Terrorism Risk and Insurance Markets in 2012

OECD Headquarters, Paris, France

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How do we manage terrorist risks?

1. Risk management process
2. Identification, assessment and risk mitigation
3. Financing:
   - Self-Insurance
   - Insurance coverage
4. Other issues
5. Annex
How do we manage terrorist risks?
Risk Management Process

• In our view and despite their special characteristics, terrorist risks should be treated like any other risks which can affect our assets and activities.
• Therefore, Risk Management Process should equally apply to these risks:

   - Identification
   - Assessment
   - Action Plans
     - Risk Mitigation
       - Prevention / Protection
     - Internal Financing
       - Retention / Self-Insurance
     - External Financing
       - Transfer / Insurance Program
How do we manage terrorist risks?

Identification, Assessment and Risk Mitigation

- This is carried out in co-operation with our Corporate Security Department.
- The activity of the Corporate Security Department is focused on the “PROTECTION of people, interests, assets and company’s knowledge of INTERNAL and EXTERNAL aggressions by adopting preventive and relevant reactive measures as well as promoting a security awareness culture”.

SECURITY THREATS

- Burglary, theft of personal property
- Theft of property on Project sites
- Protests
- Missing persons
- Extortion
- Personal assault
- Fraud
- Theft of Information
- Sabotage
- Blockage of sea ways
- Blockage of sites
- Lock out and Strikes
- Piracy
- Kidnap
- Bomb threats
- Armed attack
- Bomb Attacks

INFORMATION

- Embassies, local authorities
- Security Agencies, other oil companies,
- Travel Tracker System, Country Risk Forecast

PERSONNEL

- Corporate Security Managers / Security Advisors
- Private security
- Armed Forces

PROCEDURES

- Corporate Security Policy
- Security Plans Buildings & Facilities
- Evacuation General Plan for Expatriates
- Procedure against blockage of sites
- Procedure against bomb threat
- Crisis Management Plan
- Offshore Platform Security Plan
How do we manage terrorist risks?
Identification, Assessment and Risk Mitigation

- On other hand and in order to help us to assess the potential exposures in key sites, we are carrying out some **specialist analysis**.

- These analysis allow us to determine the PML (Probable Maximum Loss) for the most **probable scenarios** and enables us to define the level of coverage needed.

The Estimated Maximum Loss (EML) is based on the operational failure of existing safety equipment or existing security measures. The EML is 
and 24 months of production loss. The estimate does not include the cost to clean up spillage or VCE. This cost estimate is based on the Most Dangerous Attack Scenario that a 1000 – 4000 lb VBIED would be infiltrated into the facility and placed at the foundation of the

- The reports also include enhancements and recommendations:

There is a necessity for perimeter lighting and CCTV cameras that can be **used to view** the exterior, interior and buffer zones of the perimeter walls, which **need to be monitored** by security personnel. At this time, unauthorized personnel can **loiter outside** of the wall.
How do we manage terrorist risks?

Financing: self-insurance / Insurance coverage

- Despite all these measures, there are still some risks which can not be minimised and that need to be protected.
- Again, financing of the terrorist risks is not essentially different from any other risks to which we are exposed but for the existence of a number of public organisations which deal with these risks in some of countries (see Annex).

<table>
<thead>
<tr>
<th>TOTAL VALUES</th>
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<tbody>
<tr>
<td>INSURED LIMIT</td>
</tr>
<tr>
<td>ESTIMATED MAXIMUM LOSS (EML)</td>
</tr>
<tr>
<td>INSURANCE AREA</td>
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<tr>
<td>DECISION LINE</td>
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<td>SELF-INSURANCE</td>
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</table>

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How do we manage terrorist risks?

Financing: self-insurance / Insurance coverage

- Therefore insurance protection, once defined in accordance with previous methodology, results from a combination of:
  - Public schemes: in our case, being the main one the “Consorcio de Compensación de Seguros” for our assets in Spain.
  - Commercial Market: through placements with specialised markets mainly in the London market.
  - Mutualisation: OIL Insurance company.
- In our experience, coverage through the Consorcio (but for natural perils as well) has proven to be positive for a number of reasons:
  - Stability: coverages and rates are predictable even after some losses.
  - Extent of coverage: at least as broad as you can get in the market, particularly after extending coverage to Business Interruption.
  - Synergies with other placements: nowadays, commercial markets being concerned to control accumulations. Consorcio allows these markets to consider Spanish operations as free of catastrophic exposures.
How do we manage terrorist risks?
Financing: self-insurance / Insurance coverage

- Regarding **market coverage**, Terrorism market has been brought into focus again during 2011 and 2012 due to the so-called “Arab Spring”.

- The difference between these events and those of 9/11 is that while 9/11 was clearly a terrorist event, the Arab Spring could not be classified as such.

- On the other hand, the traditional property (all risk) market has tried to **reduce its exposure to these kind of risks** which they struggle to quantify due to their unpredictable nature (SRCC). However, **Offshore market maintains coverage** through a buy-back (End 42b)

- The **Terrorism market** has stepped in to **provide broader coverage**, moving away from the standard terrorism (T3/T3a) wording to its successor LMA 3030 (the Lloyd’s Terrorism and **Sabotage Only Form**).
How do we manage terrorist risks?
Financing: self-insurance / Insurance coverage

• On a further step, market is willing to offer coverage for strikes, riots and civil commotions (SRCC), malicious damage; insurrection, revolution and rebellion; coup d’état and mutiny and war and civil war: Political Violence coverage.

• As far as capacity is concerned and as mentioned before, the “All Risk” market is trying to reduce their exposure to SRCC in some territories, either in the form of sub-limits or by imposing exclusions.

