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FOCUS/ PROPERTY

Closing the terrorism insurance gap

There is currently a significant mismatch between available property-based terrorism insurance covers and the increasing potential for terrorist attacks that are likely to result in fatalities or injury

London terror attack: Islamist extremism is currently focused on mass casualties or high-profile targets


Steve Coates
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A theme in recent plots and attacks is the way terrorists interacted and shared information... The peril has evolved from an analogue threat to a networked digital one in which independent, local operational cells or lone actors can readily be recruited and supported by distant actors at the centre or periphery of extremist groups

International terrorism is a persistent danger to the UK. The official threat level is "severe", which means an attack is highly likely and this level of risk has become the norm. The attack in Westminster on March 22 illustrated that attacks can take place with little or no warning. MI5 and the police have succeeded in disrupting at least 14 plots since 2013. Now more than ever we must exercise diligence, ensure our resilience is robust, and protect our assets. Vigilance is essential.

Islamist extremists, mainly Daesh/Islamic State and al-Qaeda, remain the main threat. They possess the intent and capability to inspire and direct attacks at varying levels of complexity. Probable targets remain crowded places, national infrastructure such as transport and institutional targets including the military and police.

A theme in recent plots and attacks is the way terrorists interacted and shared information. It is now commonplace for aspiring attackers to have been in direct contact with extremists overseas via social media or instant messaging services. Many are inspired by extremist propaganda online. The peril has evolved from an analogue threat to a networked digital one in which independent, local operational cells or lone actors can readily be recruited and supported by distant actors at the centre or periphery of extremist groups. Lone actors can also use the information on the internet to progress their attack plans without a wider support cell.

Lethal dimension

The large number of returned Daesh fighters – the Home Office estimates more than 400 have come home to the UK from fighting in Syria – adds another potentially lethal dimension. Unfortunately the incarceration of terrorists on UK soil can have an unintended consequence on the threat. Prison offers an environment for extremism to flourish and networks to be built. A number of released criminals have been radicalised while serving prison sentences and attacks within the UK have been made by terrorists with substantial criminal connections.

The focus of terrorist attacks has changed. Terrorism in the UK once involved a desire to cause maximum economic damage in addition to causing physical injuries. Islamist extremism at present focuses on mass causalities or high-profile targets such as the police or military personnel. This shift has resulted in a significant change to UK businesses' risk-transfer needs. Discriminate economic targeting required insurance of property and business interruption. New-style threats have extended the list to include the need to cover non-property damage business interruption, cyber losses, potential impact on people and damage to brand and reputation.

14+
Number of terror plots MI5 and the police have disrupted in the UK since 2013

This combination of developments in the nature of the terrorism threat and the actors who may perpetrate violence in the UK has a less obvious consequence. Penetration of the threat outside the UK's key cities is on the rise. Terrorists have an insidious ability to seek the softest targets. As security is increased at, for example, the Palace of Westminster, those intent on mayhem may choose to travel to our market towns or regional centres – places where threat fatigue brought about by long or perpetual periods of terrorist inaction may make them easier to attack. In conjunction with the broad distribution of threat actors in the UK, vigilance must spread across the nation.

Expanding distribution

Pool Re is working with member insurers to expand distribution of terrorism risk insurance products by promoting the scheme generally, especially outside major urban centres, and is designing an improved proposition to small and medium-sized enterprises. When combined with the work of our research teams and partners, this initiative will help businesses to make better-informed choices around the purchase of terrorism insurance.

As recent attacks have shown, serious coverage gaps exist. The major impacts covered under traditional property terrorism products are property damage and business interruption. The greatest impacts of recent attacks where only limited property damage occurred have been loss of life and non-damage business interruption. This shift in the at-risk profile identifies a mismatch between property-based terrorism cover and the impacts of events focused on killing or injuring people.

Pool Re is undertaking work to quantify the gap in the cover provided between property and terrorism policies.

An opportunity, perhaps significant, appears to exist for more of the risk to be taken up by the commercial insurance market. Non-damage business interruption cover is already available, but requires some adaptation to meet the current threat. Pool Re will continue to do all we can to raise awareness of these emerging issues and, where appropriate, to propose solutions. ■

