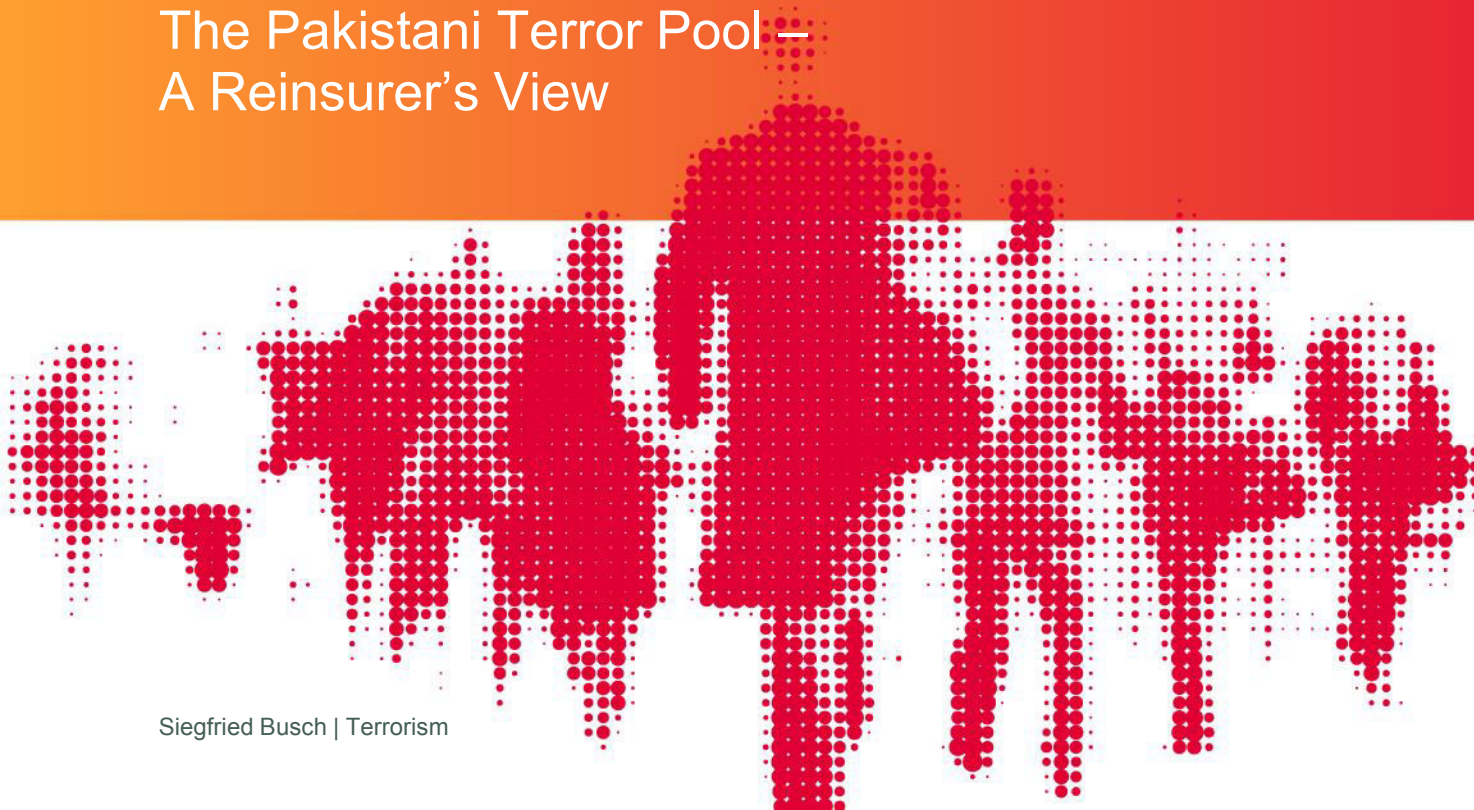




Terrorism

The Pakistani Terror Pool –
A Reinsurer's View





Agenda

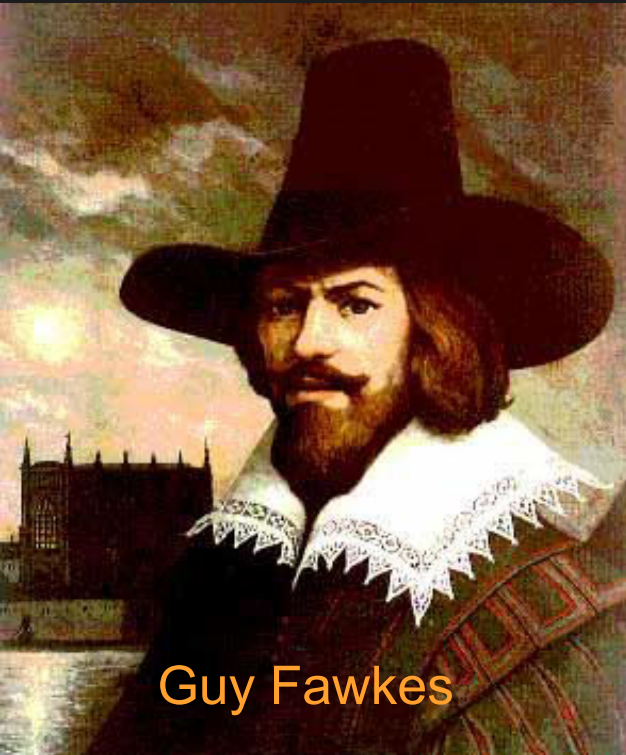
- Look briefly at history of Terrorism
- Look at Terrorism in the context of a 'Risk Landscape'
- Examine the Insurability of Terrorism
- Terrorism requires partnership, being Private & Public
- Examples of Terror Pools
- Pakistani Terror Pool – practical requirements



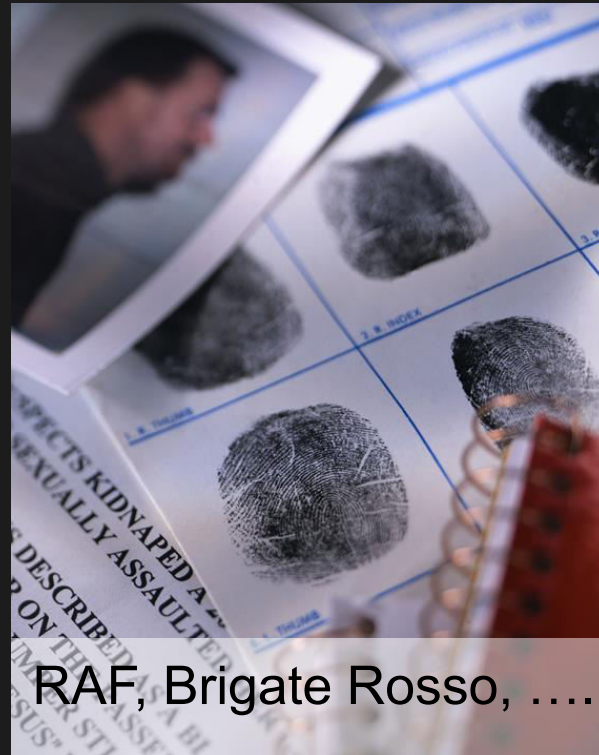
Terrorism Not a new phenomenon!

