

INSURING WAR AND TERRORISM
“a Lloyd’s underwriter’s view”

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Lloyd's market position

- Historically underwritten Marine War insurance
- “Waterborne Agreement” of 1937 restricted cover for fixed property
- Stand-alone terrorism written since 1980s
- War-on-Land cover permitted at Lloyd's from 1996
 - ◆ Initially for ‘cross-border’ risks only
 - ◆ In 2014 over 20 Lloyd's syndicates can now write War and Terrorism - including ‘Domestic War’



Why are global property insurers reluctant ?

- 'War and Terrorism' is very hard to model
- Some credible scenario modelling, but what is the probability ?
- Past events no guide to the future
- Islamic extremists – a different phenomenon to domestic groups
- Potential for very large and unexpected 'cross class' accumulations
- Multiple coordinated attacks – modus operandi
- Reinsurance not freely available



Impact of 9-11 and capacity in 2014

- Insurers and reinsurers sought to exclude terrorism
- In November 2001 finding USD100m stand-alone capacity was a big challenge
- Very tight conditions offered
- Since 9-11 market has matured and grown
- Lloyd's 'single risk' capacity:
 - ◆ Terrorism only approx USD1.25bn
 - ◆ War – approx USD750m

What coverage is available for risks in Israel?

- The Lloyd's stand-alone market - perils:
 - ◆ War, including civil war
 - ◆ Terrorism and Sabotage
 - ◆ Insurrection, rebellion, revolution
 - ◆ Intifada
 - ◆ Strikes, riots and civil commotions
 - ◆ Malicious acts

What coverage is available for risks in Israel?

■ Standard Coverage:

- ◆ Property damage
- ◆ Business interruption including loss of profits
- ◆ Extra expense

■ Property Valuation - favourable

- ◆ Replacement cost with “incorrect declaration” margin clause

■ Special sub-limits available at additional premium

- ◆ Denial of access
- ◆ Disruption of incoming utilities
- ◆ Named ‘customers and suppliers’
- ◆ Contamination caused by release of Chemical or Biological agents held on site prior to the attack

What coverage is available for risks in Israel?

■ Assets:

- ◆ Buildings and contents
- ◆ Infrastructure – bridges, roads, tunnels, rail network
- ◆ Pipelines
- ◆ Bulk Oil in store
- ◆ Valuable papers
- ◆ Royalties
- ◆ Jewellery and Fine Art
- ◆ Inventory and stock
- ◆ And almost anything else declared - cattle, horses, cars

Main exclusions

- Nuclear, Chemical, Biological and Radioactive devices
- Cyber attacks, hacking etc
- Confiscation
- Theft, criminal acts and vandalism – covered under ‘all risks’

Terrorism only versus 'War and Terrorism'

- Terrorism and Sabotage standard definition:
***Terrorism**, meaning an act or series of acts, including the use of force or violence*
***Sabotage**, meaning an act or series of acts committed in order to disrupt a system or enterprise or thwart its purposes*
committed or perpetrated by 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 or a section of the public in fear for such purposes
- Some events may be 'grey' – is it terror or war?
- Designation / certification by local government (i.e. Israel) can be politicised – Thailand example
- Where capacity is available, we recommend that insureds in Israel purchase full 'War and Terrorism'

Other 'War and Terrorism' insurance ?

- Terrorism and War Liability
 - ◆ Third party legal liability
 - ◆ Employers liability

- Event cancellation
 - ◆ Concerts, sporting events
 - ◆ Cover for cancellation costs, re-scheduling etc.
 - ◆ Coverage for 'Threat' leading to cancellation

- Nuclear, Chemical, Biological and Radioactive devices
 - ◆ Very restricted capacity

Pricing 'War and Terrorism' – drivers/challenges

- High 'Cost of Capital' – high volatility of the class
- Very little data on frequencies
- Rate differentiation depending upon risk factors – pipe manufacturer vs embassy
- Rate on TSI with 'first loss' discounts for smaller limits
- Multiple rates used on global schedules
- Lloyd's insurers use models for most risks
- Demand exceeds supply in Israel

