A person in a dark hooded jacket is holding a large flag of the Kurdistan Region of Iraq. The flag features three horizontal stripes of red, white, and green, with a yellow sunburst emblem in the center. The person is standing on a paved street, and other people can be seen in the background. The overall tone is somber and evocative.

Property Insurance: Terrorism and Political Violence

airmic





**Recent events have
forced risk managers
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approach to the threat
of terrorism and
politically-motivated
civil unrest.**

Contents

Executive summary	4
Introduction: A world stalked by terror	6
Getting to grips with the terrorism threat	10
Problems and solutions	14
Key terms and conditions	18
Checklist	22

Airmic is grateful to ACE European Group for producing this guide to "Property Insurance: Terrorism and Political Violence Risks". Airmic invited partners to select an area of expertise and produce an introductory to intermediate level guide for the benefit of Airmic members. The intention of this guide is to provide Airmic members with an overview of the topic and provide information on the practical considerations when managing this important insurance and risk management issue.

The rise in terrorism over the past decade has presented risk managers with fresh challenges. This booklet explores the nature and extent of these dangers and offers guidance on how to secure the necessary insurance to transfer some or all of these risks – providing you with financial resilience and peace of mind.

Terrorism is not a phenomenon unique to the 21st century, but the 9/11 attacks on the United States mainland in 2001 signalled a new level of intensity, audaciousness and geographical reach on the part of those dedicated to causing seemingly indiscriminate death and destruction.

Recent years have seen major terrorism events in London, Madrid, Mumbai, Moscow and elsewhere. The death in May 2011 of Osama Bin Laden, leader of the al-Qaeda terrorist group, has raised fears of further attacks.

In addition to increases in instances of terrorism, there has been a substantial rise in political instability. Exacerbated by a depressed economic outlook, 2011 has seen the advent of the “Arab Spring”, the term given by the international media to the wave of uprisings that have swept the Arab world. These extend from suicide protester Mohamed Bouazizi’s desperate protest, which was a catalyst for Tunisia’s “Jasmine Revolution”, through to the turmoil that has surged across Libya, Yemen, Bahrain, Egypt and Syria.

Predictions of further disturbances and potential revolution seem reasonable in the region.

This turmoil is not limited to the Middle East. The unpredicted Norway attacks in July 2011 saw sequential acts of terrorism against the government, the civilian population and a summer camp for young people.

Elsewhere, recent times have seen austerity protests and violent political marches in capitals such as New York, Rome, Paris, Athens, London and Madrid. And in August 2011 there was rioting, looting and public disorder in several parts of London and in other cities across Great Britain. Social unrest, it seems, is becoming a global phenomenon. The impact of social networking and the internet clearly means it is now much easier to influence and mobilise public opinion.

In such an unstable outlook, you, as a risk manager, can use insurance to help protect the financial well-being and continued viability of your organisation.



It is important to be aware of the nuances of the cover afforded under a straightforward terrorism programme, how that sits alongside a standard property damage policy, and the existence of any potential gaps in cover.

What is more, the definition and therefore the interpretation of an “act of terrorism” within most property policies can be very inconsistent. This may mean that a wide range of violent acts that may not initially seem to be terroristic in nature are caught within the policy’s definition and thus excluded from cover. In turn this means policyholders without a specialist policy may find themselves exposed.

The following pages outline ways in which you can organise your insurance coverage to ensure you have a more seamless protection wherever it is required.

Introduction: A world stalked by terror

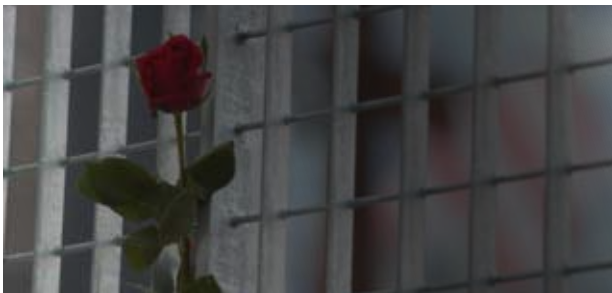
During the 1990s, the standalone terrorism market existed mainly for areas of the world more traditionally associated with the risk of terrorism, or for actual conflict zones. The horrific and previously unprecedented terrorist attack on the United States on 11 September 2001 brought a major change to the commercial property insurance market.

