



UNITED KINGDOM — TERRORISM RISK INSURANCE PROGRAMME

Name of programme	Pool Reinsurance Company Ltd. (Pool Re)
Date of establishment	1993
Basic structure	Pool Re is a mutual reinsurance company authorized to transact reinsurance business. The scheme covers losses resulting from an Act of Terrorism, as defined in the enabling Act of Parliament, the <i>Reinsurance (Acts of Terrorism) Act 1993</i> . Pool Re’s Retrocession Agreement with HM Treasury provides funding in the event that it exhausts all its financial resources following claim payments.

Pool Reinsurance Company Ltd. (Pool Re)

Background to the Scheme

The Pool Re scheme was established in 1993, nearly a decade before 9/11 in response to restrictions in the scope of terrorism reinsurance cover available to the UK commercial property insurance market.

The restrictions in cover that led to the establishment of Pool Re in 1993 followed the spate of terrorism incidents in London and elsewhere in England, related to the situation in Northern Ireland at that time. Under the scheme the UK government agreed to enter into an agreement with Pool Re to make funds available to pay claims should the assets accumulated by Pool Re become exhausted.

Between 1993 and 2012 Pool Re funded losses consequent upon acts of terrorism, by contributing a total of £625M on claims arising under its Members’ policies, the most significant incidents being:

Date	Event	Pool Re Paid
April 1993	Bishopsgate, City of London	£262 million
February 1996	London Docklands	£107 million
June 1996	Manchester City Centre	£234 million
August 2001	Ealing, West London	£7 million
1993 to 2001	Other Events	£2 million
July 2005	London Transport – 7/7	£12 million



The OECD International Platform on Terrorism Risk Insurance shares information and identifies good practices on terrorism risk financing to contribute to more rapid economic recovery in the event of attacks.



This country profile is regularly updated. It is the product of joint work between national terrorism insurance schemes, the OECD and the World Forum of Catastrophe Programmes.

www.oecd.org/daf/fin/insurance/terrorism-risk-insurance.htm



At the time of September 11, Pool Re's scope was limited to losses arising as a result of damage to property resulting in fire and explosion and consequential loss, the proximate cause of which was an Act of Terrorism. It provided cover for terrorism as defined by the *Reinsurance (Acts of Terrorism) Act 1993*; one of the explicit purposes of this Act was to give a definition of terrorism for insurance purposes. At the time of September 11, while Pool Re limited itself to property damage and business interruption losses arising from fire and explosion, coverage for other terrorism events was not excluded by UK insurers as they were still able to secure protection in the reinsurance market for such losses.

Following the attacks on September 11, substantial changes took place in the reinsurance market with regard to coverage for terrorism. Before September 11, insurers did not face a gap between the reinsurance cover available from Pool Re and the cover available from the commercial market. After September 11 reinsurers took the view that they were no longer in a position to continue to provide cover to the same extent, they accordingly applied exclusions in respect of damage caused by perils other than fire and explosion and also they applied to their exclusions a wider definition of what constituted an act of terrorism.

Given this change it was recognised that steps would need to be considered to extend the scope of Pool Re to cover a fuller range of property damage and consequential loss perils traditionally provided in the market. There was also concern, that the range of terrorist weapons was potentially far wider than previously envisaged. An obvious example was nuclear, chemical or biological attack, or terrorist access to material to make a 'dirty bomb'.

As a result of discussions towards the end of 2001 the UK Treasury announced its willingness to enter into discussions with the insurance industry, Pool Re and other interested parties to review the operation of the Pool Re scheme. In July 2002 announcements were made on the agreements reached to widen the cover to an 'All Risks' basis, and amend certain other essential features of a scheme in a way which responded to the changes which had taken place and the needs of the UK insurance market. While there is still a potential gap between the terrorism cover offered by the scheme and the broad exclusions which sometimes appear in Members' reinsurance arrangements, many reinsurance programmes do provide back-to-back cover.

During 2014 Pool Re considered future shape and strategy and also entered into discussions with the UK Government around the premium they required for the unlimited guarantee. These discussions culminated in a renewed undertaking by the Government to continue to support the scheme in return for an increased premium. Government also agreed to support Pool Re's modernisation initiative which included revisions to pricing and the purchase of external retrocession.

