



# Terrorism (re-)insurance market trends - a global perspective

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# Terrorism (re-)insurance

## What has changed since...

### ...2005 (presented in 2010)

- Not much, other than a general market softening combined with an increased risk appetite for terrorism
- These changes are mainly market cycle driven and supported by the absence of any larger terrorism attacks; they are not the result of a fundamental change of the risk landscape or the development of new cover concepts or products
- A few more terrorism pools have been established which is a welcome sign of implementation of best practice solutions

### ...2010

- No change; risk appetite quite strongly linked with price
- No change; none of the noticeable events had a market effect
- No new pools





## Terrorism (re-)insurance On-going modeling challenges

While terrorism modeling has advanced – especially for “conventional” explosion style attacks – it remains highly uncertain due to

- Unknown frequency
- Multiple events  
(several simultaneous or subsequent strikes in more than one country)
- Unusual scenarios difficult to imagine ex ante
- Continuously changing and evolving risk landscape



# Terrorism insurance

## What still needs to be done

- Take-up rates for cover are very low in many countries
  - Risk pool must be further enlarged also to reduce risk of anti-selection
  - Mandatory coverage should be introduced more broadly
- Crystal clear scope of cover not present everywhere (e.g. fire following a nuclear attack in the US)
- Some special cover schemes are very / too complex (TRIPRA)
- Open up coverage schemes to include other (e.g. Life ) or even all lines of business
- Prepare for new types of terrorism (e.g. cyber terrorism)



## Terrorism (re)insurance Some obstacles are here to stay

- Standard EML/PML underwriting concepts do not work well and often a full limits view (TSI) must be applied from a risk management point of view
  - Credible and sustainable terrorism (re)insurance depends on the existence of single event and annual aggregate loss limits
  - Selling many stand-alone single risks covers leads to an inefficient use of capital
  - Pooling at the source with a clearly defined cover cap still appears to be the best solution
- Nuclear, biological and chemical terrorism will remain a niche product due to its outsized loss potential (only a tiny fraction of a large nuclear event can be absorbed by the insurance industry, additionally there is a very significant correlation to financial market risks)



# Terrorism (re-)insurance

## How creative can and shall solutions be?

- Resilience of any new solution is critical
  - Availability and affordability of cover in crisis situations (market disruptions)
  - Which cover can you buy when you most desperately need it?
  
- Capital market solutions remain an option to increase available market capacity provided that there is an intersection between supply and demand
  - Transactional activity has been very low up to now (due a lack of broadly accepted and understood loss triggers)
  - Loss triggers are associated with basis risk and thus need to be carefully assessed by the buyers
  - Stand-alone covers can be quite costly



# Conclusions



## Terrorism insurance Conclusions

- Established best practice solutions as per OECD report from 2005 are still state of the art
- Provide more comprehensive cover and make best use of the scarce capital
- Keep up pressure for continuation of existing pools solution
- Continue efforts to increase take up rates on lines of business included in pool solutions
- Expand existing pool solutions to include other lines of business, preferably all line which have exposure to terrorism



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Thank you





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