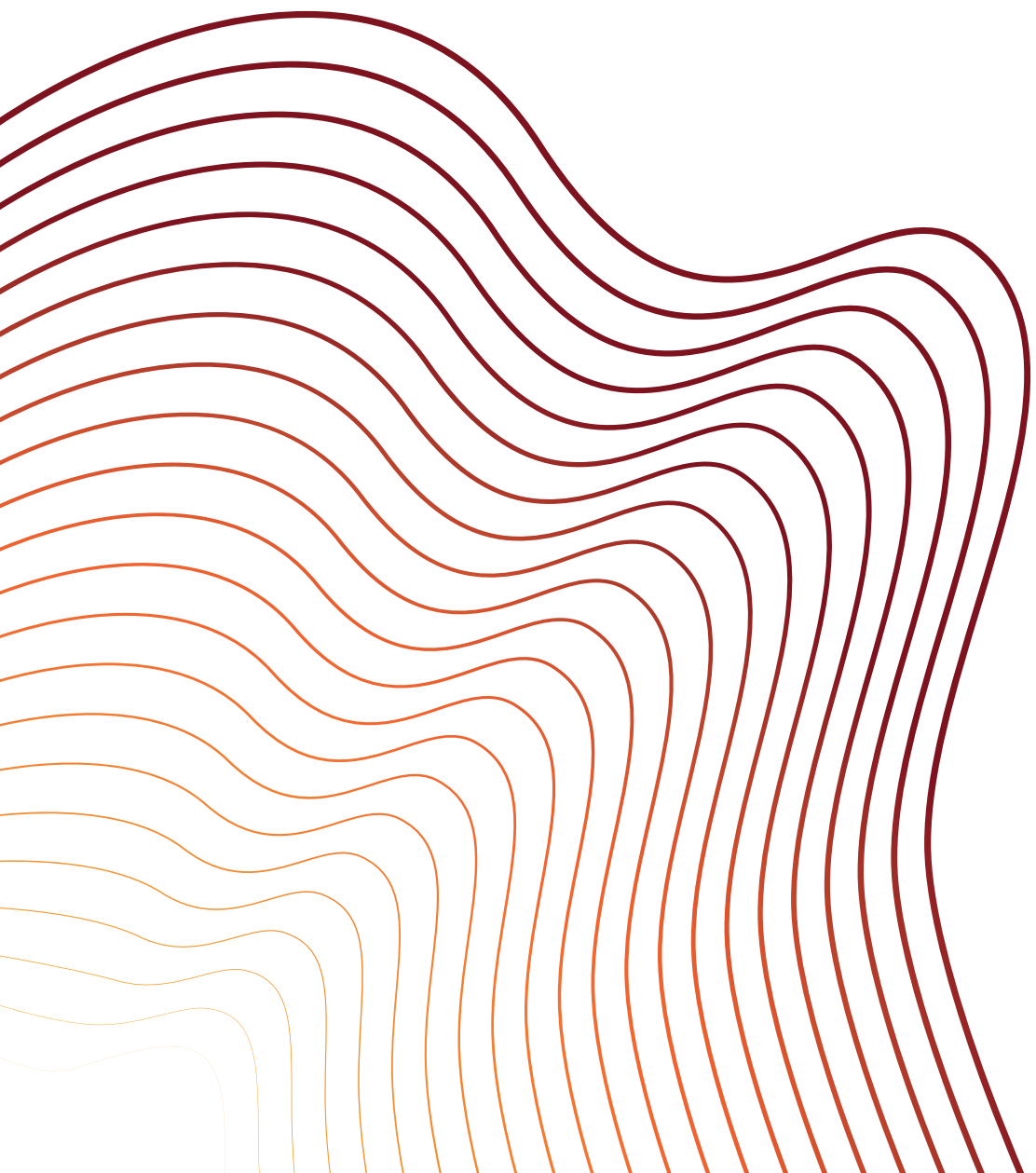


A Terrorism Underwriter's Perspective

PERSPECTIVES
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Over the past decade, an average of 10,000 terrorist attacks are carried out every year, with a death toll of 21,000 and a global economic impact of over US\$63 billion¹, threatening the safety, wellbeing and security of millions of families, homes and businesses around the world. The focus in this article is to show the different faces of terrorism and the forms they come in, with a view to explain how terrorism insurance coverage has evolved as a result: A Terrorism Underwriter's perspective.

