

Pool Reinsurance BIBA Newsletter

Spring 2018



We look forward to catching up with old friends and new colleagues at BIBA.

Julian Enoizi
Chief Executive

Pool Re at BIBA

On 16 May from 3:30 to 4:15: Steve Coates, Chief Underwriting Officer, and Ed Butler, Head of Risk Analysis, will host a dedicated fringe event to discuss recent changes to Pool Re's cover, and the contemporary terrorism threat landscape.

Come and find out more and speak to the team at Stand 60.

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Message from the Chief Executive

On 24 April, it was 25 years to the day since the Provisional IRA detonated the truck bomb which devastated Bishopsgate in the City of London. This led to what was at the time the costliest terror attack in history, and Pool Re's largest claim to date.

Today, it is clear we face a very different kind of threat, dominated by a warped ideology intent on mass casualties but which also poses significant adverse consequences for businesses across the country. The threat level has not fallen below SEVERE for nearly four years, and it is evident that the risk of both human casualties and economic fallout is by no means limited to the UK's major cities.

Pool Re continues to set an example globally in developing terrorism (re)insurance to match and anticipate this evolving risk profile. The most recent example of this development was the Government's commitment in March to amend, when the legislative timetable allows, the formative 1993 Act which underpins Pool Re. This will enable us to cover business interruption costs not contingent on material damage to property in the wake of a terror attack.

The gap in cover was exposed by incidents such as businesses in Borough Market affected by last year's London Bridge attack being unable to be compensated for costs incurred by denial of access due to police cordons and activity in the wake of the event, because their premises were not physically damaged. We are developing a proposition in readiness for Government acting on their commitment to legislate, and the bridging of this particular insurance gap will improve the quality of cover for businesses large and small across the country.

At last year's BIBA conference, we outlined plans for a number of far-reaching improvements to our proposition. I am pleased to say that many of these have been incorporated in our new Underwriting Manual, effective from 1 April, and have been successfully integrated into our standard cover. Detailed in this newsletter, these include:

- > Protection against property damage following a terrorist attack caused by a cyber trigger
- > More affordable, more accessible cover for SMEs
- > Premium incentives to implement a terrorism risk management plan

The threat from cyber-attacks is clear, and businesses are increasingly concerned about their potentially extensive and costly repercussions. This clear gap in our coverage left businesses exposed, so after rigorous analysis we have closed the gap. Pool Re now covers property damage following a terrorist attack caused by a cyber trigger, to reflect terrorists' changing methods. In this case, we believe we are one step ahead of them: by amending the cyber exclusion, we have taken a step to future-proof the Pool Re scheme.

The economic impact of terrorism is often borne disproportionately by SMEs. Despite this, insurance penetration among them is markedly low, particularly for businesses outside major cities. We have begun to address the twin challenges of affordability and awareness for this market segment. Still a work in progress, we have already made products more affordable, which should increase uptake. But an industry-wide approach to distribution is essential, and we look forward to discussing our SME offer with brokers from across the UK at this year's conference.

We have introduced incentives for businesses to adopt proven risk mitigation measures that will improve their resilience to a terrorist attack. We have continued to facilitate private sector engagement with the Government's Crowded Places programme, and aim to build on this with our new VSAT initiative, which is detailed in this newsletter. UK businesses now have an accessible tool to analyse and address their own terrorism exposure.

Together, these recent and forthcoming improvements to Pool Re's terrorism reinsurance offer increase the resilience of our entire economy. Businesses can be confident they will be covered in the event of a terrorist attack, and able to get back on their feet quickly for the benefit of their community and their customers. We look forward to catching up with old friends and new colleagues at BIBA to explain how these changes to the Pool Re terrorism risk insurance scheme will be of value to you and your own clientele.

Government commits to close terrorism insurance gap

After extensive collaboration between Pool Re and HM Treasury, the Government has announced its intention to amend the Reinsurance (Acts of Terrorism) Act 1993 to enable Pool Re to extend its cover to include non-damage business interruption resulting from acts of terrorism.

The gap between the damage-based cover currently provided by Pool Re, and modern terrorist methods that cause business interruption through death or injury, is something we have been raising awareness of since the attacks in Europe in 2016, especially since modern commercial insurance policies invariably offer some coverage for non-damage business interruption from claims not arising from acts of terrorism.

The existing legislation underpinning the scheme requires damage to property to trigger Pool Re's cover, a requirement borne of an era when the primary method

of terrorist attacks was large scale explosive devices, and the main motivation, damage to commercial property. Today, however, terrorists often use simple bladed weapons and vehicles to indiscriminately attack civilians.

This type of attack still poses serious adverse consequences for businesses in the event of an attack, primarily in the form of business interruption. For example, businesses whose premises were not materially damaged by a terror attack but which were trapped within a police cordon erected in the aftermath or were unable to trade, could not be compensated under existing legislation.

