

Terrorism Insurance – a broker's perspective

Julian Taylor

Regional Director, Asia Pacific

Aon Crisis Management



AON

The “CNN” effect

THE  **TIMES**

Bomb in Pakistan kills schoolgirls and US military



(Sherin Zada/AP)

4th February 2010



Dozens killed in Pakistan attack



(AFP)

20th September 2008

AON

The reality?

Institute of Conflict Management Pakistan Assessment 2010

Fatalities due to Terrorism 2003 - 2009

	Civilians	Security Forces	Terrorists	Total
2003	140	24	25	189
2004	435	184	244	863
2005	430	81	137	648
2006	608	325	538	1471
2007	1523	597	1479	3599
2008	2155	654	3906	6715
2009	2307	1011	8267	11585
Total	7598	2876	14596	25070

Source: SATP Database

What creates political unrest?

- ↳ Massive security problems due to widespread militancy – especially in NWFP.
- ↳ Major economic instability.
- ↳ Some difficult cross-border relations – particularly with Afghanistan and India.
- ↳ Institutional weakness, poor governance and corruption.
- ↳ Discrepancies in terms of economic and social opportunities.
- ↳ Poor infrastructure.
- ↳ High levels of crime including extortion and K&R.

Source – IHS Global Insight Inc.

Specific security issues

- ↳ North West Frontier Province – massive Pakistani Army campaign against militants, notably Al-Qaeda and Taliban.
- ↳ De-territorialisation of conflict in NFWP means a heightened terrorism threat throughout Pakistan.
- ↳ High crime rates in Karachi, rural Sindh and Hyderabad.
- ↳ Sectarian violence in Karachi and Quetta.
- ↳ Sporadic unrest and bombings in Punjab.
- ↳ Tribal attacks over land and mineral rights in Baluchistan and Sindh.
- ↳ Extortion and kidnapping against foreign firms.
- ↳ See-sawing in relations with India.

Source – IHS Global Insight Inc.

What makes a PV risk?

Geography?

High risk – NWFP, Islamabad

Medium risk – Sindh, Baluchistan

Low risk – Karachi, Punjab

Security

Corporate Governance

Risk Management

Balance Sheet
Protection

RISK

Lenders' Pressure

Industry?

High risk - Hotels, Infrastructure, Government

Medium risk - Energy, Power Utilities, Telecoms

Low risk – Manufacturing, Real Estate

Ownership?

Locally owned?

US owned?

Western?

So what is high risk?

A real life example

- ↳ Geography:- Islamabad
- ↳ Industry:- Hotels
- ↳ Ownership:- US branded



Marriott Hotel, Islamabad

20th September 2008

How do you persuade underwriters?

- ↳ Quality of risk information:-
 - A schedule of locations and a breakdown of values?
 - What do they do?
 - Ownership?
 - Security information?
 - Loss and/or threat history?

- ↳ Properly understand the risk yourself.

- ↳ A consultative approach to the risk.

- ↳ Travel to the region – see the risk first hand.

- ↳ Get the underwriters to travel to Pakistan.

War or Terrorism?



Eliminating doubt....

What are the coverage options?

- ↳ Terrorism and Sabotage (T3 / LMA 3030 / AonT2010)
- ↳ Terrorism, Sabotage, Malicious Damage, Strikes, Riots and Civil Commotions (LPO 437 / LMA 3092 / AonTSRCCMD2010)
- ↳ Terrorism, Sabotage, Malicious Damage, Strikes, Riots, Civil Commotions, Civil War, Rebellion, Revolution, Coup d'Etat, Insurrection and Mutiny (PTS / Aon "PV" Wording)
- ↳ Terrorism, Sabotage, Malicious Damage, Strikes, Riots, Civil Commotions, Civil War, Rebellion, Revolution, Coup d'Etat, Insurrection, Mutiny and War (Aon "PV" Wording)

Why T3 / LMA 3030?