Definitions

The issue of a certificate by the UK Treasury (or, if refused, then by a decision of a Tribunal) is required for an act to be recognised as an act of terrorism for the purpose of the Pool Re scheme, under the *Reinsurance (Acts of Terrorism) Act 1993*. The Act defines acts of terrorism as "acts of persons acting on behalf of, or in connection with, any organisation which carries out activities directed towards the overthrowing or influencing, by force or violence, of Her Majesty's government in the United Kingdom or any other government *de jure* or *de facto*."



Operation, Extent, Lines Covered & Perils Covered

Pool Re is a mutual reinsurance company. Membership is not obligatory, but any insurance company or Lloyd's syndicate that is authorised either by the UK or an overseas regulatory authority to transact property insurance in the UK is eligible to be a member. Direct insurers that are members are obliged to provide terrorism cover, in the terms of the scheme, to those policyholders that request such cover. Reinsurance is provided to Members for material damage and business interruption cover, at rates stipulated in an Underwriting Manual supplied to each Member. The material damage rates are related to geographic zones by postcode within the United Kingdom; in broad terms these are grouped in Central and Inner London, other city centres, and the rest of England together with Scotland and Wales. There is a single rate for business interruption, which is not allocated to particular zones. Rates are applied to the full value at risk.

Members are free to set their own terrorism premiums for their underlying policies, according to normal commercial arrangements. Premiums are paid to members by policyholders, and members must remit the corresponding reinsurance premium to Pool Re within one month of the close of the quarter in which those terrorism risks had attached. No reinsurance commission is paid to Members by Pool Re. However Members decide to pay whatever intermediary commission they may determine.

Under the current arrangements it is important for Pool Re to have detailed information on the exposure carried by Members, and by the scheme overall. Each year Members are requested to submit up-to-date details of portfolio exposure data, incorporating location information by postcode and size of exposure for the risks included.

The Underwriting Manual is an extension of the Reinsurance Agreement and it is a condition that Members comply with it in every respect. Original Insured's are not permitted to select which properties are insured for terrorism cover. Their choice is to select to have terrorism cover either for all of their properties or none at all. It is permissible for an insured purchasing terrorism cover for material damage to elect not to do so for business interruption.

Due to the unique nature of the scheme great importance is placed on the detail of its Members' compliance. It is obviously critical that funds flowing into the pool reflect the outcome of the application of the rating structure to risk exposure at any point in time. Accordingly, Pool Re reviews Members' underwriting and accounting practices in relation to the scheme. Similarly, a pro-active approach is taken regarding claims management, with a review process which considers Members' claims and contingency procedures. These include both technical response and administrative control, in anticipation of major terrorist incidents, should these occur at any time in future.

The territorial scope of the reinsurance cover is limited to England, Wales and Scotland excluding the territorial seas. The scheme does not extend to the Channel Islands or the Isle of Man. Should a Member offer wider territorial cover, the cover for other territories would not be protected under the Reinsurance Agreement.

The aim of the arrangement is to ensure that original insured's have cover available under policies issued by Members for Acts of Terrorism to the full extent of their policy limits. The categories of cover ("Heads of Cover") under original contracts of direct insurance that are eligible for reinsurance under the scheme are:

1. Buildings and completed structures



2. Other property (including contents, engineering, contractors and computers)
3. Business interruption
4. Book debts

Cover provided by Pool Re to its Members is no longer restricted to Acts of Terrorism resulting in fire and/or explosion only, and is offered on an “all risks” basis, including chemical, biological, radiological or nuclear attack. Hence there is the facility for individual policyholders to attach terrorism cover to their general policy, which may be wider than the general cover.

Exclusions

The only losses now excluded under the Pool Re scheme is those in respect of war and related perils and computer hacking, virus and denial of service attack.

The scheme does not cover damage to nuclear installations or reactors as these fall within the remit of a separate scheme (Pool Re Nuclear).

The scheme does not provide reinsurance for Marine, Aviation or Transit policies, Motor (auto) policies, or Reinsurance business.

State Involvement & Layers of Cover

Pool Re functions as a mutual reinsurance company authorized to transact reinsurance business for Property and Business Interruption and related classes, including residential property in commercial ownership (but not household property in the ownership of individuals). The scheme covers Property and associated Business Interruption losses resulting from an Act of Terrorism, as defined in the enabling Act of Parliament, the *Reinsurance (Acts of Terrorism) Act 1993*.

Pool Re’s Retrocession Agreement with HM Treasury provides funding for Pool Re in the event that it exhausts all its financial resources following claim payments. Pool Re is required to pay a premium for this protection to the Treasury. Any amounts claimed by Pool Re under the Retrocession Agreement have to be subsequently repaid to the Treasury.

