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Foreword

Terrorism has become a global issue. The attacks on the World Trade Centre in September 2001 heralded a new and tragic era of atrocities which have grown in severity and the claimed lives of innocent people on every continent. Events which have become commonplace in the Middle East and Africa have now begun to strike at Europe. The death toll and economic losses continue to grow. The situation is unlikely to change in the near future. Terrorism is here to stay. Its roots are too embedded. The warped ideology which underpins these attacks is too widespread to easily eradicate.

No country in the world, however well protected, can consider itself immune from political violence. Terrorism is also evolving. Networks and cells continue to look at new methods to inflict damage and cause panic. The need for international cooperation to prevent, mitigate and better cover these horrific incidents has never been more acute. IFTRIP is part of that response.

IFTRIP brings together the world’s terrorism reinsurance pools. It was launched under the guidance of Pool Re UK in 2015, following a ten-year period of collaboration of the major reinsurance pools within in OECD network and was formally ratified at the conference in Canberra last year.

Its objectives are clear. We will combine our expertise, share experiences and best practice, promote proven risk management techniques and processes. As an organisation, it can play a key role in mitigating the threat posed by terrorism and limiting economic losses.

I am proud to welcome my peers from across the globe to Paris and to introduce the IFTRIP brochure. At this year’s gathering, we will discuss and share experience and best practice. We will also look at the development of private terrorism markets and the challenges of terrorism insurance. This brochure is unique. It details the vision and experience of pools and schemes across the globe.

This brochure offers a brief overview of the individual pools in our organisation, their scope of coverage, the loss experience, as well as some of the challenges ahead. It also looks at some of the measures being taken to reduce the insurance gap. Our stated ambition is to provide a vital resource. We will foster the spread of risk management and look to recognise and develop efficient schemes which can benefit our respective markets. The question of what constitutes effective government intervention and how we can refine our own schemes is also core to our organisation.

Most pools have been designed for property losses and have evolved in the face of new threats and requirements. However, gaps remain. These are particularly obvious in light of new technology and the methods increasingly being deployed by today’s terrorists. Some of the pools in IFTRIP now cover almost every class of business, including life and health.

I am deeply grateful to all of the pools that have dedicated time and resources to this collaborative effort. Transparency was the key consideration when preparing this document. Terrorism insurance coverage is a complex subject and we hope that this brochure becomes a reference point which provides greater visibility of the strategic role of the schemes within insurance markets and the role they play in strengthening the markets’ resilience. It may also help insurers, professionals and public authorities gain a better understanding of the different approaches being taken in each country and the level of coordination necessary to limit gaps in coverage.

François Vilnet
IFTRIP chairman
AUSTRALIA

Australian Reinsurance Pool Corporation

Background
Following the 11 September 2001 terrorist attacks, global cover for terrorism risk in Australia was withdrawn by insurers, causing a large pool of assets to be uninsured for terrorism risk. The Commonwealth Government, as well as property owners, investors and other relevant stakeholders, were concerned that a lack of comprehensive insurance cover would lead to a reduction in financing for and investment in the Australian property sector. This led to the establishment of the Terrorism Insurance Act 2003 (TI Act) which overrides terrorism exclusion clauses in eligible insurance contracts, enabling coverage of eligible losses arising from a Declared Terrorist Incident (DTI). The Treasurer of Australia must declare an event as a DTI for provisions within the Act to be triggered.

The Act also established the Australian Reinsurance Pool Corporation (ARPC) to administer Australia’s terrorism reinsurance scheme, which covers eligible terrorism losses involving commercial property, associated business interruption losses and public liability. ARPC is a Corporate Commonwealth entity within the Treasury portfolio and is currently governed by a non-executive Chair together with between four and six non-executive board members and a Chief Executive.

ARPC was initially established as a short-term Government policy measure to fill the coverage gap until the private insurance market returned to full capacity. However, successive reviews have recommended that the Scheme remain in place. In 2015, the Department of the Treasury recommended that while the Scheme should continue to be periodically reviewed, “the fact it had matured into at least a medium-term policy response should be recognised and reflected in decisions about the nature and scope of its operation”. This recommendation was made during ARPC’s 2015 Triennial Review by Treasury (which occurs every three years under the provisions of the TI Act).

Scope and Cover
Under the Scheme, the provision of terrorism cover by insurers is mandatory, but it is voluntary for insurers to reinsure their terrorism risk with ARPC. Insurers who choose to be reinsured with ARPC pay a premium to ARPC to transfer part of their liability and be provided with terrorism reinsurance in the case of a DTI.

Eligible property includes commercial and industrial buildings (including fixtures and building contents) plus associated business interruption. Commercially-owned infrastructure such as roads, tunnels, dams, pipelines and sites covered by a construction policy are also deemed eligible property. Farms can obtain cover if they hold insurance against business interruption.

Exclusions include contracts of insurance underwritten by the Commonwealth or providing cover to certain state infrastructure within Australia; marine, aviation, and motor vehicle insurance; and residential buildings. However, as part of the 2015 Triennial Review, Treasury recommended that the scope of the scheme be extended so it applies to buildings in which at least 20 per cent of floor space is used for commercial purposes and buildings with a sum-insured value of at least $50 million, whether used for commercial or other purposes. This expansion in cover is effective 1 July, 2017.

Treasury also recommended that the application of the Act be clarified to remove doubt as to whether losses attributable to terrorist attacks that use chemical or biological means would be covered. This expansion in cover is also effective 1 July, 2017.
In 2016, ARPC released a White Paper titled: Physically destructive cyber terrorism is a gap in current insurance coverage. The paper concludes that there is a gap in the property insurance market in situations where a cyber-attack by terrorists (or others) inflicts major physical damage. Since the release of the White Paper, there have been a small number of insurers that have included physical damage in their policy. However, the majority of policies still exclude physical damage and available capacity is very limited.

In addition, because the scheme is only focused on insured losses as a result of damage to property, it does not extend to life, personal injury, or workers’ compensation.

Format, premiums, reinsurance and losses
ARPC charges cedants a premium allowing for the accumulation of a pool used to fund all operations, including retrocession premiums and payments to government for the Commonwealth Guarantee, while building a reserve available to meet future claims. Premiums are calculated as a percentage of the cedant’s gross written premium in accordance with the postcode of the property being reinsured.

Premiums can only be adjusted by Ministerial Direction which occurred in 2016, when premium rates were increased for the first time since the Scheme’s inception. In the event of a DTI, holders of eligible insurance contracts will be covered, with insurers required to meet those claims in accordance with the other terms and conditions of individual policies.

Claims against the scheme are met once an individual insurer’s retention is exhausted. ARPC’s pool of retained earnings will meet claims until the agreed retrocession deductible is reached, at which point claims will be funded by the retrocession program which currently stands at $3.4 billion. The retrocession program involves ARPC purchasing co-reinsurance and comprises more than 60 participants from Australia, the UK, Europe, Bermuda, USA and Asia.

For claims above the $3.4 billion retrocession layer, the Commonwealth provides a guarantee of $10 billion. If the amount paid or payable exceeds $10 billion, the Minister must announce a reduction percentage, which has the effect of limiting the level of cover by reducing the amount payable by the insurer to the policy holder.

Future and challenges
Since its inception in 2003, ARPC has continued to modernize, to ensure it is able to fulfil its purpose. In June 2004, ARPC had reinsurance agreements with 187 cedants and more than $55 million gross written premium. By 2016, there were more than 240 cedants and $160 million premium.

In 2008, ARPC entered into a retrocession program (for the first time) totaling $2.3 billion. This was a milestone for ARPC and a positive step towards achieving the Government’s objective of encouraging the return of the commercial terrorism insurance market. It also increased the limit at which the Commonwealth guarantee would be called upon and lessened the likelihood that a reduction percentage would be required.

In 2016, some 13 years after its establishment, ARPC had $13.4 billion of total funding available for claims arising from a DTI, protecting private commercial assets with an aggregate sum insured exposure of approximately $3.4 trillion. Successive reviews have recommended that the ARPC scheme underpins Australia’s economic resilience following a DTI by facilitating the payment of eligible claims, together with the ability to draw on global reinsurance markets through a retrocession program. And, while it is optional for insurers to take out cover with ARPC, almost all commercial property insurers choose to reinsure their risk this way as it is the only way to access the Commonwealth Guarantee.
Recently, Parliament passed the Terrorism Insurance Amendment Regulations to broaden the scope of the Terrorism Insurance Act 2003 to include cover for mixed-use commercial buildings in which at least 20 per cent of the floor space is used for commercial purposes, and buildings with a sum-insured value of at least $50 million. The regulations also clarify coverage for biochemical terrorism by stating that acts of terrorism involving chemical and biological material are covered under the scheme. The changes have an effective start date of 1 July, 2017.

In 2018, ARPC will undergo its fifth Triennial Review. One area of focus for this review could be property damage losses from cyber terrorism.
Background
Before 2001, terrorism in Austria was considered by insurers to be a manageable risk regardless of the level of exposure. Most private non-life insurance policies routinely covered terrorism risks related to property and casualty loss. These risks were generally included under fire policies which provided compensation for any fire and explosion damage (except if it was war related). Terrorism was viewed as a manageable exposure, which was considered to be so marginal that the additional risk was not subject to separate underwriting and pricing. However, following the market’s reaction to the 9/11 attacks, its insurability came into question. The attacks in 2001 highlighted the increase in the potential size of losses which was in stark contrast to the level of market capacity available. Following the attacks, the amount of affordable terrorism cover available also declined significantly.

The insurance market’s reactions to the September 2001 attacks indicated that the insurance industry in Austria would not be able to manage new forms of terrorism risk without changing the underwriting conditions. Austria, like all countries, has sought to rely, as far as possible, on the private sector to find solutions to the coverage of terrorism-related risks. However, where there is evidence that the private market lacks the requisite capacity, indirect and direct government intervention may be considered as a means of increasing the availability and affordability of terrorism insurance and steps may be taken to support private market operations and enhance market efficiency.

Any government participation should be carefully tailored to avoid crowding out private initiatives. Direct government participation in terrorism risk compensation mechanisms, including some form of public-private partnership, was considered, with the implementation of a layered approach to terrorism risk coverage. This would involve: the insured, through a deductible, encouraging risk mitigation measures, insurers and reinsurers, possibly through a private risk-sharing agreement such as a co-reinsurance pool, financial markets, reinsurance, and the government acting as reinsurer (and/or possibly lender) of last resort.