- ↳ Designed to provide stand-alone coverage where Terrorism and/or Sabotage is excluded on All Risks Policy.
- ↳ Typically purchased in developed countries where there is no perceived threat of civil unrest and/or armed conflict.
- ↳ Purchased extensively in USA, Europe and parts of Asia Pacific.

Why LPO 437 / LMA 3092?

- A long standing wording designed for emerging markets where there is a perceived threat of civil unrest.
- Terrorism and Sabotage is covered as a sub-section of Malicious Damage.
- Historically purchased in countries such as South Africa, Colombia, Perú, Indonesia and Sri Lanka.

Why PTS?

- A broader form wording designed by AIG to provide coverage in those parts of the world where both political and civil unrest are prevalent.
- The PTS wording eliminates any doubt over the question of “when is a terrorist act a terrorist act and when is it an act of civil war?”.
- Typically purchased in countries like Thailand and Venezuela where there is strong anti-government sentiment from certain quarters.

Why Full PV?

- The most comprehensive wording available and one that protects the client from any eventuality.
- This is a wording that is becoming increasingly popular in political hot spots, where there is a substantial threat of both political and civil unrest, and a real threat of a cross border incursion by a foreign power.
- Purchased in territories like Iraq, Afghanistan, Pakistan, and Israel / Palestine.

Extensions to coverage

↳ Business Interruption

- Gross Earnings
- Gross Profit
- Gross Revenue
- Extra Expense / ICOW
- Extraordinary Extra Expense / AICOW
- Loss of Rent
- Delay in Start-up / Advanced Loss of Profits

↳ Contingent Business Interruption

- Denial of Access
- Failure of Public Utilities
- Suppliers / Customers
- Bomb Threat / Hoax
- Loss of Attraction

Market place

Lloyd's of London

Chaucer	Canopus
Hiscox	Sagicor
Ascot	Ark
Catlin	Arch
Beazley	MAP
Talbot	Limit
Amlin	Aegis
Liberty	Travelers
Pembroke	Novae
Watkins	Marketform
Brit	Kiln
Atradius	Argenta



Market place

Companies markets

Ace

Axis

Lancashire

Chartis

Chubb

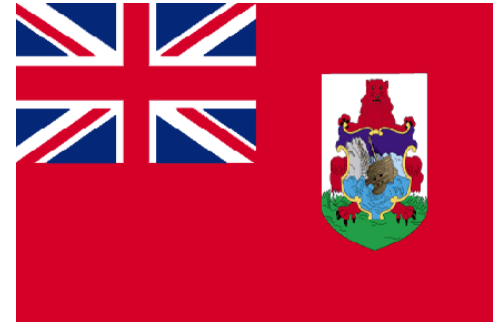
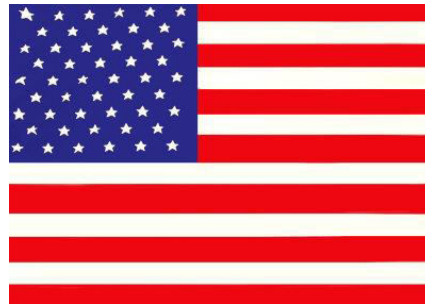
Hannover Re

