



Terrorism Insurance Review

Review of terrorism insurance arrangements in selected territories
& commentary on the cost and coverage of state terrorism
schemes

Report 2013



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Contents

1. Executive summary	4
2. Scope of the Airmic investigations	5
3. Background to selected terrorism insurance schemes	6
4. Scope of cover offered by selected schemes	8
5. Comparison of limits offered and premium rates	11
7. Analysis of the structure of the selected schemes	14
8. Summary and conclusions	16
Appendix A: Schemes for terrorism insurance in selected countries	17
Appendix B: Summary of terrorism insurance arrangements in other territories	37
Table 1: Definitions of terrorism in different territories.....	8
Table 2: Typical exclusions in different territories.....	9
Table 3: Limits offered in different territories.....	11
Table 4: Comparison of premium rates.....	12
Table 5: Maximum loss exposure of the pool.....	14
Table 6: Reinsurance arrangements.....	15

Airmic is grateful to Willis for support in the production of this report and the provision of information on a wide range of different terrorism schemes. The contributions from Willis to this report have helped to bring considerable detail and clarity to an increasingly complex area of insurance. The dominant position of the London market in the provision of global terrorism insurance programmes was emphasised by Willis throughout the discussions.

Airmic and Willis have made all reasonable attempts to ensure that the information in this report is correct as at June 2013, but Airmic offers this information as the basis for discussion between insurance buyers and their professional advisers and/or insurance brokers. The terms and conditions of the various pools and schemes vary from time to time and the information in this report should not be used as the sole basis of designing and placing terrorism insurance programmes.

1. Executive summary

This report considers some of the features of the most important terrorism schemes in existence across the world.

Terrorism attacks are the most devastating and expensive of events for the providers of terrorism insurance and can represent the most disruptive of events for insurance buyers. Because of the substantial losses that could be suffered following a terrorism event, some insurers and reinsurers are reluctant to offer insurance on terms and conditions that are attractive to the buyers of business insurance.

In order to overcome these difficulties, many governments have introduced state-funded terrorism insurance and reinsurance facilities that may be referred to as terrorism schemes, funds or pools. This report considers some of the features of the most important terrorism schemes in existence across the world. The various terms and conditions and methods of operation of the different schemes are outlined in this report.

Although terrorism schemes have been developed in a number of countries, an extensive commercial terrorism insurance market still exists. This commercial market is particularly important where a multinational organisation wishes to purchase a global terrorism programme that will often act on a DIC/DIL basis with locally purchased cover. Purchasing a global terrorism insurance policy is invariably complex and the advice of an insurance specialist and/or insurance broker will normally be required.

Terrorism insurance schemes have become established in a large number of countries and they were often formed in response to the events of September 11, 2001. The features of the main terrorism insurance schemes are outlined in Appendix A and brief information on some other terrorism schemes is provided in Appendix B. The information in Appendix A and Appendix B is for general guidance only and insurance buyers should obtain appropriate professional advice when designing and implementing global and local terrorism insurance arrangements.

The key factors that should be considered when arranging the purchase of terrorism insurance cover are as follows:

- Each scheme will have different terms and conditions with varying definitions of terrorism and different exclusions that apply
- Almost all the state (or country) terrorism schemes offer coverage for acts of terrorism within the territories of that country only
- There is a strong commercial market for terrorism insurance both for domestic terrorism cover and for global terrorism insurance programmes
- Many companies will wish to buy a global terrorism insurance policy to supplement or replace involvement in state terrorism schemes
- The design of a global terrorism insurance policy is complex and it is likely that specialist professional advice will be required.

2. Scope of the Airmic investigations

Airmic asked Willis to provide summaries of the most important terrorism insurance schemes in the world. In response, Willis provided information on a total of 18 schemes operating in different territories. In providing this information, Willis emphasised that many of the terrorism schemes are under constant review and terms and conditions can vary at short notice. Detailed information is included in this report on the following 10 schemes, as set out in Appendix A:

1. Australia
2. Austria
3. Belgium
4. France
5. Germany
6. Netherlands
7. South Africa
8. Spain
9. United Kingdom
10. United States of America

In all cases, the information provided in Appendix A should be treated as a summary of what is almost certainly a complex scheme. Comments in this report on any of the schemes described should not be taken as advice or used as the sole basis for designing a terrorism insurance programme. The terms and conditions of the various terrorism schemes are often varied in response to changing terrorism targets and methodologies, such as the terrorism events in Boston and London in 2013. Each brief commentary is intended to provide an outline of the scheme and an overview of some of the limitations that apply.

The most important schemes for the buyers of insurance in the London market are summarised in Appendix A. However, there are several other schemes in different countries in the world and brief comments on a further eight schemes are set out in Appendix B, as follows:

- Bahrain
- Denmark
- India
- Indonesia
- Israel
- Northern Ireland
- Russia
- Sri Lanka

Analysis of the various schemes was undertaken in order to produce a commentary on the scope of cover available under the different schemes. This report also considers the limits that are offered in different territories and a limited comparison of premium rates. Another important aspect that was reviewed is the structure of terrorism insurance schemes and, in particular, whether they are established as direct or reinsurance facilities, whether formal membership of the scheme and/or whether co-insurance on the part of the insurance buyer is required.

3. Background to selected terrorism insurance schemes

A number of countries have developed specific schemes to cover terrorism insurance. Some already existed before September 11, 2001, while others were created in direct response to the attacks on the World Trade Center. All of the schemes described in Appendix A and Appendix B are worthy of description and analysis, as they represent the response to terrorism threats by the most advanced insurance markets in the world. The comparisons and comments in this report are offered to illustrate differences in the specific schemes.

