

# Insurers fight back

HOW DO YOU PROTECT YOUR BUSINESS FROM POTENTIAL DAMAGE CAUSED BY TERRORISTS? THE GOVERNMENT HAS WARNED THAT IT IS PROBABLY ONLY A MATTER OF TIME BEFORE THERE IS ANOTHER ATTACK IN THE UK. **STEVE ATKINS** OF POOL RE DISCUSSES HOW INSURANCE CAN HELP TO PROTECT BUSINESSES FROM THE THREAT.

**T**he human damage caused by terrorism may be terrible and take a lifetime to overcome, but the UK does at least have an effective system for making good the direct economic consequences.

Anyone who recalls the July 7 bombings on London Transport five years ago will still remember the graphic images of the destruction and eye-witness accounts of survivors. It will probably not have occurred to them that, from day one, the insurance response was already under way.

The UK has developed a system for compensating business for the economic consequences of terrorism that is internationally admired. It goes back to 1992 when bombings associated with the political situation, then in Northern Ireland, devastated parts of the financial district of London and other city centres. It became clear that the problem was too great and volatile for the conventional insurance market to shoulder the burden. Insurers that had previously provided terrorism cover in sensitive areas of the country were no longer able to do so.

In response to these developments the insurance industry developed an idea that was later to become Pool Re. Although considered highly innovative at the time, it has become an established part of the insurance landscape. It has enabled businesses throughout Great Britain to buy private-sector protection against terrorist attack with financial backing from HM Treasury as a last resort.

Many of the country's best known buildings are covered by the Pool Re scheme, as are factories, office blocks and other business premises up and down Britain.

Despite being widely used, it is clear that some SMEs are unfamiliar with the scheme's workings and unaware of how to gain access to it. Regrettably, we know from the enquiries we get that even some insurance brokers misunderstand the scheme.

Yet the principles are really very simple.

**HOW DOES IT WORK?** Pool Re itself does not sell insurance. It is a reinsurer – a mutual wholly owned by its members, which include all the most significant providers of commercial property insurance in the UK. Reinsurers provide insurance cover to insurance companies to help them pay exceptionally large losses.

If a company which is a member of the Pool Re scheme receives a big terrorism claim, it will pay a certain amount itself, and can then seek to recover the remainder from Pool Re. If the sums involved were ever to exceed Pool Re's reserves, it could call on HM Treasury



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systems caused by virus, hacking and similar actions.

Terrorism is so unpredictable in nature that it is not feasible to reflect every aspect of the risk when setting premium rates. This would be enormously complex and expensive to administer and of questionable accuracy. A relatively simple portfolio approach is taken by Pool Re which helps to keep down administrative

to make up the difference. This government facility has never been used, but its existence provides the strongest financial security.

Using the scheme it is possible to buy terrorism insurance for damage to almost any commercial property in Britain. Business interruption cover is also available on payment of an additional premium. After the 9/11 attacks the terms were extended and now include chemical, biological, radiological and nuclear incidents. Although private property is excluded, residential property which is in commercial ownership (for example a block of flats owned by a property firm) can usually take part.

The financial limits to your terrorism insurance parallel those in your main property policy. If it goes up to £2 million, for example, then that level of cover will apply directly to your protection against terrorism. You cannot, however, buy Pool Re cover on a standalone basis.

Pool Re is not the only provider in this market, although the scheme accounts for most of the terrorism insurance bought by British firms, and is the obvious place to start. Pool Re does not deal directly with the insurance-buying public. Go instead to your property insurer or broker. They should know about the scheme and be able to arrange your cover.

Your main insurer will also determine the cost of the terrorism cover. Although the reinsurance premiums it pays Pool Re are determined by pre-set rates, it is up to individual firms what they charge their customers. Properties in London and the other city centres that are most highly exposed will cost more to insure.

As there have been some misunderstandings, it is also worth repeating that you can choose to pay extra in order to buy business interruption (BI) cover on top of cover for property damage, but you do not have to do so. Some businesspeople have been put off using the scheme on the grounds of cost in the mistaken belief that they have to buy the BI element in order to take part.

**WHAT ARE THE SCHEME'S SHORTCOMINGS?** The purpose of Pool Re has always been to deal only with losses that arise from damage to commercial property and to provide protection that is not readily available elsewhere. It is not, for example, involved with life, personal accident or liability insurance.

It should also be pointed out that exclusions apply to the Pool Re cover in respect of war and related risks and damage to computer

costs, and ultimately therefore the amount that businesses pay.

However, this does mean that the scheme is not very flexible in some respects. For example, you cannot cherry-pick those properties that you want covered by Pool Re while leaving others uninsured – it is a case of all or nothing.

When it comes to making a claim, you go to your main insurer or broker, just as you go to there to buy the insurance in the first place. In other words, the process is the same as for any other major property loss. Pool Re would be liable to pay out if the incident is an act of terrorism as defined by the Reinsurance (Acts of Terrorism) Act 1993: "...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."

However, regardless of this definition, the policy issued by your insurer is often written in much wider terms, and incidents may still be covered. For example, it would be highly likely to cover malicious damage. In these non-terrorism cases, the policy responds in the normal way.

In practice, this definition of terrorism has been non-contentious so far. Although the process of confirming that an incident is actually an act of terrorism can take time, discussions begin almost straight away. Pool Re's main purpose is provide a service to its members: in other words the UK general insurance market and its commercial customers.

Thanks to surpluses built up over the years, Pool Re has more than £3.7bn in reserves. Even allowing for inflation, this is several times the cost of any claim it has had to pay so far (see box). In addition, Pool Re has the facility to go to HM Treasury should its reserves be insufficient, for which it pays the government an annual premium.

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**Figure 1: Since it opened for business, Pool Re has paid 12 claims following terrorist incidents**

Date	Event	Losses incurred by Pool Re
April 1993	Bishopsgate, City of London	£262 million
February 1996	London Docklands	£108 million
June 1996	Manchester City Centre	£234 million
August 2001	Ealing, West London	£5 million
July 2005	London bombings	£11 million
1993 – 2001	7 other events	£2 million