

Underwriting terrorism insurance



Mr Piers Gregory, Terrorism Underwriting Manager, ACE Overseas Group, gives an overview of developments in the standalone terrorism market since the 9/11 attacks.

Post-9/11, the standalone terrorism market has traditionally been a London market-based solution. The immediate aftermath of the attack on the World Trade Center saw the establishment of one or two markets in Lloyd's writing small and very cautious lines. In the ensuing years, the market experienced a benign loss history which saw greater and more flexible London market capacity developing. Capacity is now in the region of US\$1.5 billion for non-aggregating exposure. Such an influx of capacity has naturally put pressure on rates, and clients have also seen the introduction of new products as rival insurers battle for product differentiation.

In spite of a relatively kind loss history recently, the threat of terrorism still remains. More recent events in Mumbai and Islamabad in 2008 as well as the Marriot blasts in Jakarta in 2009 are all testimony to this threat. And, while not necessarily significant, London market losses have caused an upsurge in demand into the standalone terrorism market.

Terrorism insurance in MENA

Prior to 9/11, terrorism was seen as a very country-specific risk, and therefore terrorism insurance was often ignored in those locations where there was no record of activity. After the 9/11 attacks, clients and markets have had to deal with the reality of terrorism as global threat. The result has been an increase in demand, and this has been the case in the MENA region too – even in countries perceived as both secure and stable.

A key demand driver in the region is also the fact that many economies are dependent on a few key installations in terms of revenue generation, most particularly in the petrochemical sector. So even if the threat is small, the impact of a terrorist attack would potentially be very significant in terms of economic loss.

Main factors in assessing terrorism insurance risk

In the standalone terrorism market, capacity is relatively stable, but the appetite and pricing for particular risks can vary considerably, the primary factors being:

- **Who is the insured?**
Ownership is crucial as is the sophistication of the insured and the specific steps it takes to mitigate a terrorism loss
- **Threat**
In some territories, there is an inherently higher threat either on a national level or in specific locations. Identifying and understanding the objectives of local threat groups is a key criterion in assessing risk.
- **Criticality**
How important is the insured asset to the economy,

the government and the society at large? Occupancy is a vital component of determining price and capacity. Underwriters will be much more prudent in underwriting a large hotel or a building of religious significance as opposed to a conventional office building occupied by politically-unaffiliated local interests, for example.

- **Vulnerability**

What the security is like at the insured premises is another very important factor. Information relating to security guards, vehicle entrance, perimeter fencing, CCTV, local military presence all play a part here.

- **Location**

Exactly where the insured assets are is a key determinant. Aside from the general local threat level aspects covered in point two, the proximity of insured assets to other assets is of potentially greater significance: a textile factory next to a critical government office is more exposed than one in the middle of an industrial estate.

- **Aggregation**

The demand for coverage in major metropolitan areas has a substantial effect on the available capacity. Terrorists attack targets of opportunity. Although it is certainly possible that an attack could occur anywhere, demand for coverage will likely be higher in metropolitan areas simply because there is a greater concentration of exposures, and underwriters are obviously concerned to limit their financial exposure to any one event to manageable proportions.

The ACE product

Continued demand and a sustained objective to meet the needs of the client has led to ACE's offering of a standalone sabotage and terrorism product.

Based on the London market wording, ACE has a local capacity of \$50 million covering both conventional acts of terrorism as well as strikes, riots and civil commotion. The initiative is ultimately retail-focused, offering a local solution to a local problem. All occupancies are covered and with the exception of US trade sanctions all territories can be considered. With an established global network, ACE has unrivalled access to business. Following the recent trend of decentralisation of the insurance industry, ACE aims to write and book business from where it comes from.

Risk levels are sometimes misunderstood when viewed from a distance and having a local representation, experience and understanding allows ACE to deliver a more considered opinion. As the threat of global terrorism continues to show no signs of abatement, ACE aims to meet the demand for cover and deliver more finely-tuned and responsive solutions to the terrorism exposures that its clients face. ■