PAC/COM/PUB(2005)11
Paris, 5 July 2005

OECD countries warn of continuing shortfalls in insurance coverage against terrorism

Nearly four years after the September 11 terrorist acts that hit the US - the most costly disaster ever for the insurance industry - conditions on terrorism insurance markets have improved. Yet according to a new OECD report, there are continuing shortfalls in coverage, which could be revealed by another large-scale attack.

Terrorism Risk Insurance in OECD Countries examines market evolutions since 2001, as well as industry and government initiatives to address the challenge of modern terrorism compensation. One of its main conclusions is that private markets are not yet able to fully cover the extremely large losses that could result from terrorist acts in the future.

**OECD countries have agreed on a number of conclusions and policy options:**

- Years after the 9/11 events, terrorism remains a major challenge for the insurance world; because it is highly, and increasingly, unpredictable, it is still more difficult to cover than other catastrophic risks;
- Terrorism risk modelling, though it has improved, falls short of making the likelihood of future attacks more predictable; also, it is very subjective and less reliable than the modelling of other large risks;
- Financial markets may in the future provide additional capacity; but they have so far shown little appetite for terrorism risk and are not expected to increase market capacity substantially in the short term;
- OECD member countries should rely, as far as possible, on private sector solutions to cover terrorism risks; however, government intervention may be needed to increase - or maintain - terrorism insurance availability at an affordable price, where private markets lack capacity;
- Changes in the tax and accounting environment may be considered to reduce the cost to the insurer of building up reserves to cover expected future catastrophe losses and to promote the development of alternative risk transfers;
- Public-private partnerships - as established in Australia, France, Germany, the Netherlands, Spain, the United Kingdom and the United States - and a layered approach to terrorism risk coverage – e.g. between insured, insurers, reinsurers, a co/reinsurance pool, and the government in last resort – can help stabilize terrorism insurance markets after large-scale (or frequent) attacks.

**The publication also draws attention to major pending concerns:**

- Terrorism insurance take-up rates remain low in various countries (end of 2004, only about half of companies were insured in the U.S., while less than 3% of eligible firms have contracted with the German compensation scheme). Under these circumstances, the economic and social impact of a new large-scale attack could be greater than in 2001. OECD countries concerned should develop risk awareness and could consider incentives to extend coverage and increase the financial capacity of terrorism risk compensation mechanisms.
• Chemical, biological, radiological and nuclear terrorism risks (CBRN) are generally excluded from insurance coverage and are not always fully covered through existing government-backed insurance schemes. Governments should work with the insurance industry to find sustainable solutions for coverage.

• Estimates on maximum losses resulting from a single terrorist attack range from USD50Bn to USD250Bn. The losses associated with very large-scale terrorist attacks can remain beyond the capability of the private insurance and reinsurance industry to price and to absorb alone.

• Mega terrorism may even result, in some countries, in losses exceeding the joint compensation capacity of private markets and governments to compensate for them without threatening national economic stability. *Ex ante* cooperation between interested countries may thus be considered in the future.

For a copy of *Terrorism Risk Insurance in OECD Countries*, journalists are invited to contact the OECD’s Media Relations Division (tel. +33 1 45 24 97 00).

For further information, please contact Cécile Vignial of the OECD’s Financial Affairs Division (tel. +33 1 45 24 78 48).