

POLITICAL VIOLENCE INSURANCE

**Underwriting
Considerations in a
Dynamic Pakistan Industry**



Chaucer Political Violence

- **Chaucer Syndicates commenced underwriting Political Violence and Terrorism originally in 1998 when the Political Risk account was created.**
- **We underwrite our War and Terrorism Global Political Violence Portfolio on an excess of loss, proportional treaty, direct and facultative basis.**
- **We currently lead 30% of the risks we underwrite.**
- **We aim to grow our lead market position further as we develop the portfolio....**

“OUR GLOBAL UNDERWRITING FOCUS ENABLES US TO PROVIDE PROTECTION IN TIMES OF REGIONAL UNCERTAINTY.....”



Underwriting highlights

- **Strong underwriting performance, generating £28.6m of profit before investment income and the impact of foreign exchange on non-monetary items¹ (30 June 2008: £6.6m)**
- **An average premium rate increase of 5.9% achieved across underwriting portfolio**
- **Combined ratio improved to 91.3% (30 June 2008: 97.2%) supported by more stable claims environment**
- **Syndicate 1084 capacity increased by 42.5% to £634m for 2009 (2008: £445m). Further increase for 2010...**
- **Contribution of £2.6m from syndicate participation and management activities (30 June 2008: £2.4m)**

The Future

- **Budget amended with Lloyd's approval for 2010 – *125% - 135% rise expected**
- **How will this be achieved:**
 - **No change to underwriting philosophy**
 - **Addition of an extra underwriting resource – to be in place by 2010**
 - **The above increasing our team to 5 people for 2010 (6 for 2011)**
 - **Formation of a new War and Terrorism / Crisis Management Unit for 2010**
 - **Continued focus on increasing the constituent parts of the book:**
 - **Inwards Facultative Terrorism (Property Damage / Terrorism Liability / Mobile Asset inc. Vehicle Cover**
 - **Treaty Excess of Loss and Proportional Treaty**
 - **Net underwriting portfolio**
 - **Miscellaneous – Chem.-Bio, PA Liability Terror**
- **The Chaucer business plan focuses on organic growth. Our underwriting business has developed consistently and profitably in recent years and, looking forward, we anticipate increasing our underwriting capacity to more than £1 billion by 2012.**



London market Political Violence

- **The number of insurers in London offering Political Violence has increased substantially in the last 5 years...**
- **The total amount of line size capacity has increased to approaching USD 1bn in the London market alone.**
- **It is now possible to place a risk in Pakistan with a limit up to USD 250m for high valued assets.**
- **Business Planning – this varies greatly dependant upon the structure of the carrier and risk appetite.**
- **The market has reacted swiftly to the changing needs of the Pakistan Insurance market over the past few years**

Post the Benazir Bhutto riots at the end of 2007 Chaucer Political Violence has increased its risk count in Pakistan substantially and we have provided automatic treaty solutions on a be-spoke basis to a number of Pakistan insurance companies.



Pakistan – our commitment

- **Pakistan – Comfortably consolidated within our top 20 country exposures....**
- **Asia represents 22.5% of Chaucer’s Political Violence account**
- **33.33% of our Asian account is derived from Pakistan**
- **We have offered many variations of coverage to Pakistan clients:**
 - **Standard commercial property coverage**
 - **Fixed and mobile coverage for energy assets**
 - **Construction projects for the full construction / erection**
 - **Third party terrorism liability**
 - **Energy specific control of well and extra expense cover**
 - **Deductible buy back options where property deductibles differ**



Focus on Coverage

- **Property Damage Facultative Risks:**

Wording

T3 / LMA 3030:

Coverage

Terrorism / Terrorism including sabotage

LPO 437 / LMA 3092 (NEW):

Terrorism/ Strikes Riot Civil Commotion / Malicious Damage

Full Political Violence:

Terrorism / Strikes Riot Civil Commotion / Malicious Damage / Insurrection / Rebellion / Coup D'état / Civil War / War on land

Terrorism Liability:

Terrorism 3rd Party liability including third party bodily injury and third party property damage

**Business Interruption:
(LMA 5039 amended)**

Gross profit / Indemnity period protection based on repair period

Energy Specific:

**Operators Extra Expense (EED 86)
Care Custody and Control
Including Limited re- drill**



Reinsurance Implications

- **Reinsurers are increasingly cautious of the amount of risk being assumed in Pakistan.**
- **Retention level of the excess of loss program will generally be in excess of 25% of a portfolio's NML in Pakistan.**
- **Monitoring and maintaining regional and industry aggregate spread for PML purposes is imperative.**
- **Riskier assets such as hotels / telecoms / banks / western originating franchises in conflict areas are generally assumed on a net basis thus reducing market capacity considerably.**

Rating variations



- **Asset**
- **Location**
- **Deductible level**
- **Increased coverage**
- **Availability of specific country aggregate**

Be- spoke Treaty solutions

- **Factors taken into account:**
 - **Portfolio balance**
 - **Loss history**
 - **Attachment point**
 - **Regional aggregate spread**
 - **Dedicated or wrap around cover**
 - **Industry split**
 - **Accumulation potential – risk and catastrophe**

Treaty

- **Risk and Catastrophe programs**
 - **Attachment point minimum 2.5% of maximum risk retention**
 - **Desired level 10% for single country Terrorism or SRCC**
 - **Adjustable on aggregate TIV periodically throughout the year. Due to the fact some clients package sell.**
 - **Catastrophe cover enables a healthy retention and more retained premium if we can incorporate a two risk warranty.**
 - **Can be DIC to limited cover provided elsewhere.**
 - **Occupancy and territorial restrictions**



Future issues for Political Violence insurers

- **Extensions to current standard terms and conditions:**
 - **Contingent BI**
 - **Denial of access**
 - **Pricing pressure due to softening all risk property rates**

Future issues for Political Violence insurers

- **Underwriting and Aggregates:**
 - **Growing aggregate and maintaining historical rating balance**
 - **Difficulties with geo-coding city risk with a high definition restricts the amount insurers will run in major cities due to increased activity**
 - **Softening rates for European / North and South America which post 9 / 11 constituted the majority of premium income generated in this area**
 - **Obtaining more complex and historical information for large risks**

Pakistan in the media

- **Sep 2008 In Islamabad, a 1,000kg suicide car bomb set about a third of the Marriott Hotel on fire and killed at least 60 people.**
- **Nov 2008 Pakistan received a \$7.6bn emergency loan from the IMF.**
- **Mar 2009 In Lahore, gunmen attacked a bus carrying Sri Lankan cricketers, killing 5 policemen.**
- **Jun 2009 A truck bomb and gun attack on the Pearl Continental Hotel in Lahore killed 11 people.**

Pakistan

Underwriter SWOT



Strengths – Financial perspective

Source: World Bank

- **In February 2010, Pakistan's foreign reserves increased to \$14.80 billion or about eight months of import cover, as a result of a \$11.7 billion IMF package that was sanctioned in two stages in 2008 and 2009.**
- **In the six-month outlook, a gradual upward revision of oil retail prices is likely, which would boost the financial position of oil refineries, enabling them to maintain greater crude inventories through imports.**
- **US donors have promised \$15bn assistance to Pakistan.**
- **Duty-free access in 2012-13 and a free trade agreement is currently being negotiated.**
- **Poverty levels decreased by 10% between 2001-07.**
- **GDP growth in the 5-8% range was spurred by gains in the industrial and service sectors.**