32

33



Guy Fawkes



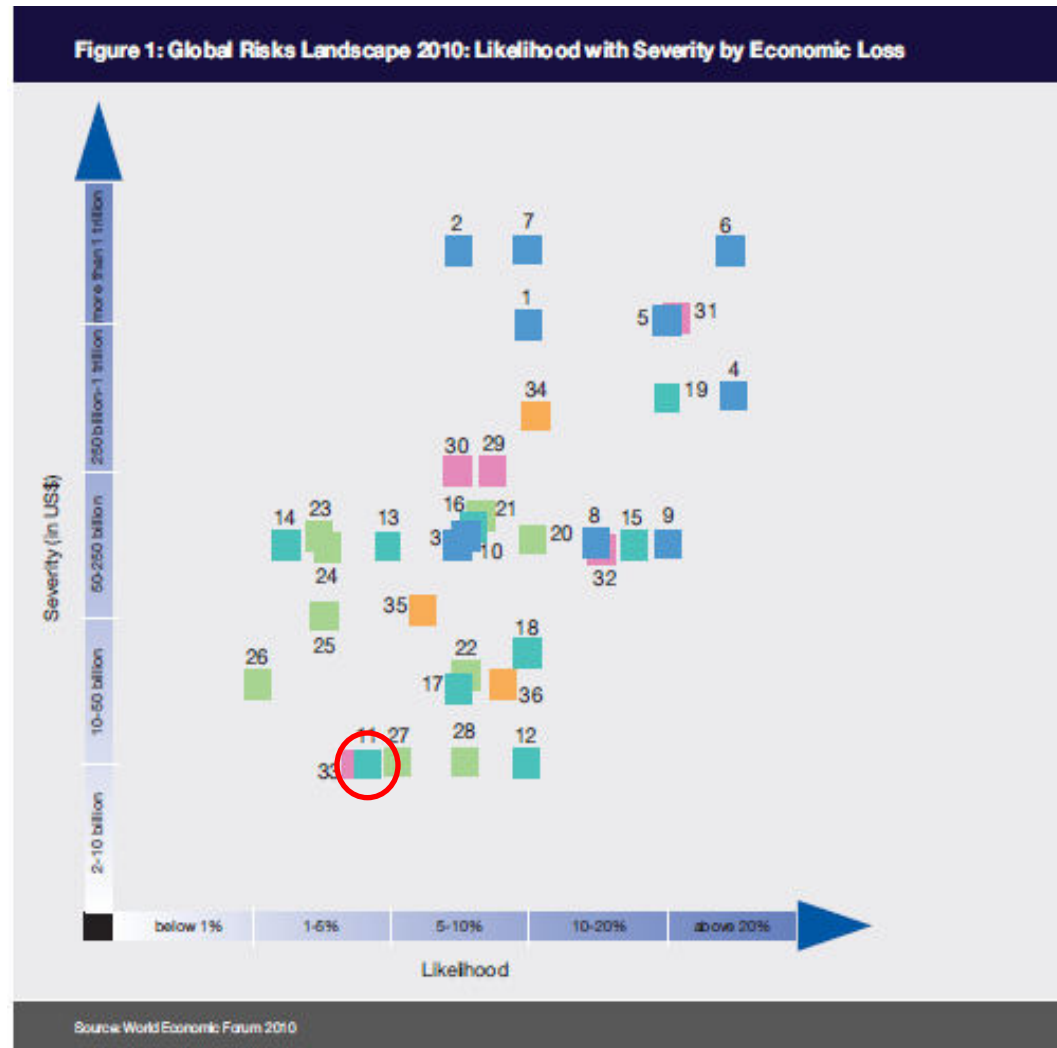
RAF, Brigade Rosso,



Ground Zero



Terrorism – part of the global risk landscape



Risk network for

International terrorism

International terrorists continue to mount sizeable attacks, causing significant economic and human losses and exacerbating retrenchment from globalization.

» Back to map

Likelihood (%)

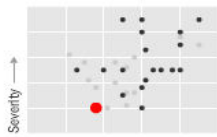


Severity (Billion US\$)