This report provides outline information on the specific schemes set up in the following countries. The most detailed information was provided by Willis for the following 10 territories, as described in **Appendix A**:

1. Australia
2. Austria
3. Belgium
4. France
5. Germany
6. Netherlands
7. South Africa
8. Spain
9. United Kingdom
10. United States of America.

Many schemes were set up immediately following the events of September 11, 2001. Even for schemes that were already in existence at that time, the events of September 11 resulted in a review of the terms and conditions of existing schemes. For example, immediately after September 11, it was recognised that steps were needed to extend the scope of some of the existing schemes, including Pool Re, to cover the full range of property damage and consequential loss perils that up to that time were provided by the insurance market.

There was also concern after September 11 that the range of terrorism weapons was potentially far wider than previously envisaged. An obvious example is chemical or biological attack, such as anthrax. The use of weapons of this kind could result in losses associated with infectious and contagious diseases and loss of access due to action by regulatory authorities. There could also be product recalls as a result of contamination, or cases where biological or chemical attack required decontamination, resulting in claims under all risks property damage / business interruption policies.

4. Scope of cover offered by selected schemes

The scope of cover is dependent on the definition of terrorism (as set out in Table 1) and the exclusions that apply (as set out in Table 2). It is worth noting that several of the long-established terrorism schemes were set up to meet different terrorism threats. In general, these long-established terrorism schemes were created to meet the challenges of domestic and/or separatist terrorism activity. As an example, Pool Re was initially established to provide insurance for IRA losses not covered by the insurance market. Rates were subsequently reduced as the peace process progressed, but threats from other sources are now the major consideration that influences premium rates.

Note also that the simplified definitions offered in Table 1 cannot be taken as definitive, as they are only intended to give an indication of the scope of typical definitions. The basis of all insurance contracts is defined, to a large extent, by the definitions and exclusions that are included in the policy. Table 1 provides examples of the definitions of terrorism provided by the government of the territory and often included in terrorism insurance schemes. It can be seen that many of the definitions are similar, but the scope of coverage offered varies from scheme to scheme.

Table 1:

Sample of simplified definitions of terrorism in different territories

1. France

No French government declaration is required for an act to be recognised as a “terrorism act” for the purpose of the scheme, but provided an event meets the definition in legislation, all types of terrorism (regional, national and international) in any form (including nuclear, chemical and biological risks) are covered for all French property risks.

2. Russia

Terrorism is the perpetration of an explosion, arson or any other action (or threat of action) endangering the lives of people, causing sizeable property damage or entailing other socially dangerous consequences, if these actions have been committed for the purpose of violating public security, frightening the population or exerting influence on decision-making by government.

3. Spain

Terrorism is defined as: “every violent act committed with the object of destabilising the established political order or generating fear or insecurity in the social environment in which terrorism insurance schemes are perpetrated”. No Spanish government declaration is required for an act to be recognised as a “terrorism act” for the purpose of the scheme.

4. United Kingdom

The issue of a certificate by HM Treasury in the UK is required for an act to be recognised as an “act of terrorism” for the purpose of the Pool Re scheme. Act of terrorism is defined as “acts of persons acting on behalf of, or in connection with, any organisation which carries out activities directed towards the overthrowing or influencing, by force or violence, of HM Government”.

5. United States of America

An “act of terrorism” means any act that is certified by specified government departments to be a violent act or an act that is dangerous to (a) human life, (b) property or (c) infrastructure; to have resulted in damage in the US; and to have been committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as part of an effort to coerce the civilian population of the US or influence the policy or conduct of the US government by coercion.

It is important for insurance buyers to understand the scope of coverage that is offered and whether it is sufficient for their needs. The advice of a professional insurance adviser and/or insurance broker with knowledge of the various insurance schemes around the world will be extremely valuable. Depending on the level of compulsory obligations within a scheme, an insurance buyer may decide to (1) take part in a local scheme and not purchase additional global terrorism insurance; (2) take part in a local scheme and purchase a master or global DIC/DIL terrorism policy; or (3) not take part in local schemes and purchase terrorism cover as a separate global insurance policy.

In addition to analysis of the scope of coverage of a scheme, as indicated by the definition of terrorism, an insurance buyer will also need to be aware of the exclusions that are included. Table 2 provides a summary of typical exclusions in various schemes.

Table 2:

Summary of typical exclusions in different territories

1. Australia

The scheme excludes certain other types of insurance cover, including: marine insurance, aviation insurance, motor vehicle insurance, life insurance, health insurance, private mortgage insurance, medical indemnity insurance and professional indemnity insurance.

2. France

There are the following principal exclusions: life, accident and health insurance; liability; financial losses; risks covered by marine, aviation and transport policies; nuclear weapons; war, strikes, riot and civil commotion; other malicious acts, vandalism; and theft, looting or fraud following acts of terrorism.

3. Netherlands

The following are excluded from cover: aviation hull; aircraft liability; any nuclear compensable by the Dutch nuclear pool; and insurances making express provision for terrorism as a named peril.

4. Spain

The main exclusions from cover are: life; marine, aviation, space; third-party liability; credit and bonds; health; legal expenses; travel insurance; agricultural insurance; and construction all risks and erection all risks.

5. United Kingdom

The only losses excluded under the Pool Re scheme are those in respect of war and related perils, and computer hacking, virus and denial of service, although certain losses resulting from terrorism (such as contamination) are often excluded from household policies by Pool Re members.

The most important decisions associated with the definitions and exclusions are for the insurance buyer to evaluate whether all of the risks that are of concern are included and/or available within the scheme. For example, the inclusion of business interruption cover and/or the inclusion of cover against nuclear, chemical or biological attack will be important considerations for many insurance buyers.