Because of the potential magnitude, spread and persistence of damage caused by chemical, biological, radiological and nuclear terrorism risks (CBRN), these exposures are, for the time being, generally considered to be uninsurable by the insurance industry and are excluded from most insurance coverage. Several years after the World Trade Centre attacks, the Austrian government’s role in providing financial compensation for terror-related losses as well as for catastrophe cover / national catastrophe (nat cat) remains highly controversial. OECD countries have different and sometimes diverging views on the appropriate level of government involvement in the terrorism and catastrophe insurance markets, while the relevance of various types of direct and indirect government intervention are still being discussed at national level.

Flexible public-private schemes, which involve a layered approach to catastrophe risk coverage, appear to be a promising institutional arrangement to address the potential magnitude of losses as well as the unpredictability inherent to modern terrorism or major natural catastrophe events.

Analysis of the terrorism compensation schemes implemented after September 11 in particular highlighted has that, in most countries, government participation, possibly as reinsurer or lender of last resort, has stimulated the private sector to come back into terrorism insurance markets after having suffered heavy losses.
Government participation may also complement private market capacity, through the coverage of extreme risks that, on their own, these markets would not be able to meet. It can also encourage the restoration of terrorism insurance availability and affordability, increase terrorism insurance penetration, as well as provide some stabilization of market conditions. However, arguments have also been made that government backed schemes might slow down the emergence of purely private sector alternatives, such as the development of mutual reinsurance pools for instance.

Scope and Cover
Following the September 11 attacks, Austrian insurers in the Verband der Versicherungsunternehmen Österreichs “(VVO, the Austrian insurance association) set up a mixed co and reinsurance pool (Österreichischer Versicherungspool zur Deckung von Terrorrisiken) on 24 September 2002 and which began operating on 01 October 2002. The VVO’s primary goal in setting up the new pool was to grant affordable property cover against terrorism exposure, i.e. covering risks arising from an insured peril triggered by terrorism. The pool is open to insurers and reinsurers writing business in Austria and 99% of VVO members participate. Their share of the pool being prorated to their market share in property insurance.

The Austrian Pool represents the response of a relatively small advanced insurance market (regarded before September 11 as facing a relatively low and infrequent terrorist threat) which, even with optional terrorism insurance, would otherwise face a degree of market failure. The Austrian government has decided not to offer a third layer of cover, in the form of a state guarantee, for the time being. The Austrian Ministry of Finance has made clear that it welcomes the action taken but wishes to avoid any steps that could deter the private sector from taking measures to accommodate terrorism risks.

Format, premiums, reinsurance and losses
For the purpose of the scheme, a declaration from the Austrian government declaration is not required for an event to be recognised as a “terrorist act”. Instead, the VVO has drawn on the German definition developed by the GDV: “Terrorist acts are all acts of persons or groups of persons with a view to achieving political, religious, ethnic, ideological or similar goals, and which are apt to put the public or sections of the public in fear, thereby influencing a government or public bodies”.

Under the terms of the Pool scheme, cover for terrorism risks (limited to the territory of Austria) extends to all lines of property insurance business other than transport insurance, with a cover limit of €5 million per single event per year, and covers property insurance in respect of industrial, commercial and private lines. A further €20 million cover was available for an additional premium on request, for the first year, but this has not been offered since 2005. The Austrian Pool currently operates without a state guarantee and offers cover totaling up to €200 million without deductibles, in two layers:

- First layer / market retention, up to an annual aggregate of €75 million, to be co-insured by direct insurers, in proportion to their market share;
- Second layer / reinsurance layer of €125 million, up to a total annual aggregate of €200 million from ground up, to be underwritten by the international reinsurance market.

The Austrian Pool is subject to the following main exclusions: business interruption (except in respect of direct consequential damage); liability; marine, aviation and transport; damage resulting from failure to supply; damage due to biological or chemical contamination resulting from terrorist attack; art insurance.

Given that the Austrian state is not involved, all reinsurance and retrocession is on a non-state basis.
Compulsory terrorism insurance: Terrorism cover remains optional in Austria for most lines and is offered on a private, facultative and conditional basis. Exceptions are commercial passenger and third party liability for aviation, railways and other “no fault” liability classes, where terrorism cover is mandatory.

Compulsory Pool Membership: Pool membership is optional, but approximately 99% of VVO members (market share property insurance) belong to the Pool.

Period of Operation: The Austrian Pool has been in operation since 1 October 2002. There is currently no end date for its operation.

Losses
In the period since its creation the Austrian Pool has not had to face a serious test or a single claim.

Future and challenges
- Austria’s pool does not offer adequate cover when compared to the level of terrorism risk
- Private insurance lines are well covered but are unlikely to be the target of a terrorist attack
- There are no changes in the terrorism insurance pool for the time being
- There have been no changes in risk modelling
- CBRN risks are still excluded
- A private sector pooling mechanism is efficient but does not create adequate cover without governmental last-resort guarantees.
BELGIUM

TRIP (Terrorism Reinsurance & Insurance Pool)

Background
Following the ratification of the Belgian Terrorism Act on 01 April 2007, TRIP (Terrorism Reinsurance & Insurance Pool) was created on 01 February 2008 to provide insurance and reinsurance coverage. As of 01 May 2008, the terms of Belgian policyholders’ insurance contracts have been adapted to reflect the new legislation governing the way in which insurers are required to deal with the impact of terrorist attacks.

Participation in the TRIP Pool is not compulsory, more than 95% of insurance companies are members of the scheme. Only members of the pool will benefit from the solidarity and compensation system introduced by TRIP, i.e. the distribution (compensation) of the members’ contractual obligations in case of acts of terrorism amongst all members of the pool.

Scope and cover
The purpose of the Terrorism Act is to compensate, in a timely manner, all insured persons who may suffer damage as a result of a terrorist attack and to guarantee the stability and sustainability of the insurance sector.

The Act requires close cooperation between the public and private sectors in order to address what is a significant challenge for society as a whole. It sets out a comprehensive insurance solution to cover the damage caused by terrorism, whereby the insurers themselves continue to manage and settle the claims made by their insured parties.

The system works on three levels: the insurers are the first to act, followed by reinsurers and finally the government. The total annual cover for claims made on the basis of terrorism acts is limited to €1 billion. This amount is indexed and equals €1.2 billion as at 1 January 2017.

The definition of terrorism contained in the Terrorism Act draws on various aspects of existing definitions used in the Belgian insurance sector and the definition recommended by the OECD.

In Belgian law, terrorism is defined as “an act or threatened act organized in secret for ideological, political, ethnic or religious ends, performed individually or in groups and intended as an attempt on the lives of individuals or to either partially or completely destroy the economic value of tangible or intangible property, whether to impact on the public, create a climate of insecurity or put pressure on the authorities in a bid to impede the running and normal operation of a service or business”.

To ensure consistency, the Act refers to existing concepts and states that the Act should apply to all Belgian risks as detailed in the Act regarding Insurances. Therefore, the Terrorism Act concerns:

- Policyholders normally residing in Belgium or, if the policyholder is a legal entity, the premises of the legal entity to which the contract applies in all cases not explicitly covered by one of the points below,
- Property located in Belgium where the insurance policy in question covers buildings or buildings and their contents,
- Vehicles registered in Belgium,
- Contracts taken out in Belgium where a given contract lasts for less than four months and covers risks
incurred during a trip or holiday, whatever the class in question.

The Terrorism Act makes provision for mandatory terrorism cover in so-called “mass” insurance policies held by virtually all citizens either as private individuals or as employees, i.e. motor third party liability, fire simple risks, strict liability for public places, workmen’s compensation insurance, life assurance, personal accident and health insurance.

Terrorism cover is optional in other types of insurance contracts such as insurance against industrial fire risks, motor car comprehensive insurance, assistance and legal expenses insurance.

However, the Act does not apply to certain fields such as third party liability in the area of nuclear energy, damage to nuclear facilities, railway rolling stock, aircraft and ships, third party liability in connection with such vehicles and specific terrorism-insurance policies.

Furthermore, the Act does not apply to the theoretical cash surrender value of life insurance policies (i.e. savings built up on life insurance contracts). With regard to the coverage of nuclear risks, the Act states that only “damage caused by weapons or devices that explode due to a change in the structure of the atomic nucleus can be excluded from the insurance contract.” Specifically, this refers to damage caused by nuclear bombs. Biological and chemical risks are covered by TRIP.

The Terrorism Act stipulates that the maximum amount available to cover all events classed as “acts of terrorism” during a calendar year is €1 billion (i.e. on an annual aggregate basis). This amount is linked to the consumer price index and equals €1,225,036,249 as at 1 January 2017.

The “market-level” solidarity described above applies to all TRIP members throughout all insurance classes regardless of whether they are directly affected by an attack. In addition, the Act states that for damage to immovable property and/or its contents or for any claims resulting from damage to immovable property and/or its contents, indemnity is limited to €75 million per year and per insured party, regardless of the number of insurance contracts.

This is according to a provision which is specifically intended to cover fire insurance policies containing special risks (industrial risks) and which was introduced to the Act to avoid the entire €1 billion being claimed by either a single company or in connection with a single property belonging to a company. However, companies may take out specific insurance policies against the risk of terrorism with a view to compensating for excess risks. The higher compensation payouts associated with such policies are not covered by the solidarity-based system established by the Act.

It should be stressed that the limit of €1 billion is not applicable to workmen’s compensation insurance. The insurer must fully indemnify the individuals harmed or their claimants but also has the right to appeal to the workmen’s compensation Fund (FAT/FAO) for amounts exceeding the percentage set by the Committee and the €1 billion.

Where an event can potentially be classed as terrorism, the Terrorism Claims Advisory Committee set up by the Terrorism Act is required to meet to determine whether the event falls under the definition of terrorism given by the Act. This procedure can be initiated by the Committee itself, the Belgian Council of Ministers or one of the members of TRIP.

