

# **F.A.I.R. International Insurance Conference on Political Violence**

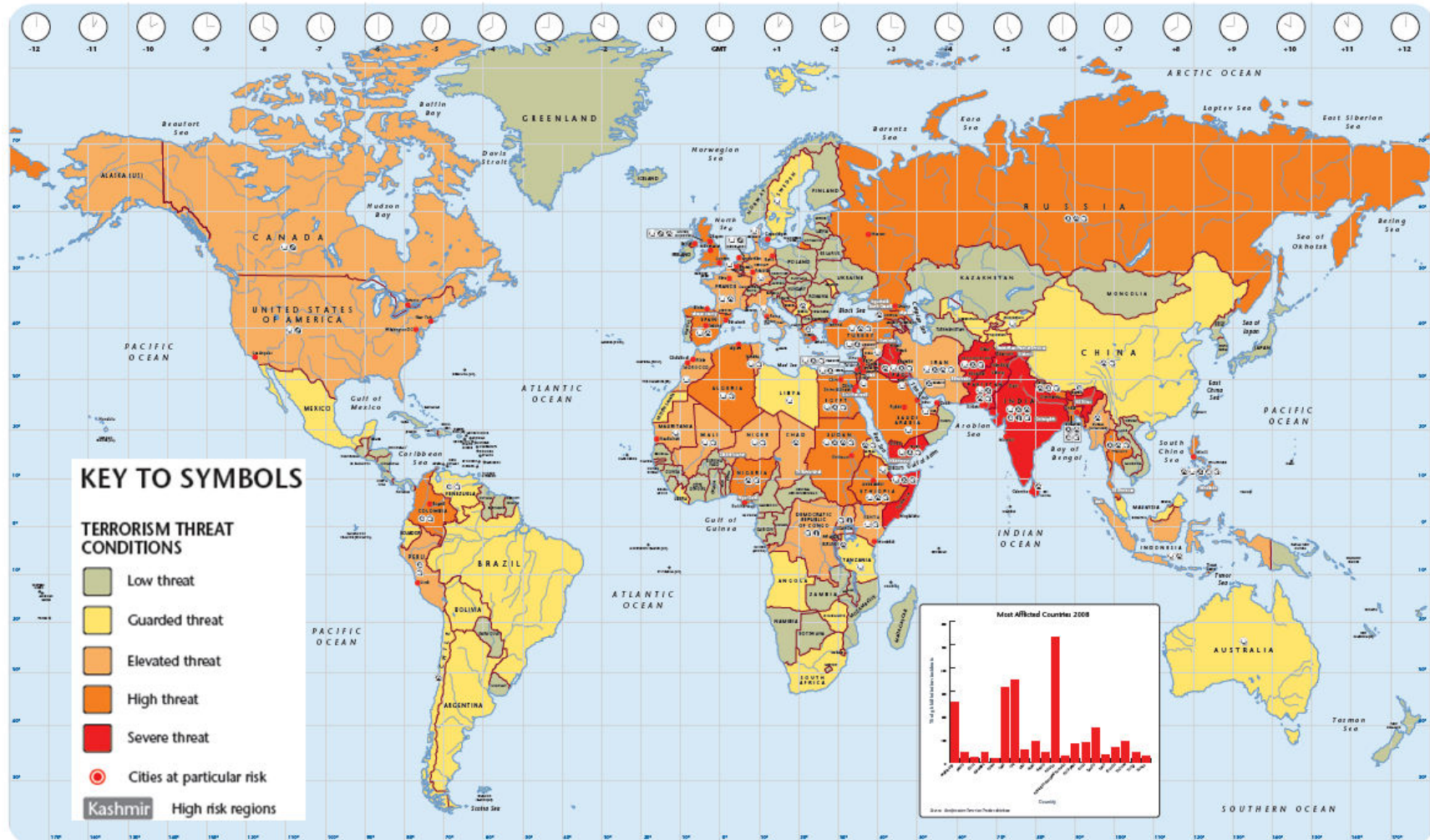
## ***Terrorism : Private Market Solutions or Government-Backed Scheme***

**Karachi, April 12th, 2010**

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# Introduction : What is Terrorism (1/5)



2009 Terrorism Threat Map

Source: AON Group

# **Introduction : What is Terrorism (2/5)**

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***Commonly understood as an act which is intended to cause terror...***

***...the word “terrorism” is so charged politically and emotionally, that is almost impossible to provide an exact definition.***

***No international definition***

***Need for an objective definition***

***Courts approach :***

- No common law derived from any judgement***
- Criminal law being looked at for guidance***

# Introduction : What is Terrorism (3/5)

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***Layman's perception of such acts :***

