionally, the Westminster (London) attack carries an estimated insured loss of \$25 million. The underlying policy that could be affected, though, is commercial liability. PCS Global Terror contemplates only property damage and business interruption.

Year	Number of Events	Aggregate Loss
2016	2	\$457,300,000
2013	1	\$64,828,329
2008	1	\$102,630,000
2006	1	\$80,000,000
2005	1	\$64,000,000
2001	1	\$18,778,500,000
1996	2	\$1,371,000,000
1995	1	\$125,000,000
1993	3	\$2,142,590,000
1992	1	\$704,000,000

Source: PCS Global Terror

The largest insured loss from terror came in 2001 with the World Trade Center and Pentagon event, which caused insured losses of \$18.8 billion, according to the PCS property-catastrophe service focused on U.S. events. Additionally, that event was open longer than any other event in the history of the U.S. platform, taking 31 months to receive a final estimate. The second-largest loss was the NatWest attack, resulting in \$1.24 billion in insured losses.

2017 PCS Global Terror Insured Risk Loss Events

Event Name	Year	Location	Status
WTC garage bombing	1993	United States	Closed
Docklands IRA bombing	1996	United Kingdom	Closed
Mumbai hotels and Jewish center	2008	India	Closed
Brussels Airport	2016	Belgium	Open
SE Turkey 2016	2016	Turkey	Open


Source: PCS Global Terror

Two events remain open for resurvey. While industry loss estimates have begun to stabilize for the March 26, 2016, terror attack at Brussels Airport, there’s still enough movement that PCS is keeping the event open. Likewise, in 2016, the attacks in southeastern Turkey, which began mid-March 2016 (according to information from PCS Turkey™), remain open. Although there has been little movement since the initial estimate from PCS Turkey, guidance from global risk-transfer stakeholders involved in Turkey has led to the PCS decision to keep the event open.

Regardless of the lack of events with significant insured losses in 2017, the terror activity seen stands as a stark reminder that the insurance industry has work to do in its “social good” role. Existing terror policies don’t always provide the protection that businesses need, given the shifting nature of the global terror threat. Some innovation has occurred—such as XL Catlin’s active assailant policy—and this provides an important starting point. However, true success will come only with a wide range of insurance coverages that meet the coverage needs and cost constraints of corporate original insureds.

We invite industry feedback and encourage you to contact PCS (details available at the end of this report).

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