Aspen Re

Montpelier Re

Glacier Re

Berkshire Hathaway



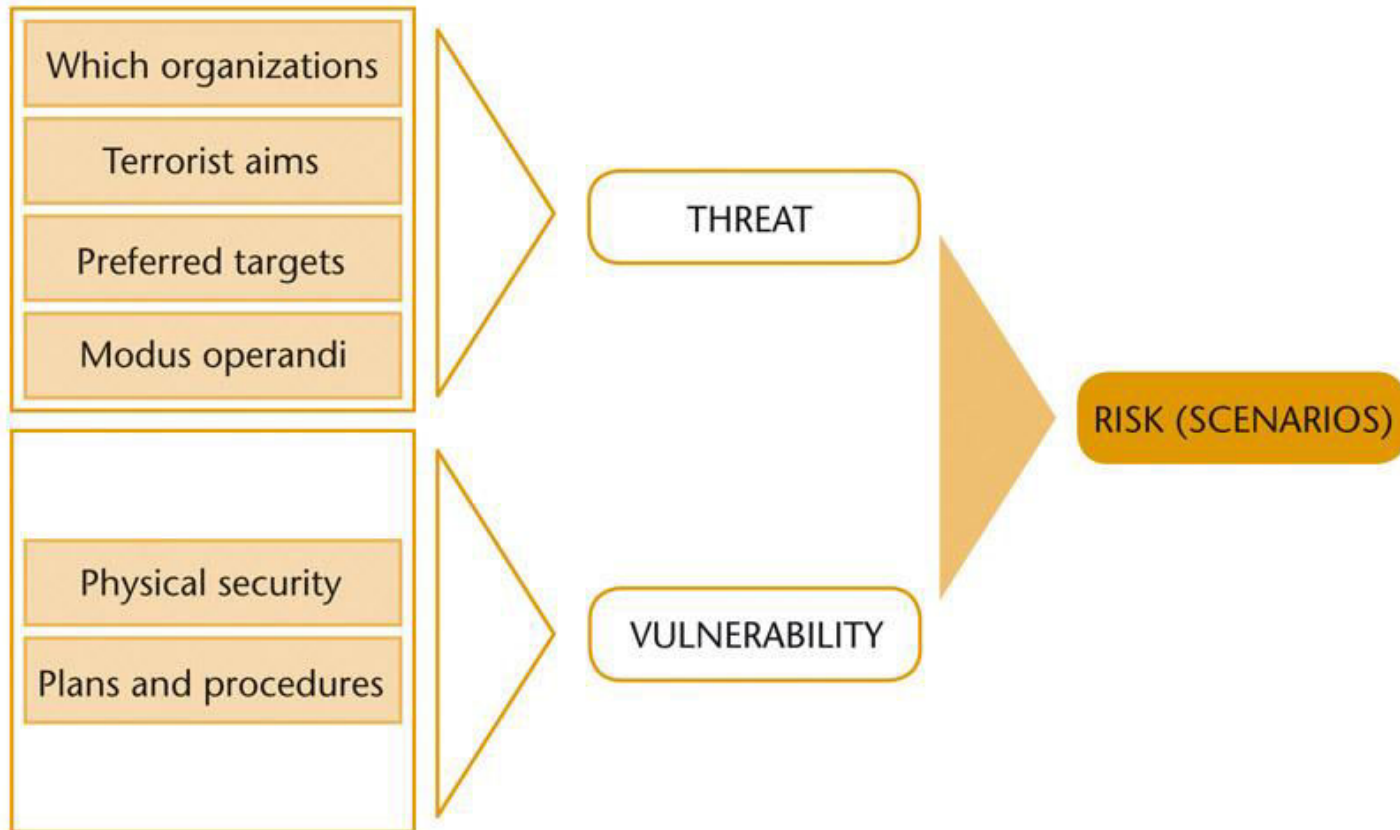
The dilemma of a risk manager

- ↳ What will be the impact of a terrorist attack on my business?
- ↳ Should I include all my assets in my insurance programme?
- ↳ If not, what do I need to insure, and why?
- ↳ How much capacity do I need to buy?
- ↳ Is the limit I currently buy too large/too small?
- ↳ What else should I be doing to mitigate my risk / liability?
- ↳ Am I fulfilling my Duty of Care?