***Designed to influence the government or intimidate the public***

***Purpose : advancing political, religious or ideological cause***

***Serious violence against persons***

***Serious damage to property***

***Serious risk to health or safety of public***

# Introduction : What is Terrorism (4/5)

## Standard definition :

*An act of terrorism means an act, **including but not limited to** the use of force or violence and/or the threat thereof, of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organisation(s) or government(s), committed for political, religious, ideological or similar purposes including the intention to influence any government and/or to put the public, or any section of the public, in fear.*

NMA2921

## Wide definition but new forms of terrorism :

***Cyber attack***

***Nuclear, Biological, Chemical and radiological Contamination***

# Introduction : What is Terrorism (5/5)

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## Necessity of linking Event with Losses

### ***4 Key Factors :***

- *Cause*
- *Locality*
- *Time*
- *Intention*

### ***Burden of Proof***

### ***Aggregation : Hours Clause***

# *Difficulty of insuring Terrorism Risk*

## **Main characteristics of insurable risk**

### ☐ ***Risk must be measurable***

- *Terrorism : little data on which to base estimates of future losses, in terms of frequency or severity. No idea of worst case scenario*

### ☐ ***Losses must be random*** as regards time, location and magnitude

- *Terrorism : geographical concentration, carefully planned and often coordinated acts*

### ❖ ***Situation of Adverse Selection***

# Assessing Terrorism Risk

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## Main Challenges

### ❑ **Quantify the Risk**

- ✓ *likelihood of an event*
- ✓ *amount of damage it would cause*
- **Use of sophisticated modeling tools**

### ❑ **Monitor the accumulation of Risk**

- ✓ *accumulated risk from multiple insured buildings*
- ✓ *various lines of business concerned, e.g. property, motor, marine, workmen's compensation, personal accident, etc*



# ***SCOR Underwriting policy (General Principles)***

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## **Treaties / Facultative**

*Underwriting policy is to avoid/exclude terrorism coverage whenever possible or to impose reasonable per event and annual aggregate limits*

*NBCR exclusion is mandatory*

*Referral to Global P&C UW Management and to Group Risk Management prior to binding*

*Preference for National Pools : loss potential may exceed insurance industry's financial resources*

## Special Terrorism Insurance Programs Worldwide - EUROPE (1/5)

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**AUSTRIA** : *The Austrian Terror Pool (Oct 2002) - membership optional but 99% of Austrian Insurance Association belong to pool.*

**BELGIUM** : *TRIP - Terrorism Reinsurance & Insurance Pool (Feb 2008) : non-profit organization representing more than 90% of market. Committee including insurers decide whether event meets definition of terrorism*

**FINLAND** : *Finnish Terrorism Pool - all insurance companies except two – last resort in event of major terrorism loss*

**FRANCE** : *GAREAT - Gestion de l'Assurance et de la Réassurance des risques d'Attentats et Terrorisme (Jan 2002): unlimited top layer coverage provided by government-owned CCR. Under a law passed in 1986 terrorism must be covered.*

## Special Terrorism Insurance Programs Worldwide - EUROPE (2/5)

**GERMANY** : *EXTREMUS* (Sept 2002) – specialist company covering terror caused property damage formed by primary insurers and reinsurers and supported with a backstop by the German government

**NETHERLANDS**: *NHT* – Netherlands Reinsurance Company for terrorism losses

**SPAIN** : *CCS* – Consorcio de Compensacion de Seguros – Institution covering “extraordinary risks” including political risks since 1954 acting as state insurance facility with unlimited state guarantee

**SWITZERLAND** : Market facility initiated by the Swiss association of property insurers, *SVV*

**UNITED KINGDOM** : *POOL RE* – Pool Reinsurance Co Ltd (1993) government acts as reinsurer of last resort, guaranteeing payments above the industry retention

## Special Terrorism Insurance Programs Worldwide – AMERICAS (3/5)

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**UNITED STATES OF AMERICA :** *TRIA – Terrorism Risk Insurance Act of Nov 2002 designed to provide a US Treasury financial backstop for commercial insurers from potential insolvency arising from underwriting terrorism risks.*

## Special Terrorism Insurance Programs Worldwide – AFRICA & MIDDLE EAST (4/5)

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***SOUTH AFRICA : SASRIA – South African Special Risks Insurance Association (Jan 1979) – registered insurance company in which all insurance companies writing fire coverage participate with the South African government acting as reinsurer of last resort***

***NAMIBIA : NASRIA – National Special Risks Association (Oct 1987) with the Namibian government acting as ultimate reinsurer***

***ISRAEL : PTCF – The Property Tax and Compensation Fund Law (1961) – provides government compensation for property damage caused by terrorism (unlimited cover)***

# Special Terrorism Insurance Programs Worldwide – ASIA / PACIFIC (5/5)

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**AUSTRALIA** : *ARPC – Australian Reinsurance Pool Corporation (2003) – terrorism exclusions in commercial policies are nullified once government (the Treasurer, following consultation with the Attorney General) has declared a terrorist act.*