To ensure that claimants are compensated fairly (proportionally) and that the €1 billion indexed threshold is not exceeded, the Committee is responsible for setting the compensation percentage rate to be applied to all payouts covered by members of TRIP following an act of terrorism. If necessary, the Committee will modify
the percentage rate every six months. The decision on the final percentage will be taken by 31 December of the third year following the act of terrorism.

The contractual obligations made by members of the TRIP pool are limited to €1 billion per year, indexed. This means that, if the total calculated or estimated compensation exceeds that amount, the payouts will be limited to the ratio between €1 billion and the total amount of the payouts due for that calendar year.

In the event that the threshold is exceeded or there is not enough information to determine whether the available €1 billion will suffice to cover all payouts, compensation for damage to individuals will be prioritized. Compensation for moral damages will be awarded after all other payouts. In practical terms, this means that the Committee must set three percentages: one for personal injury, one for material damage (damage to property) and one for moral damage.

The Terrorism Claims Advisory Committee comprises representatives of the four ministers concerned, a representative of the Coordination Unit for Threat Analysis and two TRIP representatives (the CEO of Assuralia, the professional association of insurance companies) and the TRIP CEO. It is chaired by the Chairman of the Insurance Commission. A representative of the Financial Services and Markets Authority (FSMA) also sits on the Committee in an advisory capacity.

**Format, premium, reinsurance and losses**

The purpose of TRIP is to assign and distribute to its members the respective commitments required in the wake of an event which the Terrorism Claims Advisory Committee has determined is an act of terrorism.

TRIP is also responsible for collecting information on the impact of an attack and for negotiating and taking out reinsurance cover on behalf of its members.

Accordingly, TRIP set up a pool for the purpose of compensating participating insurers providing cover against Belgian risks against the financial effects of damage caused by an act of terrorism.

The system has three layers (amounts below are indexed as of 1st January 2017):

- The first layer makes provision for joint and multiple indemnity among TRIP members in respect of claims, this indemnity cannot exceed €300 million annually (i.e. a market retention of €300 million)
- The second layer provides stop-loss reinsurance cover of €625 million funded by TRIP members
- A third layer offers surety from the Belgian State in the amount of €300 million

Accordingly, total cover reaches €1,225 billion.

The fact that TRIP’s main purpose is to distribute the burden of any claims arising amongst its members and to compensate them accordingly means that it is not required to hold technical reserves in the event of a claim. Insurers themselves are still required to handle and settle directly any claims made against them by their policyholders. Appropriate technical provisions are therefore held in insurers’ own annual accounts.

TRIP makes provision for the following deductibles per event:

- A deductible of 10% of damage costs paid for Special Risks (Industrial business);
- A deductible of 10% of damage costs paid caused by a nuclear bomb for risks other than motor third party liability, strict liability for public places, workmans’ compensation insurance, Life assurance and Health insurance, with a view to informing insurers about the underwriting of such risks.
To facilitate communication, TRIP set up a website comprising both a public access area and a private section reserved for its members.

The members section can be used to handle claims (i.e. determine the compensation for the burden of losses amongst member insurers) and to request and amend the contributions payable to cover the cost of reinsurance and the association’s operational expenses.

As of 01 January 2017, the association had over 55 members which represents over 95% of the domestic insurance market. These members are both Belgian companies and companies operating in Belgium under the “freedom-of-services” (FOS) regime.

2016 will be remembered for the terrible terrorist attacks carried out on 22 March 2016 at Maelbeek metro station in Brussels and Brussels National Airport in Zaventem, which killed or injured many members of the public.

Since April 2016, TRIP has received claims from 19 member insurers. These companies represent an 85% market share in the sector.

On 31 December 2016, 1,316 victims and beneficiaries submitted a claim for compensation to TRIP’s member companies. These included 1,068 victims of the attack on Brussels National Airport and 293 victims of the attack on Maelbeek metro station.

In all, 27 victims lost their lives in these attacks: 11 at Brussels National Airport and 16 at Maelbeek metro station. There were 40 people seriously injured (25 at Brussels National Airport and 15 at Maelbeek metro station).

It is worth noting that the Commission for Financial Support for Victims of Intentional Acts of Violence and Persons Coming to their Assistance (“the Commission”) established by the law of 1 August 1985, which plays a subsidiary role with regards to those victims who are insured, received many requests for aid.

Talks have been arranged between Assuralia, TRIP and the Commission to coordinate the assistance provided by insurers and the Crime Victims Fund. The objective is to map out more clearly in future the paths leading to various sources of compensation.

As at 31 December 2016, the total cost of claims received was estimated at €136 million.

This expense can be broken down as follows:

- By type of damage suffered:
  - Bodily injuries: 85%
  - Damage to property: 10%
  - Moral damages: 5%

- By segment:
  - Civil liability: 45%
  - Workmen’s compensation: 43%
  - Damage to property: 7%
  - Other: 5%
The claims compensation system set up by TRIP was activated in April and enabled the solidarity-based division of claims amongst all the members of the pool, based on the market share of each member in the pool (annual financial compensation for terrorism claims in 2016).

Future and challenges
2016 was the first time that an event on this scale had triggered the application of the solidarity mechanism set up by TRIP. Based on this experience, both the workings of the mechanism and its funding have been proved to be effective.

A process was launched to consider how the system should be amended and/or improved.

TRIP, like other pools, is faced with new challenges such as cyber terrorism and NBCR. These risks are already included in the coverage of TRIP.
Background
The government in Denmark decided in April 2005 that a committee should evaluate the need for some kind of insurance scheme in the event of terror attacks in Denmark. The committee assessed the potential losses that Danish non-life insurance companies would suffer if NBCR (Nuclear, Biological, Chemical or Radiological) terrorist attacks occurred. Furthermore, they evaluated the possibility of buying reinsurance on NBCR terrorism from the international reinsurance market and concluded that reinsurance coverage of NBCR terrorism losses would be very limited, mainly because the reinsurance companies were unable to predict the consequences of a terrorist attack and thus could not set a price on the risk.

As a result of the insufficient reinsurance capacity, the Danish authorities concluded that there was a market failure in the reinsurance market for coverage of NBCR risks and in order to counteract this, the Terrorism Insurance Act was adopted by the Danish Folketing on 17 June 2008, which enabled the State to act in effect as a reinsurer of NBCR risks. The Terrorism Insurance Act entered into force on March 31, 2010 after the European Commission accepted the scheme as State aid in accordance with article 107 of the Treaty of the Functioning of the European Union.

The purpose of the Act was to establish a scheme to provide insurance coverage for losses arising from damage to real estate, trains, cars and ships caused by acts of NBCR-terrorism. The law is designed so that the State only steps in at the point where the non-life insurance industry would suffer such great losses that even large companies would be insolvent, and only to the extent that the international reinsurance market does not have sufficient reinsurance capacity to cover NBCR terrorism risks.

The NBCR-terror-scheme consists of the following elements:

- The legal entity
- The Terrorism Insurance Council
- A state reinsurance guarantee
- Own risk retention for the non-life insurance industry based on an evaluation of the reinsurance market and the solvency position of the non-life insurance industry
- Risk premium

According to the Terrorism Insurance Act the insurance industry in Denmark must establish a legal entity, which, among other things, shall represent the industry in the state guarantee scheme, including buying reinsurance coverage at market prices, administering payment of risk premium to the government, policy and claims administration etc. The insurance industry in Denmark established the Terrorism Insurance Pool for Non-Life Insurance (TIPNLI) on December 17, 2008. All direct non-life insurers with authorisation by the Danish Financial Supervisory Authority (DFSA) and which cover NBCR-terrorism risks will automatically participate in the Terrorism Insurance Scheme.

Branches in Denmark from other EU/EEA countries, notified to underwrite NBCR-terrorism risks, can voluntarily be members of the scheme. In addition, companies from other EU/EEA countries, notified in
Denmark to underwrite NBCR-terrorism risks as cross border insurance services, can also be members of the scheme.

The Terrorism Insurance Council is appointed by the Minister of Industry, Business and Financial Affairs and consists of representatives from the Ministry of Finance, Ministry of Industry, Business and Financial Affairs, the Danish Financial Supervisory Authority (DFSA) and TIPNLI. The Council resides under the Ministry of Industry, Business and Financial Affairs and the Danish Financial Supervisory Authority acts as secretariat to the Council.

The Terrorism Insurance Council decides whether an event arising from terror has been subject to the use of NBCR weapons and thus whether the damages are covered by the scheme. Based on an evaluation of the reinsurance market and the solvency position of the non-life insurance industry, the Terrorism Insurance Council makes a yearly recommendation to the Minister as to the level of the following year’s own risk retention for the non-life insurance industry, which establishes when the reinsurance guarantee should come into effect.

Scope and Cover
The scheme consists of a national reinsurance guarantee of maximum DKK 15 billion, which will be activated by damages exceeding the retention of the members of the scheme. The scheme implies that the government will make payment to the legal unit (TIPNLI) in the case of NBCR-terror losses in excess of the retention. The covered losses are defined as NBCR-damages to property (building and movable property) and business interruption. Further, the scheme covers hull damage to trains, motor vehicles and ships caused by NBCR terrorism.

Format, premiums and reinsurance
The scheme consists of two layers:

- Own risk retention for the non-life insurance industry. At present this is valued at DKK 9.9 billion (2017).
- State guarantee (maximum of DKK 15 billion). The second layer will only come into operation when the own risk retention has been exceeded.

The own risk retention is determined by the Terrorism Insurance Council based on an evaluation of the reinsurance market and the solvency position of the non-life insurance industry.

To assess the available reinsurance capacity in the market, the DFSA has an annual tender for an independent reinsurance broker that has to assess the price and capacity available for NBCR coverage in the reinsurance market. Furthermore, the DFSA meets with three to four large reinsurance companies, including the lead reinsurer of the TIPNLI’s own reinsurance contract, to verify the information from the TIPNLI and the broker.