A consultative approach

Terrorism risk assessment



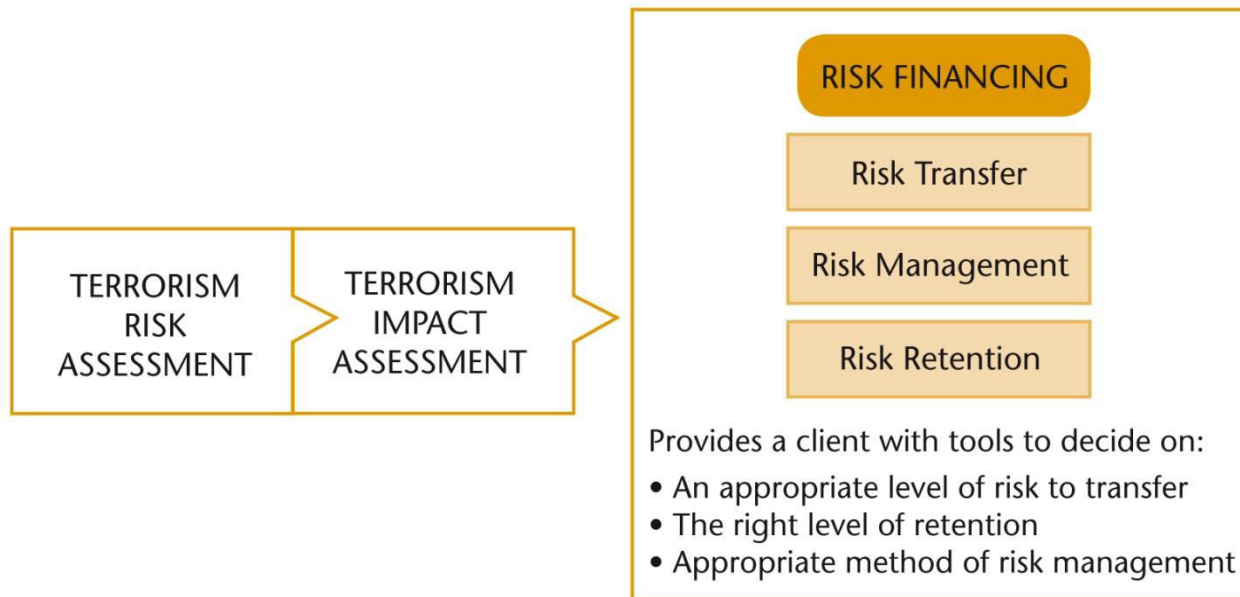
Likely impact

Once we have identified the most likely perils, we model their impact on our client's business:-

- 1** An **assessment of your exposure** will help you decide if terrorism poses a material threat: ie should you be concerned about terrorism
- 2** The results of **probable maximum loss** studies assist in ensuring that you are neither over nor under insured
- 3** The results of a **business interruption review** will assist in identifying the likely disruption to your operations following terrorist events
- 4** A terrorism review identifies strengths and weaknesses in your physical protection and plans and procedures in place. This helps improve your resilience and can help reduce the likelihood of negligence claims.

Risk management strategy

We then help them make informed decisions about the most appropriate risk management strategy:-



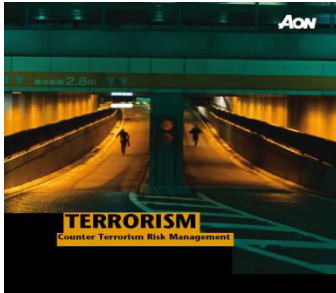
Aon Crisis Consulting



- ↳ Crisis Management Reviews
- ↳ Event Security Solutions
- ↳ Operational Feasibility
- ↳ PML and PML Reduction
- ↳ Increase in severity of terrorist attacks
- ↳ Political Risk Assessments
- ↳ Safe Travel Programmes

Aon Crisis Management

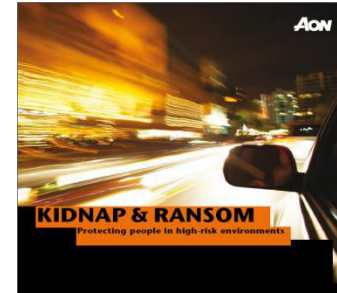
- ↳ World's leading broker in the class
- ↳ Specialist wholesale teams based in London and Singapore
 - ↳ 30 brokers
 - ↳ 12 dedicated technical staff
 - ↳ Dedicated claims experts
 - ↳ Consulting team
 - ↳ Secure e-trading system
 - ↳ Document production
- ↳ Global specialty operation
 - ↳ 62 retail members in 33 countries



