

TERRORISM & POLITICAL VIOLENCE

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AGENDA

- What is Terrorism and Political Violence in the 'Stand-alone' market
- Common Market Exclusions
- How do Underwriters Perceive and Manage Risk
- Terrorism in action
- Current Market Conditions
- Non-admitted Vs admitted
- ACE Proposed Solutions
- Summary



“What do we mean by the ‘Stand alone’ market and Pool Coverage



Stand-alone Market and Pool coverage

- 9/11 Caused an estimated USD31.7bn of losses to the Insurance sector
- Led to the Exclusion of terrorism from property insurers
- Birth of the standalone market (limited appetite)
- Countries with Pools:
 - Australia
 - Austria
 - Finland
 - France
 - Germany
 - Israel
 - Namibia
 - Netherlands
 - Russia
 - South Africa
 - Spain
 - Switzerland
 - Turkey
 - United Kingdom
 - USA
- Pools cover Terrorism only whilst the Stand-alone offering has diversified



“What is Terrorism and Political Violence”



Perils covered?

Coverage: Physical Damage and Business Interruption caused by one of the following perils:

1) Terrorism & Sabotage



Terrorism Peril

2) Strikes, Riots, Civil Commotion & Malicious Damage



3) Insurrection, Revolution, Rebellion, Mutiny & Coup d'Etat



Political Violence Perils

4) War & Civil War



Political Violence Spectrum

| | | | | |
|--|-----------------|---------------------------|-----------|-----------------------------------|
| | | Political Violence | | Political Risks |
| Terrorism | SRCC | | | |
| | | Revolution | | Confiscation |
| Terrorism | Strikes | Rebellion | Civil war | Expropriation |
| | Riots | Insurrection | | Nationalisation |
| Sabotage | Civil Commotion | Mutiny | War | Deprivation |
| | | Coup d'Etat | | Forced Abandonment |
| Political Violence covers all named perils | | | | Not covered by Political Violence |



Terrorism: key features

London Market Definition:

*“An Act of Terrorism means an act or series of acts, including the use of force or violence, of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organisation(s), committed for **political**, **religious** or **ideological** purposes including the intention to **influence any government** and/or **to put the public in fear** for such purposes”*

What do we mean by Political?

- Right wing: David Copeland- neo-Nazi Nail bomb attacks – Islamophobia, far-right Zionism
- Left wing: Revolutionary Armed Forces of Colombia, Shining Path in Peru

What do we mean by Religious?

- ISIS – create an Islamic caliphate across Iraq, Syria and beyond
- Boko Haram – “Western education is forbidden”

What do we mean by Ideological?

- Earth Liberation Front – Eco-terrorists. Environmental protests and acts of sabotage
- Planned
- Specific intent



Political Violence: key features

Sold in three distinct sections or packaged:

- Strikes, Riots, Civil Commotion, Malicious Damage (SRCCMD)
- Insurrection, Revolution, Rebellion, Mutiny, Coup d'Etat
- War, Civil War

Typically individually priced

Separately aggregated

Capacity may be variable



Riot, Civil Commotion, Strikes, Malicious Damage

- Traditional Property perils

- Riot
 - UK Public Order Act 1986:
 - ❑ 12 or more people
 - ❑ Present together for a common cause
 - ❑ Who threaten unlawful violence and put the public in fear

- Civil Commotion
 - ❑ Various case law
 - ❑ Indicates a stage between a riot and civil war

- In practical terms, can it be both political or non political in nature



Revolution, Rebellion, Insurrection & War perils

- Political violence perils – “Arab Spring”
 - Lack judicial precedent
 - Blurred definitions
- Excluded under a standard war risk property exclusion
- Civil War
 - Two opposing sides with distinct objectives
 - Scale/impact of conflict
- War
 - Cross border conflict
 - Declared or undeclared acts of war



Policy Exclusions

Key Policy Exclusions:

- Radioactive and Nuclear Contamination
- Chemical or Biological Emission
- Electronic Data – cyber terrorism
- Seizure, Confiscation and Nationalisation – political risks not political violence
- Sanctioned territories