Under the arrangements, the government (HM Treasury) undertakes to issue a certificate whenever a particular event is deemed to be an Act of Terrorism although there is a facility to refer to an independent tribunal in cases of dispute over the certification of a particular event as an Act of Terrorism. The tribunal’s decision is binding on all parties. Pool Re responds to claims only where such a certificate has been issued.

Under the Pool Re scheme, the reinsurance cover provided to Members is subject to a maximum loss retention per event per member (or members forming part of a Group) combined with an annual aggregate limit. The amounts of the retentions are based on the extent of Members’ participation in the Pool Re scheme. The retention for each insurer is set annually, as a proportion of an industry-wide figure and advised to Members before the start of the relevant underwriting year. The industry wide figures have remained unaltered since 2006. They are currently £100m for calculating the per event retention and £200m for calculating the annual aggregate retention, subject to minimum retentions per member of £100,000 and £200,000 respectively net of any premiums paid by Pool Re since inception of the scheme.



Non-State Reinsurance/Retrocession

Until 2015 Pool Re had never transferred risk into the reinsurance market. This changed on 1st March 2015 when Pool Re bought a single layer of retrocession, £1.8bn excess of £500m, from the external market. This layer was secured on a 3 year basis and cover is back to back with that provided by the scheme.

Extent of Compulsion & Choice

Terrorism Insurance: terrorism cover was not compulsory before September 11 and remains optional. But under the Pool Re scheme, original insured's is not permitted to select which properties are insured for Terrorism Cover. Their choice is to select to have Terrorism Cover either for all of their properties or none at all. An insured purchasing terrorism cover for material damage may elect not to do so for Business Interruption.

Pool Membership: membership of Pool Re is not compulsory and insurers may choose whether to join the scheme or not.

Period of Operation

Originally in operation in its present form since 1993, Pool Re's current scope of terrorism cover has been offered since July 2002. There is no terminal date, but the steady increase in Pool Re's reserves (which are in the ownership of the Members) during the operation of the scheme has gradually reduced the state's potential exposure.

Main features

Layers of coverage	<p>Five layers:</p> <ul style="list-style-type: none"> • First – industry retention amounts (see below) • Second – Retention under retrocession (funded by Pool Re reserves) • Third – External Retrocession layer • Fourth – Pool Re reserves • Fifth – UK government indemnity up to 100% of claims.
Limitation of exposure of private sector	<p>Industry-wide retentions:</p> <p>Individual insurers' retentions are calculated as a proportion of industry wide aggregate figures, based on the individual insurer's market share. The industry figures on which the calculation is based are GBP100 million per event and GBP 200 million in the annual aggregate.</p>
Temporary /permanent government participation	No terminal date, but subject to periodic assessment.
Gratuity of government coverage	No. Government receives premium for coverage under the scheme.
Voluntary / mandatory	Membership of Pool Re is not obligatory.



	<p>Direct insurers that are members are required to provide terrorism cover, in the terms of the scheme, to those policyholders that request it.</p> <p>Although coverage is not mandatory, insured's are not permitted to select which properties to insure against terrorism risk. Their choice is to select to have terrorism cover either for all of their properties or none at all. An insured purchasing terrorism cover for material damage may elect not to do so for business interruption.</p>
Minimum sum insured	No.
Coverage of CBRN terrorist attacks	Yes (since 2003).
Lines covered	<p>Losses resulting from damage to commercial property and consequent business interruption on an all risks basis.</p> <p>Still excluded: war and related perils, computer hacking, virus and denial of service. Damage to nuclear installations & reactors covered by separate Pool Re Nuclear scheme.</p>
Pricing mechanism	<p>Reinsurance is provided to members at rates stipulated in the Underwriting Manual.</p> <p>The material damage rates are related to geographic zones by postcode within the United Kingdom; in broad terms these are grouped in Central and Inner London, other city centres, and the rest of England together with Scotland and Wales.</p> <p>There is a single rate for business interruption, which is not allocated to particular zones.</p> <p>Rates are applied to the full value at risk. Members are free to set the premia for their underlying policies.</p>
Other public sector victims compensation schemes	<p>Criminal Injuries Compensation Scheme administered by the Criminal Injuries Compensation Authority (CICA).</p> <p>Criminal Damage (Compensation) (Northern Ireland) Order 197 (SI n.1247 -N.I. 14).</p>