Terrorism Risk and Insurance Markets in 2012

OECD Headquarters, Paris, France

December 2012

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How do we manage terrorist risks?

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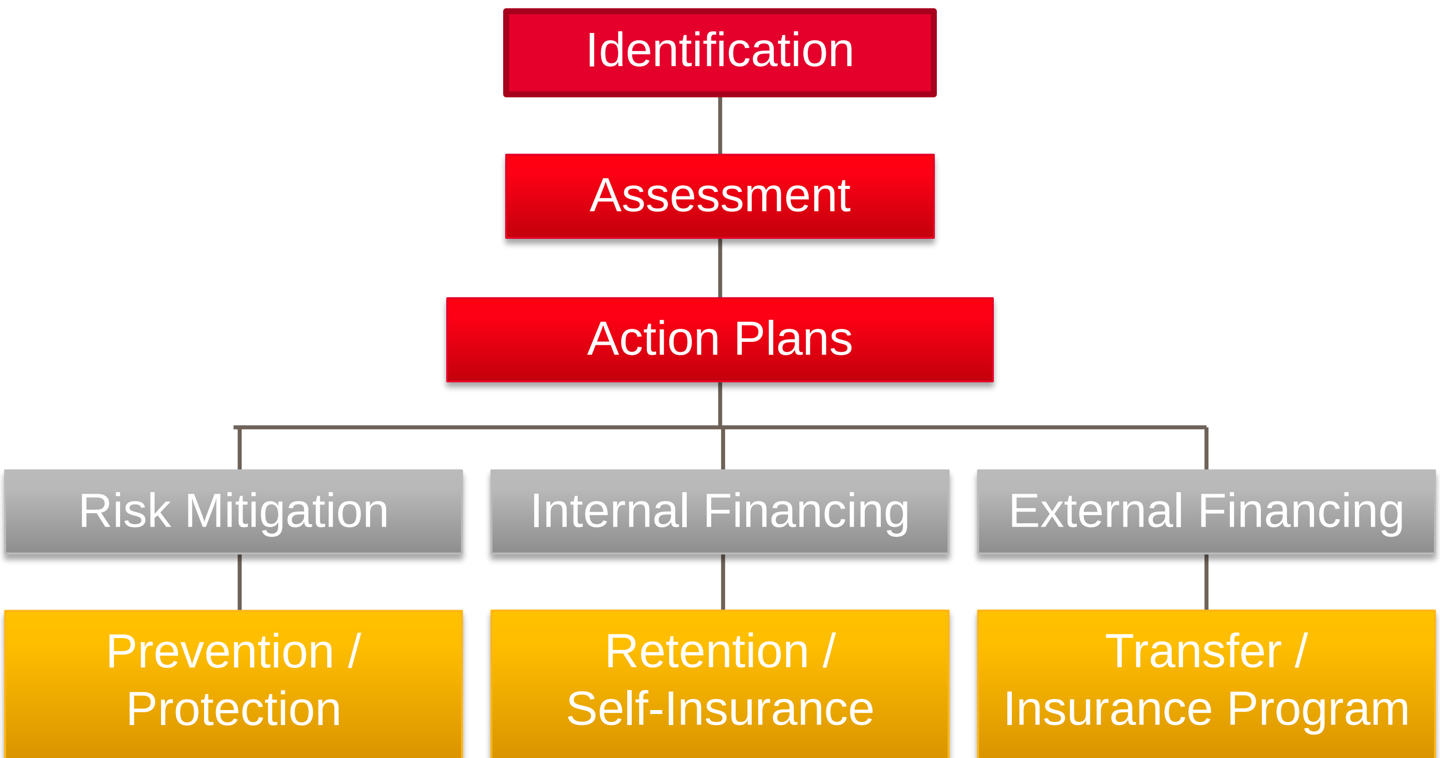
Risk Management Process

- 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:



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

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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