Faces of Terrorism

When I began my career in reinsurance, I was younger and new to Terrorism Underwriting, excited in what I thought was a niche market and free premium was the name of the game. From my perspective at that time, terrorism had a single and simple definition, a clear identity and I could imagine their faces and what they look like. With time, definitions continued to grow and branched out, terrorists' identities multiplied and turned blurry, their faces started to vary and the definitive image in my head of what a terrorist looks like faded away.

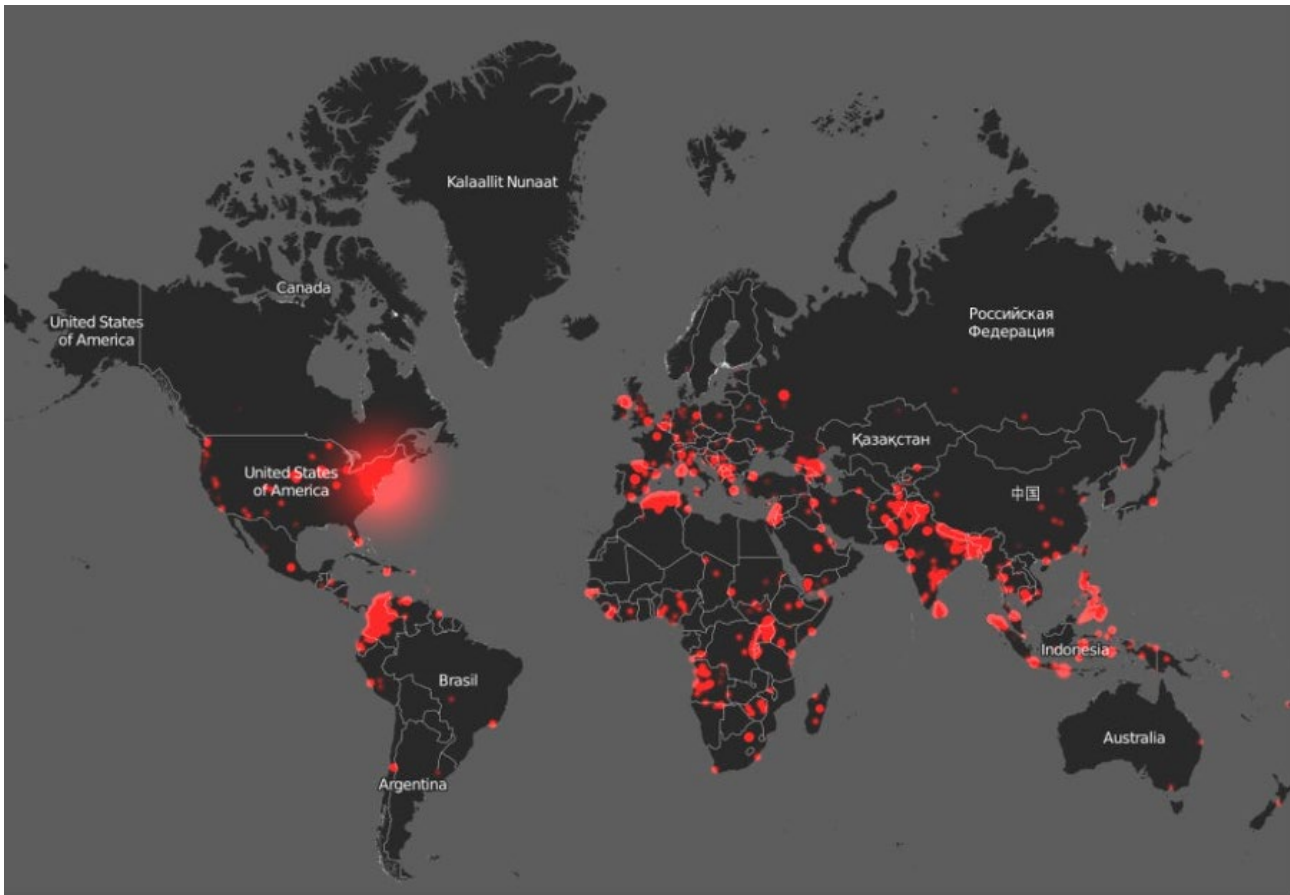
In fact, terrorism is a very broad term with numerous definitions, used by many for different purposes. The US government alone has over 50 definitions for terrorism, and experts around the world recognise over 260². Terrorists can be everything, from heartless savages to desperate people who were brainwashed and used, to people with none of these problems. Terrorism can no longer be pinpointed to a specific type of people, or an area on a map. Every country is a potential target.