Another important consideration for participants in many of the schemes is whether coverage is offered for assets of the company outside the territory covered by the scheme. Almost invariably, the scheme will only cover assets within the national boundaries of the country offering the scheme. By way of a specific example, major German multinationals have to purchase additional policies for their buildings in foreign countries, although the scheme does guide insurance buyers towards other appropriate facilities.

The terms and conditions of the schemes vary considerably. Most schemes are set up as reinsurance arrangements, but many will write business direct with the insured. Many schemes require membership of the scheme on the part of the fronting insurer. Some insurance buyers will write terrorism insurance cover through their own captive insurance company and the captive will need to become a member of the scheme. In the event of a large terrorism attack, members of the scheme may have some obligation towards the payment of the costs of the terrorism attack, if the main fund in a scheme becomes exhausted.

As a final point, most of the reinsurance terrorism schemes will follow the terms and conditions of the primary or fronting insurance policy. This means that the limits and deductibles, as well as certain other policy terms and conditions, included in the fronting policy will also apply to the terrorism cover. A particular issue that will need to be clarified by insurance buyers relates to the application of deductibles. If several terrorism attacks take place at the same time, and are considered to have been co-ordinated, it is likely that only a single deductible will apply, but this will need to be specifically confirmed by the insurance buyer.

5. Comparison of limits offered and premium rates

In addition to the scope of coverage, influenced by the definition of terrorism and the exclusions that apply, insurance buyers will also need to consider the limits of terrorism cover offered and the applicable premium rates. Many countries offer unlimited terrorism cover, with the government acting as the insurer of last resort.

However, this arrangement is not the case for all of the schemes and Table 3 provides information on limits that are applicable in some territories. Another consideration in relation to the limits offered is whether there are any sub-limits for specific types of terrorism events. For example, some terrorism schemes offer unlimited coverage for conventional terrorism attacks, but include sub-limits in the event of a nuclear, chemical or biological attack. Also, some schemes require co-insurance participation by the insured or scheme member.

Table 3:

Limits in different territories

1	Austria
	€5 million per policy or location
2	Germany
	Maximum annual aggregate limit of €1.5 billion each policy or enterprise
3	Netherlands
	€75 million per insured per location
4	Spain
	As per relevant property insurance policy without sub-limits
5	United States of America
	\$100 billion annual aggregate (including insurance industry aggregate retentions)

One of the most important considerations when constructing a terrorism insurance programme is the premium rates. Table 4 provides illustrations of the typical methods of calculating premiums in the different terrorism schemes. The two most common mechanisms for deciding premium levels are that the premium will be a (1) percentage of the premium being charged (as in the case of Australia); or (2) percentage of the values being insured (as in the case of Spain).

Table 4:

Premium rates.

1. Australia

Premiums are a percentage of the insurance premium.

Tier A (central districts) 12%

Tier B (urban areas) 4%

Tier C (rural areas) 2%

Rates should remain static unless a significant claim is made on the scheme, in which case rates may be increased by up to 300%.

2. France

Member companies set the rates for the original business and premiums are ceded to the pool as a percentage of the original premium, based on insured values:

- Between €6 million and €20 million @ 6%
- Between €20 million and €50 million @ 12%
- Over €50 million @ 18% of original premium.

3. Spain

Scale of rates are published by the pool and are applied as a percentage of the insured value.

- Offices @ 0.014%
- Shops @ 0.018%
- Industrial risks @ 0.025%
- Civil works vary from 0.034% to 0.195%.

4. United Kingdom

Insurers in the Pool Re scheme are free to decide the price of the terrorism cover they offer. It is open to each insurer to determine the price charged, depending on total value of the property, the location and whether the policy is for PD only or PD/BI. Property damage reinsurance premium payable to Pool Re is a percentage of the insured value as follows:

- Zone A (Central London) @ 0.03%
- Zone B (Inner London, The Channel Tunnel, Central Business Districts) @ 0.03%
- Zone C (Rest of England (except Devon & Cornwall)) @ 0.006%
- Zone D (Rest of Great Britain) @ 0.006%
- Business Interruption (including rents) @ 0.021%.

5. United States of America

In 2009, the median premium rate for terrorism insurance for middle-size and large firms was \$25 per million (0.0025%) of total insured value.

In evaluating the terms and conditions of the insurance offered, the insurance buyer should consider the claims experience of the particular terrorism scheme. Many of the schemes have not yet been subject to large claims. For example, the schemes in Germany and Belgium have not been tested by a large terrorism incident and the response of the scheme in these circumstances remains unknown.

As part of the study, Airmic asked Willis if it could give indicative terrorism premium rates for different cities, based on the information in Table 4. For a single location client with an office building of total value €25 million, the central Paris premium (based on a property premium of €25,000) would be €3,000. In central Munich, the pool cost (based on a property value of €25 million) would be €3,000 as the 'minimum premium'. In central London, the Pool Re cost (based on a property value of €25 million) would be €7,500 as a standard Zone A rate. However, Willis pointed out that the commercial insurance market may be able to offer more competitive rates in some cases.

These premium costs should be viewed as indicative figures, because the three schemes mentioned may not offer identical coverage. Also, in the case of the French scheme, the terrorism premium is based on property damage insurance premium and this premium may have reduced considerably in recent times, leading to a more favourable terrorism premium. The German and the Pool Re schemes are based on the property value. Also, the terrorism threat may vary considerably between the different cities.