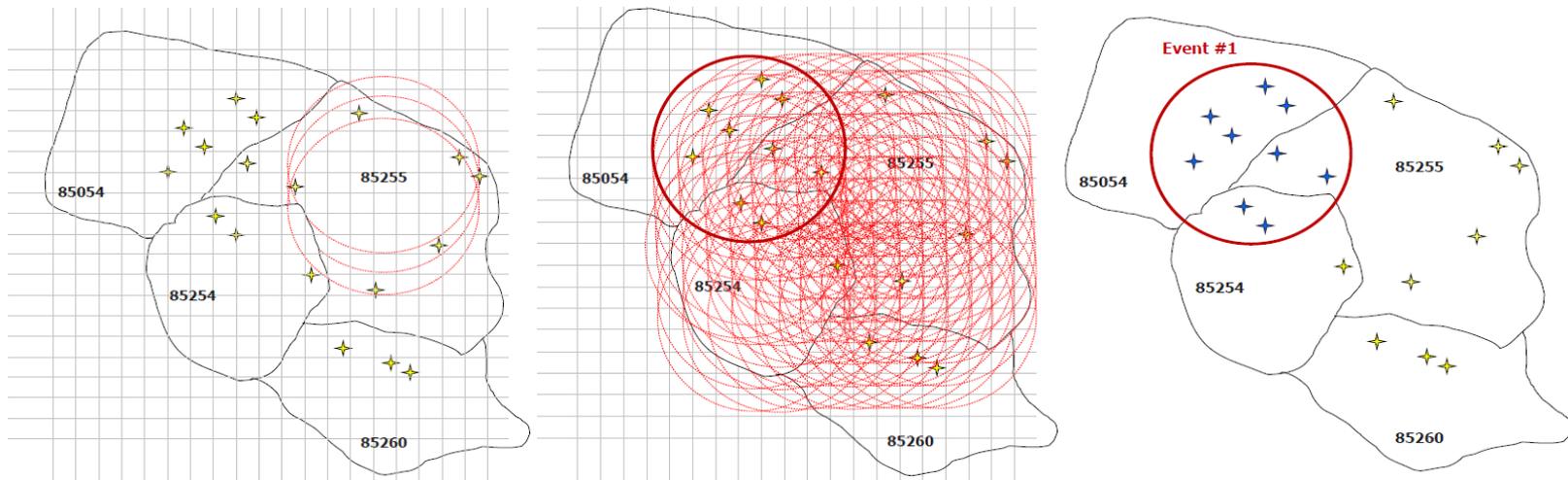


“How do Underwriters perceive and manage their risk?”



Spider Analysis – Methodology

- The Spider 100% Damage Circle Analysis is used to manage terrorism exposures
- The Spider Analysis crawls through a portfolio of risks assuming 100% damage per ring of fixed radius, returning distinct accumulation rings of largest exposure



Terrorism Accumulation Analysis – RMS Spider

- Each carrier has a varying 'Bomb Blast' radius- varies from 100m up to 400m
- Within each bomb blast zone a certain amount of Exposure is allowed
- The more detailed the address information supplied the more accurate the accumulation results.
- This highlights how key accuracy of address data is for Terrorism Underwriters

In this scenario:

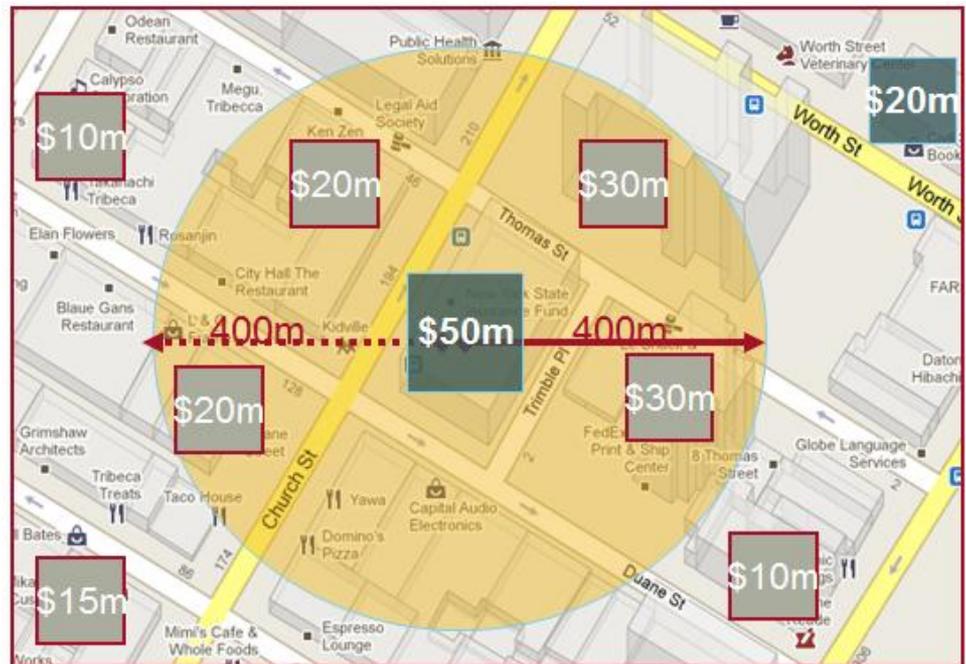
Total Accumulation = \$150m

Accumulation Zone = 400m Radius

Insurer is Allowed USD 150m per blast zone

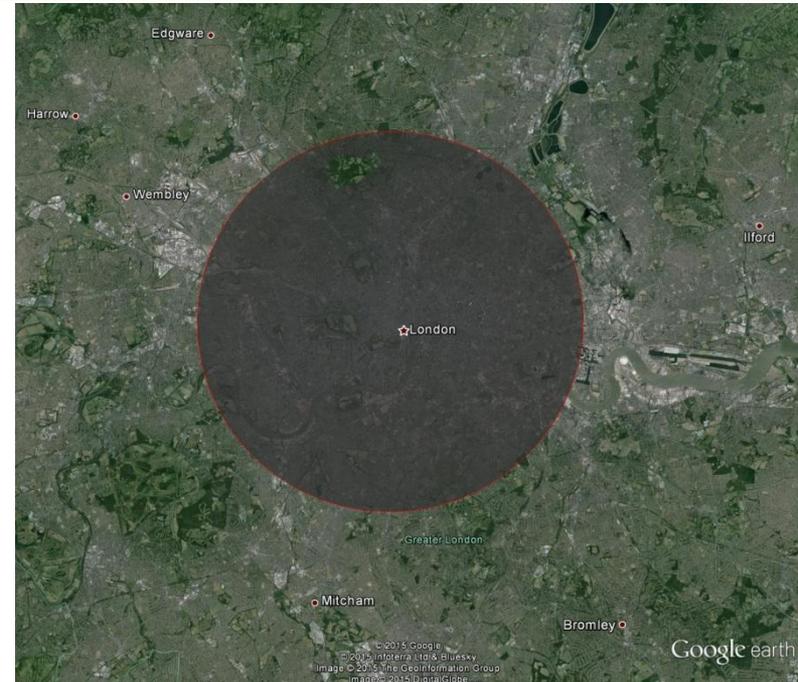
Existing Portfolio = \$100m

The last 50m available-
what does an u/w do?