Severity and likelihood were addressed over a 10 year time frame

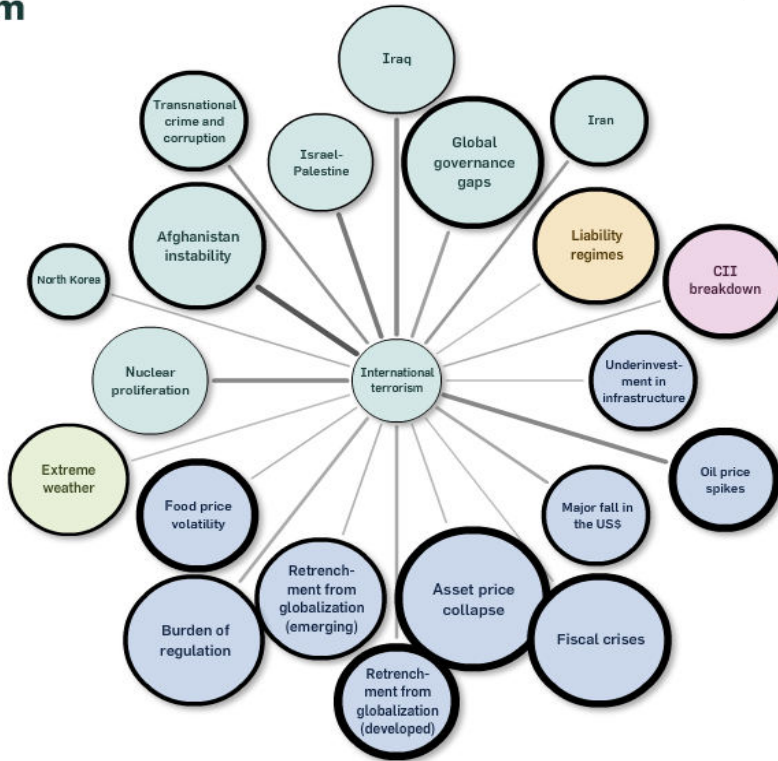
Risk Landscape



Connection strength



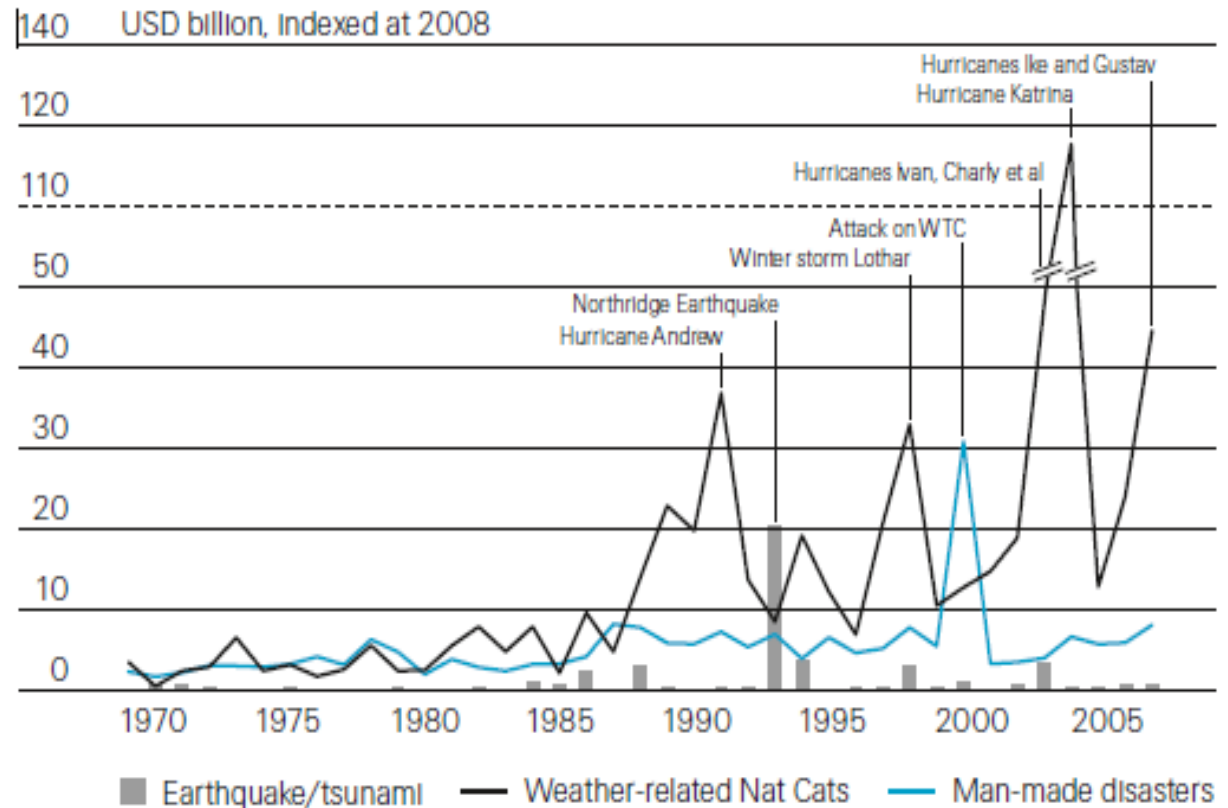
Domain



Source: World Economic Forum 2010



Insured losses 1970–2008





Insured Terrorism losses

Insured loss on terrorism events 1991-2009

Year	Number of top events	Insured loss (in USDm indexed to 2009)*	Victims (dead and missing)
1991	1	0	30
1992	3	975	27
1993	6	1'951	426
1994	3	0	146
1995	2	176	173
1996	6	1'271	161
1997	1	4	69
1998	2	0	281
1999	1	0	3
2000	0	0	0
2001	2	23'249	3'002
2002	6	0	412
2003	11	0	407
2004	13	0	812
2005	22	57	610
2006	11	74	425
2007	14	12	513
2008	18	102	826
2009	16	0	517

