

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

*Topic: Terrorism Pools – Drawbacks & Benefits*

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*presented by John Thorpe*

# Introduction

## John Thorpe

- Executive Director – Aon Benfield Singapore
- Responsible for Pakistan Market (Treaty)
- Work very closely with Aon Pakistan
- Personally involved in the formation and placement of two National Pool Schemes since arrived in Aon Asia eight years ago.
  - **TREIF** (Earthquake Pool in Taiwan) and,
  - **MAIPARK** (Earthquake Pool in Indonesia)



# What is Terrorism?

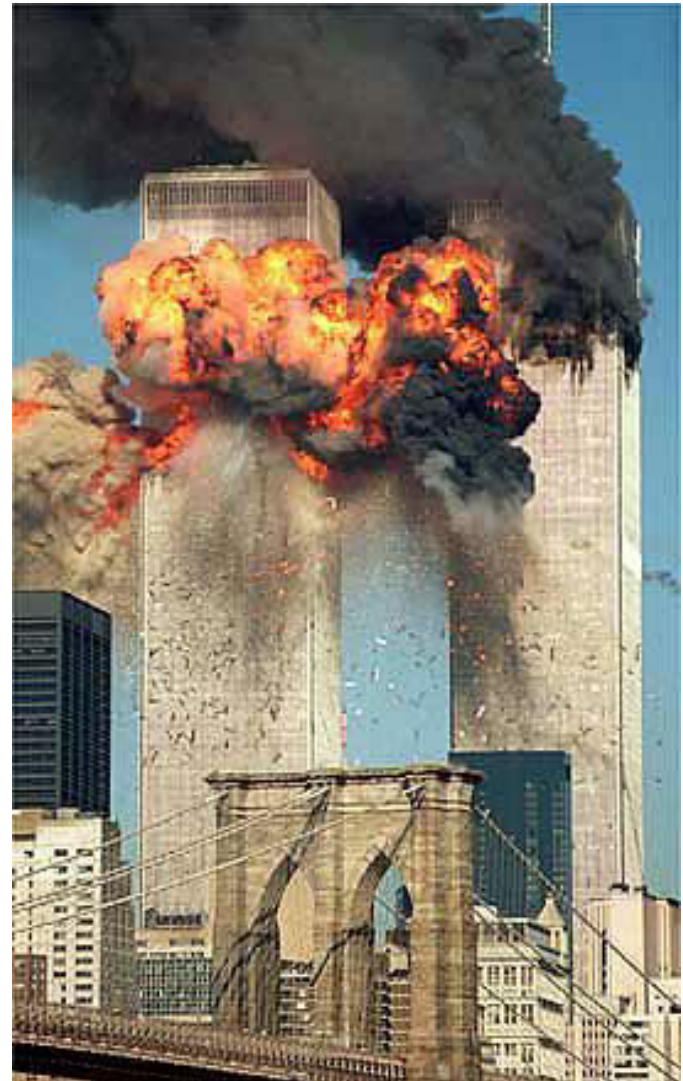
- “Terror” comes from a Latin word meaning “to frighten”.
- Terrorism is a criminal act that influences an audience beyond the immediate victim. The strategy of terrorists is to commit acts of violence that draws the attention of the local populace, the government, and the world to their cause.
- The terrorists plan their attack to obtain the greatest publicity, choosing targets that symbolize what they oppose.
- The effectiveness of the terrorist act lies not in the act itself, but in the public’s or government’s reaction to the act.
- Terrorism can be seen as a social problem and therefore requires a social solution.

# History of Terrorism Worldwide

Year	Country	Location	Brief Description	Economic Loss in US\$mill	Killed / Injured
1992	United Kingdom	London	Bomb explodes in financial district	3273	33298
1993	United States	New York	Bomb explodes in garage of World Trade Centre	1493	6 / 1,000
1995	United States	Oklahoma City	Car bomb attack on a government building	862	166 / 467
1996	United Kingdom	Manchester	Car bomb explodes near shopping mall	847	0 / 228
1997	Egypt	Luxor	Terrorist attack at Hatshepsut temple	4	69 / 24
1998	Kenya, Tanzania	Nairobi, Dar es Salaam	Attack with two simultaneous bomb blasts in US embassies	193	253 / 5,075
2001	United States	New York, Washington DC, Pennsylvania	Terror attack on WTC, Pentagon and other buildings	108158	2,982 / 2,250
2002	Bali, Indonesia	Kuta	3 bombs explode in and near popular night clubs	na	202 / 209
2004	Spain	Madrid, Atocha	Attack with series of 10 bombs on trains	135	191 / 2,062
2006	India	Mumbai	8 bombs explode in trains and stations	3	186 / 800
2008	Pakistan	Islamabad	Suicide bombing at Marriott Hotel	na	53 / 270
2008	India	Mumbai	Attack on Taj-Mahal and Oberoi Hotels and various other locations including major railway station and hospital	na	172 / 300

# Background to Terrorism Pools

- The majority of terrorism pools have been created through co-operation between local insurance associations and their respective government
- Such pools have in many cases been a direct response to the World Trade Centre disaster.
- Prior to 9/11 terrorism cover was often included without additional premium.
- After 9/11, Insurers reacted by withdrawing terrorism from a significant number of policies being issued.
- Retraction acted as a catalyst for government involvement in the formation of terrorism pools to ensure that terrorism cover was still available on reasonable terms.