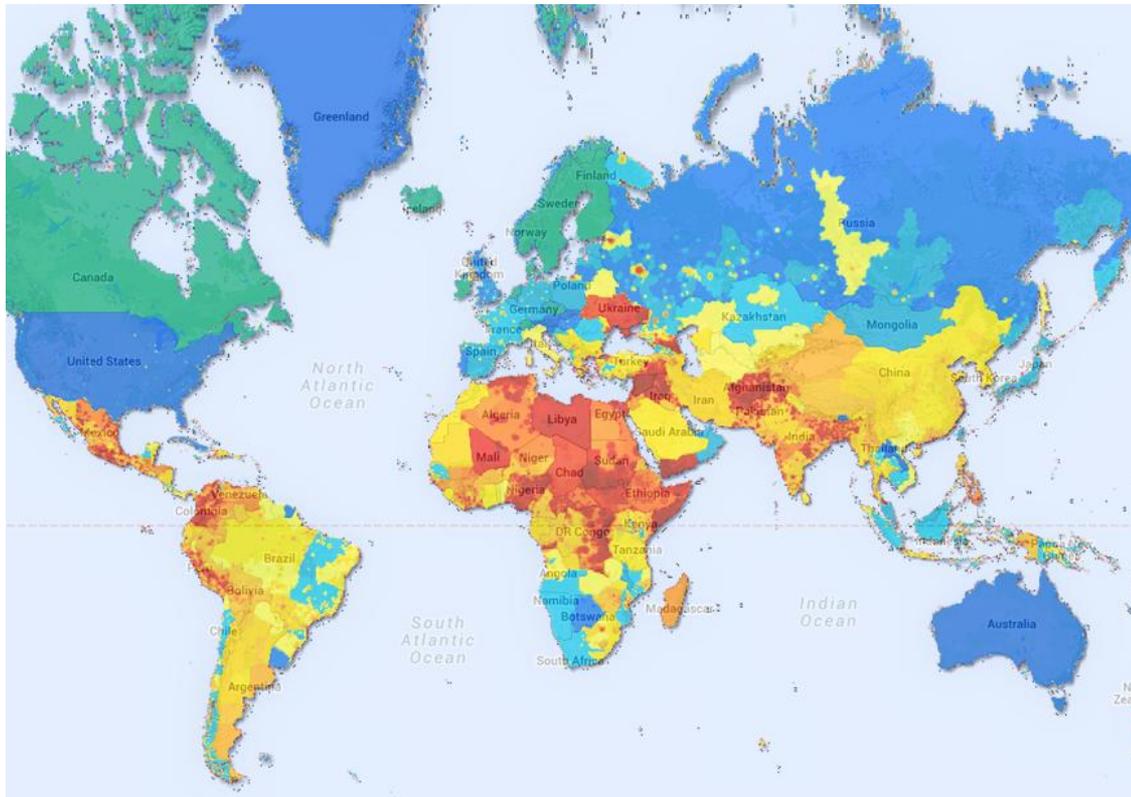
Strikes, Riots, Civil Commotion (SRCC) Accumulations Analysis – RMS Spider

- The RMS Spider 100% Damage Circle Analysis is also used to monitor SRCC exposures
- Unlike with terrorism, SRCC events are typically more widespread so varying Kilometers tend to be used



Political Violence / War Country Exposures

- Political violence / War exposures are monitored on a country level only



Case Studies - Terror/PV coverage in Action



Scenario 1- Two conflicting policies

Scenario 1:

Police go on city-wide strike in Buenos Aires. Lack of law enforcement leads to widespread property damage and looting.

Insured has “all risks” insurance cover in place with Insurer A and Full Political Violence cover in place with Insurer B.

Insured suffers PD and looting losses arising from the unrest – what happens?



Scenario 1– what have we learnt?

Scenario 1:

- Insured has a valid claim but across two separate policies with two different insurers
- SRCC covered on both the all risks and political violence policies
- Neither insurer A nor insurer B wants to pay the claim due to the other insurance clause
- Lengthy court settlement

Solutions:

Packaged Political Violence and All Risks policies:

- One Insurer - a single policy that dovetails in terms of definitions, exclusions, conditions
- Ensure no overlapping perils
- Checking the other insurance clause e.g. making a policy primary to other insurance



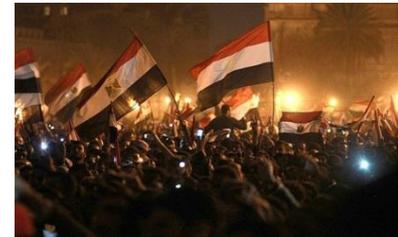
Scenario 2- Choosing Terrorism Only to save \$\$\$

Scenario 2:

Revolution in Cairo in 2011 – widespread unrest and property damage in the city

Insured “all risks” cover in place and a terrorism only policy.

Insured suffers PD losses arising from the revolution – what happens?



Scenario 2– what have we learnt?

Scenario 2:

- Insured claims on the all risks policy for an SRCC loss but the claim is rejected as the loss is deemed not to be SRCC
- Insured then tries to claim on the terrorism policy but again the loss is rejected as the insurer says that the loss resulted from Political Violence
- Insured has too little coverage
- Loss is not SRCC so doesn't fall under the all risks policy
- Nor is the loss terrorism so doesn't fall under the terrorism and sabotage policy
- Insured has had an uninsured loss!

Solution:

- Insured must buy the appropriate perils for the risks they are facing
 - E.g. Terrorism only policy in Lebanon ?



