



## Reinsurance and the Y2K Millennium Issue

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The Reinsurance Research Council is actively working with insurance industry organizations and committees to explore underwriting issues and sound practices related to computer date errors. As well, RRC is examining Y2K issues unique to reinsurance.

This bulletin presumes a general awareness of the Y2K problem and focuses on loss to insurable interests. Computers and computer programs unable to deal with double-zero date calculations have the potential of causing physical and economic loss across a wide range of property and casualty insurance perils. A partial list serves only to illustrate the breadth of exposure:

- Business interruption.
- Contingent business interruption through the cascade effect of interdependent services and suppliers.
- Products failure to perform.
- Physical damage or bodily injury due to the failure of computerized equipment or due to false information generated by computers.
- Directors and Officers arising from companies or organizations unprepared or inadequately prepared for Y2K.
- Errors and omissions against consultants, lawyers, accountants and other professionals.
- Liability for actions taken or not taken due to computer error.
- Fidelity, perpetrated either under the cover of Y2K or by the very programmers quickly hired to fix software.
- Crime, or increased moral hazard by insureds unable to fix Y2K.
- Boiler and machinery, surety, etc.

**Non-proportional treaty reinsurance introduces a unique concern. An issue of considerable importance to RRC is the aggregation of losses under the definition of Ultimate Net Loss. Under a limited and well defined number of circumstances, it may be appropriate to aggregate certain losses arising out of a single event. However, it would be a mistake to conclude that either Y2K in itself, or the wide-spread use of a two-digit date code, constitute one occurrence.**

The view of RRC follows very closely that of the international reinsurance community; *neither the turning of the clock nor the flipping of the calendar* is, in itself, an insured or insurable peril. The arrival of the year 2000 will not be a fortuitous event, nor can it cause a Y2K loss. The decisions of individual professionals, directors, officers, programmers, technicians, contractors, felons, and other users and abusers of computers, represent separate events taking place over many years.

As we reach the year 2000, one piece of software may cause an overheated furnace to start a building fire while another computer misdirects funds and a third halts a factory production line. These separate losses do not constitute a single occurrence under even the broadest treaty definition of event.

Such losses bear a relationship, of course. However, by way of comparison, they are related only in the same sense that woodstove fires in a given winter have a common cause – faulty installations.

There are further, more complex issues of reinsurance coverage and loss aggregation, and cedants and reinsurers are encouraged to discuss openly and frankly their respective understanding of treaty intent and coverage.

It is not the role of the Reinsurance Research Council to determine underwriting standards. However, the council will continue to correspond with reinsurers around the world in order to communicate effective solutions to the Canadian market.