Terrorism



Political Risk



K&R /
Extortion



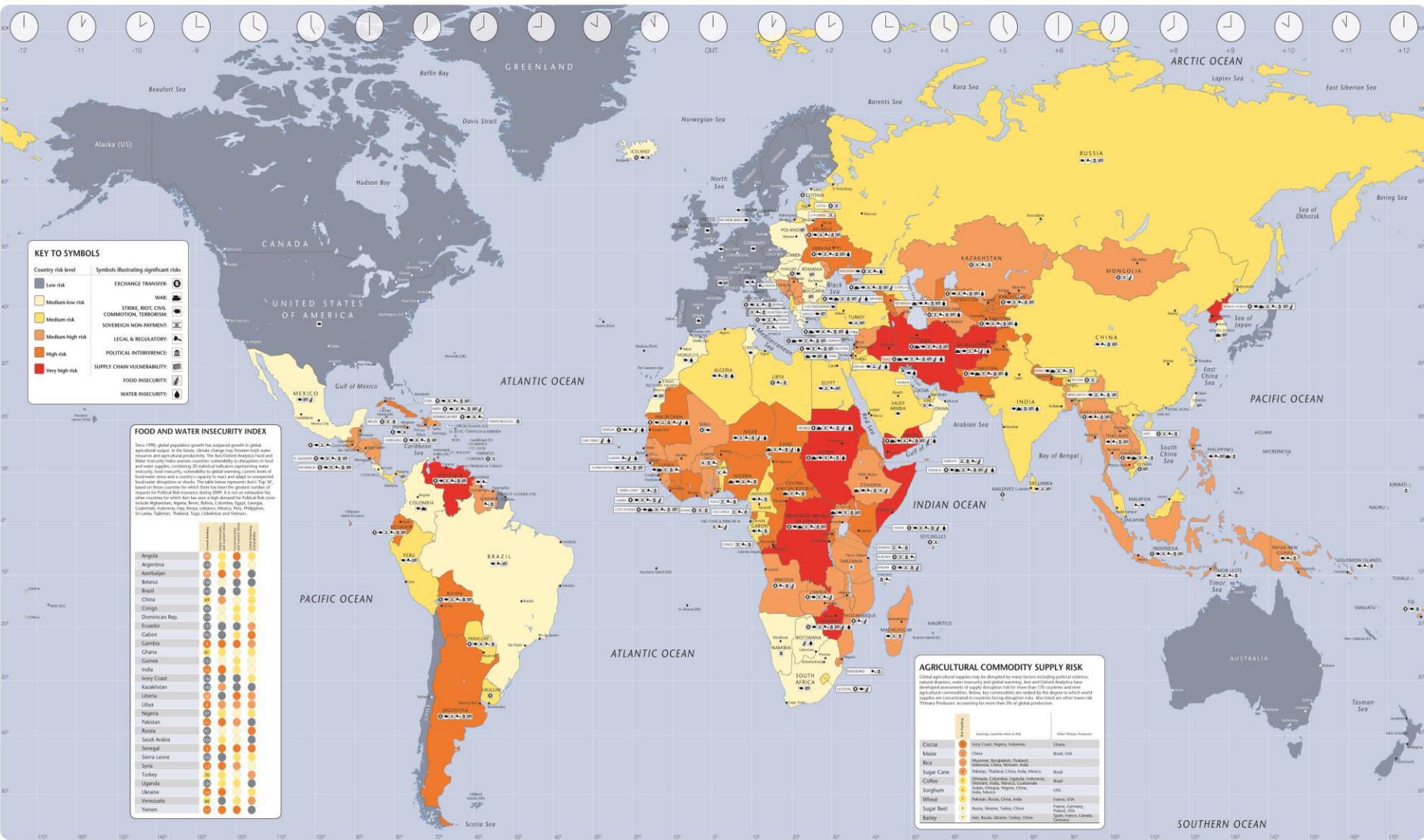
Contamination



Automotive
Recall

Crisis Consulting

2010 Political Risk Map



Aon offers a comprehensive solution to Political Risk, combining analysis and risk management consulting with individually structured insurance programmes. For further information please speak to your Aon broker, or visit www.aon.com

Questions?