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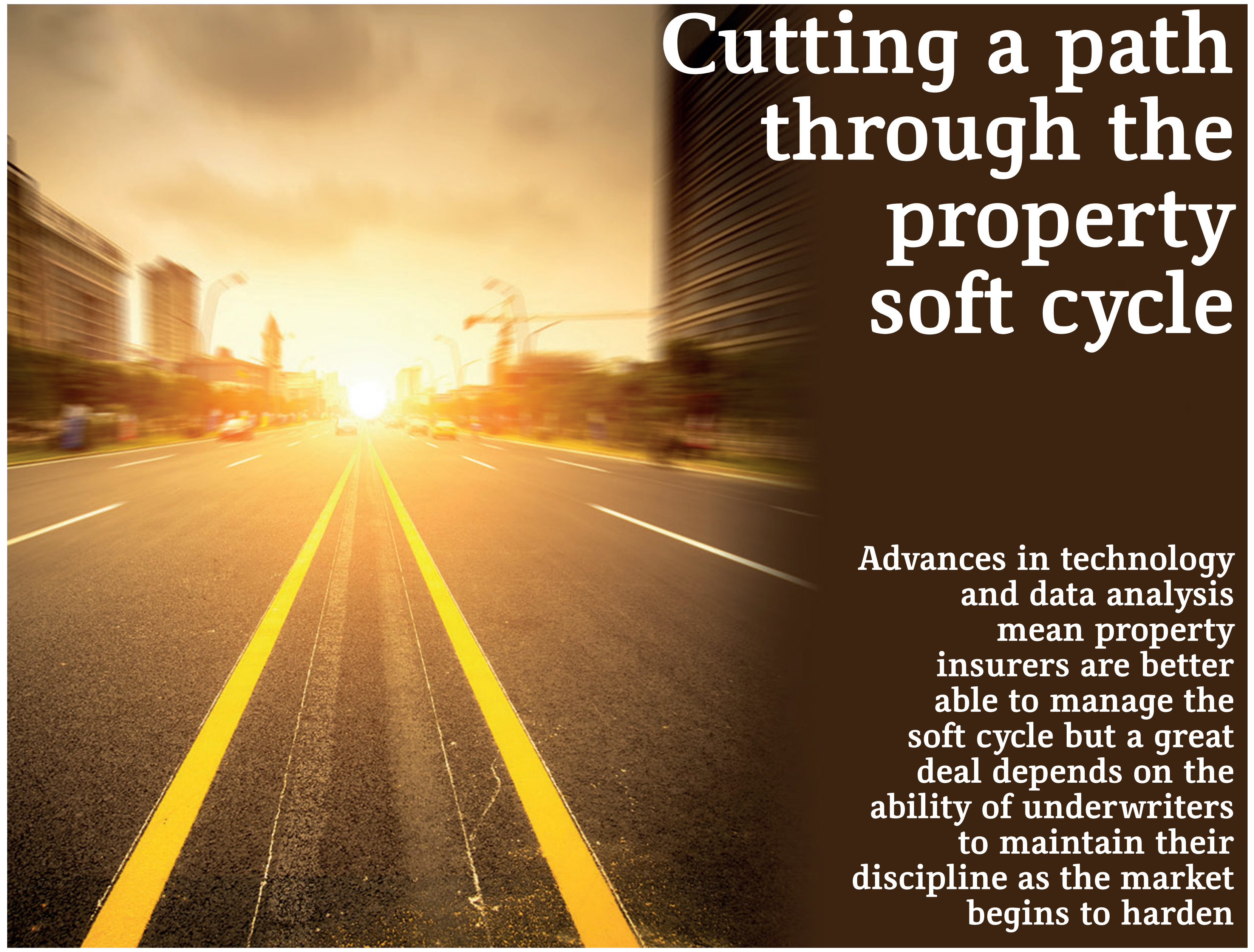

Cutting a path through the property soft cycle

Advances in technology and data analysis mean property insurers are better able to manage the soft cycle but a great deal depends on the ability of underwriters to maintain their discipline as the market begins to harden


Conor Finn
Antares

A soft market (and one on the turn) is in many ways a market for older heads, but perhaps the most important point in this context is the underwriter's ability to understand and steer the trajectory and build of their portfolio, rather than only looking at the risk in hand. Some in the market will remember the outcome of short-term underwriting that does not look towards the lasting stability of a portfolio.

As we reach the depth of the soft market, we find the Lloyd's property market losing money. For those of us who have been around for a while, this does not sit well.

The property market needs to find a credible path back to profitability.

Several factors have contributed to the difficulties but pressure on deductibles, aligned with inadequate pricing, leaves no room for large losses or catastrophes. In some cases, coverage has been broadened beyond the ability of underwriters to manage their exposures effectively.

Some underwriters have relied too heavily on the use of cat models for pricing, taking little account of the fire risk but, as we now receive better data than we have ever had, there is no excuse for not analysing the whole risk and pricing accordingly.

Hardening

On a more positive note, it seems signs are emerging that the constant pressure on the market to reduce deductibles is beginning to reverse. With attrition too high and combined ratios climbing, it seems the market is finally waking up to the fact our margins cannot endure a further squeeze.

Attitudes across the market seem to be hardening, and we are beginning to see the return of underwriting discipline in the London market as price reductions have slowed (or even ground to a halt in some classes) though this slowdown does not appear to have reached the US yet. Typically, however, the US market lags around three to six months behind London. There also does not seem to be much tightening elsewhere in the world, although there is some anecdotal evidence this may be on the way (albeit very regional).

Recent advances in the use of data can and should have the greatest effect when it comes to the lasting stability of a portfolio. Sophisticated data analysis allows underwriters to drill into portfolios with surgical precision, identifying risks or entire classes that need adjustment, without discarding entire books of business. It is no longer a manual exercise; the data now allows us to identify precisely where adjustments are necessary.

Managing volatility

A deeper understanding of individual risks allows for better portfolio management, as underwriters are able to select those that better suit their portfolio and profitability targets. The pinch points can be identified swiftly increasing returns and managing volatility.

Data now enables us to exploit this advantage to the fullest.

It is also worth dwelling on the unique selling point of the Lloyd's market – face-to-face trading – which should make us a preferred destination for risks, portfolios and managing general agencies that require a more bespoke approach.

This uniqueness enables us to trade quickly and efficiently, responding quickly to market conditions while building unique risk transfer solutions with our brokers and their clients.

The overall picture in the property market allows for cautious optimism. Advances in technology and data analysis over recent years have left the market significantly more robust than it was last time we were at this low stage of the cycle. We are better placed now to manage portfolios and select the risks that suit us enabling our market to return to profitability.

These new technical abilities, alongside underwriters' increasing realisation of the need for discipline, means the property market should soon see the turning of the tide. ■

Conor Finn is head of property direct and facultative at Antares