Market Losses

- Thailand 2010 – Central World Department Store, Big C Supercentre. Loss amount circa USD250M
- Niger 2013 – Areva mine attacked by suicide bomber. Loss amount circa USD25M
- Kenya 2013 - Westgate Mall Nairobi attacked by Al Shabaab Terrorists. Loss amount circa USD90M
- Pakistan 2012 – Pakistan Pipeline attacked. Loss amount circa USD30M
- Colombia 2014 – Pacific Rubiales attacked. Loss amount circa USD5M
- Lebanon 2010 – Phoenicia Hotel attacked. Loss amount circa USD60M
- Philippines 2012 – Several mining companies attacked by NPA. Loss amount circa USD3M per mine
- Ukraine 2014 – over EUR200M reported to date
- Yemen 2015 – over USD50m reported to date



Market update

- Market Today
 - Standalone market has grown to about 45 Insurers
 - Market results continue to attract more capacity – approx. USD3bn per risk
 - Buying habits changing – more PV and less Terrorism
 - Geopolitical risks increasing = increasing demand
 - Terrorism market hubs – regionalising
 - Multi National Focus
 - Non admitted – regulatory and compliance issues

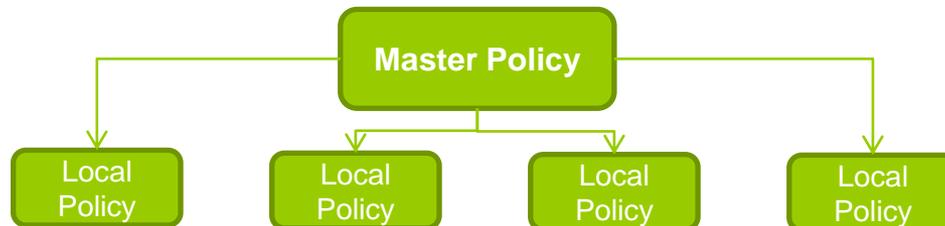


Admitted vs Non-admitted



Multinational programmes

- Terrorism and Political Violence placements traditionally written out of a London wholesale environment – freedom of service, Lloyd’s licences or non-admitted
- Non-admitted placements are illegal in some countries – insurance taxes, compulsory local retentions, cash before cover....
- ACE have seen increasing demand within this segment
 - 55% GWP YTD
- Multinational corporations are under increasing scrutiny to adhere to local regulations
- Remitting claims payments can be complicated:
 - Fines & Reputational risk - Adidas India
- Big organisations need to be aware of the risks and the solutions – fully fronted, fully serviced programme; local paper and documentation..



Multinational – The ACE experience

- ACE have a proven track record in this area
- Dedicated global accounts service and client division
- Have written the class since 2008 - recognised market leader
- Maximum line of EUR100M per risk for all perils
- Larger capacity available on request
- Up to 60 month period construction risks
- Any territory globally considered (other than sanctioned territories)
- All industries (retail, transport, industrial, power, oil/gas)
- Aligned PDBI and PV policies provide greater clarity from a buyers perspective
- Multi-national emphasis – key USP
- Cross class relationship, a retail presence and a comprehensive multi national product enables a unique proposition



ACE PVT wording – product enhancements

- Full perils offered – Terrorism, Civil Unrest, Political Violence, War
- Looting and Pillaging directly following an insured peril
- Contingent Business Interruption Extensions
- Capital Additions and New Acquisitions
- Threat
- Other Insurance Clause
- Loss of control clause
- Average premium and adjustment provisions
- Group interdependency
- Transit cover –Multinational emphasis – with ACE’s USP being the ability to structure multinational programmes, the wording has a multinational focus; incorporating the Master Policy Conditions (Interlocking Clause, FEL clause)



Summary

- The Terrorism market has evolved since 2001 – bigger and more complex
- Buying habits changing
- Legal challenges remain
- Risk volatility – geo-political landscape fluid and unpredictable
- Greater claims frequency
- Multi national importance growing
- ACE are a lead global insurer offering a broad peril base
- ACE have an experienced track record of paying and adjusting these claims
- Combined PD/BI & Terrorism packaged policies growing in importance
- ACE have designed a wording in response to changing needs that we believe to be best in class