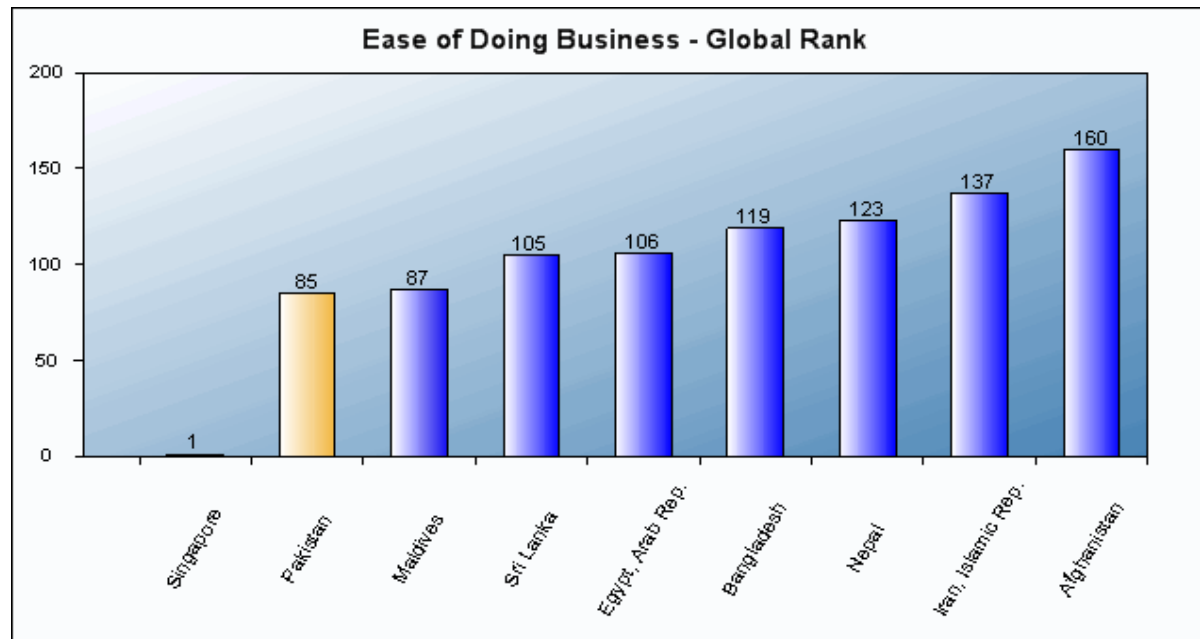
Strengths – Security perspective



- **Pakistan's National Assembly voted unanimously Thursday to pass the 18th Amendment, a sweeping measure that includes stripping President Asif Ali Zardari of his ability to dissolve parliament. Zardari favors the measure.**
- **The Pakistan Army has a total strength of 520,000, approximately the size of the Army of the United States, with a reserve element of 500,000 who have a reserve obligation up to the age of 45 years. Reserve status lasted for eight years after leaving active service or until age forty-five for enlisted men and age fifty for officers.**
- **ISI is one of the best and very well organized intelligence agency in the world. Functions of the ISI include gathering foreign and domestic intelligence and synchronizing the intelligence of the military services. The agency maintains surveillance of foreign diplomats in Pakistan, Pakistani diplomats abroad, and politically active members of Pakistani society.**

