

# EUROPEAN TERRORISM EXPOSURE BULLETIN

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## TERRORISM - THE ONGOING THREAT

The horrific terrorist attack on September 11, 2001 wrought previously inconceivable damage. The attacks in Istanbul and Madrid in 2004, London in 2005, Mumbai in 2008, Pakistan in 2010 and most recently Moscow, have made it all too clear that the threat of international terrorism is here to stay.

Political, economic and social developments have combined to thrust terrorism into the international spotlight. What was once predominantly a national concern has now become an international threat. In view of the growing concentration of wealth in economic centres around the world, terrorists can cause damage of staggering dimensions. Besides these geopolitical factors, terrorist organisations have greater access to powerful weapons. These issues are faced by both insurers and insureds.

### INSURABILITY

While parameters have changed, terrorism is, nonetheless, an insurable risk provided that limits and coverage are clear and premiums are commensurate with the new dimension of this risk.

## ARE GOVERNMENTS THE INSURER OF LAST RESORT?

The risk-bearing community comprising insureds, insurers and governments must reach agreement on state involvement in this risk. As a whole, the insurance industry (including reinsurance) cannot make sufficient capital available to offer policyholders protection for some of the potentially enormous terrorist attacks currently under examination by terrorism specialists. Without state involvement, extremely large losses may be underinsured.

Understanding the potential effects of natural catastrophes in the United Kingdom and Europe is a critical component of the Willis risk management strategy for our clients. While specific catastrophes are unpredictable, modelling helps us determine potential losses should catastrophes occur. We utilise a fully integrated network of wholly owned European Willis offices to help manage our clients' catastrophe exposures. The combination of our global network of local offices with our specialised Terrorism team means we can monitor and analyse developments in the sector in real time.

Our experience in monitoring potential exposures from natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism. Due to the high degree of uncertainty about what events might actually occur, our



accumulation monitoring, analysis and knowledge of the European terrorism insurance market allows Willis to create bespoke solutions for our clients, often resulting in significant premium savings. We have access to every local country pooling arrangement for Terrorism risks along with a dedicated team of specialist Lloyd's terrorism brokers. The consequences of a terrorist attack may not be in the direct form of Physical Damage and Business Interruption loss, but also indirectly via Denial of Access, Supply Chain Disruption, Loss of Attraction and Reputational Damage.

9/11 spurred numerous changes in the global terror insurance market. Historically, terrorism risks were often covered, or were not specifically excluded. More recently though, the global trend among insurers has been to exclude terror coverage from their contracts, with governments becoming involved in mitigating the risk exposure of insurance and reinsurance companies. More specifically, a number of countries have developed explicit schemes or terror pools that address the risks of terrorism. The United States, Australia and select European countries have developed comprehensive programmes for terror coverage, while many other countries currently have no terror pool or government involvement in terror coverage.

Over the next few pages we look more specifically at the various terrorism insurance options available throughout Europe, and highlight ways in which Willis is best placed to assist with your individual situation.

## EUROPE

COUNTRY	GOVERNMENT POOL	COMPULSORY/ OPTIONAL	LIMITATIONS
Austria	Österreichischer Versicherungspool zur Deckung von Terrorisiken	Optional	Limit €5 million per location
Belgium	No government pool is in place	Compulsory	Since May 2008 it has been mandatory for terrorism insurance to be provided by all Belgian insurers
Denmark	No government pool, however a fund established in June 2008 takes effect when insurers reserves have been exhausted	Optional	Most insurers now exclude terrorism cover from policies so cover has to be purchased separately if required
Finland	No government pool is in place	Optional	Two local insurers provide terrorism buy-back within their standard property policy
France	GAREAT	Compulsory	Terrorism exclusions apply for large risks above a stated limit, being €20 million or 20% of the sum insured, whichever is greater. Cover is 'bought back' via GAREAT
Germany	Extremus	Optional	Cover available via Extremus for risks exceeding €25 million. Terrorism buy-back for sums insured below this value is generally available via the primary Insurer
Italy	No government pool is in place	Optional	The majority of policies exclude terrorism cover where the sum insured exceeds €50 million
Netherlands	Nederlandse Herverzekeringsmaatschappij voor Terrorisemeschaden (NHT)	Optional	Government pool provides cover for risks up to €75 million per location per annum
Norway	No government pool is in place	Optional	Terrorism cover is generally excluded from commercial risks with a limited writeback. Cover is not readily available in the open market
Portugal	No government pool is in place	Optional	Cover is usually excluded from personal and commercial risks
Spain	Consortio	Compulsory	Consortio provides terrorism buy-back cover, subject to an appropriate premium
Sweden	No government pool is in place	Optional	Terrorism normally excluded from Property policies and is not readily available through the local market. Where required this has to be secured through the global insurance market
Switzerland	No government pool is in place	Optional	All primary property policies with a sum insured exceeding CHF 10 million exclude terrorism cover. Commercial and industrial risks also contain a terrorism exclusion for risks below CHF 10 million
United Kingdom	Pool Re	Not compulsory, however if cover is required it must be purchased for all properties of the Insured and the Insured may elect to purchase cover for property and business interruption or property only	Cover is subject to the same limits as the UK property damage/business interruption policy. The Pool Re programme provides for terrorism on an 'all risks' basis, but excludes acts of war