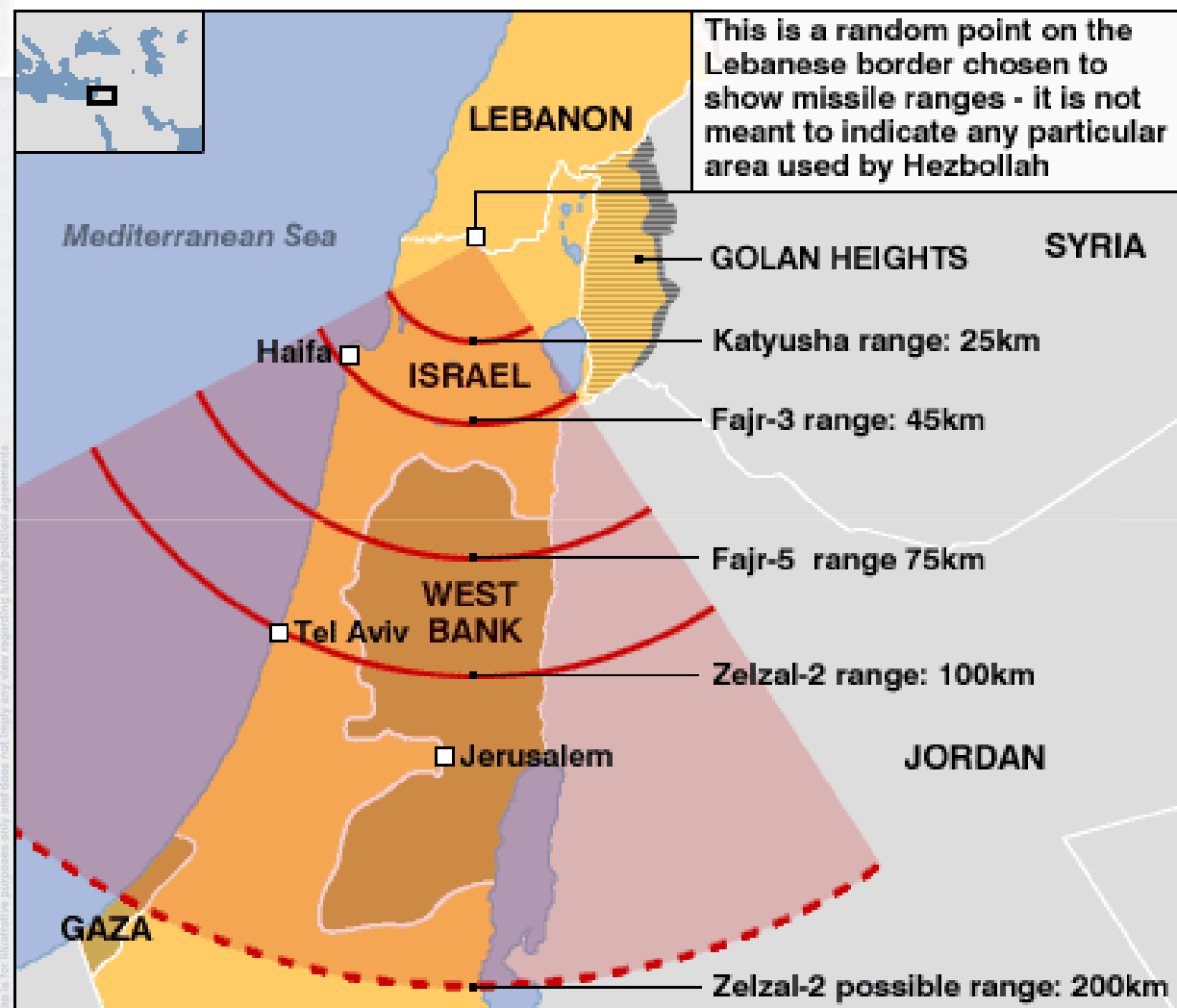
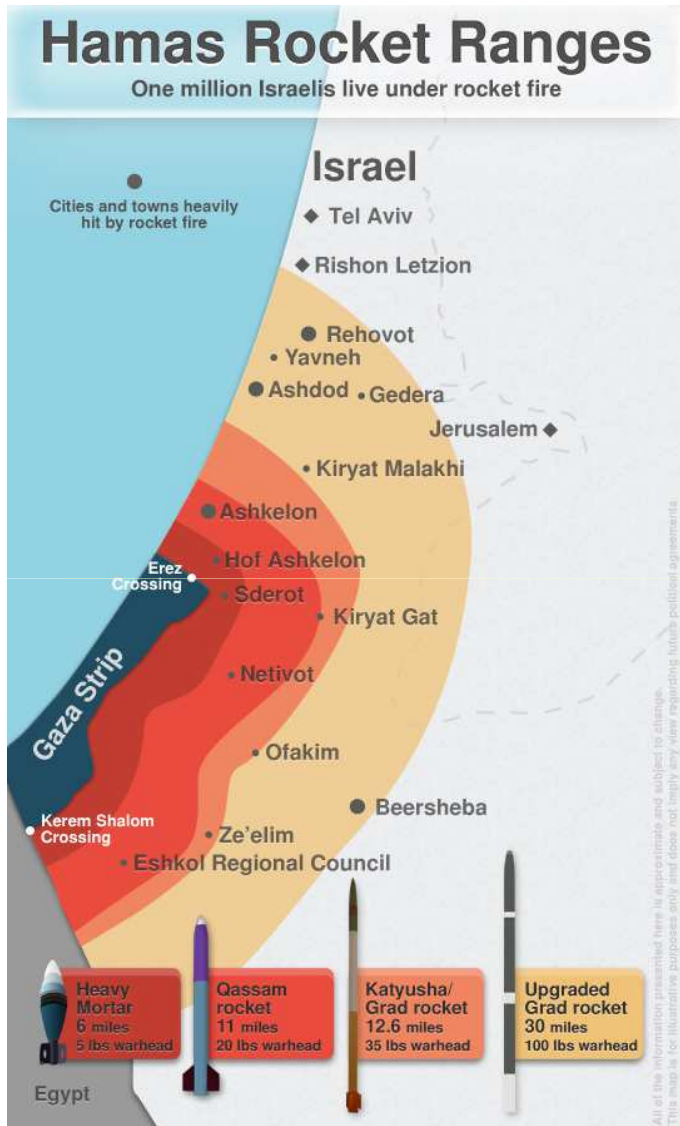
Pricing 'War and Terrorism' – Market factors