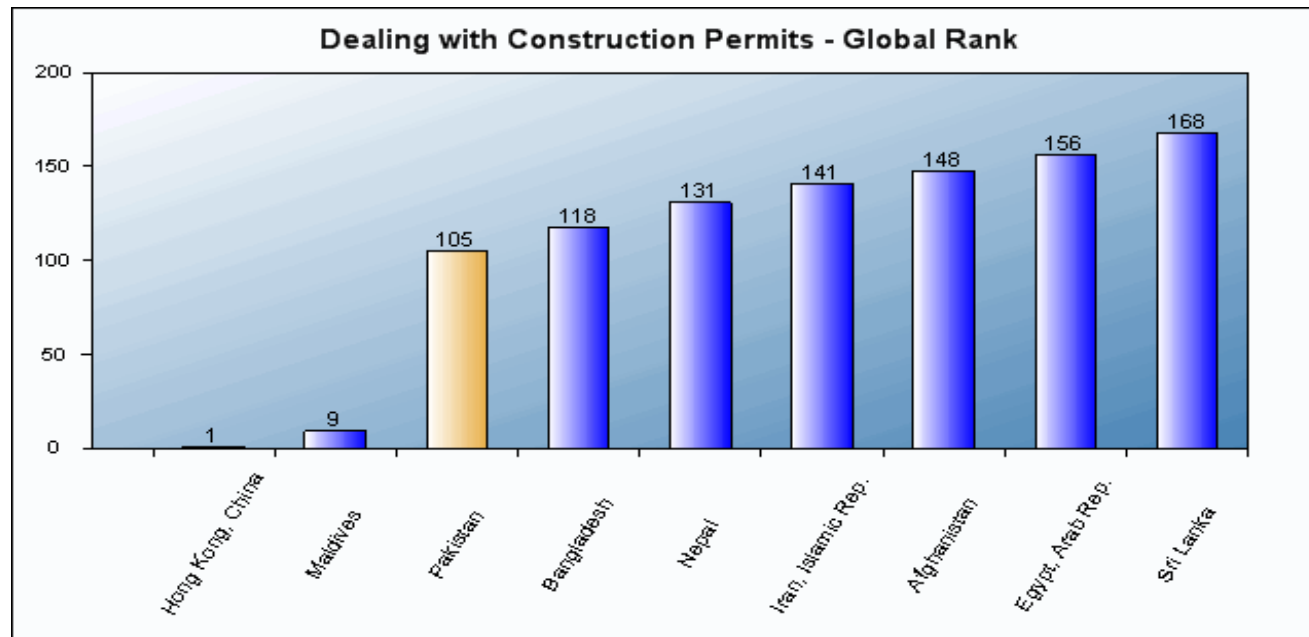
Strengths Starting a business indicators

Source: World Development Indicators database, September 2009



Strengths

Starting business – construction



Weaknesses

- **Inflation** remains the biggest threat to the economy, jumping to more than 9% in 2005 before easing to 7.9% in 2006. In 2008, following the surge in global petrol prices inflation in Pakistan has reached as high as 25.0%. The central bank is pursuing tighter monetary policy while trying to preserve growth.
- Since the beginning of 2008, Pakistan's economic outlook has taken stagnation. Security concerns stemming from the nation's role in the **War on Terror** have created great instability and led to a decline in FDI from a height of approximately \$8 bn to \$3.5bn for the current fiscal year.

Threats

Annual Fatalities in Terrorist Violence in Pakistan, 2003- 2009

Source: SATP Database

	Civilians	Security Forces (SFs)	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

Threats

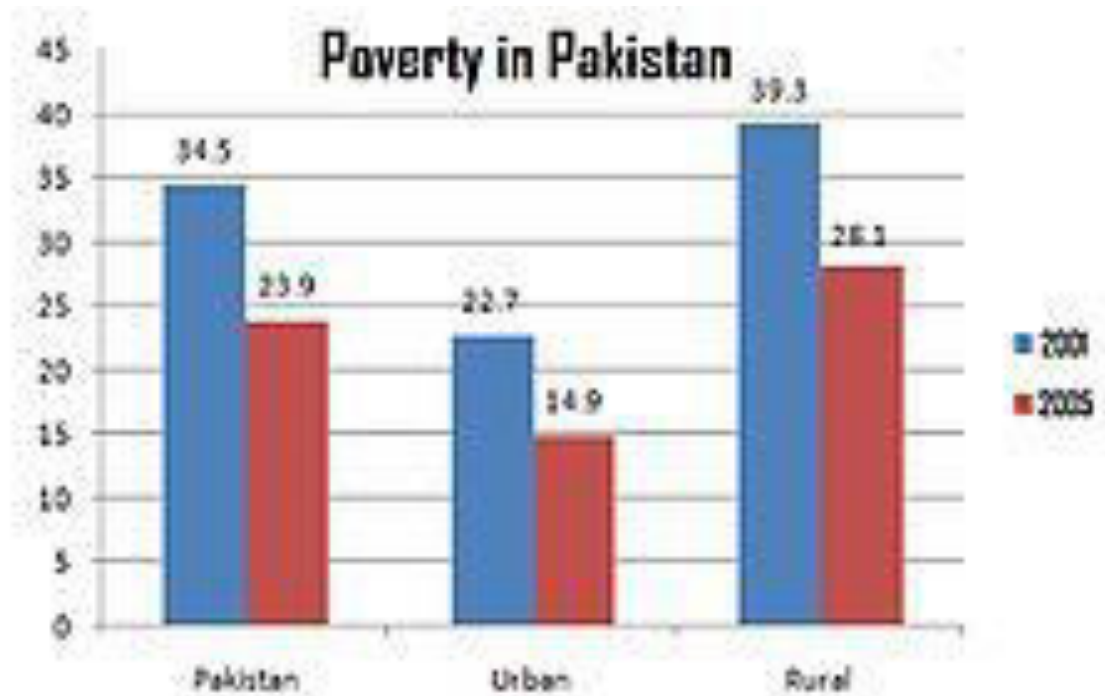
Unsurprisingly, suicide attacks were at the forefront. As compared to 917 killings in 59 suicide attacks in 2008, the year 2009 recorded a total of 80 suicide attacks, in which 1,018 persons were killed.