Selection criteria 2009 in USDm

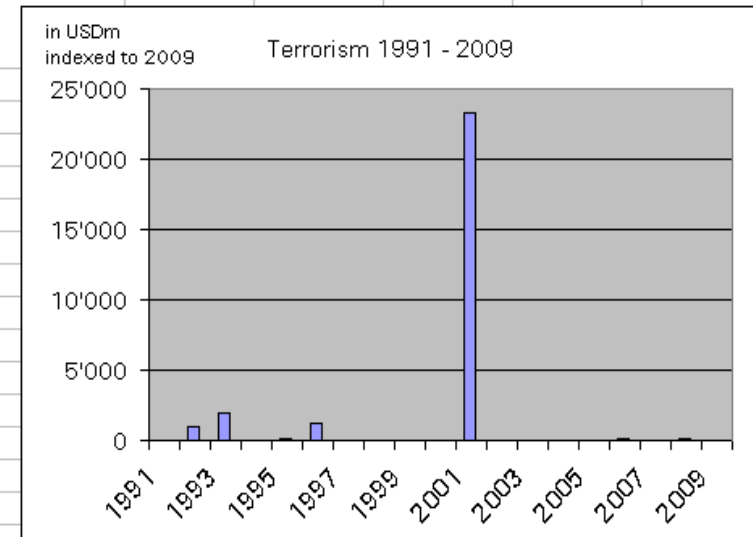
Insured claims:

- Maritime disasters 17.1
- Aviation 34.3
- Other losses 42.6

or Total losses: 85.2

or Casualties: Dead or missing 20

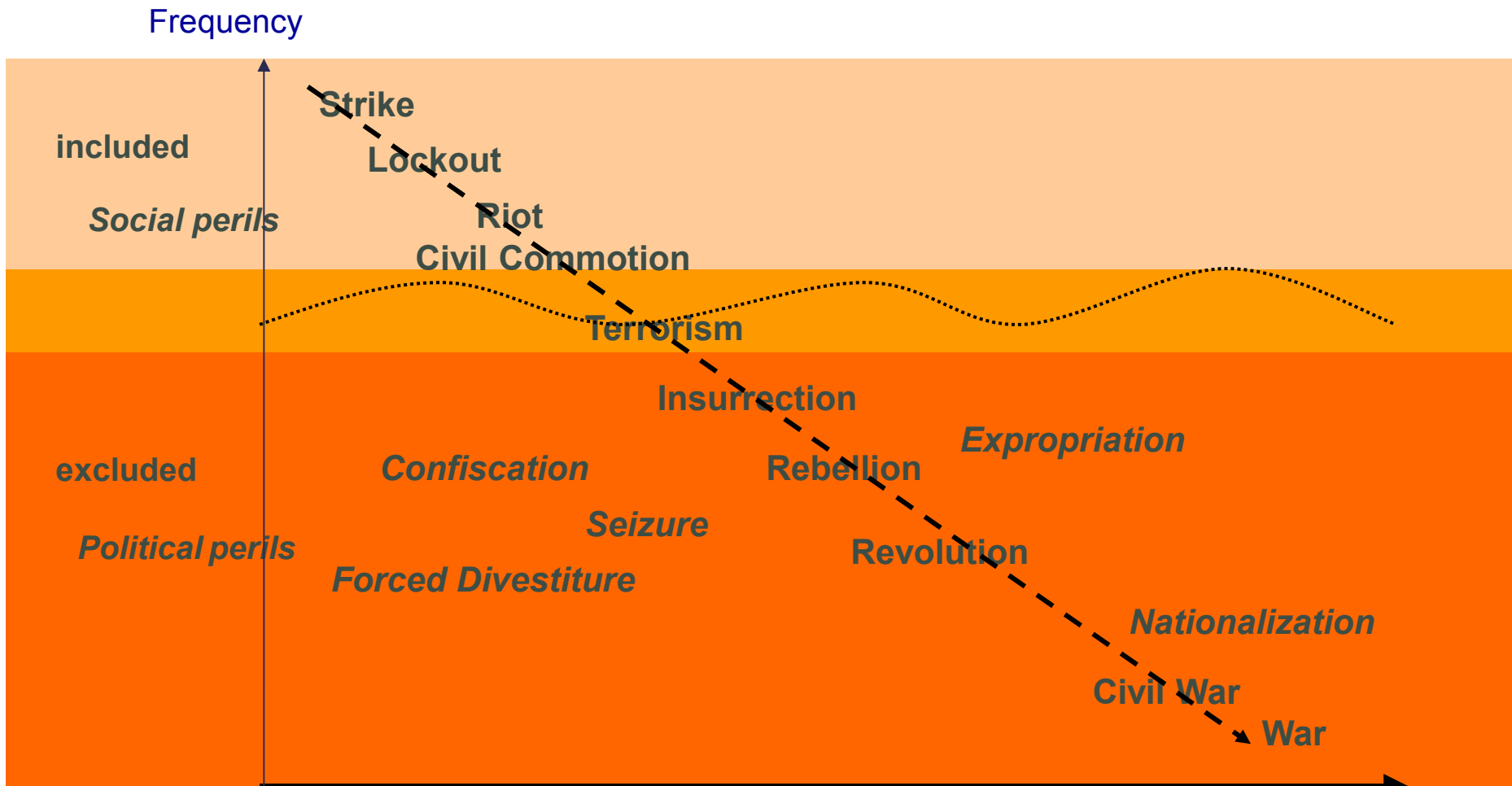
- Injured 50
- Homeless 2 000



Source: Swiss Re sigma database

* Property and business interruption, excluding liability and life insurance losses

Terrorism on the borderline





Insurable?

Insurability

“Insurance is the mutual cover of a fortuitous & assessable risk of a large number of similarly exposed business”

