

TERRORISM AND POLITICAL VIOLENCE INSURANCE: PROTECTION AGAINST GLOBAL VOLATILITIES

Unexpected outbreaks of violence and unpredictable terrorism attacks can seriously impact a global corporation's ability to operate and move product on the global stage.

With the expansion of global information networks, loosely affiliated terrorist organizations are capable of executing increasingly sophisticated terror strikes anywhere in the world. Additionally, as most recently evidenced throughout the Middle East, the unexpected outbreak of widespread civil violence directly impacts commerce and investments.

Providing a company with a secure operational environment in which to function is fundamental to growth. As such, the assessment of terrorism and political violence exposures has moved to top of the agenda for Risk Management professionals worldwide. The protection of physical assets, personnel, income streams, networks or supply chains from the unpredictable consequences of a terrorism attack or political violence must be a dynamic process; where the incorporation of security risk assessment, risk prevention strategies, and transfer are paramount.

Market demand for insurance solutions has fueled the development of a variety of products created to address the needs of most insureds, including a thriving specialist stand-alone terrorism and political violence insurance market and, in the U.S., the government-sponsored Terrorism Risk Insurance Act (now known as TRIPRA).

PROTECTING AGAINST THE CONSEQUENCES OF A TERRORIST ATTACK

Immediately following the attacks of 9/11, a global standalone terrorism insurance market was created by insurers for losses stemming from terrorist acts. This market provides coverage to complement or replace that provided by the property and liability markets.

Capacity in this marketplace has grown to an estimated \$3 billion and offers coverage for TRIPRA certified events as well as those events which fall outside of the scope of TRIPRA. Additionally, standalone terrorism insurance is available on a worldwide basis, unlike TRIPRA which is limited to U.S. exposures.

WHY PURCHASE STAND ALONE TERRORISM INSURANCE?

- Asset protection, lender requirements.
- Removing terrorism from property program can facilitate carrier participation and competition in highly aggregated areas.
- Embedded terrorism is often priced as a percentage of the all risk rate which may not accurately reflect the risk.
- Standalone does not require certification by government entity to indemnify insured losses.
- Terrorism insurance can also be purchased to cover requisite TRIPRA retentions of captive insurers – 15% of losses not covered by TRIPRA as well as mandated deductibles and non-certifiable events.
- Standalone terrorism insurance is available on a worldwide basis, unlike TRIPRA which is limited to US exposures.

TRIPRA FUNDAMENTALS

Congress enacted the Terrorism Risk Insurance Act of 2002 in November. This was extended in 2007 as TRIPRA, but unless renewed, it expires at the end of 2014. To qualify under TRIPRA, the event must be certified by the Secretaries of the Treasury and State, and the Attorney General and meet certain criteria:

Certified acts are defined as:

- Violent or dangerous to human life, property or infrastructure.
- Perpetrated as part of an effort to coerce the civilian population of U.S. or influence government policy or affect the conduct of U.S. government.

TRIPRA conditions:

- Loss must exceed \$5 million to be considered “certified”.
- Loss cannot be incurred as part of the course of war declared by Congress.
- Coverage is triggered only when losses exceed \$100 million.
- Insurance companies must retain a 15% quota share of each loss and a deductible equal to 20% of direct earned premiums. The program caps out at \$100 billion.
- Government payments under TRIPRA may be recouped through premium surcharges in the years subsequent to the event.

IN AN AGE OF GLOBAL NETWORKING, ACTS OF POLITICAL VIOLENCE CAN ERUPT AT ANY TIME.

In addition to the ever-present risk of terrorism on the international stage, civil unrest can erupt at a moment's notice and manifest itself in numerous ways. Operations in countries suddenly affected by political unrest can face losses from risks not typically covered by standard terrorism coverage. For example, recent events in Thailand and the Middle East have led to disputes as to whether civil disturbances were acts of terrorism or political violence.