As such, we welcomed the Government's commitment to amend as soon as parliamentary time allows the Reinsurance (Acts of Terrorism) Act 1993, and bridge the gap in our cover. The improved proposition will be particularly significant for SMEs,

who cannot always fall back on economies of scale in the event of disaster. The new cover will be affordable, flexible, and will further increase the resilience of the UK economy as well as livelihoods and communities up and down the country.

We welcomed the Government's commitment to bridge the gap in our cover.

Pool Re is now working on a proposition that would fill the gap and allow the scheme to include coverage for business interruption that flows from terrorism incidents that result in businesses being unable to trade due to the actions of a competent authority. We will be working closely with key scheme stakeholders such as Members and HM Treasury.

Confronting the threat caused by a cyber trigger

From April 2018 the Pool Re scheme has incorporated an amendment to the cyber exclusion within the cover that it offers, so that some protection can be provided against this emerging threat. This change is the culmination of more than two years of work, and is another significant example of Pool Re adapting to confront the modern terrorist threat.

The amendment of the cyber exclusion means that the Pool Re scheme now provides cover for property damage and for related business interruption at the affected site following a terrorist attack caused by remote digital interference. The improved cover, which will exclude intangible assets more appropriately covered by specialist cyber products, will be offered as standard to all policyholders which purchase terrorism insurance from Pool Re Members. Cyber-attacks are now an unavoidable facet of the inter-connected world in which we live, and the effects of such attacks can be hugely damaging.

This change puts the UK at the forefront of confronting the global terror cyber threat, and will ensure that businesses are protected from property damage caused by terrorists using a cyber trigger. This change follows extensive research by Pool Re. Two years ago, conscious of a gap in our coverage, we commissioned a study from the Centre for Risk Studies at the

Cambridge University Judge Business School to assess the potential nature and extent of the cyber terrorism threat. The report examined the intent and capability of threat actors, attack vectors and realistic event scenarios, and produced a firm foundation for the extension of our cover.

The improved cover will be offered as standard to all policyholders.

The report clearly supported the need for change, and we were subsequently able to use this research to gain the support of HM Government in closing the gap in our cover. We have also been able to obtain the support of our retrocession panel in providing coverage to Pool Re for property damage following a terrorist attack caused by remote digital interference.

Despite the landmark extension of our coverage having been implemented, we must continue to develop our understanding of and anticipate the cyber threat, promoting the availability of cover, and identifying and promoting government mitigation strategies for handling cyber risks. We are also continuing our partnership with Cambridge, and they are now working with us on building a cyber modelling toolkit. As these initiatives reach maturity we will publicise them to Members.

Benefits of Pool Re

Since its foundation, Pool Re has provided effective protection for the UK economy and currently underwrites over **£2 trillion** of exposure in commercial property to terrorism risk across the UK mainland.

Scheme reserves in excess of £6 billion, in addition to over £2 billion of commercial retrocession bought in the market, keeps HM Treasury well over **£8 billion** away from having to fund claims.

Any outlay from HM Treasury must be repaid by Pool Re; the scheme is designed to run at **nil cost** to the taxpayer.

Because of Pool Re's unique relationship with HM Government, the **UK is setting the benchmark** internationally with pools in other countries considering adapting their models to better reflect ours.

Reduced pricing for SMEs comes into force

The amendment of the cyber exclusion and the introduction of wider access to risk management tools are not the only changes to come into force recently. In the latest iteration of Pool Re's Underwriting Manual, released last November and brought into effect 1 April 2018, we announced a plan to amend the pricing structure that we operate, to better reflect how modern SME products are priced and sold.

These changes are particularly important given the low take-up of terrorism cover amongst SMEs, which account for an estimated 99% of all private sector business in the UK. Whether it be on cost or

awareness grounds, or that UK SMEs simply may not see the effect that terrorism could have on them, there are many businesses without adequate cover.

We believe that more SMEs would make the decision to purchase the cover if they had a better understanding of the threat, and cover was more affordable. Accordingly, we have restructured the pricing on SME products to replicate the approach taken on the underlying product, which invariably means rating on Material Damage exposures only. This achieved, we are now working with our Members and representative bodies such as the Federation of Small Businesses

to close the knowledge and information gap on both the contemporary threat and the cover available.

This restructuring of the way Pool Re charges its Members for SME cover should have the effect of making the protection significantly more competitively priced for most SME businesses. The decrease in premiums will be most pronounced for SMEs based outside major UK city centres, which is where most of these businesses are situated. A typical SME in a non-urban environment, or even major town, could see the amount payable to Pool Re for reinsurance reduce from £125 to £30.