7. Analysis of the structure of the selected schemes

For many terrorism schemes, there is no specified maximum loss that the scheme will pay. However, a maximum is specified in certain territories, such as in the examples shown in Table 5. In addition to the limit of cover that is offered, insurance buyers should also consider whether there is a maximum loss that the fund, pool or scheme is willing to suffer.

If the scheme has declared that the total coverage available is capped, the insurance buyer needs to be aware of the implications for their terrorism insurance cover. In some cases, if the pool or fund is exhausted, claims are paid in the same percentage as the shortfall of the total funds available in the scheme. In some circumstances, it may be possible for the insurance buyer to arrange a master policy with DIC/DIL coverage that will make good the shortfall that results from the exhaustion of the funds available in the scheme.

Another important consideration is whether rebate arrangements are in place. Some of the schemes, for example the GAREAT in France, provide partial rebate of insurance premiums if the level of claims is low. Insurance buyers should be aware that if they purchase terrorism cover through a fronting insurer and the fronting insurer purchases terrorism reinsurance from the scheme, any rebate would be refunded to the fronting insurer. The insurance buyer may not be aware that a rebate has been received by their fronting insurer.

Table 5:

Maximum scheme losses.

1. Australia
\$10.3 billion per year over all insureds
2. Austria
€200 million per year over all insureds
3. Germany
€10 billion per year
4. Netherlands
€1 billion per year over all lines, but capped at €2 billion in total
5. Russia
About RUB 1.7 trillion any one risk (£32 million)

A very important feature of the terrorism insurance schemes is how the insurance buyers can access the scheme. Most of the terrorism insurance arrangements are reinsurance arrangements, although these arrangements vary considerably between the different schemes, as can be seen in Table 6. Also, it is typical for funding arrangements to vary between different layers of the terrorism scheme.

The structure of the scheme is important because it determines how the insurance buyer can access the scheme. If the scheme is established as a reinsurance scheme, the insurance buyer will be able to access the scheme through the fronting insurer or through their own captive insurance company. In general, if access is through the captive insurance company, the captive will need to be a member of the relevant scheme.

Table 6:

Reinsurance arrangements

1. Australia

1st layer: retention of risk by insured and insurers: \$1 million per insurer or 4% of their gross property revenue, whichever is less; \$10 million per event

2nd layer: ARPC \$300 million

3rd layer: Government-backed credit line \$1 billion

4th layer: Commonwealth government reinsurance facility up to \$9 billion

2. Austria

1st layer: €50 million in the annual aggregate co-insured by pool members

2nd layer: €150 million in the annual aggregate placed in international markets

3. Germany

1st layer: €2 billion in the annual aggregate co-insured by members of the pool

2nd layer: €8 billion in the annual aggregate in excess of €2 billion given by the government

4. Netherlands

1st layer: €400 million co-insured by members of the pool and each participant insurer puts up a guarantee based upon its gross premium income/market share.

2nd layer: €300 million per year reinsured on international markets

3rd layer: €300 million per year government guarantee

5. United Kingdom

Each insurer must pay losses up to a threshold, which is determined individually for that insurer. When losses exceed that threshold, the insurer can claim upon reserves accumulated by the insurance industry on a mutual basis within a separate company, Pool Re. Should terrorism claims exceed these reserves, Pool Re can, in turn, draw funds from the government to enable it to meet its obligations in full, regardless of the scale of losses.

Many companies feel exposed to the threat of terrorism activity because of the nature of the business and/or the territories in which they operate.



8. Summary and conclusions

Many companies feel exposed to the threat of terrorism activity because of the nature of the business and/or the territories in which they operate. There is a range of insurance solutions available for companies wishing to purchase terrorism insurance cover. Decisions about participation in state terrorism schemes and/or the purchase of a global terrorism insurance programme will be components of the overall insurance response to the terrorism threat.

This report sets out many of the considerations when an insurance buyer is deciding the structure of terrorism insurance cover. The key issues to be considered relate to the following features of state terrorism insurance schemes:

- Each scheme will have different terms and conditions with varying definitions of terrorism and different exclusions that apply
- Almost all the state (or country) terrorism schemes offer coverage for acts of terrorism within the territories of that country only
- There is a strong commercial market for terrorism insurance both for domestic terrorism cover and for global terrorism insurance programmes
- Many companies will wish to buy a global terrorism insurance policy to supplement or replace involvement in state terrorism schemes
- The design of a global terrorism insurance policy is complex and it is likely that specialist professional advice will be required

Each of the available state schemes has strengths and weaknesses, as indicated in this report, although several of the state schemes have yet to be tested by a significant terrorism event. As noted in this report, the cost (and scope) of the available cover can vary considerably and the report contains indicative premium information for an office building in London, Paris and Munich, as presented at the end of section 5.

Decisions on whether to participate in state schemes and/or purchase a global terrorism insurance policy depend on the nature of the company and the extent of the threat, as well as the attitude of that company to the likelihood and consequences of a terrorism event affecting the operations of the company. In particular, the cost and coverage offered by the scheme will be deciding factors.

However, in many cases, the structure of the scheme will determine whether a company wishes to participate. Schemes that require membership may only be accessible to the insurance buyer through their own captive insurance company. Consideration of the constraints involved with participation in the scheme and the potential exposure of the captive to contributing to any shortfall in the fund will be significant factors in determining how the company decides to structure the purchase of terrorism insurance cover.

Appendix A: Schemes for terrorism insurance in selected countries

Country: Australia

1. Name of pool / scheme

Name: Australian Re-insurance Pool Corporation (ARPC)

Government involvement: Yes

2. Background to the scheme

Established: 16 June 2003

Background and operation: ARPC is a statutory authority established by the Terrorism Insurance Act 2003.

