

Achieving business resilience in a volatile political environment through Terrorism and Political Violence insurance

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Terrorism has become a global phenomenon; although particularly highly concentrated in a few countries, it is spreading to more. In 2014, the number of countries that suffered terrorist attacks had risen to more than ninety three. This includes OECD countries such as Austria, Australia, Belgium, Canada and France which experienced high profile terrorist attacks according to the 3rd edition of the Global Terrorism Index (GTI) published by the Institute for Economics and Peace¹.

Terrorism continues to be a growing threat. The Action on Armed Violence (AOAV), a UK based non-profit organisation which carries out research and advocacy with an aim to reduce global armed violence, reports that there was a record number of deaths by suicide bombers in 2015 with each attack appearing to be deadlier.

In this article, we explore the resulting growing need for, and uptake of, terrorism and political violence insurance by businesses as a risk mitigation measure.

Slowing economic growth linked to Terrorism

Among many reasons why terrorism is still a major world problem is slowing economic growth which makes it harder for governments to raise the expectations of their people. This can result in civil and political unrest, as well as nationalization, expropriation and political interference etc.

Furthermore, terrorism affects the economic systems of countries. GTI noted that the economic cost of terrorism increased by 61 per cent in 2014 to US\$ 52.9 billion.

Terrorism and Political Violence risks – Challenging times ahead and its Political fallout

Violent extremism, Daesh or the Islamic state in Syria and Jihadism are on the rise, and as long as these exist, societies including business will face a high level of terrorism and political violence risk.

Geopolitical and international security remained one of the top risks that concerns business leaders in 2015, in terms of most likely and impactful risks according to Global Risk Report of the World Economic Forum 2016. Marsh Terrorism Report 2016, in conjunction with BMI Research,

¹ Global Terrorism Index 2015 Report: Measuring and Understanding the impact of terrorism, by the Institute for Economics and Peace.

noted that the global war on terrorism which started after the event of 26/11 will continue to last for another decade.

As businesses expand globally, they are exposed to various risks like never before, including terrorism and political armed conflicts, increasingly in both developed and emerging markets which they must be adequately prepared for in order to show resilience continuously.

Situation in the Middle East and North Africa

Political violence and terrorism remain key risks for business and must continue to be monitored. The security risk in the Middle East has increased significantly since 2011. We are witnessing greater instability in the region in Syria and Yemen which is spreading to neighbouring countries of KSA, Iraq and Lebanon. Improvements in security and political risk in the MENA region are not expected to be forthcoming in the near future.

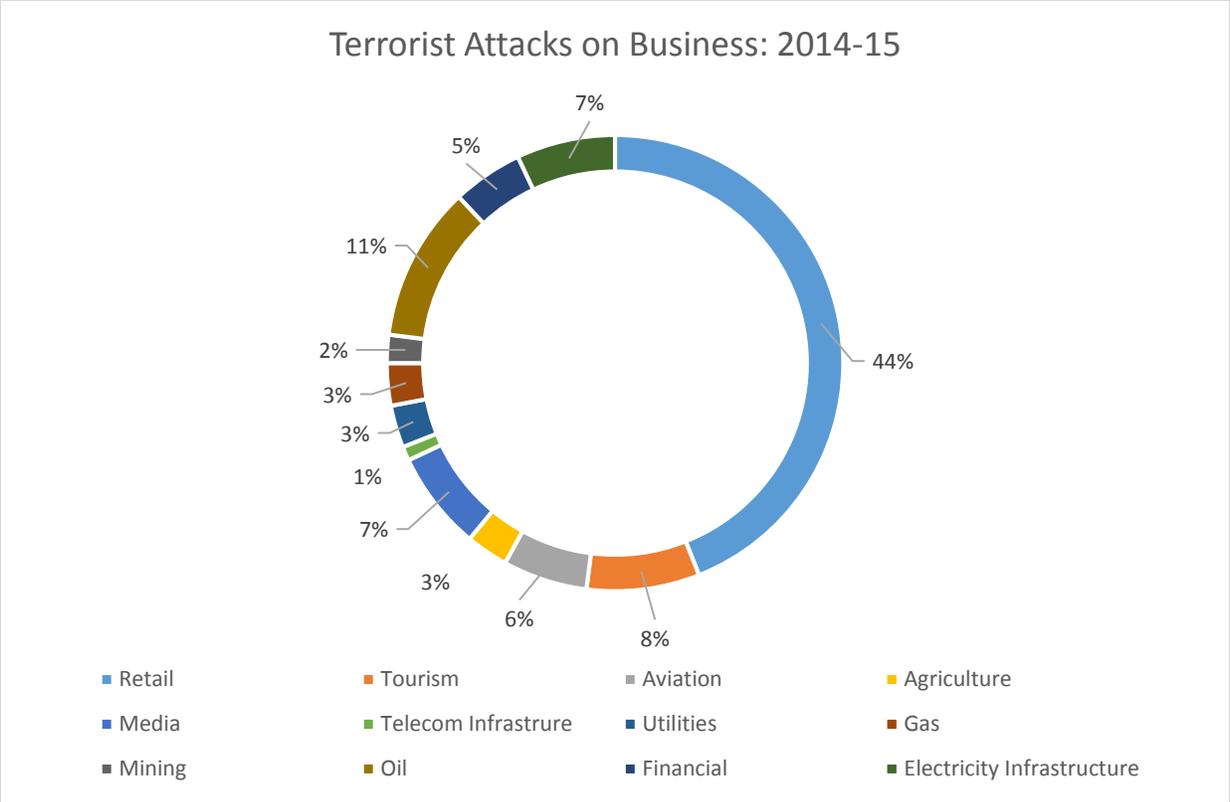
Africa is a particular region to watch due to increasing levels of political violence, as well as the tendency of its people and governments to assert control over natural resources in their territory. While the political picture is still developing in countries like Egypt, Libya and Tunisia, political violence is intensifying in East and West Africa as Islamist terrorist groups expand south into Sub-Saharan Africa.