Vulnerability self-assessment tool launches to help policyholders save money and increase resilience

2018 has not only seen a series of improvements to the cover that Pool Re provides, but also a step-change in the quantity and quality of the risk information we provide to our Members and their policyholders.

Through 2017 we increased the threat intelligence and analysis we provide from our TRAC (Terrorism Research and Analysis Centre) team and we will develop this capability further in the future.

However, February also saw the launch of Pool Re's Vulnerability Self-Assessment Tool (VSAT), which enables Pool Re

member insurers to offer a 5% premium discount to those that meet certain risk management criteria. The tool will be of particular interest to medium to large commercial entities.

VSAT builds on Pool Re's existing collaboration with the National Counter Terrorism Security Office Crowded Places programme, and will greatly increase the number of its ultimate policyholders who benefit from structured counterterrorism risk mitigation advice.

VSAT is aimed at increasing resilience amongst UK businesses by benchmarking

risk management standards and promoting best practice. The tool is designed to help businesses implement effective risk mitigation measures, making clear the specific actions businesses can take and offering a discount to those that achieve an appropriate standard.

Available to all Pool Re member insurers, VSAT has been accredited by "Secure by Design", the police security approval kitemark, and helps deliver a core Pool Re strategy of raising awareness of terrorism risk and promoting the adoption of risk mitigation measures.

Terrorism Frequency Report

Pool Re's latest report discusses the insurance gap revealed by the Salisbury nerve agent incident, and the contemporary threat posed by extreme right-wing terrorists.

Our Terrorism Risk and Analysis Centre (TRAC) has continued its work providing Members with expert views on the development of the contemporary terrorist threat landscape. In February, Pool Re's Head of Risk Analysis, Ed Butler, announced the publication of the inaugural Terrorism Frequency Report. The resource is the latest in a line of initiatives from Pool Re to provide its Members and wider stakeholders with accessible information on contemporary terrorism perils, and their impact on Members' policies and insureds. Combined with TRAC's annual Terrorism Threat and Mitigation Report (next edition due Autumn 2018), these studies aim to inform Members' decision-making and further encourage the commercial terrorism re(insurance) market to assume more risk, thereby both growing the premium opportunity and reducing the Government's exposure to the threat.

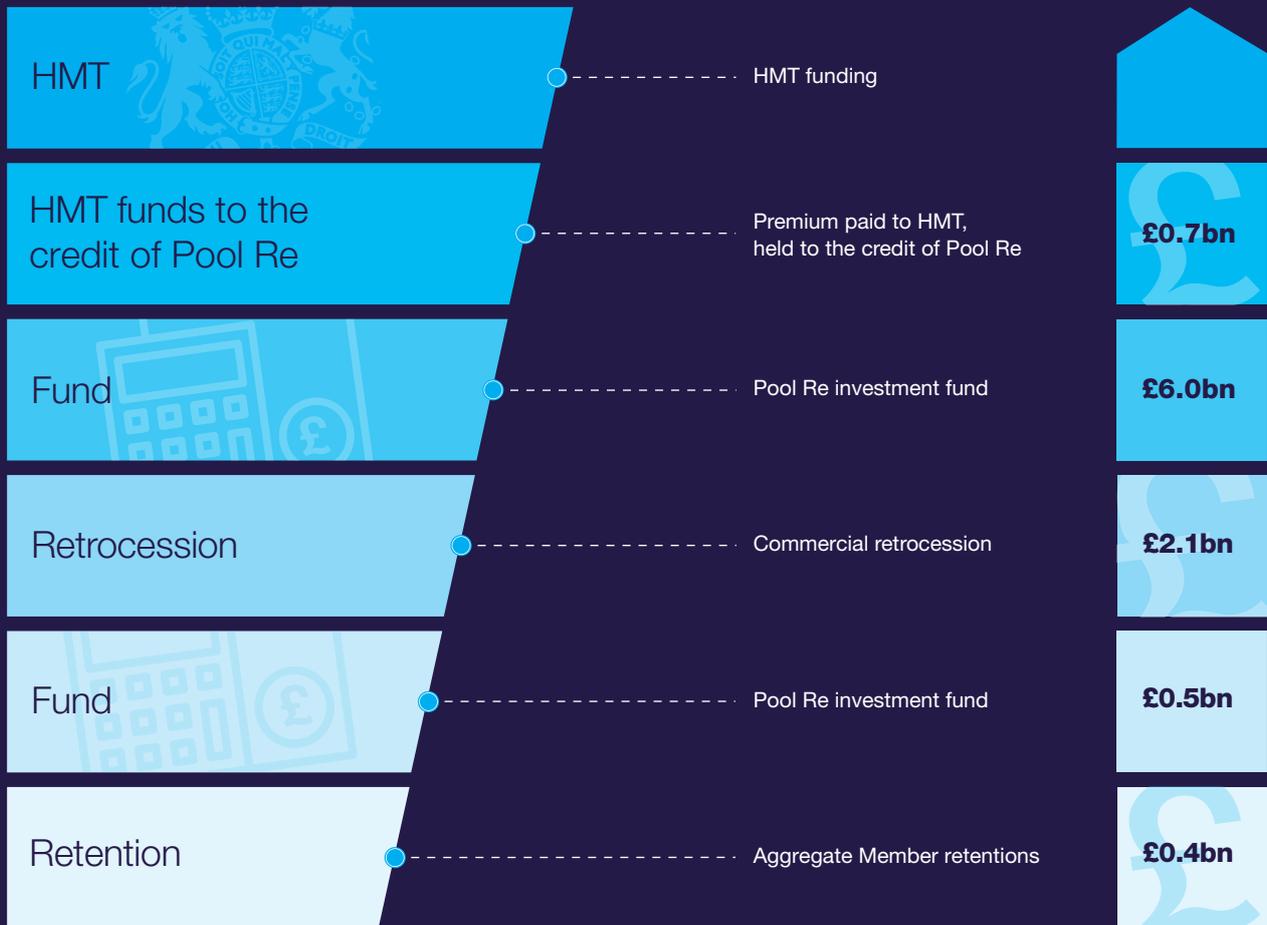
As with previous publications, the latest Terrorism Frequency Report provides a comprehensive record of recent terrorist attacks