The hijacking of four planes, leading to the destruction of the twin towers of the World Trade Center in New York (as well as the attack on the Pentagon and the downed flight in rural Pennsylvania), was unprecedented in terms of scope and unparalleled in terms of the number of deaths and the scale of physical damage.

One consequence of 9/11 for the risk industry was that the peril of terrorism was excluded from standard property damage and business interruption policies.

Put simply, property insurers could not afford to carry the risks associated with incidents of the nature and size of the twin towers attack.

To provide commercial entities with the cover they so clearly required, a small standalone terrorism insurance market suddenly came to the fore. In the intervening years this market has evolved in both size and capability so that policies now provide required levels of terrorism cover.



Property Insurance:
Terrorism and Political Violence



Options for the insurance buyer

Cover is now essentially available in four forms:

- 1 Terrorism only**

This relates to loss or damage instigated as a result of clear and targeted political, religious or ideological grievances often perpetrated by established and internationally recognised terrorism organisations and therefore excludes losses sustained in the course of public demonstrations and general unrest where the insured is not specifically targeted.
- 2 Terrorism and strikes, riots and civil commotion**

This covers terrorism as detailed above and losses sustained as a result of civil unrest. This also covers damage as a result of disgruntled workers and employees.
- 3 Political violence excluding war and civil war**

The third option extends to cover terrorism, strikes, riots and civil commotion plus physical damage incurred during a process of mass social uprising, revolt or military coup. It is a more robust political violence policy that is now increasingly in demand following the events of the last 18 months.
- 4 Comprehensive political violence**

The final option provides all of the previous covers as well as cover against war, both civil (that is, open conflict between two opposing sides within the same nation or state) and war itself (which would necessitate cross-border conflict, either declared or on an undeclared basis).

The fourth option is the most comprehensive political violence physical damage policy. It removes any ambiguity between perils and, most tellingly, when purchased alongside a standard fire policy, provides a more seamless physical damage coverage.

a small standalone
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Getting to grips with the terrorism threat

Recent events have forced risk managers to reassess their approach to the threat of terrorism and politically-motivated civil unrest. Here we answer a selection of frequently asked questions to help you decide how best to manage the risks you face...

The risk agenda

What are the key issues regarding terrorism?

One issue is that policyholders are often unaware that standard policies exclude terrorism risks, which means they are effectively operating without insurance in this regard. In addition, even if they know that their standard policy excludes terrorism, they may not know just how broad and inconsistent the definition of terrorism can be. The priority, therefore, is to ensure that cover is in place to cover all eventualities.

Why is the civil commotion cover provided under most property policies no longer sufficient?

The scale and extent of current levels of unrest have blurred the point at which civil commotion or general riot cover becomes political in nature (and thus outside the scope of a standard insurance arrangement). Most property policies contain a terrorism exclusion specifically excluding loss as a result of ideological, political or religious motivations. Much hinges on the interpretation of these terms – and in many instances the exclusion is broader than might be expected. For example, a strict interpretation would reject claims for damage caused as a result of a political protest through a city centre.

policyholders are often unaware that standard policies exclude terrorism

Are all specialist terrorism policies the same?

No. Terrorism cover has evolved over time in line with a fluid political backdrop and to meet the needs of clients. Terrorism and political violence insurance can be sold in four distinct parts: terrorism only; terrorism and strikes, riots and civil commotion; political violence excluding war and civil war; and comprehensive political violence.

How do I determine which is right for me?

You should work with your broker and insurance partner to secure all the protection you require. They will ensure that your terrorism policy aligns with existing policies to eliminate overlap and duplication.

My firm operates in territories that have little or no experience of terrorism. Can I do without specialist cover?

No. The “It can’t/won’t happen here” reason for not buying terrorism cover or bespoke political violence programmes is no longer tenable anywhere in the world. Few countries remain unaffected by terror attacks or politically-inspired unrest, and hardly any would consider themselves free from the threat of such incidents and upheaval.

Why is the terrorism/political violence threat increasing?

The answer may be a combination of perceived political injustice, economic hardship and improved global communications, which has effectively empowered those who previously had no voice or platform. Social networking has certainly played a major part in stimulating dissatisfaction and unrest and, arguably, has enabled extremists to mobilise demonstrators. Thus we have seen higher levels of organisation (and less spontaneity) in politically-motivated actions.

