

The background of the slide is a composite image of Earth from space. The top portion shows the curvature of the planet with a clear blue sky and white clouds. The bottom portion shows a more detailed view of the Earth's surface, with a mix of green and brown terrain, possibly a forested area, and a prominent river or coastline winding through it.

Terms & conditions, which  
damages/claims are insured due to a  
blackout? (a qualitative analysis)

Expert Hearing on Solar Storms – 15<sup>th</sup> March 2016

# Table of Contents / Agenda

- Damage caused by CME's
- Implications of a Power Blackout
- Main LOB's affected by wide-spread power outages may be:
  - Expected Claims
  - Coverage Issues
  - Legal Precedent



# Damage caused by CME's

- Damage & interference to spacecraft & satellites
- Interference with high-frequency radio communications & GPS navigation.
- Corrosion of oil & gas pipelines
- Disruption to electric power grids – transformers burnt, power blackouts

# Implications of a Power Blackout

- Carrington event in North America could affect 130 million people
- Recovery between 2 - 10 years
- Estimated damage total between \$1 trillion & \$2 trillion (Study by John Kappermann)
- Disruption to transport
- Emergency & hospital services
- Food supplies
- Water & fuel supplies
- Financial Trading
- Social unrest, riots, looting

## Main LOB's affected by wide-spread power outages may be:

- Property – Commercial & Personal lines.
- Liability – Loss prevention measures not taken
- Credit – Risk of business running into insolvency
- Marine
- Aviation

# Expected Claims

- Property losses – perishable cold store contents, fire
- Motor – Failure of traffic signals will result in RTA's
- Aviation & Marine
- Environmental – failure of sewage systems, flood defences, water supplies
- Cancellation of events
- Liability claims – individuals safety maybe compromised
- Directors & Officers claims – appropriate preventative action not taken
- Social unrest
- Business interruption
- Contingent Business Interruption – Suppliers extension

# Coverage Issues

- All risk or named peril
- Proximate Cause
  - Act of God
  - Triggering of automatic internal safety mechanism
  - Human intervention
  - Negligence
- Hours Clause
- Validity of any exclusionary language
- Off-Premises Service Exclusion

## Coverage Issues cont...

- BI/CBI Issues – Lack of physical damage
- Jurisdiction – Differing statutes & legislative regulations across USA
- Sue & Labour clause– Recovery of expenses incurred by Insured in order to avert or minimise an actual or imminent loss that would be covered under the policy.

## What actions can we take?

- Decide if we wish to provide cover for losses resulting from power failures & to what extent
- Develop a non-damage business interruption product – Allianz Global Corporate & Specialty
- Consideration given to possible wording changes to sufficiently define what constitutes "physical damage".
- Exclusion of damage caused by Solar Storms – specifically exclude losses caused by "triggering" of the internal safety mechanisms in power grids.
- Sub-limits may need to be added for losses caused by solar storms.

## Legal Precedent following 2003 Power Blackout

- **Wakefern Food Corp. v. Liberty Mutual Fire Insurance Co -**

Insured, group of supermarkets, suffered losses from food spoilage & loss of business caused by blackouts.

Insurer denied coverage stating policy only applied when loss caused by “physical damage” to off-premises electrical plants & equipment.

Appellate court ruled that the “relevant physical damage” in this case was to the power source itself which collapsed during the blackout as a result of protection measures & therefore the temporary loss of power to the power grids constituted as "physical damage" & the loss was covered.

## Legal Precedent cont...

- **Ferraro v. North Country Insurance**

The insured's restaurant lost power in the 2003 blackout & claimed for food spoilage & loss of business income.

Insurers accepted claim for food spoilage but denied loss of business income claim.

Parties disputed the word "damage", arguing that "damage" meant physical damage requiring repair or replacement. The insured argued that "damage" included the "impairment of usefulness" of the power companies' generating & delivery of power to its customers.

Court ruled that the term "damage" in the context of the Off Premises Power Clause was ambiguous & held in favour of the insured. They stated that if the insurer wanted to limit the application of the word damage it should have stated such in the policy wording.

## Legal Precedent cont...

- **American Guarantee & Liability Insurance Co. v. Ingram Micro Inc**

A wholesale distributor of microcomputer products, used a worldwide computer network system to track products & daily transactions. All orders processed through computer system.

Following a power outage caused by a ground fault in a fire alarm panel, the system was inoperable. American Guaranty denied BI coverage as no physical damage occurred.

Trial court held that “physical damage” could not be restricted to “physical destruction or harm” to the computer network system, but includes “loss of use, loss of access & loss of functionality”.

Policy language is key in determining whether a policy will cover losses caused by solar storms

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