



OECD Conference – Terrorism Insurance 2010

The rationale for creating terrorism pools today

EXPERIENCE FROM BELGIUM

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▪ BELGIUM – Facts & Figures

- Inhabitants : 10.4 million
- Area : 30,500 km²
- Average population density : 341 / km²
- GDP / inhabitant : \$37,500
- Total premium income 2009 (est.) : €27.8 billion
- International organisations :
 - ❖ European Union Institutions (Brussels)
 - ❖ NATO HQ (Brussels)
 - ❖ Shape (Mons)



■ Rationale

- Terrorist attacks : Twin towers New York 9/11/2001 – Trains Madrid 3/11/2004 – Metro & bus station London 7/7/2005
- Terrorism risk is world-wide
- Reaction of reinsurers → no unlimited cover anymore
- Belgium potential target
 - ❖ International institutions
 - ❖ Port of Antwerp
 - ❖ High density population
- Solutions set up in other European countries (The Netherlands – France – Germany – Spain – Austria – UK – etc.)

- Belgian solution → Terrorism Insurance Act of 1 April 2007

- Main objectives of the law :
 1. To protect the insureds against the damages caused by terrorism acts → to compensate (totally / partially), in a timely manner, all insured persons.
 2. To guarantee the stability and sustainability of the insurance industry.
 3. To allow for the creation of a compensation system (=TRIP) to work out the solidarity system set up by the law



- TRIP (Terrorism Reinsurance & Insurance Pool)
est. 1 February 2008 (= non profit association)

- Main objectives of TRIP :
 - ❖ To compensate participating insurers for the financial effects of damages caused by acts of terrorism pursuant to the Terrorism Insurance Act
 - ❖ To underwrite reinsurance cover on behalf of its members
 - ❖ To collect information on damages caused by terrorism

- Main characteristics of the Belgian system

(Act 1 April 2007 & TRIP Pool 1 February 2008)

- Partnership between State, Insurance and Reinsurance sectors
- Broad definition of terrorism → the Terrorism Advisory Committee is to determine whether an event falls under the definition of terrorism contained in the law
- Act applies to all Belgian risks
- All insurance classes (for individuals and enterprises) are covered by the law (only few exceptions)



- Annual cover is limited to €1 billion indexed (2010 : 1,078 m)

- 3 levels / layers :
 - ❖ Insurance companies : retention €300 million
 - ❖ Reinsurance : €478 million xs 300 million (full indexation on 2nd layer)
 - ❖ State : €300 million xs 778 million (unchanged since 2007)

- Only TRIP members benefit from the compensation system (over 90% of the insurance market – domestic Cies & FOS)



- Some particularities of the system
- Compulsory coverages → Mass risks (TPLM – Property – Casualty - Workmen’s compensation – Life assurance – Health)
- Optional coverages (but exclusions must explicitly be excluded) → e.g. Industrial property – Motor comprehensive – Assistance – Legal Protection insurance
- Exclusions → TPL Nuclear energy – Damages to nuclear facilities – Railway rolling stock, aircraft and ships – TPL in connection with such vehicles – risks related to ocean hull - specific terrorism insurance policies



- Nuclear risks = damage caused by nuclear bombs = covered unless explicitly excluded from the coverage

- Bacteriological and Chemical risks = covered

- Deductibles
 - of 10% for Industrial Property
 - of 10% for Nuclear bomb risks (excepted compulsory insurance classes)



- Limit per location (building +content) : €75m per policyholder, per year
- Workmen's compensation insurance : limit of €1 billion not applicable → full 100% compensation (recourse of the insurers to the Workmen's Compensation Fund)



- Members contributions to cover TRIP budget :
 - Cost of reinsurance
 - Operating expenses of TRIP

- Calculation of members contributions :
 - On total GWP of ALL insurance classes (exception = risks excluded by the Terrorism Insurance Act)
 - Proportional to premium market share in TRIP (corrected for life assurance business)



- Claims 2008 & 2009 ?

- 26/11/2008 – Terrorist attack in Mumbai-India → claim : 1 Belgian died
- 2009 – no claims

- Placement ?

- Successful placement with diversified panel of reinsurers at favourable terms
- Extra capacity



- Future challenges ?

- Draft bill → extension of the scheme to IORPs
- Secure continuity of cover (capacity)
- Limited State guarantee in Belgium



■ CONCLUSION

- The Belgian system makes possible the insurance and reinsurance of terrorism risks reducing simultaneously the economic vulnerability of our country faced with the terrorist threat by ensuring the stability of the insurance industry and granting adequate coverage to the insured persons.
- The system is based on insurance → it disregards those victims who have no insurance contract. These victims are forced to appeal to the Compensation Fund for Intentional Acts of Violence.