• Terrorism capacity remains static in the stand-alone market currently estimated at USD 1,75 bn (working capacity much lower).

• Political Violence capacity is more restricted compared with previous years, particularly in the regions / countries which have experienced political unrest with some insurers reviewing their appetite to continue to underwrite business in certain territories.

• Some extensions in coverage such as contingent business interruption and denial of access remain available, but subject to detailed information and the imposition of tight sub-limits.
How do we manage terrorist risks?
Financing: self-insurance / Insurance coverage

• Finally and as far as coverage through our participation in Mutual Insurance Companies, we currently participate in OIL.
• OIL is a company that was formed in 1972 by 16 energy companies (currently more than 50) in response to two large industry accidents.
• Terrorism coverage is provided up to the maximum limit of $300 million (excess of applicable deductibles) with no separate premium charge; coverage is not terrorism specific but it is not excluded.

Example of Terrorism reinsurance structure combining market and OIL
How do we manage terrorist risks?

Other issues to consider

• Along 2011 and 2012, interest has continued to rise on “other” Terrorism products such as:
  • **Terrorism Liability**: which covers public liability for third party bodily injury, physical damage, debris removal and pollution clean up, defence costs (T3L).
  • **Employers Liability** (T3EL).
  • **Nuclear** (NCBR).
• Does, therefore, a liability policy silent on terrorism exclusion provide coverage for these liabilities?
• What about terrorism exclusions for life and accident policies (even some Public schemes exclude them).
• **Cyber risks**: indeed, the Central Intelligence Agency has described cyber terrorism as the battleground in the future. Specific coverages are being developed for this kind of threats.
How do we manage terrorist risks?
Other issues to consider

- **Sanctions clause**: in the last three years, the imposition of such clauses have been generalised in the insurance market. This, however, creates a lot of uncertainties about the coverage in place in case of the application of new sanctions mid-term (case of Libya).

In summary, **social – political risks are of increasing importance** for companies like us due to the current changes in the world and, in particular, in the countries were we develop our activities.

The **use of Risk Management techniques** to these risks and the adequate transfer of those risks that can not be eliminated **through combinations of retention, public and private insurance schemes**, seem to be the way to move forward.
How do we manage terrorist risks?

<table>
<thead>
<tr>
<th>Country</th>
<th>Compulsory Pool (Y/N)</th>
<th>Names of Terror Pool or Reinsurance Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>N</td>
<td>Australian Reinsurance Pool Corporation (ARPC)</td>
</tr>
<tr>
<td>Austria</td>
<td>N</td>
<td>Österreichischer Versicherungspool zur Deckung von Terrorisiken (The Austrian Terrorpool)</td>
</tr>
<tr>
<td>Bahrain</td>
<td>N</td>
<td>The Arab War Risks Insurance Syndicate (AWRIS)</td>
</tr>
<tr>
<td>Belgium</td>
<td>N</td>
<td>Terrorism Reinsurance &amp; Insurance Pool (TRIP)</td>
</tr>
<tr>
<td>Denmark</td>
<td>N</td>
<td>Danish Terrorism Insurance Scheme</td>
</tr>
<tr>
<td>Finland</td>
<td>N</td>
<td>Finnish Terrorism Pool</td>
</tr>
<tr>
<td>France</td>
<td>Y</td>
<td>Gestion de l’Assurance et de la Réassurance des Risques d’Attentats et Terrorisme (GAREAT)</td>
</tr>
<tr>
<td>Germany</td>
<td>N</td>
<td>EXTREMUS Versicherungs-AG</td>
</tr>
<tr>
<td>Hong Kong - China</td>
<td>N</td>
<td>The Motor Insurance Bureau (MIB)</td>
</tr>
<tr>
<td>India</td>
<td>N</td>
<td>The General Insurance Corporation of India</td>
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<tr>
<td>Indonesia</td>
<td>N</td>
<td>Indonesian Terrorism Insurance Pool</td>
</tr>
<tr>
<td>Israel</td>
<td>Y</td>
<td>Terrorism (Intifada Risks) - The Victims of Hostile Actions (Pensions) Law and The Property Tax and Compensation Fund Law</td>
</tr>
<tr>
<td>Namibia</td>
<td>N</td>
<td>Namibia Special Risks Insurance Association (NASRIA)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>N</td>
<td>Nederlandse Herverzekeringsmaatschappij voor Terrorismschaden (NHT)</td>
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<tr>
<td>Northern Ireland</td>
<td>N</td>
<td>Criminal Damage Compensation Scheme Northern Ireland</td>
</tr>
<tr>
<td>Russia</td>
<td>N</td>
<td>Russian Anti-terrorism Insurance Pool (RATIP)</td>
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<tr>
<td>South Africa</td>
<td>N</td>
<td>South African Special Risks Insurance Association (SASRIA)</td>
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<tr>
<td>Spain</td>
<td>Y</td>
<td>Consorcio de Compensación de Seguros (CCS)</td>
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<tr>
<td>Sri Lanka</td>
<td>N</td>
<td>SRCC/Terrorism Fund – Government</td>
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<tr>
<td>Switzerland</td>
<td>N</td>
<td>Terrorism Reinsurance Facility</td>
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<td>Taiwan</td>
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<td>Taiwan Terrorism Insurance Pool</td>
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<tr>
<td>United Kingdom</td>
<td>N</td>
<td>Pool Reinsurance Company Limited (Pool Re)</td>
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<tr>
<td>United States</td>
<td>N</td>
<td>Terrorism Risk Insurance Reauthorization Act of 2007 (TRIPRA)</td>
</tr>
</tbody>
</table>

SOURCE: GUY CARPENTER & COMPANY, LLC.