

## Pool Reinsurance BIBA Newsletter

Spring 2017



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**Julian Enozi**  
Chief Executive

### Message from the Chief Executive

BIBA has become a vital event in the Pool Re calendar. It gives us invaluable opportunities for face-to-face discussions with our members and stakeholders about ways to further improve the scheme.

Constant improvement is essential: the threat of terrorism remains severe, and the terrorists' methods are evolving.

The despicable Westminster attack was a horrific reminder of both the scale of the risk, and of the terrorists' changing attack methodologies. Against this backdrop, we are working tirelessly to develop our scheme to ensure it continues to provide a robust mechanism for protection of the economy.

Causing property damage is no longer the principal focus of many of today's terrorists though large scale spectaculars remain a threat. However, businesses can sustain significant economic loss in the aftermath of new-style attacks, for example from business interruption or denial of access.

We are working diligently to address this issue with our stakeholders. We are also looking, in collaboration with the Treasury, at ways to expand our cover to include property damage caused by a cyber trigger. As headlines remind us almost daily, cyber-terrorism is fast becoming a grave threat.

The insurance industry has a very important role to play in ensuring the UK's resilience in the face of terrorism. Risk mitigation and improved understanding of the risk plays a key part in preventing

attacks and decreasing their impact. As a result, we have expanded our research capability. Along with the risk models we have developed in partnership with Cranfield University, these fresh initiatives will provide brokers, underwriters, and insureds with new resources to better manage their exposures.

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BIBA is a key focal point for the UK insurance market. It is a forum to debate the important and topical issues affecting our industry, cultivate new business, and catch up with old friends and colleagues. It is also a showcase for new products, and, perhaps most importantly for me, a chance to update contacts and key partners on the many developments in our organisation over the past year.

I am very pleased with the progress we have made in collaboration with our partners, and I invite you to visit our team at the Pool Re stand, E68, to discuss ways we can continue to improve.

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## Unprecedented Events

The terrorist landscape has become increasingly complex. Predicting the future nature and extent of terrorist activity is difficult as previous events may not provide an accurate prediction of the future. For those in the UK insurance industry there are a number of issues which require consideration:

- > As with most other catastrophe perils, a prudent approach is to assume the worst and plan for that. Too many Business Continuity Plans (BCP) assume the event will be an uncomplicated version of a predictable event.
- > Developing CBRN (chemical, biological, radiological and nuclear) attack methods and capabilities in these areas is a priority for terrorists. Many of the materials required for these types of attack are in everyday use in our communities. Assuming that terrorists will not be able to deploy these types of attacks in the future, simply because they have not done so in the past, ignores the lessons of events such as 9/11.
- > Risk management of terrorism is not just about physical barriers. Mitigating the

“people” risk can also sometimes be the most vital element of risk management strategies. Employee vetting and IT security have always been important. However, they have now become pivotal in a world where cyber terrorists, hackers or criminals are trying to access the IT environment. Copies of the Passport to Good Security, issued by the Centre for Protection of National Infrastructure, are available from us or via the CPNI website ([www.cpni.gov.uk](http://www.cpni.gov.uk)).

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- > Property insurance solutions have developed over time. Frequently this has been in response to changes in loss patterns, industrial activity or customer need. For example, Fire and Perils cover changed into ‘All-Risks’ and Business interruption (BI) policies were extended to cover Contingent BI. Terrorism insurance solutions have adapted in recent times, but further work is required to reflect today’s risk landscape.

- > Given the inherent unpredictability of terrorism, one of the most effective ways of protecting against it is by insuring against as much of this risk as possible, and lobbying for such cover to be extended as far as possible.

Recent history suggests terrorism is becoming even more unpredictable. Reinsurance pools across the world were established in part because after the September 11 attacks the global insurance market considered the risk to be effectively uninsurable without state support. This should encourage those who might speculate on what the future holds to take a very cautious approach.

The best protection remains to manage and mitigate the risk as far as is possible and assume the worst in doing so, but also to buy as much insurance cover as is available and, where such cover is felt insufficient, lobby for broader solutions to be developed.

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## Membership Benefits

### 01 Wide cover

Includes damage caused by chemical, biological, radiological and nuclear means as standard, and to the full extent of the underlying sums insured. This is not available elsewhere.