The members of the scheme must pay an annual risk premium to the State for the reinsurance guarantee. The premium for the reinsurance guarantee will depend upon the NBCR insurer’s retention and is determined in accordance with section 5 in the Executive Order on the Terrorism Insurance Council. Under the current insurer retention (DKK 9.9 billion), there will be a charge of DKK 15.01 million for the state coverage.
Background

Discussions between insurers and reinsurers to establish the GAREAT began at the end of 2001 in the aftermath of the attacks on the World Trade Center and the AZF fertilizers plant explosion near Toulouse (thought to be a terrorism act at the time, however, this was later determined to be an industrial accident). French law (1986) states that terrorism insurance cover is a mandatory extension of all property policies in the market without limitation or restrictions. Following the 2001 attacks (re)insurers did not believe they would be able to cover a major property loss caused by a terrorist attack or series of attacks, particularly with the potential for extensive aggregation of losses. As a result, it became apparent that due to the potential magnitude of the losses and insurers’ inability to limit the losses or restrict the scope, the State needed to provide a guarantee against major property damage caused by a terrorist attack.

GAREAT was built based on existing terrorism schemes in Europe (Consorcio and Pool Re), with the State providing a backstop. However, GAREAT was designed with a distinctive feature that has proved to be essential for the development and the security of the scheme: the use of private reinsurance to increase the limits covered by the market before the State intervention.

GAREAT was set up at the end of 2001 as a co-reinsurance scheme in the form of a reinsurance stop loss divided in layered capacities (insurers, reinsurers and CCR), and initially provided cover for property risks above 6 million euros. Another distinctive feature of GAREAT is that insurers and reinsurers participate in the board alongside CCR, who represent the government.

Around 2005, it became apparent that some Western countries were in danger of terrorist organisations deploying weapons of mass destruction. It was clear that GAREAT’s insurance cover would need to be extended to include smaller property risks, such as homeowner’s policies. In 2006, the insurance market and the State decided to adapt the law on terrorism coverage to these smaller risks. A specific scheme was set up by GAREAT for small and medium-sized risks, specifically aimed at mid-sized insurers, whether large insurers would be able to get a specific State warranty, similarly to the natural catastrophes scheme in France.

Scope and Cover

All insurers located in France and participating in the insurance association (FFA) must cede all property risks located in France, and valued above 20 million sum insured (for large risks), to GAREAT. This limits any kind of anti-selection. GAREAT is also open to foreign insurers and captives on a facultative basis. As a result, around 95% of large risks in France are ceded to the scheme. Only around 14% of small and medium-sized risks are ceded, as there are alternative solutions in the market and insurers may include these in their reinsurance covers. There are no exclusions for the types of properties covered by the scheme and it includes all nuclear plants’ coverage for terrorism (in other countries these are often covered by a separate Nuclear Pool or excluded). Property damage and consequential losses arising from an act of terrorism sustained on French territory are also covered, even when the cause originates outside France.

The GAREAT scheme provides comprehensive cover for damage to industrial, commercial and homeowner properties and associated business interruption costs. GAREAT’s cover follows the underlying property policy in its scope and limit, and a discount for limitation of the cover amount can be applied if the insured wants to
take the related risk.

The GAREAT scheme provides some of the most comprehensive coverage in the world, as all forms of attacks, including chemical, biological, radiological and nuclear (CBRN) are covered to the full insured value of each policy. The scheme also covers physical damage caused by an act of cyber terrorism.

A very important feature of the scheme is that there is no annual aggregate limit, due to the fact that CCR coverage is based on a State warranty. There are very few exclusions and are largely limited to use of military nuclear weapons or financial losses which do not include damage a property loss.

Other classes of business are covered on different forms without warranty from the State except for the State Fund for bodily injury losses.

**Format, premiums and reinsurance**

The format for large risks consists of three layers of aggregate limits: 500 million euros for the co-insurance layer, 2,040 million euros for the reinsurance layer, and unlimited above 2,540 million for the CCR layer (this limit has been revised upwards each year following a predetermined calculation). The yearly underlying premium for the scheme is around 200 million euros. This figure has remained stable for several years and reflects an average 15% rate on property policies. Private and public reinsurance accounts for around 30% of the premium, which is a significant decrease since the scheme’s inception due to the fact that the reinsurance market has become more competitive in this field.

GAREAT’s approach to small and medium size risks is similar in structure as for the large risks and limits (if estimated at the market level) are similar to the large risks, but the scheme applies only to the GAREAT market share for these types of risks (around 14% of the market). The yearly underlying premium for the GAREAT scheme is around 20 million euros. The average rate for this segment is around 1% on property policies. Private and public reinsurance accounts for around 48% of the overall premium, a significant decrease since the scheme’s inception.

Unlike some other schemes, GAREAT does not hold reserves against future losses or create a buffer to distance the State from the risk. Instead, all reserves are set aside individually and on a voluntary basis by insurers, reinsurers and CCR. Net premiums after reinsurance, losses and own costs, are returned to insurers by GAREAT.

**Losses**

In the event of a loss resulting from an act of terrorism, each member of the scheme must first pay losses up to an annual aggregate threshold, within a first co-insurance layer. This is determined individually by their market share of terrorism premiums ceded to the scheme. When losses exceed that threshold, reinsurers pay into the second layer up to another annual aggregate threshold. If the loss then exceeds this threshold, CCR, the public reinsurer in France, will pay on behalf of the French Treasury and if necessary with the assistance of the State budget. In the event of a loss exceeding 100 million euros, CCR will determine the attack circumstances and the loss amount.

Since its inception GAREAT has not had any major property losses. However, there have been several small scale losses among its portfolio of small and medium sized risks, mostly from regional or national terrorism acts. Overall these represent around 1% of the total aggregate premium.
The recent, tragic attacks in Paris and Nice, which caused significant injury and loss of life, were covered by the special public entity FGTI, which is funded by charges levied on property policies. GAREAT is only called upon when there is a property loss.

Future and challenges
GAREAT was the first Private Public Partnership for terrorism reinsurance established after the September 11 Attacks. Over time its level of coverage has improved, and it has extended its scope to include small risks. Many other pools were founded afterwards based on the same model. These pools are mainly in Europe, reflecting the threat which the continent faces from domestic and international terrorism. Some pools in Europe, like those in the Benelux, have been extended to cover all classes, including life and bodily injury.

The GAREAT scheme has been designed to adapt to different situations and scenarios, and has evolved according to new threats and new requests by insureds and insurers. However, it remains focused on property classes. It has proven itself to be an efficient mechanism to protect insureds and create value for the (re)insurance market, through allowing for payment of future losses. There are also still some gaps in coverage. However, these are being discussed in the market and could improve the protection of insureds in the case of major attacks.

One of the challenges ahead is that since the creation of various pools, the terrorism landscape has changed significantly. Terrorists' motivations have shifted from targeting landmark buildings, mainly in the UK and the US, to targeting people across the globe. There also new threats like cyber-terrorism which are increasing the potential magnitude of future losses. Although there are a wide range of pools with different features, gaps in coverage remain. However, more capacity should become available in the (re)insurance market including CBRN cover.
Background
France offers one of the world’s most extensive forms of coverage against acts of terrorism. Since 1986, the date on which specific legislation came into effect, property coverage against attacks and acts of terrorism has been compulsory for both business and personal property insurance policies. This coverage applies mainly to property damage resulting from a terrorist attack or an act of terrorism occurring on national territory. Additionally, bodily damage is covered by a public fund “Fond de Garantie des Victimes des Actes de Terrorismes et d’autres Infractions – FGTI” (Guaranty Fund for the Victims of Terrorism and other Offenses).

The French market took measures to put into place coverage solutions adapted to its needs. CCR played an essential role in this endeavor.

Scope and Cover
Under Article L 126-2 of the French Insurance Code (Code des Assurances), it is mandatory for insurance policies covering Property Fire Damage on national territory and damage to land motor vehicles, to cover “… direct material damage to the insured property caused by a terrorist attack or act of terrorism... sustained on national territory.” The terrorist attacks and acts of terrorism referred to in that article are the offences defined by Articles 421-1 and 421-2 of the French Criminal Code (Code pénal). The scope of the compulsory cover extends to acts of terrorism committed using nuclear, biological, chemical or radiological agents (NBCR), as referred to in Article 421-2. In addition, following the introduction of the January 23, 2006 French Act, cover extends to any material damage sustained on national territory, which may result from an attack perpetrated outside its borders, such as contamination by chemical agents, for instance.

Scope of compulsory coverage
- Policies covering Property Fire Damage located on national territory
- Motor insurance policies
- Aircraft hull insurance policies (aircraft used for non-commercial or non-profit purposes, with a value of less than €1 million)
- Vessel Hull insurance policies (marine, lake and inland waterway vessels used for pleasure boating, with a value of less than €1 million)

Compensable losses
- Direct Material damage
- Financial losses resulting from Direct Material damage
- Costs related to property decontamination, excluding decontamination and containment of debris
- Business interruption covered by the policy, as a result of material damage.

Compensation limits
- Limits and excesses stipulated in the Fire cover policy will apply, except in case of large risks (as defined in point 2 of Article L 111-6 of the Insurance Code), for which different limits and excesses may be agreed, subject to certain conditions
- The combined total of the losses and the decontamination costs of a building, may not exceed the market value of the building or the total sum insured
Exclusions from the scope of the compulsory cover

- Policies underwritten in the Construction Liability line
- Aircraft Hull insurance cover with a value of less than €1 million, used for commercial purposes
- Vessel Hull insurance cover for marine, lake and inland waterway vessels with a value of less than €1 million, not used for pleasure boating
- Cargo and Railway Rolling Stock insurance cover
- Financial loss or business interruption not resulting from covered material damage
- Business interruption “caused by risks located abroad”
- Terrorism insurance policies covered by a specific GAREAT agreement
- Losses sustained in French Polynesia, French Southern and Antarctic Territories and New Caledonia

CCR is authorized by Article L 431-10 of the French Insurance Code to provide unlimited State-guaranteed reinsurance solely for losses falling within the scope of the compulsory cover provided for in Articles L 126-2 and R 126-2 of the said code.

Specific protections in place
The September 11, 2001 terrorist attacks led a majority of reinsurers to exclude the largest risks from Terrorism cover, provided for in Non-Life treaties. This decision had a particularly serious impact on French insurers, who are legally bound to cover all losses caused by acts of terrorism. This led to the opening of negotiations between insurers and reinsurers, under the auspices of the public authorities, with a view to implementing a scheme designed to avoid as much as possible any cover gaps. Public authorities with CCR negotiate a multi-year framework for the public reinsurance modalities. The current one will end 31.12.2017.

