

FutureSet Systemic Risk Masterclass Series

Masterclass 2: Insuring the Uninsurable

Building sustainable solutions for systemic risk.

Key takeaways

Systemic risks are, on the face of it, considered to be uninsurable as they are the most difficult to quantify, understand and protect against, and can often be global in scale and impact.

However, whilst these risks in totality are difficult to insure within the private market, aspects of these events could be insurable by identifying the components of the risk that could be transferred and applying creative solutions and structures.

Identifying the insurable within the apparently uninsurable requires two key things:

1. A better understanding of the risk landscape and the nature and shape of the risks can help understand how different events are triggered, which components are more or less systemic, and any key mitigants.
2. Innovation and entrepreneurship – once the risk is understood, innovation can allow commercial solutions to be fostered:
 - **Technology led innovation:** using technology to better understand, manage and track risks and improve risk mitigation.
 - **New product types:** adopting innovative new structures, such as parametric insurance products.
 - **Innovating in response to new customer needs:** responding quickly to customer demand for cover.
 - **Fostering and encouraging innovation:** building a culture of innovation and an environment that allows people to take a test and learn approach.

Lessons learnt from terror insurance

A good example of a risk that was viewed as uninsurable and now has a significant private market is terror:

- Following 9/11, terror cover was scarce due to the limited availability of data and perceived high risk. As a result, many (re)insurers excluded terror from their policies, and the cover that was available was unaffordable.
- Concerns about the limited availability led to the establishment of a number of pools around the world. Structures vary but most pools act as a stop loss reinsurance, paying out to participating insurers if the defined triggering event loss threshold is met.
- These vehicles can help to provide a framework and tail risk protection enabling the private sector to design solutions around a more defined risk.

Although systemic risks are **not insurable in their entirety**, in some cases components may be covered with the right **innovative solution**

Parsyl Syndicate 1786 is the first public-private partnership, backed by the International Development Fund, to address a **global health emergency** in Lloyd's history

The Lloyd's Lab has supported **60 InsurTech start-ups** to develop and prove their solutions in the Lloyd's market

23 countries currently operate **terrorism pools** – with the majority of these being non-compulsory for participating insurers

£2.2tn of terror liabilities are currently **insured by Pool Re** in the UK

Thoughts from our expert panel

The challenges of systemic risk are different from any other risk we face, and as such the way in which we cope with them will need to be different.

Stephen Catlin
Founder and CEO, Convex

Predictive analytics is an area where we need to evolve. Things are changing so rapidly that you can't expect the past to predict the future.

Brian Duperreault
CEO, AIG

What is completely uninsurable changes over time. Today terrorism is viewed very differently than following 9/11.

Julian Enozi
CEO, Pool Re

If the insurance industry wants to maintain its relevance, it will need to lean into the challenges posed by systemic risks.

Neil Maidment
Lloyd's Council Member

Innovative solutions like parametrics are one way of trying to provide some sort of cover in areas where the risk is just too big for the insurance industry to sustain.

Victoria Carter
Chairman of Global Capital Solutions, International, Guy Carpenter

Relevant reading

Innovative insurance solutions:

- Lloyd's open source frameworks (including ReStart): [Open source frameworks for systemic risk](#)
- Parsyl Syndicate 1796: [Sharing risk to help deliver vaccines everywhere \(lloyds.com\)](#)
- Lloyd's Lab: [Sharing risk to help deliver vaccines everywhere \(lloyds.com\)](#)
- Pool Re: [Between State and Market: Protection Gap Entities and Catastrophic Risk](#)

Skills and capabilities:

- CII Assess: [Introduction to managing change](#) (sign-up required)
- Flux / CII [Innovation Starter Kit](#)
- CII [Innovation subject gateway](#) (CII members only)

Terror insurance:

- Lecture by Julian Enozi: [Terrorism – responding to an era of turmoil](#) (CII members only)
- Willis Towers Watson: [Terrorism Pools Index](#)

FutureSet Systemic Risk Masterclasses

Delivered in partnership with the Chartered Insurance Institute (CII) and Lloyd's Market Association (LMA), the Lloyd's FutureSet Systemic Risk Masterclass Series explores a number of elements of systemic risk, to support greater understanding and capability across the industry.

Each masterclass combines technical content on a specific element of systemic risk with the knowledge and insight of business leaders and risk experts to help you build a body of knowledge and understanding of the systemic risk landscape.

- To view the full schedule and register for upcoming Masterclasses, click [here](#).
- To join the FutureSet community, sign up [here](#).