3. Scope of cover provided

Application: ARPC applies to all Property / Business Interruption and Public / Products Liability contracts (deemed eligible insurance contracts) as per the local Property policy. Eligible contracts are defined as those that include Terrorism exclusions.

Included: Terrorism exclusions will be deemed inoperative if a declared terrorism incident (DTI) occurs. A DTI is declared by the Treasury Minister in consultation with the Attorney General, and is not limited to acts causing physical damage, and includes public liability. ARPC includes Chemical and Biological Terrorism. All other policy terms and conditions will apply.

Excluded: Nuclear, Radiological and War.

4. Limits offered

Limits: "Full limit" Terrorism coverage, in line with the relevant limit for other covered perils, such as Fire etc.

5. Premium rates

Rates are a percentage of insurance premium and vary according to area as per below:

- Tier A (central districts): 12%
- Tier B (urban areas): 4%
- Tier C (rural areas): 2%

These should remain static unless a significant claim is made on the scheme, in which case rates may be increased by up to 300%.

6. Maximum pool losses

\$10.3 billion (approx. US\$10 billion) per year over all insureds.

7. Reinsurance arrangements

1st layer: Retention of risk by insured and insurers to \$1 million (approx. US\$973,000) per insurer or 4% of their gross property revenue, whichever is less. \$10 million (approx. US\$9.7 million) per event

2nd layer: ARPC provides \$300 million (approx. US\$292 million)

3rd layer: Government-backed credit line \$1 billion (approx. US\$973 million)

4th layer: Commonwealth government reinsurance facility up to \$9 billion (approx. US\$8.8 billion).

8. Compulsory or elective

Compulsory for: None, an elective scheme.

9. Further information

<http://www.arpc.treasury.gov.au/>

Country: Austria

1. Name of pool / scheme

Name: Osterreichischer Versicherungspool zur Deckung von Terrorrisiken
Government involvement: No

2. Background to the scheme

Established: 1 October 2002, to accept business from 1 January 2003.

Background and operation: The scheme gathers almost all Austrian primary insurers, with 99% of the Austrian Insurance Association (VVO) members belonging to the pool. The scheme operates as a claims pool, where the direct writing insurers issue a separate Terrorism policy and cede the business to the pool. The insurers only pay into the pool what is necessary to buy this reinsurance protection, the cost being 1% of property premium income, with claims divided by market share.

3. Scope of cover provided

Application: The scheme applies to Physical Damage and Business Interruption for industrial, commercial and private property, as per the local Property policy.

Included: Acts of terrorism occurring in Austria only.

Excluded: Transport; War/Civil War; Liability; Chemical, Biological, Nuclear and Radiological; Consequential Loss (Business Interruption is limited); Fine Art; Marine and Aviation.

4. Limits offered

Limits: €5 million per policy per location.

5. Premium rates

Rates vary according to type of property and area:

Rates are applied as a percentage of the insured value and range from 0.75% to 4% for pool members. Higher rates are applicable for non-members.

6. Maximum pool losses

€200 million per year over all insureds.

7. Reinsurance arrangements

1st layer: €50 million in the annual aggregate co-insured by pool members

2nd layer: €150 million in the annual aggregate placed in international markets.

8. Compulsory or elective

Compulsory for: None, an elective scheme.

9. Further information

<http://www.vvo.at/>

Country: Belgium

1. Name of pool / scheme

Name: Terrorism Re-insurance and Insurance Pool (TRIP) vzw.
Government involvement: Yes

2. Background to the scheme

Established: 1 April 2007

Background and operation: 90% of Belgian insurance companies are members of TRIP.

The scheme was established as under Belgian law:

- Property underwriters are obliged to provide Terrorism coverage for: Workers' Compensation, Motor Liability, Liability for Fire or Explosion in a public place and "Simple Property Risks"
- Underwriters of All Risks / Named Perils policies are obliged to provide Terrorism coverage for Simple Property Risks
- Terrorism coverage for "Special Property Risks" (which includes, Industrial Risks, Properties with values above €1,318,794 (index ABEX 665) or above €42,421,192 (index ABEX 665) for dwellings, office buildings, schools, museums, hospitals, universities, libraries) is not mandatory.
- New legislation extends this requirement to Accident, Health and Life insurance.

3. Scope of cover provided

Application: Property Damage and Business Interruption. Loss determination is through a committee including insurers and government representatives.

Included: Property Damage and Business Interruption for locations in Belgium only. The scheme has a large definition of terrorism, which includes threat.

Excluded: Nuclear, contracts covering only Terrorism.

4. Limits offered

Limits: TRIP provides €75 million per insured per location.

It should be noted that insured objects located within 50 metres of each other are considered to be on the same location.

5. Premium rates

Premium rates are included in Property policy rates.

6. Maximum pool losses

€1 billion per year over all lines.

It should be noted that other insurers are subject to the requirement to provide terrorism cover without the €1 billion cap.

7. Reinsurance arrangements

1st layer: €700 million in the annual aggregate – co-insured by participants of the fund

2nd layer: €300 million in the annual aggregate – given by the Belgian government up to the €1 billion limit.

8. Compulsory or elective

Compulsory for: Simple / Small Property Risks and terrorism coverage under All Risks / Named Perils Policies. Automatic coverage is provided for property insurers who are pool members.

Elective for: Special / Industrial Property Risks

9. Further information

<http://www.tripvzw.be> (currently only in Dutch or French)

Country: France

1. Name of pool / scheme

Name: Gestion de L'Assurance et de la Reassurance de Risques Attentats et Actes de Terrorisme (GAREAT)

Government involvement: Yes

2. Background to the scheme

Established: January 2002

Background and operation: GAREAT is a reinsurance pool, set up after September 11. Domestic insurers found it difficult to obtain reinsurance cover for acts of terrorism, whilst being forced by law to continue to offer cover. This pressure led to the formation of GAREAT. Additionally, since 1 January 2006, Terrorism reinsurance is available from the Caisse Centrale de Réassurance (CCR) for Small Risks below €6 million in excess of a deductible of 20% of premium income.