# Which countries operate Terror Pools?

Internationally, the following are some territories where terrorism pools operate:

- UK – Pool Re (1993)
- France – GAREAT (2002)
- Germany – EXTREMUS (2002)
- The Netherlands – NHT (2003)
- Australia – Australian Reinsurance Pool Corp (ARPC) (2003)
- South Africa – South African Special Risk Insurance Association (SASRIA)
- India – Indian Market Terrorism Risk Insurance Pool
- Sri Lanka – Sri Lankan Strike, Riot & Civil Commotion and Terrorism Fund (SRCC)

# Terrorism in Pakistan

- Two of the main causal factors contributing to terrorism in Pakistan are sectarian/religious violence.
- Other causes, such as political rivalry and business disputes, also take their toll.
- Terrorism in Pakistan since the 1980s began primarily with the Soviet-Afghan War, and the subsequent war against Afghan communists that continued for at least a decade.
- In 2009 of the 20 Major Terrorism losses worldwide (55%) occurred in Pakistan resulting in 453 casualties and 770 injuries.
- In 2008 of the 17 major Terrorism losses worldwide, 11 occurred in Pakistan.
- The 61 suicide attacks caused 899 casualties in 2072 injuries (including the deadly Marriott Bomb Blast).

# List of Losses in 2009

Date	Country Place	Event	No. of victims/amount of total damage in original currency and (USD)
7.2	Pakistan Punjab, Dera Ghazi Khan	Bomb explodes near mosque	33 dead 52 injured
30.3	Pakistan North West Frontier, Jamrud	Suicide bombing on mosque	70 dead 30 injured
12.4 – 13.4	Pakistan Lahore	Attack on police academy, hostages taken	20 dead 100 injured
18.4	Pakistan Punjab, Chakwal	Suicide bombing on mosque	22 dead 50 injured
4.5	Pakistan Hangu, Doaba	Suicide bomb attack on convoy pass a checkpoint	20 dead 15 injured
5.7	Pakistan North West Frontier, Preshawar	Car bomb attack at luxury hotel	11 dead 50 injured



# Availability of Terrorism Coverage in Pakistan Today

The availability of Property cover against the peril of Terrorism in Pakistan can be segmented into cover for large, high value risks (e.g. USD 10m +) and small, low value risks.

## ➤ Large Risks

- There are a number of reinsurers, particularly in Lloyds, who are prepared to provide coverage.
- Each risk is considered on its merits and rated accordingly. E.g. Hotels chains remain difficult.
- Some brokers have facilities for these larger risks though these facilities need the consent of one or all of the participants.

# Availability of Terrorism Coverage in Pakistan Today

## ➤ Small Risks

- For small industrial and commercial property, terrorism coverage is often unavailable.
- Reason for its lack of availability is that Pakistani insurers cannot lay this risk off easily in the global reinsurance market.
- Two or three of the larger companies have obtained treaties.
- Limits are low and the premium volumes restricted due to the high rates charged.
- There is currently one major leader for these treaties.
- If they exited the market there may be no reinsurance cover at all!
- The lack of coverage available, with few insurers supplying and supported by even fewer global reinsurers, for small everyday risks, is a major problem in Pakistan.

# Why Pakistan needs to consider a market Pool Solution?

- Terrorism is a **national** issue which has a major impact on the social and economic activities of the country.
- Terrorism Pools are not uncommon and successfully operate in many countries from United Kingdom, France and Germany in Europe to India, Australia and Sri Lanka in Asia Pacific.
- Without available Terror Cover – Foreign Investment is impeded.
- Local investment is stunted as companies manage the terrorism risk alone.

# What are the key ingredients in creating a Terror Pool and does Pakistan have these key ingredients?

## ➤ Is there a critical need for the cover?

**Yes**, in Pakistan all the insurance companies are being pressured by their clients to provide this coverage. People are concerned that random acts of terrorism could damage the buildings they own resulting in huge financial hardship. The last twelve months have seen a serious increase in the number of terrorist acts in Pakistan.

## ➤ Do the insurance companies want a pool?

**Yes**, all the insurance companies we have spoken to said they would support a pool. Even the major companies such as Adamjee and New Jubilee who currently have their own cover, said they would support the introduction of a pool facility.

# What are the key ingredients in creating a Terror Pool and does Pakistan have these key ingredients?

## ➤ Is there a need to be government financial support and or regulation?

**No** and **Yes**. It is not essential for governments to financially support pools although it does help if they can offer some guarantees should the claims in any one year exceed the coverage or premium. However it is essential that a tariff rate or series of rates be imposed across all companies.

It is important that insurers do not charge different terms. The only way this can be achieved in a "non tariff" market is through government decrees.

It is possible that the SECP in Pakistan can pass a regulation to enable this to happen.

# What are the key ingredients in creating a Terror Pool and does Pakistan have these key ingredients?

## ➤ Is there a need for a Managing Committee?

Yes, there needs to be a single body that can drive the process and be responsible for the pooling arrangement.

The single body can range from the National Reinsurer (in Pakistan this would be PRCL) or a separate operation could be formed by the insurance companies (like Maipark in Indonesia).

In Pakistan, we anticipate the SECP could also take on a pivotal role.

# Does Pakistan have all the key ingredients for a Pool?

➤ Currently Pakistan has all the key ingredients to set up a pool.

➤ These ingredients are:

- **An immediate need** for terror cover. ✓
- **Insurance companies support** for such a scheme. ✓
- The ability to impose **government regulation**. (Tariff Rate). ?
- The ability to form an **independent Management Committee**. ?

It is clear that nearly all the key ingredients to the successful implementation of a pool are currently present. The Pakistani market should consider acting now in order to ensure the soonest completion of the terror pool project.

THANK YOU