What is considered as terrorism in one part of the world may be something very different when compared with other parts. Reasons are many including culture clashes, religion, globalisation, civilizations, money and power. Motives are endless. Predicting where the next terrorist attack will be is becoming a wild guess.

¹ <https://ourworldindata.org/terrorism>

Average of last ten-year results -Global Terrorism Index <https://www.visionofhumanity.org/wp-content/uploads/2020/11/GTI-2019-web.pdf>

² Who counts as a terrorist? global-era-issues/terrorism - Council on Foreign Relations



Earth TimeLapse’s terrorism map. Earth TimeLapse (Weller, 2017)³

What is Terrorism?

Evidently, no single definition works in all contexts. However, there are a few definitions that would suffice for the purpose of this article. Professor Yonah Alexander has one of the better definitions I’ve seen, “the use of violence against random civilian targets in order to intimidate or to create generalized pervasive fear for the purpose of achieving political goals.”⁴

From an insurance viewpoint, terrorism is defined as “an act committed for political, religious, ideological or similar purposes, and involves a violent act, unlawful use of force, an unlawful act dangerous to human life or tangible property, and is carried out by any person or groups of persons intended to intimidate or coerce a civilian population, or disrupt the economy of a government, state or country or overthrow, influence, or affect the conduct of any government.”⁵

³ Weller, C. (2017, 11 1). Startling maps show every terrorist attack worldwide over the last 20 years.

⁴ Who counts as a terrorist? global-era-issues/terrorism - Council on Foreign Relations

⁵ Derived from Hiscox terrorism, war and political violence 18.5.07 5804 11/07

Yet, all the definitions mentioned above are also susceptible to manipulation from the media and the news, and from leaders, law enforcement and elected officials. Fact is, during times of conflict, governments and generally people are far more inclined to give up economic and political freedoms in exchange for security. The word terrorist is thrown out right and left as it is powerful and influential, and could sometimes be used by a group, a country or even by terrorists as a political pawn to label their opposition. With time, it is becoming difficult to tell who qualifies as a terrorist, and what are the actual political goals trying to be achieved.

Terrorist motivations baffle me and I can imagine that they baffle most. Knowing that it is possible for some terrorists to appear to lead a normal life is disturbing. If terrorists cannot be narrowed down to desperate people or psychologically disturbed, then how can we know who is a potential terrorist and pick them in a line-up? Unfortunately, it is not that simple. The fight against terrorism must be based on more than speculation or understanding the rationale for how terrorists think or goals they are trying to reach. Many terrorist organisations offer up no clear view of the community they are trying to build, final goals are vague, and the world they are trying to create may have some tangible elements, but the overall picture is distorted and incomplete. Their implementation method is through destruction, not creation.

Insurance Perspective

Fortunately, when it comes to insurance cover, claims and payable losses, it is a bit easier to navigate, but not entirely. As previously mentioned, terrorism is sometimes used by a group to label their opposition and declaring who is the actual terrorist can be debatable. When it comes to insurance claims and payable losses, who decides an incident is in fact a terrorist act? Is it the government? The media or news? The police? The United Nations, Interpol or human rights organisations? And can an insurance company decide to make its own judgment or search for alternative findings to decline a claim?

The U.S. Government's Department of State maintains a list of foreign terrorist organisations (FTOs), which include over sixty groups from all over the world. Organisations make the list if they meet certain criteria:

- “the organization must be from another country;
- it must engage in terrorist acts as defined by the U.S. government, or have the ability and intent to engage in terrorism; and
- it must threaten the safety of U.S. nationals or U.S. national security—including national defense, relations with other countries, and economic concerns.
- Terrorism is defined as “premeditated, politically motivated violence” that attacks civilians and is carried out by groups or people acting in secret.”⁶

Other nations do have alternative criteria. For example, Boko-Haram, Al Shabab, Al Qaida are considered terrorist organisations by most of the countries they operate within. Defining “terrorist act” may also slightly differ from one country to another.

Most insurance/reinsurance terrorism cover contracts/policies do include a Law and Jurisdiction section, where a contract is governed by and construed in accordance with local/or other choice of courts and shall have exclusive jurisdiction. In other words, if courts (which most likely are in line with government’s declarations or findings) do decide a terrorism incident took place, a claim is likely to be payable and difficult to dispute.