3. Scope of cover provided

Application: The scheme applies to Property and Business Interruption losses from commercial, industrial and professional risks where the sum insured exceeds €6 million (Large Risks), provided that the insurance contract covers for fire damage.

Includes: Risks domiciled in France, French Overseas Departments and Territories (DOMTOM) and Mayotte are covered. All acts of terrorism, including those involving the use of a "dirty bomb" (conventional explosive such as dynamite packaged with radioactive materials) and biological, chemical and nuclear weapons

Excluded: Risks domiciled in French Polynesia, New Caledonia, Andorra, Monaco are excluded. Business Interruption for risks situated abroad, interdependency coverage for Business Interruption loss suffered by risks situated abroad following an Attack on French Territory Liability (except for Tenant's and Neighbour's Liability and Third Parties' Right of Recourse). Risks covered by Marine, Aviation and Transport (MAT) policies cannot be ceded to the pool.

4. Limits offered

Limits: GAREAT offers limits as per the relevant Fire/Property policy.

5. Premium rates

Member companies set the rates for the original business, and premiums are ceded to GAREAT as a percentage of the original premium as per below:

- Insured values between €6 million and €20 million: 6%
- Insured values between €20 million and €50 million: 12%
- Insured values over €50 million: 18%

6. Maximum pool losses

Unlimited

7. Reinsurance arrangements

1st layer: €400 million co-insured by GAREAT members

2nd layer: €1.9 billion in excess of €400 million reinsured with international reinsurance markets

3rd layer: Unlimited over €2.3 billion reinsured by the state via CCR.

8. Compulsory or elective

Compulsory for: All members of the French Insurers' Association (FFSA) and Lloyd's Syndicates (unless they have specifically opted out).

9. Further information

<http://www.gareat.com/>

Country: Germany

1. Name of pool / scheme

Name: Extremus Versicherung AG
Government involvement: Yes

2. Background to the scheme

Established: September 2002, and began accepting business in November 2002.

Background and operation: Extremus gathers more than 50 German and foreign insurers and effectively acts as an insurer, with risks ceded in turn to its reinsurers. The shareholders (and primary reinsurers) of Extremus comprise 16 major insurers active in Germany. The scheme provides reinsurance for the following domestic insurers who are able to cede terrorism cover for larger risks (excess €25 million).

German businesses with total values of up to €10 million will receive coverage included under their local Property policy. Businesses with total values between €10 million and €25 million can purchase separate coverage locally rated by each company.

Domestic insurers must offer Terrorism cover, but participation in Extremus is not compulsory.

3. Scope of cover provided

Applies to: Physical Damage and Business Interruption for property for risks valued at over €25 million.

Included: Only covers acts of terrorism occurring in Germany. Cover follows the same conditions and all locations of the underlying Property policy, meaning that an insured cannot elect only to cover certain high-risk locations with Extremus. Vehicles and their cargo can be covered. Cover includes a 24 hours occurrence clause.

Excluded: Sabotage, War/Civil War, Civil Disorder/Looting, Confiscation, Nuclear, Biological and Chemical, Contamination (except if substances already kept on the insured property), Works of Art, Computer Viruses/Data Loss etc., Marine and Aviation.

4. Limits offered

Limits: Maximum annual aggregate limit of €1.5 billion for each policy or enterprise.

5. Premium rates

Rates are based on geographical zones.

6. Maximum pool losses

€10 billion per year.

7. Reinsurance arrangements

1st layer: €2 billion in the annual aggregate co-insured by Extremus members

2nd layer: €8 billion in the annual aggregate in excess of €2 billion given by the government.

8. Compulsory or elective

Compulsory for: None, an elective scheme.

9. Further information

<http://www.extremus.de/>

Country: Netherlands

1. Name of pool / scheme

Name: Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden N.V. (NHT)
Government involvement: Yes

2. Background to the scheme

Established: 2003

Background: NHT was formed to reinsure those companies, including the standard Terrorism clause in their local Property policies. More than 93% of the Dutch insurers have now joined the scheme.

3. Scope of cover provided

Applies to: Property in The Netherlands only. Business Interruption cover if the underlying Property policy includes Business Interruption.

Included: "Malevolent Contamination" (i.e. the spread of biological, chemical and radioactive diseases), precautionary measures taken to minimise damages from terrorism, vessels or vehicles registered in The Netherlands.

Excluded: Marine Hull and Aviation; Nuclear Contamination; Contingent Business Interruption.

4. Limits offered

Limits: €75 million per insured per location.

5. Premium rates

Premium rates are included in Property policy rates.

6. Maximum pool losses

€1 billion per annum over all lines.

7. Reinsurance arrangements

1st layer: €400 million co-insured by members of the pool
Each participant insurer puts up a guarantee based upon its gross premium income / market share. Members include Non-life, Life and Health insurers.

2nd layer: €300 million per year reinsured on international markets

3rd layer: €300 million per year government guarantee.

8. Compulsory or elective

Compulsory for: Member insurers, who must cede all their terrorism exposure to the pool.

Elective for: Not compulsory for insureds.

Therefore, insureds that have a Property policy with a member insurer will benefit from the Terrorism coverage.