For Large Risks (SI above 20m€), these negotiations led to the creation, in 2002, of an Economic Interest Grouping (G.I.E.), GAREAT (Gestion de l’Assurance et de la Réassurance des Risques Attentats et Actes de Terrorisme - Management of the Insurance and Reinsurance of Risks of Terrorist Attacks and Acts of Terrorism), the purpose of which is to set up a mutual co-reinsurance scheme between its members, providing them with unlimited State-guaranteed cover through CCR. A market agreement requires insurers affiliated with the French professional insurance body (FFA) to cede their Terrorism Risks systematically to GAREAT’s Large Risks section. All other French or foreign insurers able to cover such risks may likewise, join GAREAT’s Large Risks section on an individual basis, in order to benefit from CCR’s unlimited State-guaranteed cover.

They are thus bound to cede all eligible risks to the grouping.

Large risks are defined as those risks for which the insured sum is €20 million or more.

The GAREAT Large Risks section protects its members by providing a pooled Annual Excess of Loss reinsurance scheme to the market, the limits of which are set at €2.540 billion for 2017.

CCR completes this scheme by providing GAREAT’s Large Risks section with unlimited State-guaranteed cover above this limit. This cover only concerns risks in the scope of the compulsory cover. Risks and insurance covered by GAREAT’s Large Risks section outside this scope are not taken into account under this cover. The only exception to this rule, relates to railway rolling stock, which is covered by CCR with the State guarantee, up to a limit of €120 million. This arrangement gives GAREAT Large Risks’ Members access to some of the broadest covers in the world.
For small or medium risks, no market agreement has been concluded into, but CCR has been authorized by law, since 2006, to offer insurance companies or groups (such as GAREAT’s Small and Medium Risks section), upon request, a reinsurance treaty with unlimited State-guaranteed cover.

Small and medium risks are defined as those for which the sum insured is less than €20 million.

The underwriting conditions for this reinsurance treaty are the same for all the insurers subscribing to it. It is an annual Excess of Loss treaty for which the “intervention threshold” and the pricing correspond to a percentage of the premiums written under Property Damage (Commercial, personal and agricultural) and Motor policies as defined by the Prudential Control and Resolution Authority (Autorité de Contrôle Prudentiel et de Résolution). Since January 1, 2013, this treaty has a minimum intervention threshold of €20 million.

The intervention threshold (Annual Excess or Priority) corresponds to the following total amounts:

- 20% of the premiums written under “Property Damage” policies for which the total sums insured are strictly less than €6 million
- 50% of the premiums written under “Property Damage” policies for which the total sums insured are €6 million or more and strictly less than €20 million
- 2% of the premiums written under “Motor Policies – Other Covers”

The next framework is under discussions with a common willingness for simplification with continuity for a fair approach of the underlying risks.

Modeling
To fulfill its mission, CCR invests in modeling tools. Unlike natural disasters that encompass a variety of risks, terrorism is a specific risk which can at times be difficult to identify. Furthermore, the frequency of its occurrence fluctuates in conjunction with global geopolitical tensions. In addition, to “conventional” terrorism (explosions and conflagrations), experts and intelligence officers agree that terrorist groups are intensifying their efforts to obtain and ultimately use NBCR-type weapons.

An NBCR-type act of terrorism is today a credible threat, even if the specifics of such an attack (where? when? how?) are difficult to predict and make the development of a probabilistic model even more difficult. Modeling this type of event appears out of reach for the time being as the conceptual challenges of formalism and mathematics render such an approach unreliable. Estimating the annual probability of such an event occurring by accurately quantifying the feasibility of an attack, the interest in striking a given target, the motivation of a terrorist and the worldwide geopolitical situation are just some of the challenges limiting our ability to generate a realistic probabilistic view of this risk.

On the other hand, even on the basis of a deterministic scenario, numerous parameters, such as the exact source positioning, the quantity of explosive, the nature of the NBCR substance dispersed, the meteorological conditions (wind speed and direction, rain), etc., can be varied. Using this approach, CCR is now able to access a multivariate model providing a view of this risk, which goes beyond the simple deterministic approach and which lends weight, for any given scenario, to the costs generated by the modeling of anywhere from several dozen to many hundreds of deterministic calculations. The model used by CCR consists of several modules:

- A potential target catalog, such as embassies, top tourist attractions, places of worship, airports, train stations and industrial sites – in particular those with links to the petrochemical or nuclear industries;
A hazard module which draws on state-of-the-art scientific knowledge to:
  - assess the zone affected by the explosion blast;
  - calculate the geometry and mass distribution of the NBCR substances in the plume;
  - plot the course of a plume carrying NBCR substances, taking account of realistic meteorological conditions;
- An insured risk accurate geo-localization module incorporating insured cover characteristics;
- A loss calculation module, combining hazards and risk exposures and enabling the loss evaluation for each insurance policy;
- A financial module giving weight to all underlying deterministic calculations, to determine the probable cost range for a given scenario.

This operational model enables CCR to evaluate its risk exposure, that of its clients, and that of the French State, for NBCR-type “Hyper-Terrorism” scenarios.

**Losses**

As of this date, no act of terrorism has caused damages requiring CCR’s cover to be called into play, either in terms of large risks or in terms of small and medium risks. Aggregate annual retention of all treaties combined is €3.8 billion for small and medium risks and €2.540 billion in 2017 for large risks.

**Future and challenges**

The present compensation scheme covering acts of terrorism expires on December 31, 2017. The year 2017 will therefore be marked by discussions among the different stakeholders: French insurers via their professional organization FFA, GAREAT, CCR and the French State.
GERMANY

Extremus

Background
Germany suffered from terrorist attacks in the seventies and eighties, committed by the Red Army Faction (RAF). The RAF focused on killing public figures representing the establishment. However, it was not until the 9/11 attacks that the reinsurance market took the decision to exclude losses due to an act of terrorism. The primary market followed suit in view of the missing reinsurance capacity.

Under the leadership of the German Insurance Association (GDV), a uniform definition of terrorism was developed and a solution was agreed to form a specialist insurer for writing terrorism cover. 17 insurers and reinsurers founded EXTREMUS in September 2002 after obtaining the Government’s agreement to back this format.

EXTREMUS acts as primary insurer, issuing the policies on its own paper. The company buys reinsurance from its shareholders, from other companies active in the German market and from international reinsurers. The scheme is not mandatory, nor is it mandatory for insurers to offer terrorism coverage for larger risks. Primary insurers might recommend their clients to EXTREMUS if they wish to purchase terrorism insurance.

Scope and cover
The definition of terrorism used by EXTREMUS reflects the standard exclusions used in the primary policies. EXTREMUS covers commercial and industrial property including business interruption. The coverage has been extended to include suppliers/customers contingency losses, business interruption losses due to failure of external supply services/utilities and access restrictions with a sublimit of 1% of the loss of profit, up to a maximum of €10 million. All policies provide for a standard deductible of €50 000. EXTREMUS is eligible for risks/policies exceeding €25 million only. This is part of the agreement between the Government and the GDV regarding EXTREMUS, so the primary market may continue to provide coverage for smaller risks. Primary companies might charge an additional premium.

The scheme does not include aviation, marine, life or personal accident, as sums insured under life or personal accident remain relatively low. Nuclear, biological or chemical (NBC) contamination is excluded. All property has to be located within Germany and losses have to occur on German territory.

EXTREMUS covers the full limit, including a 10% cost allowance up to a maximum limit of €1.5 billion per contract/client and in the aggregate.

The claims handling will be carried out by the primary insurer, or, for larger risks involving a number of insurers, by a committee of insurers including EXTREMUS to ensure a non-problematic compensation of the insured regardless of the final confirmation of as terrorism attack.

Format, premium, reinsurance and losses
EXTREMUS is a limited (insurance) company falling under regulatory supervision, and, as such, has to to fulfill all regulations to comply with the Solvency II regime.
EXTREMUS has developed a tariff based on an assessment of the character and location of the risk. The tariff is divided into three regional classes and an assessment of the insured's activities.

The structure has remained basically unchanged since it was established: EXTREMUS buys reinsurance from the private re/insurance market up to a threshold, before the Government is required to intervene. This did not allow the company to build up substantial reserves of its own.

Nevertheless, the company was able to follow the Government’s expressed goal of higher private risk retention and increased its retention by € 500 million to € 2.5 billion in 2016, followed by a € 7.5 billion guarantee by the state.

Thus far, no indemnifications have been paid out by EXTREMUS under the main program. The severe terrorism attack on December 19 in Berlin did affect one insured, but the loss remained within the deductible.

**Future and challenges**

The Governmental involvement –which is indispensable - does not allow EXTREMUS to provide its clients with the coverage they need for their international activities.

EXTREMUS started offering additional coverage for clients such as independency losses within Germany, the European Union, Ireland, Liechtenstein, Norway and Switzerland, as well as direct suppliers/customers contingency losses from/to the aforementioned countries, including the failure of public power/energy suppliers. Denial of access by order of public authorities following an immediate threat of a terrorist attack is a third element of coverage in this offering, which is privately financed in its entirety. The limits offered are € 50 million for each element and in the aggregate.
NETHERLANDS

NHT (Dutch Terrorism Reinsurance Pool)

Background
The Dutch Terrorism Reinsurance Pool was founded in July 2003. The terrorist attacks on 11 September 2001 resulted in a worldwide reaction in the insurance market. Until the attacks on the New York Twin towers, terrorism was an insurable risk in the Netherlands. However, after these attacks it became clear that the financial consequences were severe and impossible to calculate. Individually, insurers were no longer prepared to provide cover for damage caused by acts of terrorism.

The Dutch Government as well as the Dutch insurance industry believed that the development of a government-backed terrorism insurance scheme was necessary. They decided to establish the Dutch Terrorism Reinsurance Pool (NHT).

Scope and cover
Every insurance company which does business in the Netherlands, and which is permitted to do business, can become a member of the NHT.

The NHT serves as a reinsurer for terrorism risk. Any insurance company permitted to do business in the Netherlands can become a member of the NHT. The members of the NHT are insurance companies (life, non-life, property, automobile, liability and health insurers), reinsurance companies and the Dutch government. Membership is open for all branches of insurance with the exception of nuclear cover. Although membership is not compulsory, about 95% of all the insurance companies in the Netherlands are members the aggregate limit amounts to 1 billion euros per year for all damages due to terroristic acts.