(Alfred Manes, 1877-1963)



Partnership



Private sector

- Define perils and cover
- Limit capacity
- Extend number of buyers (mandatory cover)
- Control accumulations
- Transfer of global best practices
- Charge premium commensurate to risk

Public sector

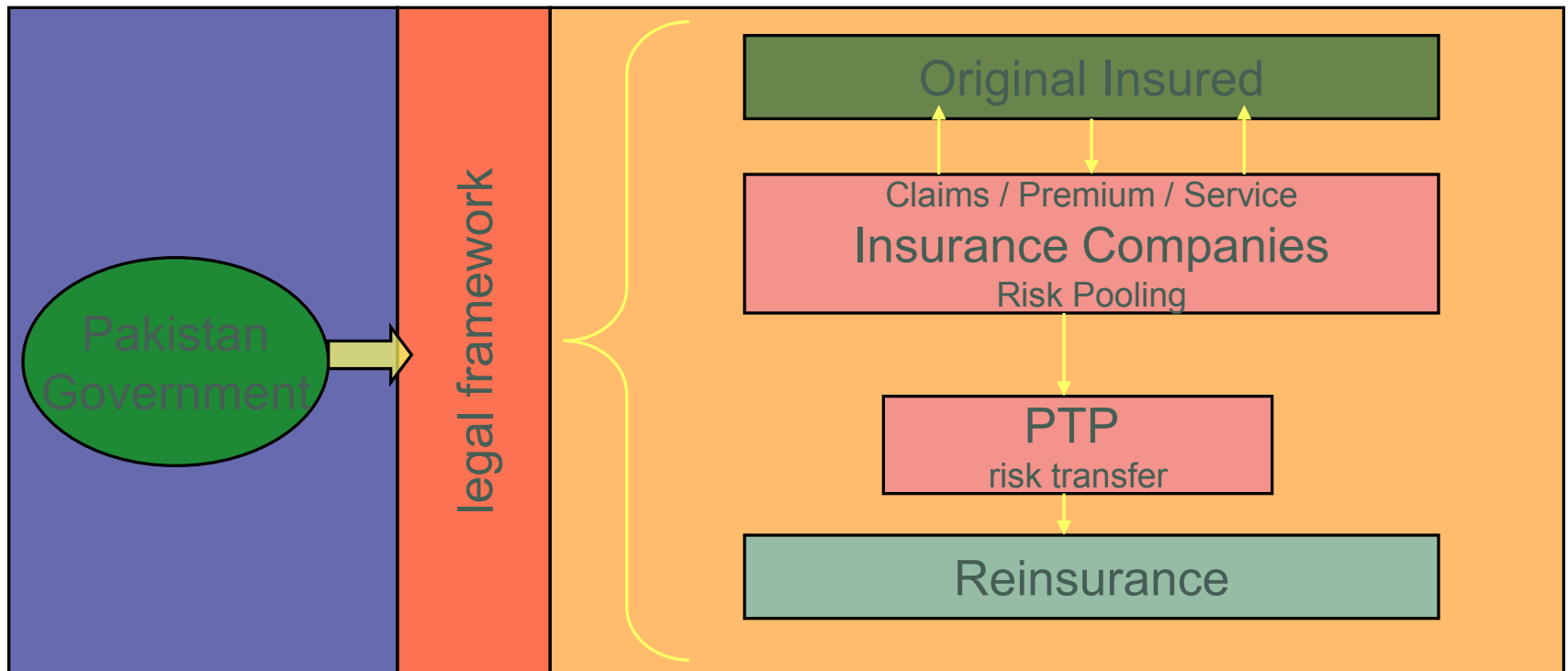
- Raise awareness of risk
- Foster prevention
- Create regulatory framework
- Share in loss burden