**INDIA** : *Indian Market Terrorism Risk Insurance Pool (Apr 2002) managed by the government-owned General Insurance Corporation of India on behalf of all non-life insurance companies.*

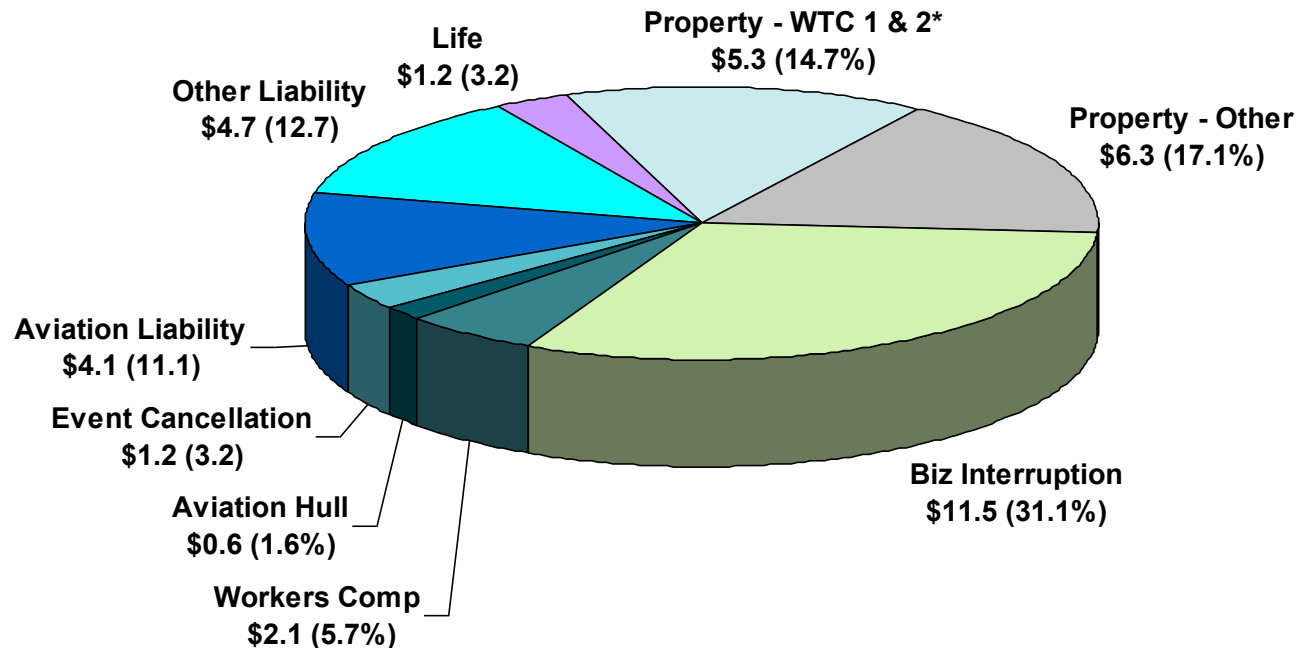
**NEPAL** : *RSMD, Sabotage & Terrorism Risks Pool covering all non-life insurance companies*

**SRI LANKA** : *Government Strike, Riots Civil Commotion & Terrorism Fund*

# WTC terrorist attack 9/11, 2001:

## Loss distribution by type of Insurance (\$ Billions)

(Stated in 2007 Dollars)



**Total insured losses estimate: \$36.9B**

\*Final settlement amount on claims on the WTC complex itself of \$4.55 billion as announced on May 23, 2007 by New York State and Port Authority of New York and New Jersey. Figure is adjusted to 2007 price level. Losses stated in 2001 dollars are \$32.5 billion.

Source : Insurance Information Institute

# Mumbai Terrorist attack 26th November, 2008

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***Terror targets : Public Transport / Hotels / Iconic Buildings / Economic Assets***

***Multiple attacks – 3 days - 166 people died***

***Economic Cost : up to US\$ 600M***

***Insurance Cost US\$ 110M, i.e. twice annual market terrorism premium income***



# Pakistan Context

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***Viable solution : mandatory national pool backed by government with reinsurance protection***

***Need for relevant law defining precisely terrorism acts or competent authority to officially qualify an event as terrorism***

***“Mutualisation”***

***Joint Liability***

# Conclusion

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For the last 30 years, terrorism “menace” has never stopped growing.  
The consequences of acts of terrorism too have kept growing worse,  
due to technological progress mainly.  
Almost no part of the world has been safe for the past 50 years.

*Therefore preparation, mitigation actions, and awareness remain crucial  
for the insurance industry.*

*The government however must play a critical role not only in preventing  
future attack but also in providing the financial backstop which makes  
the economy resilient to even the most disastrous terrorism acts.*