Speakers put 21st century

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Speakers put 21st century hi-tech risks in focus

By Jonathan Kent

The rise of nanotechnology will challenge the insurance industry to deal with a wide range of new risks that will impinge on almost all lines of business, conference delegates heard yesterday.

Speaking at the International Reinsurance Summit at the Fairmont Hamilton Princess, Dr. Robert Blaunstein, president of Nanotechnology Risk Management, said that by 2015, nanotechnology goods and services will account for about $1 trillion worth of business

"Looking back, most technologies take about 10 years to become really big," Dr. Blaunstein said. "Nanotechnology is in about year five. So based on history, it will be about five years before it's out there in all its glory.

"But the insurance industry has to be ready for the speed at which this technology is moving. In America, Japan, Russia and Europe, they're moving very quickly on this and within two years we'll be seeing a lot about it everywhere. There are already about 1,000 products out there that entail nanotechnology.

"The summit's opening session also focused on two other risks of the modern world, identity fraud and cyber risk, after financial writer Roger Crombie had kicked off the event with an entertaining speech outlining the history of the Bermuda insurance industry.

Nanotechnology is defined as the engineering or fabrication of structures of between one and 100 nanometers. A nanometre is one billionth of a metre. Dr. Blaunstein explained that nanotechnology would become hugely important in a world in which population would increase by 50 percent over the next 50 years and world economic activity would increase by 500 percent.

Nanotechnology uses less raw material and hugely reduces the amount of waste. It will bring savings in terms of energy, labour and natural resources.

Dr. Blaunstein went on to illustrate nano-materials already being produced, including "Buckeyballs" molecules containing carbon atoms bound together in a sphere. These had enormous healthcare potential as they could be used to carry medicines into the body and even target a specific area, such as a tumour.Benefits to the insurance industry include stronger and more adaptive materials, producing cars that fare better in collisions and buildings that better resist the effects of earthquakes and hurricanes, for example.

But Dr. Blaunstein said nanotechnology would also bring new risks, such as the effect of stray nanoparticles entering the human body and potentially interfering with biological processes.

Major nanotechnology risk concerns included the lack of historical data, unanticipated side effects and the potential for a similar scenario to that which unfolded with asbestos.

"If you look at asbestos, it was all over before we knew what the problem was," Dr. Blaunstein said.

Because nanotechnology would have such wide applications and so little was known about its potential effects, its risks could fall under a wide variety of existing lines, including environmental, product and professional liability, as well as workers' compensation, medical malpractice and directors' and officers' insurance, Dr. Blaunstein said.

Mark Rasch, managing director of Technology and FTI Consulting, then gave a presentation on the complex risks surrounding identity fraud.

He looked at a hypothetical case of credit card numbers stolen from the data base of Company A being used to buy goods from Company B. Parties involved would include the consumer whose credit card was used, the bank that issued the card, the credit card company and its bank, as well as Companies A and B and their banks.

"We tend to focus on the consumer as the victim in cases of ID fraud," Mr. Rasch, a lawyer, said. "But the consumer's liability is zero, as long as they look at their credit card bill and refuse to pay it because they didn't authorise it."

The company that supplied the goods without getting paid was the true victim and would probably look to sue the company whose data base was breached, he added. But there was lot of uncertainty over who could successfully sue whom, and so the impact on insurers was also uncertain.

Cyber risk was the topic of a contribution from Guy Carpenter managing director Harrison Oellrich, who said the e-commerce market, purely in terms of business-to-consumer transactions, had reached $100 billion by 2006.

Elements of cyber risk included virus contamination, unauthorised access, laptop and mobile theft, proprietary information theft and denial of service.

Insurers were hesitant about offering cyber insurance, reinsurance broker Mr. Oellrich added, but interest was growing. Annual gross premium revenue from cyber insurance policies had climbed from $100 million in 2002 to $350 million in 2006, he said.

"In the last 12 months, I have given 15 to 20 presentations to management of insurance companies, who see cyber insurance as an opportunity to grow," Mr. Oellrich said. "You need to stay current because these exposures are going to be brought to you to protect from a reinsurance perspective.

"Online traders like Amazon and E-Bay were the major customers for cyber insurance, Mr. Oellrich added. A survey last year had showed that 71 percent of companies had no cyber insurance, so there was room for growth.