### 02 Availability

Pool Re cover is available from any of the currently active 110 Members of Pool Re. Cover can therefore be accessed UK wide from the local market. Our website carries the list of insurers who are Pool Re Members.

### 03 First class security

Since its inception, Pool Re has built £6bn of its own funds, which when added to the £2bn external retrocession placement means we can pay claims in excess of £8bn before calling on our HM Treasury guarantee. Pool Re’s solvency, and thus its ability to pay claims, is backed by unlimited funding from HM Treasury.

### 04 Capacity

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

### 05 Dovetails back to back with general cover

As terrorism cover is an exclusion from the general Property / BI policy, 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.

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## Nuclear Threat Initiative (NTI)

Pool Re has a unique interest among insurers of property in matters concerning chemical, biological, radiological and nuclear perils, given we cover such eventualities where property insurers do not. These perils would be unprecedented in the UK. They are also poorly understood, with little information available in the public domain. In light of our awareness of various global initiatives around radiological material security, Pool Re is seeking to promote better awareness of these threat vectors and mitigating strategies. The need to develop appropriate risk mitigation has been emphasized by the recent deployment of chemical weapons in Syria.

To highlight the issue of radiological terrorism, Pool Re and the Nuclear Threat Initiative (NTI) held a conference in the first week of April on the risk of radiological terrorism and how this threat could be mitigated. The radiological capability of Daesh and other groups is increasing and so is the risk that one of these groups could deploy a so-called “dirty bomb” or radiological dispersal device (RDD) to irradiate high-value targets. As Lord Browne, former Defence Secretary and vice-chairman of NTI, noted, Belgian

investigators found terrorist cells monitoring an employee of a nuclear reactor that produces isotopes for much of Europe.

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The effects of an RDD are more long-term than a standard explosive device. The impact from the dispersed radiation can also have a severe impact beyond the immediate explosive damage. At the conference, experts from NTI and Cranfield University discussed the potential devastation an RDD could cause, with a variety of scenarios and models, many depending on the expertise of the terrorist cell. Even the most optimistic scenario shows significant business interruption and economic damage, due to the time required for decontamination.

A number of radioactive isotopes could be used to produce an RDD. However, Caesium-137, commonly found in UK

hospital blood irradiation machines, is the most significant threat. A white powder, with a long half-life and highly reactive, Caesium can bind with concrete and other surfaces, making it near-impossible to clear. It is gradually being phased out in France, Japan and Norway. As NTI experts pointed out, the replacement blood irradiators are more effective and cheaper in the long run for hospitals to operate.

Ed Butler, head of risk analysis at Pool Re, ended his speech by stating his belief that we would see weapons of mass destruction – or, in this case, disruption – used in our lifetime. But with conferences such as this, comes awareness of the threat, and perhaps, with awareness, action to mitigate the danger. Bringing together the experts in this field and insurance, an industry that has an inherent interest in mitigating risk, is a positive step for all parties, and we at Pool Re are privileged to have hosted this important event. Pool Re and NTI, the private market and government, all have a role to play in the task ahead. And this conference may just be the first step.

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## 06 Guaranteed acceptance

If the general property 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.

## 07 Any authorised insurer welcome

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

## 08 No loadings

We have no “Target” risks. Our reinsurance rates are based on the general location. We do not rate up for businesses or occupations that some see as extra-hazardous.

## 09 Claims certainty

Claims are handled by the underlying property insurer within a pre-defined protocol. There is an agreed process for the certification of an event as one 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 it is a property loss.

## 10 Discounts for risk management

Discounts are available for agreed risk mitigation measures taken within the Crowded Places Initiative.

## Current Threat Assessment

### Key Judgements

The Joint Terrorism Analysis Centre (JTAC) assesses the threat from international terrorism to the UK to be SEVERE, meaning an attack is “highly likely”. This threat level is one below CRITICAL, the highest possible state, which means an attack is expected “imminently”. MI5 assesses that the threat from Northern Ireland-related terrorism to the UK mainland remains SUBSTANTIAL, meaning an attack is a strong possibility.

The UK threat level remains unchanged after the Westminster attack on 22 March 2017. The methodology of the attack matches the current trend for Islamist extremist lone actors to use vehicles and blades to cause injury in crowded places against the public and target figures of authority, such as police officers.