# CASE STUDIES



## SPAIN

### THE ISSUE

A property investor bought a number of large assets in Spain where the terrorism and natural catastrophe risk must be insured via the compulsory national scheme Consorcio. The assets in question were out of town retail parks and central business district office blocks. Consorcio has a mandatory 7% deductible and the client was concerned that this created a significant uninsured loss exposure should one of the large assets suffer damage as a result of a terrorist or natural catastrophe event.

### SOLUTION

The 7% deductible remained in place on the local Spanish Consorcio cover – there is no alternative. Willis negotiated Consorcio Deductible Infill Cover with the master policy insurer in the UK at no additional premium cost. This meant that an uninsured loss exposure in excess of Euro 20 million was eliminated from the client's balance sheet.

### WILLIS VALUE

Our bespoke property investor policy wording has been agreed with each of the main property insurance markets in the UK. This market leading product is easily adapted to individual client's requirements. The Difference in Condition/Difference in Limits (DIC/DIL) clause was drafted to include the Consorcio Deductible Infill Cover. Combining this with a bespoke 'Master Policy Clause' enabled the top up UK coverage to dovetail the local cover and all this was agreed at no extra cost to the client.

## AUSTRIA

### THE ISSUE

Our client was completing on a deal to purchase three large assets in Austria. The bank involved in the financing imposed stringent stipulations on the insurance coverage, including the Terrorism policy. Compliance with their requirements was compulsory in order for the funds to be released for completion of the purchase.

### THE SOLUTION

Willis negotiated the inclusion of all the banks' requirements on the Property and Terrorism policies. Instant access to the Lloyds market via the Willis team of dedicated Lloyds brokers enabled the terrorism policy to be amended and agreed by all syndicates the same day. Willis' specialism within the property market paved the way for a smooth negotiation with the property insurer in the UK, where formal agreement to the banks' requirements was achieved within hours of receiving the instruction. Willis' local office in Austria arranged for a local policy to be agreed the same day and also issued in the local language to satisfy the banks' requirements in this regard.

### WILLIS VALUE

The strength of Willis' international network involving local specialists in property and terrorism insurance ensured that the appropriate solution was reached within the short timeframe given, allowing the client to complete on the purchase of the new assets.

## MPIPM 2011 MARCH 8-11, 2011 CANNES, FRANCE



Once again, representatives from Willis Property Investors Division will be attending this years MIPIM real estate trade show in Cannes. If you would like to make an appointment to meet one of the team, please contact them directly or telephone Sue Perry on 020 3124 6241 or by email [perrys@willis.com](mailto:perrys@willis.com).

The associates attending are: Ian Kennett, Mike Carolan, Stephen Roberts, Mark Landau and Matthew Hellyer.

## HOW CAN WILLIS ASSIST?

Willis Property Investors Division is at the forefront of innovative insurance programme design and placement to help cater for our client's increasing exposure to European catastrophe risks. Willis has a dedicated team of property market specialists in every major European city.

For further information or advice, please contact your usual Willis Property Investors Division representative or any of the contacts listed below.

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