Limit
The aggregate limit is provided by:

- Insurance companies 200 million euros
- Reinsurers 750 million euros
- Dutch Government 50 million euros

The rationale behind the NHT is that all insurers remain responsible for the insurance cover provided as well as contact with the insured and the claims handling. When the NHT was established, a special insurance clause was introduced. Every insurance company that becomes a member of the NHT must implement the “NHT clause” in the policy wording. The clause explicitly states that any compensation paid under the specific insurance is dependent on the amount the insurance company collects from the NHT, when a claim is caused by an act of terrorism. This means that no changes are made in any specific policy wording. All the insured events are still applicable but the claim amount paid to the insured (or anybody else who is entitled to get compensation from the insurance company) is dependent on the compensation from the NHT.

The scope of the NHT is limited to Dutch insured risks. A risk is considered Dutch if

- The insured’s real estate is situated in the Netherlands.
- The insured’s vehicle is registered in the Netherlands.
The insurance on a holiday or trip is underwritten by an insurer in the Netherlands.

**For any other insurance**

- The policy holder lives permanently in the Netherlands.
- A commercial policy holder holds an insurance policy for a permanent office in the Netherlands.

**Premium and Cost**

On an annual basis, the members pay their share of the reinsurance premium and the operational cost of the NHT. The individual share is a proportional figure of the market share (gross premium income Netherlands) of a member company.

**Losses**

**Process**

When an insurance company is notified of a claim from an insured, which the insurer believes is caused by an act of terrorism, they will report the details of the claim to the NHT. The NHT will decide if the claim is due to an act of terrorism. If the NHT decides that the claim was not caused by a terrorist event, it will not be handled by the NHT. If the NHT decides that it was indeed caused by terrorism, the NHT will communicate this not only to the insurer which reported the claim but also to all other insurance companies that are members of the Pool. Members are advised by the NHT to report all claims which may be related to an event defined as terrorism by the NHT. The NHT only communicates with its members. Communication with policy members is the responsibility of participating insurance companies.

**Compensation percentage**

The total aggregate limit for the NHT is 1 billion euros. In the event of a severe terrorist attack the limit of 1 billion euros a year may not be sufficient, and in that case the compensation to all members will be decreased. This will be done by determining a percentage lower than 100% depending on the cost of claims which have been reported to the NHT. For example, if a claim costing 2 billion euros is reported then the percentage will be set at 50%. The reason for this is that the NHT wants to compensate as many people as possible. For the same reason there is a limit on compensation for property damage. The limit has been set at 75 million euros per a single property.

In the case of multiple events in one year, there is a possibility that the compensation percentage (fixed after the first attack) should be lowered. If that is the case, the lower percentage is only applicable for claims reported to the NHT after the lower percentage has been announced. Conversely, if the actual claim amount is lower than first estimated, the higher percentage is applied for all damages.

**Future and challenges**

To date, there have been no terrorist attacks in the Netherlands. However, many insurers are convinced that a terrorist event could take place in the near future. We are aware that the threat of terrorism has become more serious. Looking at the tragic events in Paris, Brussels and Berlin it seems highly unlikely that the Netherlands will be spared from such an event. There are currently discussions about the aggregate limit, specifically whether the current limit is sufficient.
RUSSIA

RATIP (Russian Antiterrorism Insurance Pool)

Background
The increase in the number of terrorist attacks at the end of the twentieth century and beginning of the twenty-first century highlighted the need to provide reliable insurance protection against terrorism risks. Individual insurance companies do not always have sufficient financial resources to provide insurance for large industrial, transport and other businesses from the risk of terrorism. To provide cover, they need strong reinsurance protection and the support of other participants in the insurance market. To meet the growing demand for reinsurance capacity, Russian insurers pooled their resources. RATIP, the Russian Anti-Terrorism Insurance Pool, was therefore established on December 20, 2001 by Russia's six leading insurance companies.

The efforts of the Pool are focused on the following:

- Development of national reinsurance capacity against terrorism and sabotage risks
- Creation of a unified tariff for terrorism and sabotage risks
- Development of an insurance product (insurance conditions) for terrorism and sabotage risks
- Monitoring the financial stability of its members

Reinsurance of terrorism risks is obligatory for all members of the Pool. Pool members use the centralized automated control and workflow system (ACWS of RATIP), implemented specifically for the Pool, which allows them to produce online reinsurance of the risks. RATIP recently expanded its membership criteria and now accepts Belarusian and Azerbaijani companies as members of the Pool.

Scope and cover
Terrorism insurance is not compulsory in the Russian Federation. RATIP acts as an independent Russian reinsurer against the risks of terrorism, sabotage, strike, riot and civil commotions (SRCC).

The “terrorism” and/or “sabotage” and/or “SRCC” (re)insurance risks covered by RATIP relate to property insurance contracts, including construction risks. Risks eligible for coverage, irrespective of whether they were taken on the basis of contracts of direct insurance, coinsurance or incoming facultative reinsurance, are as follows:

- Property insurance of legal entities against fire and other perils
- Machinery breakdown
- Insurance of electronic devices
- Insurance of construction risks (CAR/EAR)
- Insurance losses from business interruption (only in addition to property coverage)
- Cargo insurance
- Insurance of railway vehicles
- Car insurance (owned by legal entities)
- Property insurance for individuals (excluding insurance of motor vehicles owned by individuals)
- Third party liability
IFTRIP
International Forum for Terrorism
Risk (Re)Insurance Pools

General exclusions
- Chemical, biological, biochemical or radioactive exposures (as per CL370)
- Exposure to asbestos of any type
- Fines and penalties
- Mysterious disappearance or unexplained loss
- Effects of mold, fungi and spores or other microorganisms
- Cyber Attack (CL380)

Property section exclusions
- Airplane or any other aerial device or vessel
- Any ship or riverboat
- Animals, plants and living creatures of all kinds

RATIP covers risks located in Russia, former Soviet Union countries and overseas risks with Russian interests.

Format, premium, reinsurance, and losses
RATIP’s capacity is USD 240 million and consists of an excess layer placed with Lloyd’s and a primary layer retained by the Pool’s members.

Since its foundation RATIP has paid seven claims, most of which were related to Russian embassies in Syria, Afghanistan and Indonesia. RATIP’s loss ratio since its launch is 5.2%.

Future and challenges
This year RATIP plan to start cover the political violence. During a cyber trigger RATIP would develop the cyber coverage.
Background
Sasria was formed in 1979 after the increase in protests following the 1976 Soweto uprisings in South Africa. During the period, the insurance industry decided that it could no longer underwrite losses arising from politically motivated acts of civil disobedience. Since there was no insurance covering assets against strikes and riots available in the private sector, the South African government and South African Insurance Association decided to form a short-term insurance company focusing on political risk.

Sasria’s mandate was extended in 1998 to provide cover for non-political perils such as strikes, labour disturbances and terrorism. Sasria was also converted from a non-profit organisation to a public insurance company.

Sasria is wholly owned by the South African government; however, it is not underpinned by any government guarantees. For this reason, apart from its legislated monopoly to insure special risks, it operates and manages its risks in the same way as other insurance companies in South Africa.

Scope and Cover
Sasria’s legislative mandate is to offer insurance to all individuals and businesses that own assets in South Africa against losses caused by events related to civil commotion, public disorder, strikes, riots and terrorism, all of which have the potential for catastrophic financial loss. Since Sasria has a monopoly, it is not permitted to refuse or decline cover to any individual or business in South Africa. However, Sasria does not provide cover for attacks involving chemical, biological, radiological, and nuclear devices.

Sasria provides cover for personal and commercial property: material damage, business interruption, money, goods in transit, and motor and construction risk, but does not cover life or personal injury.

Sasria sells insurance cover through all registered insurance companies which act as agents. Its cover is sold as an add-on to existing insurance policies. In essence, this means that all day-to-day administration and collection of premiums is undertaken by insurance companies and Sasria only ever comes into direct contact with a client in the event of the settlement of a claim.

All risks are underwritten up to a loss limit of 500 million South African Rand (ZAR). Any policyholders that require additional cover can purchase an additional 1 billion ZAR cover (Wrap cover).

Format, premiums, reinsurance and losses
Sasria retains all risk under policies with a loss limit of 500 million ZAR. Sasria is protected by a catastrophe reinsurance treaty underwritten by the global reinsurance market against event losses in excess of company retention. With regards to wrap cover policies, it retains only 20% of risk and the remaining risk is reinsured to the global reinsurance market.

Since insurance agents sell Sasria insurance cover, Sasria handles all claims and pay for all claims. No excesses or deductions are applied to policyholder claims.

Sasria’s risk retention has increased over time as its reserves have grown. In 2016, its reserves stood at approximately 5.4 billion ZAR and its SCR cover ratio at approximately 230%.
In the 2015 and 2016 financial years, Sasria’s gross written premiums amounted to 1.52 billion ZAR and 1.68 billion ZAR respectively. Approximately 80% of policyholders are commercial policies with the remaining customers being personal policies.

The incurred claims for the 2015 and 2016 financial years amounted to 441 million ZAR and 587 million ZAR respectively.

**Future and challenges**

Given Sasria’s outsourced business model, the biggest challenge it faces is the quantification of exposures in South Africa. This is a challenge that a number of insurance companies face in the South African market.

With regards to cyber terrorism, Sasria covers property damage resulting from cyber terrorism. Terrorism has traditionally not been a significant risk in South Africa; however, this may change given the rapidly evolving global environment.

Financial inclusion has been a challenge for the South African financial industry. Sasria aims to assist the insurance industry in transforming the sector and ensuring that all South Africans have access to insurance.

Lastly, the socio-economic challenges facing South Africa have resulted in a significant increase in claims over the past three years. Despite the increase in gross written premium, Sasria’s loss ratio for the year ending March 2017 is expected to be around 45%, which is the highest in the history of the company. This deterioration of risk is driven by damages as result of protests, either by angry commuters, students or employees. This trend is expected to continue, but the risk of terrorism remains low.
SPAIN

CCS (CONSORCIO DE COMPENSACIÓN DE SEGUROS)

Background
Spain was one of the first countries in the world to develop a system covering terrorist attacks and other extraordinary risks by means of a State-owned institution, named Consorcio de Compensación de Seguros (CCS).