9. Further information

<http://www.terrorismeverzekerd.nl/>

Country: South Africa

1. Name of pool / scheme

Name: South African Special Risk Insurance Association (SASRIA)

Government involvement: Yes

2. Background to the scheme

Established: 1979

Background and operation: SASRIA was formed in the wake of the Soweto riots. The association has evolved from a non-profit company into a public company with the state as sole shareholder and includes terrorism cover.

In terms of local legislation, SASRIA is the only domestic insurer permitted to provide cover in respect of defined SASRIA covered risks. Individual insurance companies act as agents for SASRIA and issue policies for a handling fee.

3. Scope of cover provided

Applies to: All property, excluding Business Interruption except for standing charges. SASRIA can allow loss of profits to be placed within the marketplace, but only if full Riot cover has been bought with SASRIA. As a precondition for receiving cover from SASRIA, an underlying Fire policy cover must exist to cover conventional risks. Insureds have an automatic right to cover with SASRIA.

Included: Physical Damage for property directly related to or caused by terrorism or violence, riot, strikes or public disorder (including civil commotion, labour disturbances or lockouts).

Vehicles and goods in transit from South Africa to Namibia are included through a reciprocal agreement with NASRIA.

Excluded: Follows general exclusions of the underlying Property policy, more specifically: Malicious Acts; Nuclear, Chemical and Biological Losses, War (compensation for War is covered by separate Act/Statute in RSA).

4. Limits offered

Limits: As per relevant domestic Property insurance policy with a limit of ZAR 500 million (approx. US\$65.7 million) any one entity / year / period / loss.

5. Premium rates

Rates are applied as a percentage of insured value and vary according to the risk as per below:

Domestic risks: 0.003%

Commercial risks: 0.0120%

Business Interruption: 0.021%

True Commercial: 0.0528% – 12 months sliding scale to 0.0360% for 60 months.

6. Maximum pool losses

ZAR 1.6 billion (approx. US\$210 million).

7. Reinsurance arrangements

SASRIA buys a large reinsurance programme in domestic and international markets. In addition, there is a government guarantee of ZAR 1 billion (approx. US\$131 million).

8. Compulsory or elective

Compulsory for: None, cover is elective. However, if cover is purchased, it must be first from SASRIA, then other facilities.

9. Further information

<http://www.sasria.co.za>

Country: Spain

1. Name of pool / scheme

Name: Consorcio de Compensacion de Seguros (CCS)

Government involvement: Yes

2. Background to the scheme

Established: 1941

Background: CCS was formed to manage compensation for victims of the Spanish Civil War (1936 to 1939) and is a state-managed fund that provides compensation for losses that the private reinsurance market will not cover. In Spain, terrorism is one of a number of 'extraordinary risks', cover for which is provided through CCS.

CCS also acts as a warranty fund when a private insurer can no longer fulfil its obligations (following insolvency, for example). An unlimited state warranty will support CCS if losses are above its own capacity for payment, although this has not yet been necessary. It is managed as a separate insurance company but with a guarantee from the state. It takes direction from the Insurance Authority (Dirección General de Seguros) and ultimately from the Ministry of Finance.

3. Scope of cover provided

Applies to: All Property/Business Interruption losses as per local Property policy, excluding transport and construction risks. For Consorcio cover, losses mean direct damages caused to people or goods, as well as business interruption when this is caused by those damages to goods as far as it represents an alteration from normal results of the economic activity of the insured, derived from interruption, suspension or reduction of productive or business processes concerning such activity.

Included: "Acts with Social Repercussions" being: Terrorism; Rebellion, Insurrection; Riots, Civil Commotion; Acts of Armed/ Security Forces in peacetime.

Excluded: Armed Conflicts, Strikes/labour disputes, Nuclear contamination; Consequential losses – for example due to power failure; Third Party Legal Liability.

4. Limits offered

Limits: As per relevant Property policy without sub-limits.

5. Premium rates

Rates vary according to the risk and are applied to the sum insured. The most significant are detailed as per below (Consortio publishes a full scale of rates):

- Offices: 0.014%
- Shops: 0.018%
- Industrial risks: 0.025%
- Civil works: Vary from 0.034% to 0.195%.

6. Maximum pool losses

No maximum limit.

7. Reinsurance arrangements

The scheme is backed by an unlimited state guarantee.

8. Compulsory or elective

Compulsory for: All

The compulsory nature of coverage is intended to ensure sufficient volume of surcharges to build the necessary reserves.

9. Further information

<http://www.conorseguros.es/>

Country: United Kingdom

1. Name of pool / scheme

Name: Pool Re-insurance Company Limited (Pool Re)

Government involvement: Yes

2. Background to the scheme

Established: 1993

Background and operation: Provides reinsurance to member insurers (insurance companies and Lloyd's syndicates), which includes Terrorism coverage under their Property policies covering risks in the UK.

3. Scope of cover provided

Applies to: Property Damage policies covering risks located in England, Scotland or Wales. Coverage is not provided on a standalone basis, nor can insureds use the scheme to insure only part of their property portfolio for terrorism. However, it is permissible to have cover for material damage only, without business interruption.

Included: The scheme uses the definition of an Act of Terrorism contained in the Re-insurance (Acts of Terrorism) Act 1993: "...acts of persons acting on behalf of, or in connection with, any organisation which carries out activities directed towards the overthrowing or influencing, by force or violence, of Her Majesty's government in the United Kingdom or any other government de jure or de facto."

Excluded: War and related risks; damage to computer systems caused by virus, hacking or similar actions; risks located in Northern Ireland, the Isle of Man or the Channel Islands. There is no exclusion for chemical, biological, radiological or nuclear contamination and the cover can respond, subject to the terms of the policy.