Terrorist attacks are indiscriminate

The nature of terrorism and political violence dictates that attacks are indiscriminate and there is always someone who suffers; people, businesses, their staff and their customers are no different.

Terrorists often have soft targets where people congregate to have maximum impact. According to an Aon study², it is noted that retail centres and malls were particular targets.

² 2015 Terrorism and PV Risk Map – Aon's Guide to Terrorism and PV risk (Source: Terrorism Tracker).



It is important that businesses adequately plan for business continuity and operations to protect assets and people, terrorism is therefore firmly on the risk managers’ radars.

Insurance plays a pivotal part as a risk transfer mechanism for business

Businesses can use various techniques, amongst them risk transfer mechanism to insurance to mitigate and manage risk as a result of a political upheaval.

The important feature of terrorism is that it will be preceded with little warning and comes with a wider target audience than the victim.

As a risk management tool, terrorism and political violence insurance helps business stay afloat and continue to secure better access to financing, whilst providing protection for global companies operating in politically volatile countries in the event of losses resulting from damage or destruction of assets, and business interruption caused by political violence.

³ 2015 Terrorism and PV Risk Map – Aon’s Guide to Terrorism and PV risk (Source: Terrorism Tracker).

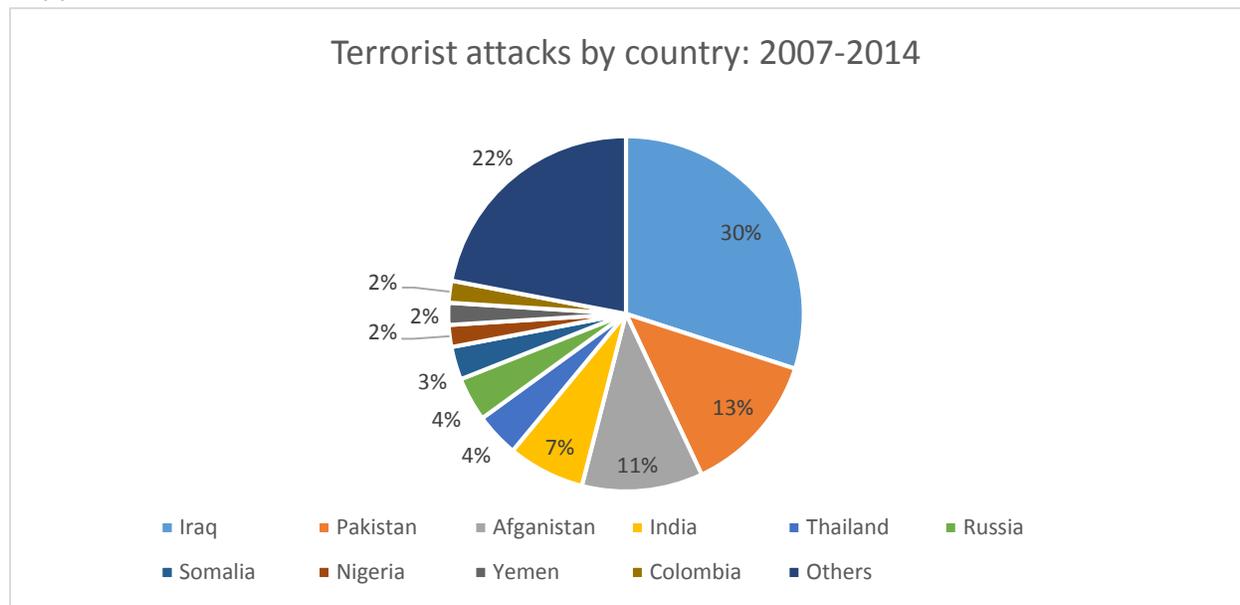
Rising Political risk and Political violence insurance demand

Demand for political risk insurance continues to grow. Moreover, political violence and risk are important matters dealt with at board level in many companies.