Pool Re

Building confidence in the face of terror

The scale of destruction that can be caused by a terrorist attack is so huge that the UK authorities and insurance industry have devised a fail-safe mechanism for paying claims.

This facility – called Pool Re – was conceived and created in the early 1990s. At this time, mainland Britain was suffering a series of bomb attacks linked to the security situation in Northern Ireland. And, in 1993, the terrorists struck at the heart of the City of London financial centre, with a bomb on Bishopsgate.

Insurers and their reinsurers were already unwilling to provide terrorism cover as part of their standard commercial property and business interruption policies, and it became increasingly apparent that the losses from a major incident might outstrip an insurance company's ability to pay.

The insurance industry, policyholders and the Government realised that this situation was untenable and devised a solution in the form of a mutual organisation called the Pool Reinsurance Company (Pool Re), which still functions today.

Pool Re works by having participating insurers, such as ACE, pay losses as a result of terrorism up to a threshold, which is set for that particular insurer. When losses exceed that threshold, the insurer can claim upon reserves accumulated by Pool Re.

Should terrorism claims exceed these reserves, Pool Re can, in turn, draw funds from government to enable it to meet its obligations in full, regardless of the scale of losses.

The existence of Pool Re means that insurers can continue to provide terrorism cover to commercial clients who request it – and, crucially, insurance buyers can be confident that their claims will be met, because, ultimately, they are underwritten by Her Majesty's Government.

Since its inception in 1993 Pool Re has been involved in claims arising from 12 terrorist incidents, the most recent being the coordinated attacks on the London transport system in 2005.

You can find out more about Pool Re at: www.poolre.co.uk

“IRA bomb devastates City of London”

BBC News
24 April 1993

“Cityscape of destruction”

The Telegraph
26 April 1993

“City’s reputation around the world put at risk”