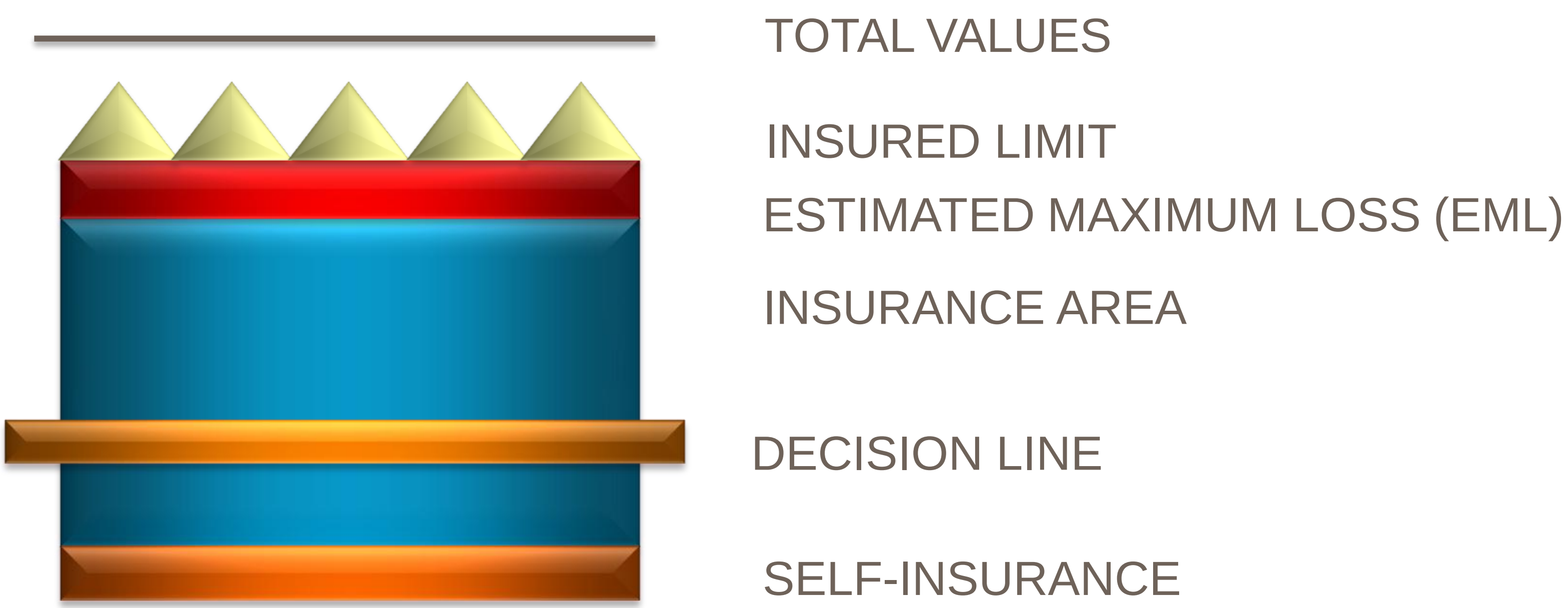
- The reports also include enhancements and recommendations:

> 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).



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?

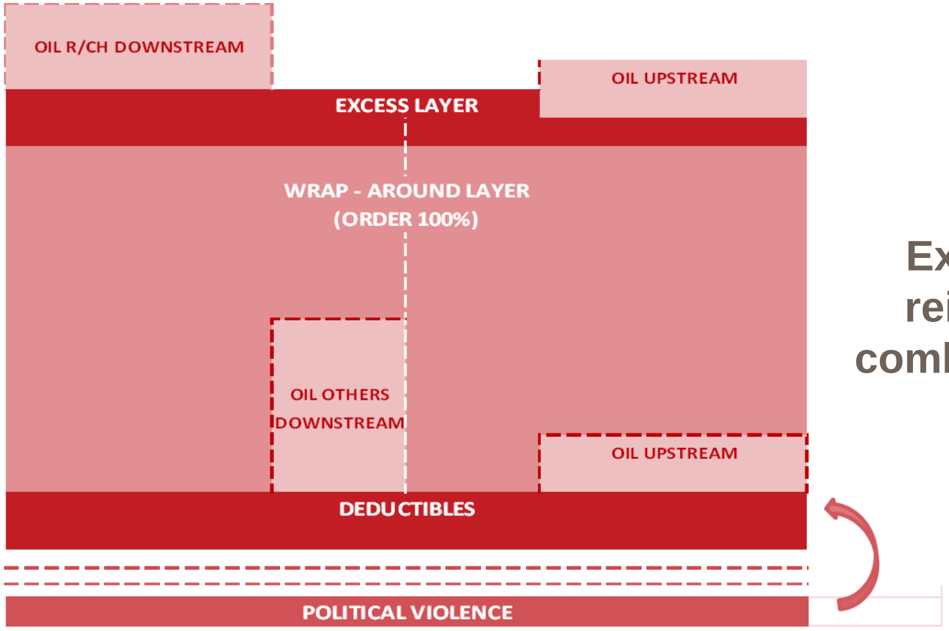
Financing: self-insurance / Insurance coverage

- 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.

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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 **transfe**r 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.**

GRACIAS

ANNEX

How do we manage terrorist risks?

T2 COUNTRIES OPERATING COMPULSORY OR OPTIONAL TERRORISM POOLS

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

SOURCE: GUY CARPENTER & COMPANY, LLC.