across the globe, detailing their frequency and severity. In further articles, analysis is provided by members of the TRAC team and other specialist commentators. One assesses terrorism trends in advanced markets from 1990 to 2016 through the lens of those re(insuring) terrorism over the period, providing an insight into the shifting nature of the terrorist threat by considering the frequency of attacks, the changes in methodology, and the financial impact of the property damage caused.

We also assess the attack against Sergei and Yulia Skripal, and the coverage gap revealed in its wake, while a further study of the intensified threat posed by extreme right-wing groups examines the implications for the insurance market and counter-terror police. Finally, guest commentator Andrew Silke looks back on the IRA's mainland bombing campaign and the events that led to Pool Re's foundation. Professor Silke is the newly appointed Pool Re and Cranfield's Professor of Terrorism, Risk Management and Resilience.

This latest edition, and previous publications and research projects, can be found at <https://www.poolre.co.uk>

Scheme resilience



Membership benefits

Wide cover

Terrorism damage caused by chemical, biological, radiological or nuclear means is included as standard. From April 2018 we also cover acts of terrorism where a cyber trigger is used.

Dovetails back to back with general cover

As terrorism cover is an exclusion from General Property and Business Interruption policies, our cover sits back-to-back and the language granting terrorism cover is the same as that used to exclude it in the property wording.

Capacity

Our funding agreement with HM Treasury ensures that we do not run out of capacity or are constrained in particular geographical areas. We can accept all eligible risks without financial restriction.

Risk management

Pool Re Members can offer to their policyholders both a vulnerability self-assessment tool and the opportunity to participate in the Government's "Crowded Places" Programme in order to qualify for premium discounts.

First class security

Since its inception, Pool Re has built an investment fund of over £6bn, which when added to the £2bn external retrocession placement, means we can pay exceptionally large claims before calling on HM Treasury. This HM Treasury relationship ensures Pool Re's solvency, and thus our on-going ability to pay claims.

Risk-reflective SME proposition

In April 2018 we have introduced a different rating approach for SME risks to better match the way those products are underwritten. The result is significantly more competitive cover for SME policyholders.

Threat analysis and assessment

Our Terrorism Research and Analysis Centre (TRAC) team monitors and analyses the contemporary terrorist threat landscape. Regular reports are made accessible to Members to improve awareness of, ability to mitigate against, and more confidently price, terrorism perils.

Any authorised insurer is welcome

Membership of Pool Re is open to any authorised insurer. Our membership includes insurance companies, Lloyd's syndicates and captives. It also includes specialist insurers based overseas.

Availability

Pool Re cover is available through any of the Members of Pool Re, who together constitute the vast majority of property insurers in the UK market. Cover can therefore be accessed UK wide from the local market.

Guaranteed acceptance

If the general cover is acceptable to the insurer, terrorism cover automatically follows. Cover cannot, for example, be refused or limited for inner city locations and terms will not change suddenly mid-year or for acquisitions in new areas.

No loadings

We have no "target" risks. Our reinsurance rates are based on geographical location. We do not rate up for businesses or occupations that some see as extra-hazardous.

Claim certainty

Claims are handled by the underlying property insurer within the pre-defined protocols. There is an agreed process for the certification of an event as an act of terrorism, with a binding tribunal process to resolve disputes. This means that, if it is terrorism, Pool Re pays; if it is not, then the claim is covered as a property loss.