4. Limits offered

Limits: As per the relevant Property policy.

5. Premium rates

Insurers in the Pool Re scheme are free to decide the price of the Terrorism cover they offer their customers. Rates tend to vary based on total value of the property, its location and whether the policy is to cover Property Damage only, or include Business Interruption losses. Rates are applied as a percentage of the sum insured.

Property Damage Reinsurance Premium payable to Pool Re:

- Zone A (Central London) + Zone B (Inner London, The Channel Tunnel, Central Business Districts): 0.03%
- Zone C (Rest of England (except Devon & Cornwall)) + Zone D (Rest of Great Britain): 0.006%

Business Interruption (including Rents): 0.021%

6. Maximum pool losses

Unlimited.

7. Reinsurance arrangements

1st layer: Each insurer must pay losses up to a threshold, which is determined individually for that insurer.

2nd layer: Beyond this threshold, insurers can claim upon reserves accumulated by the insurance industry within Pool Re.

3rd layer: Should terrorism claims exceed these reserves, Pool Re can, in turn, draw funds from the government to enable it to meet its obligations in full, regardless of the scale of losses.

8. Compulsory or elective

Compulsory for: None, an elective scheme.

9. Further information

<http://www.Pool Re.co.uk/>

Country: United States of America

1. Name of pool / scheme

Name: Terrorism Risk Insurance Act (TRIA) of 2002, as extended by the U.S. Terrorism Risk Insurance Program Reauthorisation Act (TRIPRA) of 2007 (S. 2285).

Government involvement: Yes

2. Background to the scheme

Implemented: 26 November 2002 (TRIA)

Background and operation: Implemented as a consequence of September 11 to provide a financial backstop for commercial reinsurers from potential insolvency arising from underwriting terrorism risks. The first extension bill was passed in 2005. An extension bill was passed in 2002 and TRIPRA was passed into law in December 2007, and will extend until December 2014, bringing in changes, such as the inclusion of domestic terrorism.

3. Scope of cover provided

Applies to: TRIA is triggered when the Treasury Secretary, in concurrence with the Secretary of State and the Attorney General, certifies that an incident meets the TRIA definition of an act of terrorism. Overseas captive insurers are excluded.

Included: TRIPRA now extends coverage to include domestic terrorism as well as foreign terrorism. To be certified, an event must cause at least US\$5 million in aggregate property and casualty insurance losses and take place on US soil. Covers all Commercial Property & Casualty lines.

Excluded: No coverage for Commercial Auto, Financial Guarantee, Burglary, Surety, Professional Liability, and Farm Owners – Multi Peril / Crop. No coverage for Life, Health, Medical Malpractice, personal lines of insurance or reinsurance. TRIPRA will backstop NBCR events, but there is no mandatory offer of coverage except Workers' Compensation as per individual state laws.

4. Limits offered

Limits: US\$100 billion annual aggregate (including insurance industry aggregate retentions) remains unchanged. TRIPRA clarifies that insurers are “capped” at their respective retention levels for deductibles and co-insurance exposures within the US\$100 billion annual cap.

5. Premium rates

Premium rates are flexible as the property insurer can charge as they wish.

6. Maximum pool losses

N/A

7. Reinsurance arrangements

N/A

8. Compulsory or elective

Compulsory for: None, an elective scheme.

9. Further information

<http://www.treas.gov/offices/domestic-finance/financialinstitution/terrorism-insurance>

Appendix B: Summary of terrorism insurance arrangements in other territories

1. Bahrain

Arab War Risks Insurance Syndicate (AWRIS) is not a pooling arrangement. It was formed in 1981, during the Iran-Iraq war and has more than 120 insurance companies from nearly 20 Arab countries as members. The member companies can access reinsurance in Lloyd's for terrorism and strikes, riots and civil commotion risks. Rates are set by reinsurers in each case. AWRIS does have a US\$20 million reinsurance treaty with set rates for terrorism, but this treaty only covers risks based in Bahrain. The scheme is elective with no government involvement.

2. Denmark

There is currently no terror pool or government involvement in Terror coverage.

3. India

General Insurance Corporation of India was formed in 2002, when reinsurers withdrew their support for terrorism insurance. This pool consists of local underwriters willing to include some Terrorism cover on the local policies for additional premium surcharge. It is an elective pool and there is no direct government participation. Rates are fixed by the tariff advisory committee and are around 0.02% to 0.025% of property value.

4. Indonesia

MARIEN is a pool of nearly 50 insurers and was established in 2001. Local Property policies exclude all Terrorism coverage, so the scheme applies to all property covered by these policies. Business interruption, total or partial cessation of work, permanent or temporary dispossession, riots, strikes, civil commotion, malicious acts, locked out workers, insurrection/popular uprising, usurped power, revolution, rebellion, military power, invasion, civil war, war and hostilities, subversive acts, looting (except looting during terrorism or sabotage) are all excluded. There is no government involvement in the scheme.

5. Israel

Government Compensation Fund (Israeli Terrorism Pool) offers coverage of US\$20 million. It is a compulsory scheme with government involvement.

6. Northern Ireland

Northern Ireland Compensation Scheme was formed by the UK government in 1972 for acts of terrorism by Irish dissident groups and it is an elective Property policy with no premium payable.

7. Russia

Russian Anti-terrorism Insurance Pool was formed in 2001 and offers cover of about RUB 1.7 billion any one risk (£32 million). The premium is calculated on the limit purchased at rates ranging from 0.00875% for agricultural risks to 0.098% for military risks in the North Caucuses. It is not a compulsory scheme.

8. Sri Lanka

Sri Lankan Terrorism Fund offers US\$500,000 and operates as an elective scheme.



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