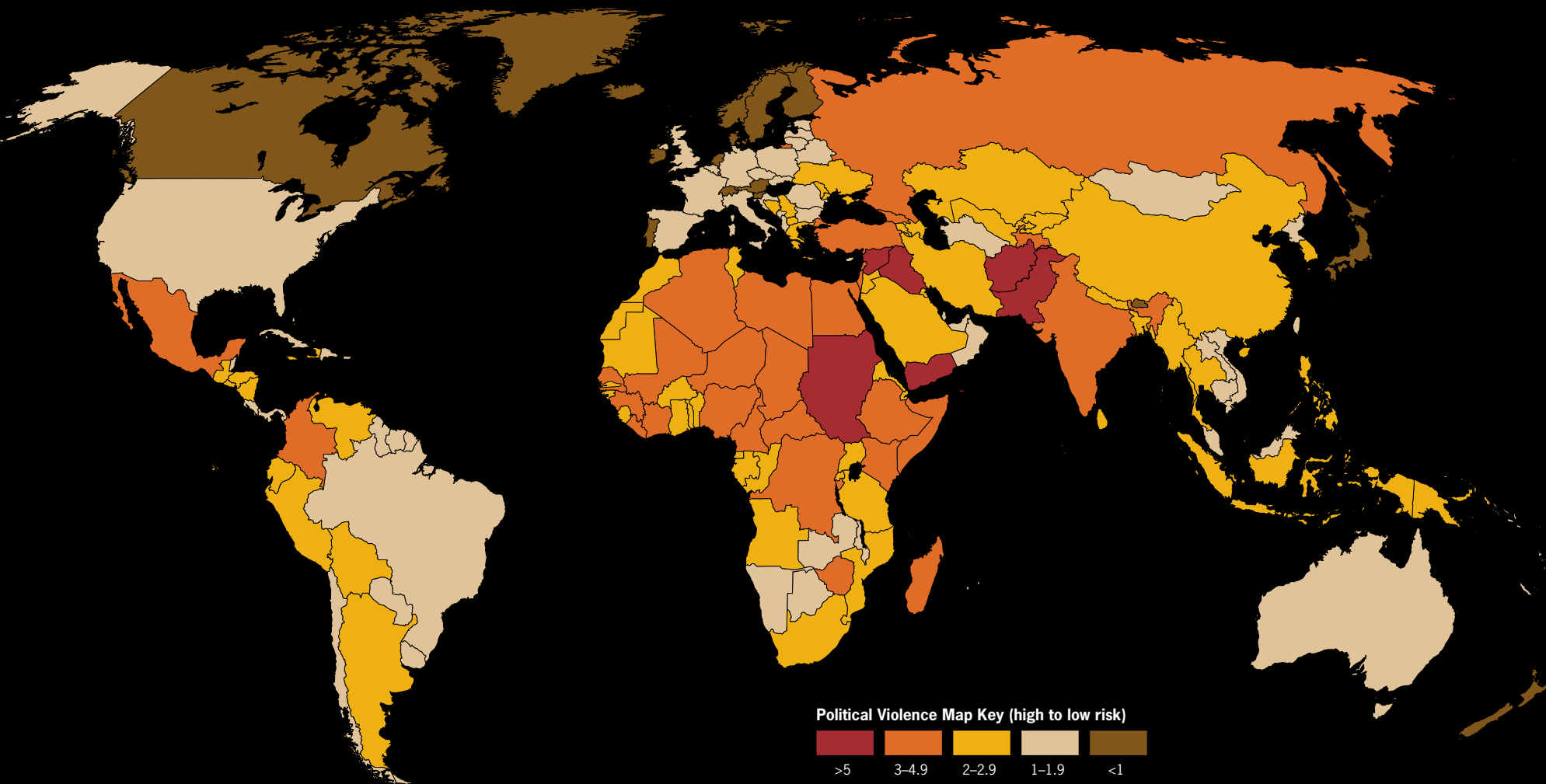
The Independent
25 April 1993

“City bloodied but unbowed”

The Sunday Times
25 April 1993

Specific and bespoke political violence programmes are the best way to mitigate the threat of terrorism and provide the appropriate peace of mind.

The scope and breadth of purchased cover should reflect your risk profile and your geographic locations. Any territories where political uncertainty or inherent instability exists or where political protests are common should have cover against as wide a set of political perils as is available.



Property Insurance:
Terrorism and Political Violence

Contingent business interruption

Supply chain management is now a key consideration. Companies operating in traditionally more stable territories may have key dependencies overseas where the risk of terrorism and political violence may be greater.

The complexity of supply chains may go even further than just one particular territory. As a result, protection against disruption within this chain is now an important consideration to ensuring business continuity.

“Denial of access” is an example of a typical risk. For example, disruption to businesses following political protests in major commercial centres can lead to significant disruption in revenue. This could be in the form of business centres simply being closed, resulting in people not being able to get into the workplace, such as occurred in Bangkok in 2010 and Cairo in 2011.

You should ensure your insurer is prepared to extend cover to address such contingencies.



“Denial of access” is an example of a typical risk

Case study

A case in point: Bangkok, May 2010

Anti-Government protests in the Thai capital, Bangkok, in May 2010, resulted in damage to property and interruption to businesses estimated at 50–60 billion Thai baht (approximately £1.2bn). This may prove to be a somewhat conservative estimate given that it does not factor in any long-term impact on tourism.

Despite the demonstrable impact on businesses, many of the insurance claims relating to property damage caused by the protestors, which included the destruction of the second biggest shopping centre in south-east Asia, remain in dispute.

The reason? Insurers are yet to settle claims due to differing interpretations concerning the peril that triggered the loss. Was it civil commotion – which would be covered under a standard property policy – or was it politically-motivated terrorism?

The controversy exists because many of the insurers involved, on careful review of the facts, regarded damage in many instances to have been caused by an act of terrorism, for which clients are not insured under a standard property damage policy.

Further political violence in Tunis, Cairo and elsewhere should cause every company with operations in overseas markets to re-evaluate the adequacy of their risk management strategies to ensure as broad a range of perils is covered thereby reducing any uncertainty and dependency on the classification of an event.

To ensure seamless cover between standard property and political violence exposures, you should seek out combined property, terrorism and war programmes that ensure protection against the impact of political violence and instability.

As an insurance buyer/risk manager, you need to enter negotiations with your insurance partners with a full understanding of the terminology that is likely to be used and with a firm grasp of the key issues.

This list of terms and conditions highlights the key points pertaining to the cover provided by terrorism and political violence policies.

