Terrorism
Commercial reinsurance:
Market trends, future prospects and alternatives

Terrorism reinsurance
A threat or an opportunity?
Terrorism (re)insurance
What has changed since 2005?

- 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

Terrorism insurance
Take up rates are low
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
  (eg Fire following a nuclear attack in the US)

- Some special cover schemes are very / too complex (TRIPRA)
Terrorism insurance Modelling challenges

While terrorism modelling 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 (re)insurance Some insurmountable obstacles

- Standard EM/L/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 a totally inefficient use of capital
  - Pooling at the source with a clearly defined cover cap is by far the most superior solution

- Nuclear, biological and chemical terrorism will remain a niche product due to its outsized loss potential (only a tiny fraction of a large event is insurable, additionally there is a very significant correlation to financial market risks)
Terrorism (re)insurance

New solutions?

Terrorism 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 a viable option to increase available market capacity provided that there is an intersection between supply and demand
  - Transactional activity has been rather low up to now
  - Loss triggers are associated with basis risk and thus need to be carefully assessed by the buyers
  - Stand-alone covers can be quite costly
Terrorism insurance
Conclusions

→ Established best practice solutions as per OECD report from 2005 are still state of the art

→ We now have to drive their implementation on a global scale and possibly expand the risk pool (number of covered risks, as many Lines of Business as possible) to provide more comprehensive cover and make best use of the scarce capital
Thank you