Countries to watch

Political violence insurance is in the greatest demand where the risk environment is perceived to be deteriorating.

A study by Aon in 2015 on terrorism noted that since 2007, 78% of all terrorist attacks happened in 10 countries.



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Political violence insurance (PVI) affords wider and more flexible protection as opposed to traditional property terrorism.

We are seeing increasing terrorism and social unrest across the world – in terms of frequency, severity and sophistication. The odds of a terrorist attack on property and people is difficult to predict but the potential damage and liability is enormous.

Modern terrorism does not just target government owned property; more and more attacks are now being carried out on the private sector. We are constantly seeing attacks on malls, hotels,

⁴ 2015 Terrorism and PV Risk Map – Aon’s Guide to Terrorism and PV risk (Source: Terrorism Tracker).

airports, restaurants, bars, marketplaces, all modes of leisure facilities, construction projects and manufacturing facilities.

Most Liability and Property insurance policies automatically exclude terrorism cover because of the unpredictability of an event and the potential for huge losses.

At the same time many banks and lenders require terrorism cover to be in place before loans are processed, credit facilities made available and projects are funded.

The standard terrorism policy called LMA 3030 covers Physical Loss or Damage resulting from an act of terrorism as a base wording. This wording can be tailor made and amended for individual needs, and exclusions can be addressed if a particular exposure exists. Coverage can also be purchased for Business Interruption resulting from an act of Terrorism causing Physical Damage. The standard policy for this cover is provided via LMA 5039.

There are a number of “buy backs” which can be added to the LMA 3030 and LMA 5039 wordings to broaden coverage, all for an additional premium. Alternative coverage can be purchased to cover Strikes, Riots and Civil Commotion or full Political Violence including terrorism, Sabotage, Strikes Riots and Civil Commotion, Malicious Damage, Insurrection, Revolution, Rebellion, Mutiny and Coup d'état, War and Civil War. To this extent, Political Violence insurance provides flexible options to choose from a range of perils, depending on the needs of business.

Political violence insurance (PVI) provides coverage for terrorism and for exposures that are typically excluded within standalone terrorism policies, such as strikes, riots, civil commotion, rebellion, revolutions, war, civil war and insurrection.

Consideration of PVI is recommended for global insurance programmes with significant emerging market exposures. Policies should be coordinated with property and standalone terrorism policies as well as local insurance pools.

PVI market continues to innovate to attract buyers

The PV insurance market is quite dynamic, with continuous innovation happening to address coverage gaps. In the more traditional terrorism market, if the physical damage loss was not caused by the insurgents, it may actually not be covered by some wordings. However, these are now being expanded to cover physical damage during terrorist or insurgency actions caused by the police or security forces. An example was the French counter insurgency measures in Mali. Although a terrorist organization was already in situ, there had been no physical damage at many locations prior to the concerted military effort by the French.

Cover is also available for events such as drone strikes by the military – foreign or domestic - on terrorist locations which damage nearby buildings.

PVI rates typically decrease as the size of the company increases

Larger companies typically purchase more insurance, which leads to lower rates when compared to smaller companies.

PVI premium rates are driven by market capacity, the security situation of the country and perils demanded. War perils are very limited, and therefore attract higher rates whereas terrorism rates are falling.

Market capacity offering terrorism & PVI seems to have increased in recent years. Several countries have created some sort of a terrorism pool to help businesses manage the threat of terrorism. In addition, private insurance and reinsurance market capacity is estimated at US\$ 2 billion.

Cyber terrorism is growing and are businesses protected adequately?

Cyber terrorism can be defined as the intentional use of computer, networks and public internet to cause destruction and harm for objectives, whether they be political or ideological. Any quick search over the internet or newspaper shows there is an uptick in cyber terrorism by a variety of hacker groups, but unfortunately most cyber-attacks remain unreported.

An important aspect of cyber terrorism is that the business need not be a specific target of the cyber-terrorist, but the network could suffer collateral damage or be used to inflict damage upon others.

The question is what type of insurance policy covers this type of exposure? The answer is cyber liability insurance which typically responds to cover liability claims from a security breach, first-party expenses including restoration and business interruption losses.

Terrorism attack - business continuity plan recommended

It is recommended that organisations periodically review and update their business continuity plans to ensure they are prepared in the event of a terrorist attack. Business continuity plans also help preserve and protect operations and people; organisations should assess their plans and validate them through training and exercises. Such measures can help organisations think through their terrorism-related risks, obtain a better understanding of their exposures and think of adequate risk mitigation tools including transfer mechanism by insurance.

Trust Re offers an array of bespoke and first class products to its clients. In addition to providing terrorism and PVI capacity, Trust Re offers a wide range of value added services, including:

- *Bespoke and tailor-made reinsurance products for clients.*
- *Risk engineering and security consulting services for pre-loss contingency planning and post-loss continuity services.*
- *One-stop-shop global solutions to client with multi-location presence with locally compliant papers.*