	Total Number of Suicide Attacks	Civilians	SFs	Militants	Total
2007	58	552	177	58	787
2008	59	712	140	65	917
2009	80	735	196	87	1018

Weaknesses

- **2009 April - Swat agreement breaks down after Taleban-linked militants seek to extend their power-base. Government launches offensive lasting months to wrest control of north-western districts from militants.**
- **2009 August - The leader of Pakistan's Taliban, Baitullah Mehsud, is killed in US drone attack in South Waziristan.**
- **2009 October - New Taliban leader Hakimullah Mehsud pledges revenge for the drone attack that killed Baitullah Mehsud.**
- **Suicide bombing in North-western city of Peshawar kills 120 people.**

Weaknesses



Weaknesses

- **Unemployment rate: 15.2% (2009 est.) country comparison to the world: 153 13.6% (2008 est.) *note*: substantial underemployment exists**
- **Population below poverty line: 24% (FY05/06 est.)**
- **Public debt: 45.3% of GDP (2009 est.) country comparison to the world: 58 51.2% of GDP (2008 est.)**

Opportunities

- **Very high demand for Political Violence products at present.**
- **Wide ranging array of commercial clients.**
- **The central bank maintained its GDP growth forecast for this fiscal year at between 2.5% and 3.5%.**
- **Moody's has a B3 sovereign rating for Pakistan with a stable outlook.**

Threats

Sectarian violence, however, continued to decline, offering Islamabad some relief. Though there was a slight increase in the number of incidents recorded, the number of those killed and injured reduced remarkably

Year	Incidents	Killed	Injured
2009	106	190	398
2008	97	306	505
2007	341	441	630
2006	38	201	349
2005	62	160	354
2004	19	187	619
2003	22	102	103
2002	63	121	257

Threats – Focus on Textile Industry

Mainstay of
the Economy
- By Region



Threats

TEXTILE INDUSTRY'S ECONOMIC CONTRIBUTION 2006-07

Exports	61.1% OF TOTAL EXPORTS (US \$ 8.92 BILLION)
Manufacturing	46% OF TOTAL MANUFACTURING
Employment	38% OF TOTAL LABOUR FORCE
GDP	8.5% OF TOTAL GDP
Investment	US \$ 6.4 BILLION
Market Capitalization (Listed Companies)	5.1% OF TOTAL MARKET CAPITILIZATION

Threats – challenges

- **The All Pakistan Textile Mills Association (APTMA) needs to enhance the quality of its products, upgrade the technology used, and encourage effective Research and Development (R&D) in order to compete internationally. However, APTMA argues other factors such as high interest rates and cost of inputs, non conducive government policies, and non-guaranteed energy supplies hinder their competitiveness.**
- **The textile industry suffered heavy financial losses in Dec, Jan and Feb quarter 2008, because of the inconsistent electricity supplies.**