Much broader than traditional terrorism insurance, political violence insurance protects against financial loss as the consequence of insurrection, civil unrest, politically motivated sabotage, strikes, riots and civil commotion, armed uprising, coup d'état, and civil war.

WHY PURCHASE POLITICAL VIOLENCE INSURANCE?

Political Violence Insurance is a tool for businesses to mitigate and manage risks arising from sudden changes in the global operational environment as a result of political upheaval. Companies investing, manufacturing, and trading in developing countries can suffer as the political climate changes rapidly with little warning in territories previously considered stable. As a risk mitigation tool, political violence insurance helps provide a more stable environment for investments in developing countries in particular and potentially secures better access to financing. Much broader than traditional terrorism insurance, it can provide the global company operating in under-developed or developing countries protection in the event of losses resulting from damage or destruction of assets or business interruption caused by political violence.

The Willis SECURENET team designs, implements and services policies to protect the assets of corporations worldwide against these and many other related risks.

“ POLITICAL VIOLENCE INSURANCE IS A TOOL FOR BUSINESSES TO MITIGATE AND MANAGE RISKS ARISING FROM SUDDEN CHANGES IN THE GLOBAL OPERATIONAL ENVIRONMENT AS A RESULT OF POLITICAL UPHEAVAL.”

TERRORISM AND POLITICAL VIOLENCE INSURANCE DEFINITIONS

	TERRORISM (T3/T3A)	TERRORISM AND SABOTAGE (LMA 3030)	TERRORISM AND STRIKES, RIOTS AND CIVIL COMMOTION (LPO 437)	POLITICAL VIOLENCE
TERRORISM	Act of Terrorism means an act, including the use of force or violence, of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organisation(s), committed for political, religious or ideological purposes including the intention to influence any Government and/or to put the public in fear for such purposes.	As per T3 / T3A	As per T3 / T3A	As per T3 / T3A
SABOTAGE		An act of Sabotage means a subversive act or series of such acts committed for political, religious or ideological purposes including the intention to influence any government and/or to put the public in fear for such purposes.	As per LMA 3030	As per LMA 3030
STRIKES, RIOTS AND CIVIL COMMOTION			Riot and Strike and Civil Commotion: (a) Any act committed in the course of a disturbance of the public peace by any person taking part together with others in such disturbance; or (b) Any willful act of any striker or locked-out worker done in furtherance of a strike or in resistance to a lockout whether or not such act is committed in the course of a disturbance of the public peace; or (c) Any act of any lawfully constituted Authority for the purpose of suppressing or minimizing the consequences of any existing disturbance of the public peace, or for the purpose of preventing any such act as is referred to in (b) above or minimizing the consequences thereof;	As per LPO 437
MALICIOUS DAMAGE			Malicious Damage shall mean all Physical Loss or Damage resulting directly from a malicious act caused by anyone whether or not the aforesaid act is committed during a disturbance of the public peace, and shall include loss caused by sabotage and acts committed by any or all persons who are member(s) of an organisation whose aim is or includes the over-throwing of any legal or defacto Government by terrorism or violence.	
INSURRECTION, REVOLUTION OR REBELLION				Insurrection, Revolution and Rebellion means a deliberate, organized and open resistance, by force and arms, to the laws or operations of a sovereign government, committed by its citizens or subjects and/or a rising against a sovereign government or other authority.
MUTINY AND/OR COUP D'ETAT				Mutiny means a willful resistance by members of legally armed or peace-keeping forces to a superior officer. Coup d'Etat means the sudden, violent and illegal overthrow of a sovereign government or any attempt at such overthrow.
WAR AND/OR CIVIL WAR				War means a contest by force between two or more sovereign nations, carried on for any purpose, armed conflict of sovereign powers and/or declared or undeclared and open hostilities between sovereign nations. Civil War means an internecine war, or a war carried on between or among opposing citizens of the same country or nation.

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