As official government declaration of a terrorist act can take time where the insured may be in desperate need of compensation, insurers/reinsurers can take an independent decision in favour of the insured and pay a claim prior to any formal governmental conclusion. The Borough Street Market attack in 2017 took 23 days to be declared by the government as a terrorist incident⁷. However, some of the reinsurers decided to take immediate action in acknowledging a terrorist act had taken place, and prompt action was needed to reimburse their clients as soon as possible, understanding their immediate need. Yet, there were other reinsurers not happy with the decision of immediate compensation, as it was difficult to conclude if all clients suffered non-damage denial of access claims at that early time following the incident.

Evolution of Terrorism

Terrorism has not always been the terrorism we know today. Dating back to the 1st century and the Sicarii Zealots who were a group strongly opposed to the Roman occupation. To retaliate, they carried Sicarii (small daggers), hidden in their coats. In public gatherings, they pulled out these daggers to attack Romans and Roman sympathizers.⁸

Today, terrorism evolved from targeting selected people to indiscriminate targets, and aims have changed to cause maximum damage and casualties. Attack methodologies have changed and evolved from beatings with sticks or striking with swords to causing maximum destructions by any means.

Types of terrorist are also evolving. In the 1980s, only 3% of international terrorist organisations were considered religious organisations. By 1995, there was a 40% increase in the number of religious terrorist organisations; a drastic increase within only fifteen years.⁹

⁷ Who decides when something is a terrorism incident? Lauren Ingram 2019

⁸ Paul Christian Who were the Sicarii?, Meridian Magazine, June 7, 2004

⁹ What is Terrorism? Mohsina Sakharkar

Evolution of Terrorism Insurance cover

Terrorism cover was originally conceived to insure property losses from terrorism caused by explosive devices. Today, insurance cover has evolved to keep up with terrorists' newest innovations. Cyber terrorism is one of the modern-day methods terrorists are using to cause havoc. Most modern-day technology brings convenience to most organisations, but because of the digitisation of almost all enterprises, it makes them vulnerable to cyber-attacks. Whether in Banking, Factories, Power Plants or Vessels carrying goods, all share use of computers and connections to the internet, and they could all be facing significant security issues.

In 2015, a hacker group called Sandworm whose members mostly have a military background were responsible for disconnecting 30 substations, putting around 230,000 customers without power. The same group is suspected of another cyber-attack on NotPetya, which caused approximately one billion in losses. The attack on NotPetya immobilised many companies' computer systems, and affected their enterprises in construction, pharmaceuticals, shipping, manufacturing and other industries. In 2019, a staggering event occurred when The Nuclear Power Corporation of India confirmed that there was a cyber-attack on the Kudankulam Nuclear Power Plant in Tamil Nadu, India.

Terrorists have found an opportunity in cyber terrorism to use that power to immobilise and seek destruction or for their financial gains. Yet, the terrorism insurance market was not providing this type of cover due to treaty restrictions which may not protect the insurers if a loss was to occur. However, with clients seeking cover for cyber terrorism exposures, many terrorism underwriters changed to accept this addition to terrorism cover and are now providing cyber terrorism exclusion buyback coverage for property damage. As a leading reinsurer in the MENA region, Trust Re quickly realised the need to offer clients the cyber exclusion buy-back option to protect them from the gap in cover.

Terrorism insurance cover has also evolved to include non-physical losses, such as loss of attraction, denial of access, threat...etc. A client with denial of access cover can be compensated for their business interruption if they are unable to access their property as a result of an incident, even if it took place at a different location. Loss of attraction cover is purchased to protect a client's revenue in the event a terrorist incident takes place within a different location in the vicinity and, as a result, affect the client's business future earnings/revenues. In this regard, Trust Re offers clients the options for both denial of access and loss of attraction cover. Businesses such as restaurants, cafes, bars, hotels, tourist attractions, and retailers are generally the types of business that purchase loss of attraction cover. As an example, if a tourist attraction suffered a bombing incident targeting tourists, visitors are unlikely to visit attractions or locations within close vicinity of the incident and may not consider staying at a hotel in that area for some time thus causing a substantial loss in revenue. In France, tourism accounts for approximately 7%- 8% of total gross domestic product (GDP).¹⁰ The 2016 truck attack in Nice was expected to result in a 30% decline in visitors to France in the month after.