Benefits

- Risk managed
- Interruptions minimised
- Risk transfer innovation enabled

Setting up a PPP to create the *Pakistani Terror Pool (PTP)*

The PTP – A Public-Private Partnership in Terror Risk Financing





Reinsurability – measures taken by reinsurers

- Reinsurance capacity offered in individual markets should be closely coordinated with existing private and state-run solutions
- Limited *treaty* reinsurance capacity for major risks, e.g. LIV (large insurable values) exclusion
- Selective underwriting in *facultative* reinsurance following strict rules
- Introduction of event and / or annual aggregate limits
- Preference to non-proportional solutions (event covers)



Reinsurability – measures taken by reinsurers(2)

- Accumulation control (interline!) => requires more detailed information on risks
- Capacity management
- Nuclear risks exclusion extended to nuclear explosions of any type and radioactive contamination (where previously not the case)



NHT - Dutch terror pool

(Nederlandse Herverzekeringmaatschappij voor Terrorismeschaden N.V.)

- Offers protection for all lines of business (life and non-life)
- Offers protection for nuclear attacks
- Euro 7.5 m franchise for all participating insurers combined
- Voluntary participation
However, participating insurers are expected to cede all their terrorism exposure to the pool.



NHT Structure

- Euro 400 m covered by pool participants acc. to market share
- Euro 550 m placed in international reinsurance market
- Euro 50 m Dutch government
- Should the annual claims exceed Euro 1 bn the Dutch government will scale back all claims proportionally to fit within the limit



Example of a proportional pool solution - Switzerland

- Max. limit anyone policy
Event limit = 2 x max policy limit
Annual aggregate limit = 3 x event limit
- Co Reinsurance of participating companies: 15% of each risk
- Original insured retains 10% of any claim with min and max amounts
- Binding rating table
- Exclusion of “high risks” such as airports, sport stadiums, TV stations, federal buildings



Terrorism insurance

Pooling all risks from all lines

Swiss Re's proposal is to

- establish a market-wide pool or a comparable special insurance vehicle in Pakistan, to which **all** terrorism risks of **all** exposed lines are ceded. (-> Antiselection, Volume)
- ensure that all stakeholders – i.e. insured's, insurers, reinsurers and the government – participate in the pooled risk.
- secure any additional capacity from the financial markets as necessary.



Managing terrorism risk

Swiss Re's core principles (I)

Manage the maximum loss:

- **Separate coverage** for terrorism risk from other man-made perils
 - important: terrorism events must be clearly defined for all LoB's
 - This will discourage attempts to find a political definition post terror event
- **Channel terrorism risk** from individual covers **into a common structure** or pool (both non-life and life)
 - total accumulations can be managed more efficiently
 - maximum risk transparency



Managing terrorism risk

Swiss Re's core principles (II)

- **Promote comprehensive market solutions** (e.g. mandatory coverage)
 - risk spread across the largest possible base of insured
 - increased economic viability
 - avoidance of anti-selection

- **Encourage financial involvement of the Pakistani Government**, which
 - has a vested interest in maintaining economic stability and public safety
 - by default, should act as a (re)insurers of last resort
 - has the largest possible base of beneficiaries (i.e. insureds) in their citizens



Pakistan Terror Pool (PTP) – Practical Issues

- How do we make sure that the policies are sold & renewed?
 - Electricity bill
 - Operational License
 - other means?
- Risk selection? How many are there? Impact on FTE of the PTP
- What are the values? Minimum SI? Split by buildings & contents
- Some pre-requisites:
 - mandatory terrorism coverage
 - minimum rates
 - retention
 - minimum exclusions (US related properties etc.)
 - Event and annual aggregate limitations
 - Very high level of data quality (Owner, SI, Location, Risk Type...)



Pakistan Terror Pool (PTP) Recap:

- It is our duty to provide this service
- Terrorism is difficult to insure for the private sector
- If the private and the public sector work together it can be done