In March 2017, Mark Rowley (then Assistant Commissioner for Specialist Operations, Britain’s most senior counter-terrorism officer) publicly stated 14 terrorist plots have been disrupted in the UK since June 2013. The main driver of those plots was Islamist extremism, which remains the greatest terrorist threat to the UK.

### Islamist Extremists

Islamic State, also known as Islamic State of Iraq and the Levant (ISIL) (or Daesh as they will be referred to in this report) and Al Qaeda (AQ), its associates and affiliates, represent the key threat actors, both with the intent and capability to inspire and direct attacks of varying levels of complexity and lethality against UK targets.

Both Daesh and AQ have claimed attacks across Europe in recent years. 2016 saw

the highest number of terrorism deaths in Western Europe since 2004 (when the Madrid train bombings left 191 people dead) and the year drew to an end with the attack on the Christmas market in Berlin. Attacks may happen with little or no warning, such as the targeting of pedestrians by an Islamist extremist in a hijacked lorry in Stockholm in April, the knife attack against a soldier guarding the Louvre and the recent shooting of a policeman in Paris.

Likely targets in the UK remain crowded places, national infrastructure such as aviation and other means of transport, as well as institutional targets including the military and police. It is now commonplace for both aspiring attackers and perpetrators to have been in direct contact with extremists overseas, via social media or instant messaging services, or inspired by extremist propaganda online. Much extremist propaganda has recently combined advice to lone actors on how to commit attacks, with endorsement from a group’s senior leadership for them to proceed without any further direction or permission.

### Dissident Republican Groups

The Continuity IRA (CIRA), the New IRA and the Oglagh na hEireann (ONH) all remain active and have retained significant quantities of weapons and explosives. The groups operate mainly on the criminal fringes of Northern Ireland’s society, controlling cross-border smuggling routes and low-level crime. The threat level of Dissident Republican (DR) groups to the UK mainland was raised to SUBSTANTIAL by MI5 in May 2016. This is an indication

of increased intent from dissident republican groups to mount an attack on the mainland, with targets more likely to be high profile individuals, the military and the police.

In February 2017, Ciaran Maxwell, a serving Royal Marine, pleaded guilty to various terrorist offences after the discovery of hidden explosives and hides across Northern Ireland (NI) and in England. The prosecution case stated Maxwell used the cover of being a soldier to aid dissident republican groups opposed to the peace process and power-sharing in Northern Ireland. While the intended targets have not been publicly revealed, the discovery of covert storage sites for explosives on the mainland is a significant indicator of the threat to Great Britain.

Attacks in Northern Ireland remain very frequent, with police and military personnel being targeted in shootings and with IEDs. A number of recent attacks, including the shooting of a police officer, have been claimed by the New IRA.

### Far-Right Extremism in the UK

The UK has seen an increase in far-right extremism in 2016. In June, Thomas Mair, an individual with ties to British nationalist, pro-apartheid and neo-Nazi groups, murdered Jo Cox MP. Mair had purchased manuals from white supremacist groups in America, indicating an international dimension to far-right extremism in the UK. In December, National Action became the first far-right group to be proscribed under the Terrorism Act 2000. Far-right extremism is an ongoing threat to UK community cohesion and national security.

### Forecast

- 1 The international terrorist threat to the UK is unlikely to reduce. Attackers are likely to be inspired by, or affiliated to, Daesh or AQ groups.
- 2 Fighters returning to the UK from Iraq and Syria remain a significant threat.
- 3 Aside from the UK, attacks are likely to continue across Europe with little or no warning.
- 4 Islamist extremists are likely to continue to prioritise France as a target.
- 5 Immigration across mainland Europe is likely to remain a significant factor in attacks.
- 6 Potential Islamist attack methodology within the UK is likely to continue to involve one or two extremists using bladed weapons combined with vehicles against crowded places, iconic sites or high profile individuals.
- 7 Potential DR attack methodology on the UK mainland remains likely to involve small, crude explosive devices targeting police or military personnel.

Pool Re will be issuing two major reports a year reviewing and analysing the threat to the UK. In addition, we produce incident updates and regularly write features on our website. If you would like to receive them, or if you would like more information, then please do contact me directly on [EAB@poolre.co.uk](mailto:EAB@poolre.co.uk).

[www.poolre.co.uk](http://www.poolre.co.uk)