Insuring operational risk of FiNTech/ Blockchain

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Vaduz, 30th January 2017

FINTech congruent risks to AMA

- What does Fintech mean?

“Fintech is a portmanteau of financial technology that describes an emerging financial services sector in the 21st century. Originally, the term applied to technology applied to the back-end of established consumer and trade financial institutions. Since the end of the first decade of the 21st century, the term has expanded to include any technological innovation in the financial sector, including innovations in financial literacy and education, retail banking, investment and even crypto-currencies like bitcoin.”

FINTech congruent risks to AMA

- What does Crypto Currency mean?

“A cryptocurrency is a digital or virtual currency that uses cryptography for security. A cryptocurrency is difficult to counterfeit because of this security feature. A defining feature of a cryptocurrency, and arguably its most endearing allure, is its organic nature; it is not issued by any central authority, rendering it theoretically immune to government interference or manipulation."

FINTech congruent risks to AMA

What Categories of Fintech does Currently exist?

- P2P Consumer and Business Lending
- Invoice Trading platforms
- Equity/ Reward/ Donation based Crowd funding
- Debt based securities
- Clearing/ Lending back office functions

Why is FINTech disruptive?

- Fintech, which originally referred to computer technology applied to the back office of banks or trading firms, now describes a broad variety of technological interventions into personal and commercial finance.
- Targeted at existing clients of Banks, Insurers, Exchanges and Fund Managers
- No/ little human resource or locations required for automated advice or delivery of service
- High margin per transaction due to lower OP cost, including regulatory cost

FINTech Insurance as per Risk Map in Basel II

- Available as a mitigant to a FINTech's operational risk capital calculation, provided they are on the Advanced Measurement Approach (AMA) level as part of a Bank
- Subject to a maximum of 20% of FINTech/ bank's capital for operational risk
- If operational risk capital = approximately 12% - 15% of total regulatory capital, insurance can be worth 2.4% - 3%.

What do FINTech want from insurers?

- Certainty of payment i.e. coverage
- Speed of payment – liquidity start up
- Reputational uplift as newcomers to professional investor groups
- Obtain Risk Management views and pricing of risk experience from professional Risk Transfer markets

Coverage

The risks posed by Fintech include largely existing risk patterns of Banks, Exchanges and Asset/ Fundmanagers – but stronger emphasis on technical than human source of risk:

- Loss of source code/ Quantum formulae and replacement delay
- Highly concentrated Human resource fraud, Error and key person as well as interruption risk

Coverage

Typical exposure of OP:

- Hard and Software Loss/ damage/ theft
- IP Theft
- Hacker Attack
- Regulatory Development/ License
- External Fraud
- Internal Fraud
- Errors and Omissions

FINTech specific covers

Cover includes:

- Fraudulent or fake underlying documents and titles processed at nominal value and costs
- Cyber cover with Business interruption cover for data and programmes and hardware lost
- Credit cover blanket for trading partner‘s risk of failing to honour trades where trades are based on goods (commodities

Legal certainty and exclusions

- Supervisory actions (except for fines, penalties etc)
- Appointment of receiver or liquidator, (except for events occurring after initiation of receivership or liquidation)

A possible model for a ‘compliant’ Integrated Insurance Policy:

Master policy incorporating
General definitions
common terms, conditions & exclusions

Insuring clause schedules – plus Counterparty Credit:

BBB/ ECC/ UT	**PI/ D&O/ EPI**	**Property**	**Business Interruption**
incorporates cover limits & excess Risk specific definitions & exclusions	incorporates cover limits & excess Risk specific definitions & exclusions	incorporates cover limits & excess Risk specific definitions & exclusions	incorporates cover limits & excess. Risk specific definitions & exclusions

Conclusio

- Insurance as ‘contingent’ capital for eradicating its own existing b’models?
- Feed Data for Robots for free?
- Captives – for emerging risks to be financed via capital for marketing edge and support of own exposure model experience?
- How much automation is good for the Client?

Conclusio

Underwriting:

- Individual Experience?
- OP robustness?
- Proven Components/ Technologies?
- Good character?
- Checks and external expertise?
- Liquidity levels compared with competition?
- Market development perspectives/ trends-

Time horizon?

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Thank you for your attention

Alexander Dreyer,

Member of the Board

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