The origin of CCS dates back to 1941, when it was established as a provisional insurance tool to help the Spanish insurance industry deal with large insured losses resulting from the Spanish Civil War (1936-1939). CCS, which was also used to cope with a series of major natural and man-made catastrophes in the 1940s, was established in 1954 as a permanent and complementary tool at the service of the Spanish insurance market. Since then CCS has managed the Extraordinary Risk coverage scheme, which includes natural catastrophes and man-made risks (terrorism among them).

1991 was a momentous year in the history of CCS, when the current Legal Status came into force, restructuring and adapting the organization to the requirements of the European Community, to which Spain became a member in 1986.

CCS is a public business institution attached to the Ministry of the Economy, Industry and Competitiveness under the Directorate-General for Insurance and Pension Funds. It has its own legal nature and enjoys full authority to act. In its insurance activity CCS is subject to the same legal provisions of private insurers and holds its own assets separate from those of the State. Its income is solely derived from premiums, surcharges and investment returns.

The executive body of CCS is its Board of Administration, chaired by the Director-General of Insurance and Pension Funds and composed of 14 members, split on a parity basis between senior officials of the public sector and CEOs representing the private insurance sector.

CCS performs many different functions in the Spanish insurance field but probably the most important one is the management of the Extraordinary Risks Insurance Scheme. The concept of Extraordinary Risk is defined by Law and comprises both natural (flood, windstorm, earthquake, tsunami, etc.) and man-made risks, terrorism being included in the latter as well as other violent acts resulting from rebellion, sedition, riot and civil commotion, together with the damage caused by the armed forces or law enforcement agencies in times of peace.

In Spain it is compulsory to extend the cover of Extraordinary Risks for most insurance lines of property (residential, commercial, industry, civil works, and motor and railway vehicles), life, personal accidents and business interruption.

It is important to underline that CCS is not a pool, but a public insurer, that covers terrorism risk by including it within the cluster of Extraordinary Risks. This is a public-private partnership insurance solution defined by law, for which CCS provides coverage whenever these risks are not covered directly and explicitly by the private insurer.
Scope and cover
The main principles of the Extraordinary Risks Scheme are:

- Compensation: among geographical areas, among different risks included in the scheme, and in time, by creating an equalization reserve
- Universality: given the compulsory nature of the extension of the coverage, thus avoiding adverse selection and providing a wide coverage offer at an affordable price
- Partnership with the private sector, making feasible the scheme, both conceptually and operationally

CCS directly covers damages resulting from any of the Extraordinary Risks (terrorism included) for the properties and persons included in the original policy underwritten by any private insurer for the same amounts and conditions in the original policy, and provided that none of these risks is expressly assumed by the insurer issuing the base policy. In these cases the involvement of CCS is automatic, not requiring any kind of official declaration. CCS receives claims either from the policyholder or from their insurance company or intermediary, adjusts losses and pays the compensation directly to the policyholder. Personal damage is covered, from Extraordinary Risks (terrorism thus included) occurring both in Spain and abroad, for all Spanish residents with a personal injury policy underwritten in Spain.

CCS applies some deductibles. These are not applicable to motor vehicles, residential properties or personal injury.

Format, premium, reinsurance, and losses
Once the policyholder underwrites a policy with any private insurance company in Spain for personal injury (life and accident, even where these covers are taken out as a complement to another type of insurance or as part of a pension plan), for property (fire or other property damage –theft, glass breakage, damage to machinery, electronic equipment and computers-, motor car third party liability and railway vehicles) or for business interruption, the Spanish law obliges to extend the coverage of those particular policies to Extraordinary Risks and therefore to pay a surcharge on the sum insured.

This surcharge is calculated considering risks and claims rates globally, tariffs depending only on the line of insurance and on the type of exposure, and are applied as a per mille percentage of the sum insured. For example, it is 0.08‰ for residential properties, 0.18‰ for shops or 0.28‰ for industrial properties. The surcharge for personal injury is 0.005‰. Private insurers are tasked with collecting the surcharges along with their premiums and with depositing the surcharges with CCS on a monthly basis minus a collection fee of 5%. In the current conditions in the Spanish market, and taking into account that around 115 million policies are covered against Extraordinary Risks by CCS, this means that CCS has a mean yearly income of about 700 million Euros. For the last ten years, the average combined ratio is around 55%, therefore a stabilization reserve, endowed with the annual profits after taxes, is being built up specifically for the Extraordinary Risks that currently adds up to nearly €8 billion. Due to the current level of this stabilization reserve, it is not deemed necessary for CCS to buy reinsurance, although there is no legal impediment to do so should the circumstances so require. CCS also enjoys a State guarantee in case a particular event or chain of events exceeds its financial capacity, but this guarantee has never been used in CCS’s lifetime.

During the last 30 years (1987-2016), CCS has paid around €7.1 billion (in 2016 Euros) in compensation under the Extraordinary Risks Scheme. 6% of these compensations (€452 million) were due to terrorism claims: 78% of those payments for terrorism have been for damage to property, 21% for personal injury and 1% for business interruption (although business interruption insurance policies were only included in the
Extraordinary Risks Scheme in 2004).

At current prices, CCS’s most expensive losses from terrorism events were an ETA attack to a telephone exchange building in 1982 (€55 million), an ETA attack to a multi-storey car park at Madrid Airport in 2006 (€49 million) and the Madrid Train Bombings, of jihadi origin, in 2004 (€50 million, mostly personal injury). It’s worth noting that after ETA declared a unilateral and unconditional ceasefire in September 2010, the yearly mean of €24 million from terrorism claims in the 2001-2010 decade has dramatically gone down to a yearly mean of €1 million in the 2011-2016 period (with less than €15,000 in 2016). Most losses incurred in these late years are due to personal injuries from terrorist attacks outside Spain.

Future and challenges
If the Spanish system for the insurance of Extraordinary Risks has proven anything, it is its validity and capacity for adaptation to the different circumstances along its long lifetime. As these assets remain unchanged, there is no reason to believe that the system will not be able to adapt to the constantly evolving national and international environment.

The challenges to providing terrorism insurance in Spain are the same as those of other Western Democracies; the jihadi terrorism and cyber-terrorism. For the latter, in principle for CCS there shouldn’t be any differences to provide cover for damage from cyber terrorism damages to any other kind of terrorism damage, but the key point is to define mechanisms, criteria or procedures to establish the difference between a cyber-terrorist attack and other types of cyber-attacks.

The state-owned nature of CCS, together with its strong, well-tested alliance with all public institutions on the one side, and the whole Spanish insurance sector on the other, makes it perhaps easier for CCS to establish a dialogue with all relevant stakeholders to further refine coverage, continue reducing its surcharges and make necessary adjustments to the Scheme.
Background
Pool Re was established in 1993 in response to an insurance market failure triggered by the terrorist bombing of London’s Baltic Exchange. The costs of the Provisional IRA’s mainland bombing campaign in the 1990s led reinsurers to withdraw cover for terrorism-related damage, which compelled insurers to follow suit.

Pool Re was founded by the insurance industry in cooperation with, and funding from, Her Majesty’s Treasury, to create a private-sector solution in support of a public policy objective. Pool Re is a mutual reinsurer whose Members comprise the vast majority of insurers and Lloyd’s Syndicates which offer commercial property insurance in Great Britain. Membership of the scheme affords risk carriers a guarantee which ensures that they can provide cover for losses resulting from acts of terrorism, regardless of the scale of the claims.

The scheme, which is recognised as a leading example of public/private partnership, is owned by its Members, but is underpinned by an HM Treasury commitment to support Pool Re if ever it has insufficient funds to pay a legitimate claim. Pool Re pays a fee to Government for this guarantee, and will repay the money over time if it ever used this guarantee.

Scope and cover
Pool Re’s primary role is to enable the UK commercial insurance market to underwrite the threat of terrorism to commercial property at relatively risk-reflective rates, by mitigating their exposure to the catastrophic losses associated with major attacks. Pool Re thereby acts as an enabler to the economy. The Scheme provides comprehensive cover for damage to commercial property and associated business interruption costs. Central to the proposition is the integration of Pool Re’s cover with the Members’ clients’ underlying property policies.

It is possible to cover most types of commercial property under the scheme: buildings, their contents, site property, construction projects, and plant and machinery. It is also possible to cover business interruption losses arising from damage to such property. The scheme does not cover property insured under marine, aviation, or motor policies, nor property on licensed nuclear sites, for which separate arrangements are in place. Because the Pool Re arrangements are concerned only with losses which follow from damage to commercial property, it does not extend to life or personal injury. Nor does the scheme protect private property, although it can cover residential property insured by a firm (such as a block of flats owned by a property company).

To be eligible for coverage under the scheme, the property must be located in England, Scotland, or Wales. It does not apply to property in Northern Ireland, the Isle of Man, or the Channel Islands. The property must normally be insured under a general commercial policy issued by a Pool Re Member covering conventional fire and explosion damage. Members do not provide terrorism cover under the scheme on a ‘stand-alone’ basis, i.e. in a policy covering terrorism only. If a policyholder decides to extend their policy to include terrorism cover, they must cover all the property they insure. They cannot use the scheme to insure only part of their insured portfolio against terrorism.

Since 2003, in recognition of the evolving threat landscape, Pool Re extended its cover to include attacks
involving chemical, biological, radiological, and nuclear (CBRN) devices to the full insured value. The company has recently commissioned a research project with Cranfield University and Guy Carpenter to produce the UK’s first terrorism risk model for potential attacks involving CBRN devices. At the same time, Pool Re is conducting research into the developing threat of cyber terrorism, in partnership with Cambridge University’s Judge Business School, to quantify this risk, and assess whether Pool Re can extend its proposition to insure this new threat.

Format, premium, reinsurane, and losses
The company is able to draw on over £8 billion before calling on the guarantee provided by HM Treasury. Pool Re has arrangements with all its Members to reimburse to them the cost of claims they pay under the terrorism cover they provide, subject to a loss retention which they must pay themselves. Insurers pay premiums to Pool Re for this cover. Since March 2015, Scheme resilience has been augmented by an external reinsurance placement. This re-engages the global market in aggregated UK terrorism for the first time since 1993, and provides protection both to Scheme assets and the UK taxpayer.