¹⁰ Organisation for Economic Co-operation and Development. "Tourism GDP." March 19, 2020.

Current Perspective

Certainly, we should no longer view terrorism as a simple term but more of a multilayered and complex word with evolving definitions. Nor do I view terrorism insurance as a niche market, and most certainly, no such thing as free premium in insurance. The terrorism insurance market seems to me to be a highly reactive market at this time. Market rates naturally continue to drop when number of incidents and severity are low. However, the concern is when the overall market continues to soften despite significant influences such a troubling election, threats and rise in political tension. Only when hit by claims/losses does the market react. In the terrorism underwriting world, if losses remain to be your only driver to make needed adjustments and changes in your rates and terms, then it is a matter of time before losses catch up with you and your portfolio turns unprofitable.

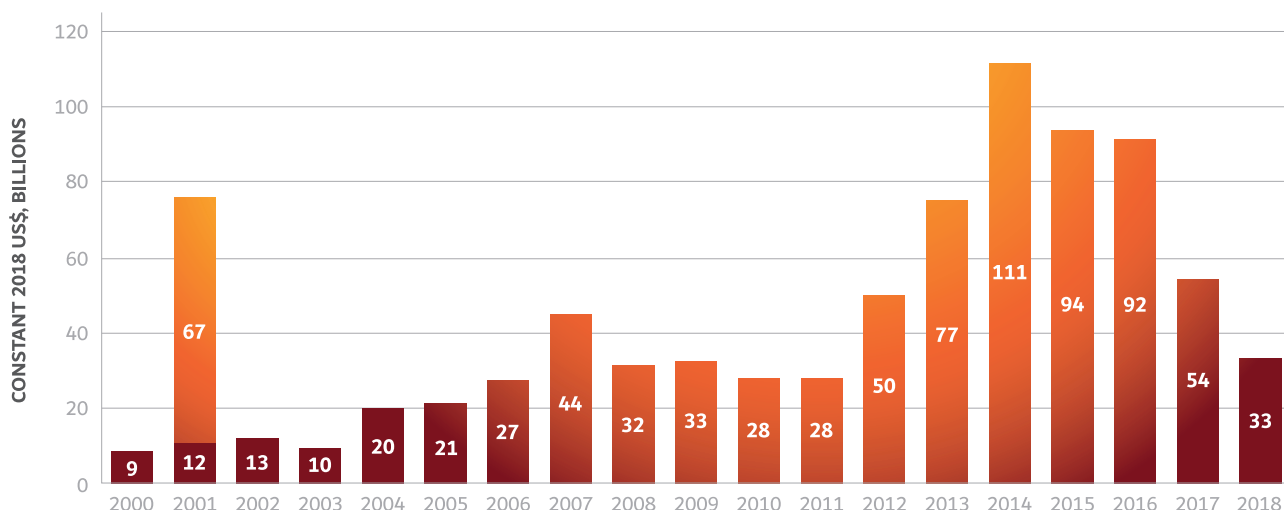
We have come to realise that terrorism underwriting is an ongoing puzzle with pieces continuously changing with need for constant adaptation to fit the pieces. Being innovative and a solution seeker, has become a business necessity to remain relevant as a terrorism underwriter in today's world. Terrorism underwriting is a highly speculative line of business. Knowing your market, keeping up with the news, adequate research and monitoring rate movements and change in market terms are all essential tools of the trade. Being on your toes constantly and an eye for the long-term goals is a must.

What's next for Terrorism?

One can only imagine terrorists are aiming towards bigger destruction. 9/11 alone was estimated at losses of \$ 100+ BILLION considering the value of lives lost, property damage and lost production of goods and services. When adding the loss in stock markets and all the economic effects, the cost of 9/11 is closer to \$2 trillion.¹¹

The economic impact of terrorism, US\$ billions, 2000-2018

The global economic impact of terrorism peaked in 2014.



Source: IEP

The cost of fighting terrorism continues to pile up, and terrorists are building an appetite and hunger towards obtaining CBRN (chemical, biological, radiological, and nuclear) weapons. What does this mean for our future and where are we going? And when is the next big attack? Should we focus on spending more to fight terrorism and improve our security measures? Or should we spend more on educating the next generations to appreciate our differences and tolerate each other's cultures, religions, politics and ways of living?

11 The Institute for the Analysis of Global Security

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