- For key areas capacity is tight and is commoditised
 - ◆ Insurers are constrained by country aggregates
 - ◆ Lloyd's insurers' aggregation overseen by regulators
 - ◆ Restricted reinsurance capacity
- Perception of threat level
 - ◆ Recent reports / media activity
 - ◆ Recent events including interdicted attacks
- Macro market conditions – e.g. post Hurricane Katrina

Pricing 'War and Terror' risk – local factors

- Distance from hostile borders
- 'Iron Dome' protection – is this asset a priority?
- Security at the site
- Vulnerability to small rocket damage – clean rooms etc.
- Target risk ?





Underwriting War and Terror in Israel

Things we think about:

- Increasingly troubled Sinai – implications for security at southern borders and smuggling in to Gaza
- Threat from Lebanon – getting better or worse?
- Hizbollah's arsenal – bigger and more accurate rockets
- Rogue groups in Syria ?
- New modus operandi ? The next mode of attack?
- High valued offshore assets – new oil fields
- Iran...

Modelling Risk Accumulations

What event to model?







- Single rocket attack
- Multiple rocket attack
- Suicide 'vest bomber'
- VBIED – Vehicle Borne Improvised Explosive Device
 - ◆ Proven and reliable
 - ◆ Very destructive - Marriott Islamabad
- Full blown Invasion ?

Medium size VBIED – Marriot Islamabad



Modelling Risk – VBIED example

- Model by blast zone
- No ‘PML’ factor – assume 100% loss to property and business interruption in blast zone
- Monitor city and country exposures as well
- Regular ‘RDS’ exercise from Lloyd’s – e.g. large truck bomb in midtown Manhattan

ATF	VEHICLE DESCRIPTION	MAXIMUM EXPLOSIVES CAPACITY	LETHAL AIR BLAST RANGE	MINIMUM EVACUATION DISTANCE	FALLING GLASS HAZARD
	COMPACT SEDAN	500 Pounds 227 Kilos <i>(In Trunk)</i>	100 Feet 30 Meters	1,500 Feet 457 Meters	1,250 Feet 381 Meters
	FULL SIZE SEDAN	1,000 Pounds 455 Kilos <i>(In Trunk)</i>	125 Feet 38 Meters	1,750 Feet 534 Meters	1,750 Feet 534 Meters
	PASSENGER VAN OR CARGO VAN	4,000 Pounds 1,818 Kilos	200 Feet 61 Meters	2,750 Feet 838 Meters	2,750 Feet 838 Meters
	SMALL BOX VAN <i>(14 FT BOX)</i>	10,000 Pounds 4,545 Kilos	300 Feet 91 Meters	3,750 Feet 1,143 Meters	3,750 Feet 1,143 Meters
	BOX VAN OR WATER/FUEL TRUCK	30,000 Pounds 13,636 Kilos	450 Feet 137 Meters	6,500 Feet 1,982 Meters	6,500 Feet 1,982 Meters
	SEMI-TRAILER	60,000 Pounds 27,273 Kilos	600 Feet 183 Meters	7,000 Feet 2,134 Meters	7,000 Feet 2,134 Meters

Source: National Homeland security



Why Lloyd's ?

- Global centre of expertise for 'War and Terror' insurance
- Claims handling and claims paying record
- Choice of several lead syndicates
- Large capacity – per risks and in the aggregate
- Lloyd's licences facilitates global policies – int'l assets
- Rating and security – S&P 'A+' rated
- Lloyd's does not “run for the hills” in a crisis
 - ◆ Lloyd's has never stopped offering cover, even at times of high threat and after losses

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