Insured perils under terrorism cover

Act of Terrorism
Sabotage
Riots, Strikes and/or Civil Commotion
Malicious Damage
Insurrection, Revolution or Rebellion
Mutiny and/or Coup d'État
War and/or Civil War
Political Violence
Civil Unrest

Key definitions

Act of Terrorism

This is an unlawful act committed for political, religious or ideological purposes with the aim of influencing a government and/or causing fear among the public.

Sabotage

Sabotage is an act by known or unknown person(s) leading to physical damage or destruction perpetrated for political, religious or ideological purposes with the aim of influencing a government and/or to put the public in fear for such purposes.

Riots/Civil Commotion

These are acts committed during a violent disturbance of the peace by a group of people who act together for a common purpose which threatens the public peace.

Strikes

Cover is provided here against actions by strikers or locked-out workers in the furtherance of a strike or in resistance to a lock-out. As with riots, the definition extends to acts by any legal authority designed to suppress or minimise the consequence of the strikers' action.

Insurrection, Revolution and Rebellion

These terms refer to deliberate, organised and open resistance by force and arms to a sovereign government by its citizens.

Mutiny

Mutiny is when members of armed or peace-keeping forces resist or refuse orders from a superior officer.

Coup d'État

This is when an attempt is made to violently overthrow a sovereign government.

War

War is an armed contest between two or more sovereign nations whether declared or not declared, or open hostilities between sovereign nations.

Civil War

Civil war is a war carried on between or among opposing citizens from the same country or nation.

Key terms and conditions

This table provides a comparison between Political Violence, Terrorism, and Strike, Riot & Civil Commotion (SRCC) coverages:

	Comprehensive political violence		Terrorism (LMA3030/T3)	SRCC	Political violence excluding war & civil war
Cover	War and Civil War		Terrorism only and often requires internationally recognised terrorist organisation involvement to attempt government 'influence' or overthrow	Physical loss or damage from Strikes (including lock-outs), Riots, Civil Commotion	Physical loss or damage arising from Strikes (including lock-outs), Riots, Civil Commotion, Mutiny, Terrorism and/or Sabotage, Uprisings, Rebellions, Coup d'État, Insurrection and Revolution
Premium	Fixed at inception		Fixed at inception	Fixed at inception	Fixed at inception
Relationship with Property Damage Policy	Can be purchased standalone or can be tailored to exclusions of property damage policy. Business interruption can be included		Not tailored. Business interruption can be included	Not tailored. Extension of Terrorism wording. Business interruption can be included	More commonly purchased standalone but can be tailored. Business interruption can be included
Exclusions	Chem-Bio-Radiological-Nuclear attacks. Political risk. Theft		Several	Numerous and includes: Political Risk, Chem-Bio-Radiological-Nuclear attacks, War, Civil War, Insurrection, Revolution, Rebellion, Mutiny, Civil Commotion where it is the result of a popular or military rising	War and Civil War, Chem-Bio-Radiological-Nuclear attacks, Political risk, Theft
Period	Usually 1 year. LTAs available		Usually 1 year. LTAs available	Usually 1 year. LTAs available	Usually 1 year. LTAs available

Comprehensive Political Violence insurance encompasses much more in its offering than Terrorism or SRCC insurance. It has fewer exclusions, although political risks and damage occasioned by nuclear, biological and chemical attacks remains paramount.

Political Violence insurance also has fewer exclusions, although war between the five major powers is still a paramount exclusion, as is damage occasioned by nuclear, biological and chemical attacks. It is, however, possible to pay to remove the biological and chemical exclusion in some cases.

Property Insurance:
Terrorism and Political Violence

Key considerations for the insurance buyer/risk manager

- ☐ Does my existing insurance policy cover financial loss and physical damage caused by an act of terrorism?
- ☐ Does it provide cover against terrorism and political violence including war and civil war?
- ☐ Am I covered for every eventuality?
- ☐ Can I extend my existing terrorism programme to provide all the cover I require?
- ☐ Are there gaps in my existing insurance arrangement?
- ☐ Have I got cover that matches my requirements in different territories?
- ☐ Do the links in my supply chain have terrorism and political violence cover?
- ☐ If war breaks out in the Middle East, am I overexposed to one supplier?
- ☐ What if we lose working hours following a political demonstration? Are we covered?
- ☐ Can my current insurer combine my standard policy with terrorism and political violence cover to provide a more seamless protection, regardless of the cause?

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