In the event of a loss resulting from an act of terrorism, each Member first pays losses up to a threshold determined specifically for that insurer. When losses exceed the agreed threshold, the insurer can claim upon Pool Re’s reserves, which have been accumulated by Members since its inception, and now stand at approximately £6.2 billion. It is only in the event that these reserves and the company’s commercial reinsurance are exhausted that Pool Re would require Government support.

Since 2016, in line with one of Pool Re’s principal functions – to protect the taxpayer by increasing private-sector risk retention under the Scheme – Members now take a greater retention in the event of a terrorism loss. Retention has increased from £100 million to £150 million, and to an annual aggregate of £300 million. Combined with its purchase of commercial retrocession, these measures will assist the steady normalization of the UK terrorism insurance market by returning as much cover as possible to the commercial market. Pool Re has paid total claims of £635 million with respect to 13 separate certified terrorism claims.

Future and challenges
To ensure that Pool Re remains at the forefront of terrorism reinsurance, it must adapt to the evolving terrorist threat, and the ongoing normalization of the UK terrorism risk insurance market. The Scheme’s managers have implemented a number of initiatives in recognition of these developments.

Cyber terrorism will undoubtedly be employed as a means of attack by terrorists. By including cyber in Pool Re property terrorism policies, the UK market will set the standard for terrorism insurance across the globe. In 2017, Pool Re will expand its property damage cover to include damage resulting from a cyber trigger, which will make businesses in the UK more resilient. The insurance industry has a vital role to play in ensuring that Britain remains an attractive place to do business.

In recent years, Pool Re has undergone a modernization program involving the introduction of more risk-reflective pricing and an improved understanding of the exposures faced by both the insurance community and the broader UK business community. The important research partnerships explained above will help the scheme to become more effective in both of these areas.

Pool Re is introducing a series of changes, wider in scope and more far reaching, which will shift its focus from that of a passive fund to that of an organization engaged in national resilience-building. These changes will define the evolution of Pool Re over the coming years, and towards the next Government review of its involvement in terrorism insurance starting in mid-2020.
USA

TRIP (Terrorism Risk Insurance Program) / FIO (Federal Insurance Office)

Background
Prior to September 11, 2001, most standard commercial property and casualty insurance policies in the United States did not exclude coverage for losses resulting from terrorism. The events of September 11, 2001 resulted in approximately $43 billion of property and casualty insurance losses (2013 dollars), more than $28 billion of which was paid by reinsurers to insurers. Thereafter, reinsurers began to indicate that they could no longer support terrorism risk, and insurers began to exclude coverage for terrorism risk from commercial property and casualty policies.

The U.S. Congress enacted the Terrorism Risk Insurance Act of 2002 (TRIA) based, in part, upon its recognition that widespread unavailability of terrorism risk insurance “could seriously hamper ongoing and planned construction, property acquisition, and other business projects, generate a dramatic increase in rents, and otherwise suppress economic activity”. TRIA requires insurers to make coverage available for terrorism risk on certain lines of commercial property and casualty insurance.

To assist insurers with the financial exposure resulting from this required offer of coverage, TRIA established the Terrorism Risk Insurance Program (“the Program”), under which certain losses resulting from an “act of terrorism” (as defined by TRIA) are eligible for reimbursement through the Program. Payments made under the Program may need to be recouped, either in whole in or part, through surcharges assessed on all commercial policyholders in the United States. The Program is administered in the U.S. Department of the Treasury (Treasury) by the Secretary of the Treasury (Secretary) with the assistance of the Federal Insurance Office (FIO).

Scope and Cover
In general terms, the Program requires that each entity meeting the definition of an insurer under TRIA (principally U.S. licensed domestic insurers, including captive insurers, and alien surplus lines insurers) make available coverage for insured losses resulting from certified acts of terrorism (as defined below) “that does not differ materially from the terms, amounts, and other coverage limitations applicable to losses arising from events other than acts of terrorism”. This requirement applies to certain statutorily defined lines of property and casualty insurance (i.e., the “TRIP-eligible” lines of insurance). In general, this includes most types of property and liability insurance (subject to certain defined exceptions) and workers’ compensation insurance, which provides insurance for individuals injured during the course of employment.

Reinsurance is specifically excluded from the TRIP-eligible lines of insurance. Insurers that write terrorism risk insurance often obtain private reinsurance for some portion of the terrorism risk that they retain that is not subject to reimbursement through the Program.

The Program covers the specified lines of insurance regardless of the type of loss giving rise to claims, so long as the loss falls within the coverage of the policy. Thus, coverage is available for nuclear, biological, chemical, or radiological events under TRIP-eligible lines of insurance, assuming they are covered under the policy and otherwise arise from a certified “act of terrorism.” Cyber losses are also covered, subject to the same conditions that they are within the coverage of the policy, that the policy was written in a TRIP-eligible line of insurance, and the losses arise from a certified “act of terrorism.”
Only losses from certified acts of terrorism are eligible for Federal payments to insurers under the Program. A certified “act of terrorism” is an act certified by the Secretary, in consultation with the Attorney General of the United States and the U.S. Secretary of Homeland Security to:

- Be an act of terrorism
- Be a violent act or an act that is dangerous to human life, property, or infrastructure
- Have resulted in damage within the United States

To have been committed by an individual or individuals, as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the U.S. government by coercion.

Acts that are committed as part of the course of a war declared by Congress, or that do not result in property and casualty insurance losses exceeding $5 million, are not subject to certification by the Secretary.

Format, Premium, Reinsurance, and Losses

In the event of certification of an act of terrorism by the Secretary, determination of whether and in what amounts insurers are eligible for payments under the Program involves the application of multiple factors, including the Program Trigger, individual insurer deductibles, the Federal share of compensation, and the Program Cap. The Program Trigger is the amount of aggregate industry insured losses that must be exceeded before any federal payments are made. The Program Trigger is $140 million in calendar year 2017; it will increase by $20 million per year thereafter until it reaches $200 million in 2020. If aggregate industry insured losses exceed the Program Trigger, an insurer must pay its individual insurer deductible – i.e., an amount of losses that equal 20 percent of its direct earned premium in TRIP-eligible lines for the prior calendar year – before becoming eligible for Federal payments. The Federal share in calendar year 2017 is set at 83 percent of losses in excess of a particular insurer’s deductible, with the insurer remaining responsible for a continuing co-participation share of 17 percent. The Federal share will decrease by one percentage point a year through 2020, at which time the Federal share will be 80 percent and the insurer co-participation share will be 20 percent.

For certified acts of terrorism, TRIA also limits the ultimate exposure of insurers under TRIP eligible lines of insurance and of the Federal government for payments to insurers under the Program. Specifically, TRIA prohibits the Secretary from making payments for any portion of aggregate insured losses from acts of terrorism which exceed the “Program Cap” of $100 billion during any calendar year. Moreover, an insurer that meets its insurer deductible under the Program is also not liable for any portion of losses that exceeds the Program Cap.

Although TRIA requires insurers to make available insurance for terrorism risk on the same terms as other insurance, it does not mandate any particular price for such coverage, nor is the policyholder required under TRIA to purchase insurance for terrorism risk. Premiums are typically a small portion (perhaps 1 or 2 percent) of the total premium for the policy in question (although in many situations cover is provided for no additional charge); however, these figures can vary by jurisdiction, locality, and line of coverage. Available information indicates that the take-up rate for terrorism risk insurance under TRIP nationwide (excepting workers’ compensation, which on account of U.S. state law requirements must be issued with terrorism risk insurance) is in the 60 to 70 percent range, depending upon the basis used for the measurement.

The Program does not purchase private reinsurance in connection with the payment obligations existing under it, nor does Treasury charge a premium to participating insurers for the protection provided by the Program. Rather, in the event that Federal payments are made to insurers under the Program, TRIA includes...
a mechanism for the Secretary to recoup "terrorism loss risk-spreading premiums" from insurers. When imposed by the Secretary, insurers are required to collect such premiums from policyholders as a surcharge on insurance policies for TRIP-eligible lines of insurance after the calendar year in which Federal payments are made, and to remit them to the Secretary. The requirement to collect, or recoup, terrorism loss risk-spreading premiums and remit such amounts collected to Treasury is not limited to insurers that received Federal payments under the Program, but rather applies to all insurers of TRIP-eligible lines. The amount of recoupment is determined according to provisions of TRIA that account for the Federal payments made under the Program and the total insured losses from certified acts of terrorism during a particular calendar year.

To date, the Secretary has not certified any event as an "act of terrorism" under TRIA, and no losses have been reimbursed by the Program.

**Future and challenges**
TRIP was established as a temporary program in 2002 and remains a temporary program today. Under the 2015 Reauthorization Act, TRIP was extended until December 31, 2020. Changes enacted each time that TRIA has been reauthorized have generally had the objective – by eliminating certain lines of insurance covered, by increasing the insurer deductibles and co-pay shares, or by increasing the aggregate industry retention amount – of reducing potential Program exposure to insured losses. The 2015 Reauthorization Act also contained a number of provisions designed to provide policymakers with important information to consider when assessing the Program.

Beginning in 2016, Treasury is required to collect information from Program participants concerning terrorism risk insurance, including the types of insurance subject to loss, premiums, geographical location of exposures, take-up figures, and the amount of private reinsurance for terrorism risk that is purchased in the marketplace. Treasury is required to issue periodic reports on the effectiveness of the Program based upon this information, the first of which it issued in June 2016.

Congress also called upon Treasury to establish an Advisory Committee on Risk-Sharing Mechanisms (ACRSM), which is to provide advice, recommendations, and encouragement with respect to the creation and development of non-governmental risk-sharing mechanisms for the reinsurance of losses arising from acts of terrorism. The ACRSM has met on a number of occasions, and is seeking and evaluating information from representatives of direct insurers, policyholders, reinsurers, participants in the insurance-linked securities market, and other domestic and foreign mechanisms that provide cover for catastrophic loss events, both related to terrorism and otherwise.
Brochure

This brochure was prepared in coordination with FFA, GAREAT and POOL Re, thanks to articles written by most IFTRIP members.

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http://iftrip.org

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