

An Introduction to Political Risk and Terrorism Coverages

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Today's Agenda

Political Risk

- Coverage Basics
- What forms can covered losses take?
- Actuarial considerations

Terrorism

- Coverage Basics
- TRIP vs. Standalone
- Actuarial Considerations



Political Risk – The Basics

- Protects against economic loss caused by political events
- Provides protection to investors, financial institutions, businesses
- No standardized policy form, policies are tailored to fit the needs of the situation
- Major Players: Zurich, Lloyd's, AIG, Chubb, Sovereign¹
- Roughly \$2B in annual premium

▪ ¹National Association of Insurance Commissioners (NAIC). *Political Risk Insurance*. Retrieved from https://content.naic.org/cipr_topics/topic_political_risk_insurance.htm



What types of losses are covered? – An Example

- Sokovia Accords ratification (2016) - Assassination of King T'Chaka of Wakanda
- Ensuing Civil War leads to chaos in the region
- Attempted coup d'état after Prince T'Challa assumes power
- Political chaos in Wakanda - world's primary source of vibranium
- Our client Stark Industries has significant financial entanglements in the region



Losses and Real World Examples

- Expropriation of Property (Nationalization) - PEMEX
- Political Violence and Business Interruption - Hong Kong
- Currency Inconvertibility - Angola
- Associated Covered Losses
 - Trade Credit
 - Contract Frustration - Venezuela
- Current Events...
 - Note that this presentation was submitted before Tuesday's election



Actuarial Considerations

Pricing

Tends to be transactional in nature

- Limited opportunities for renewals
- Experience rating not possible

Policy duration can be tricky

- Short term (30 day) to Long Term (5-7 years)
- Long duration policies tend to be more challenging

Client specific pricing

- Think Large Account Pricing
- Relativity by country/region is similar to experience modifications



Actuarial Considerations

Reserving

Basic approaches work

- Triangle based methods
- Claim specific w/ bulk IBNR

Traditional issues with low frequency - high severity lines

- Most books tend to behave like high excess books
- If you have a high frequency book, please rethink your underwriting strategy

Salvage potential is significant

- Particularly for expropriation of property
- Creates a timing issue between payment of claims and recovery of salvage



Actuarial Considerations

Portfolio Management

Basic Portfolio Management

- Limits and retentions must fit risk appetite
- Uncertain timing of cashflows (salvage)
- Multi-year contracts

Advanced Portfolio Management

- Needs to be aware of risk aggregation by region, country, currency, obligor
- Typically does not trend with other LOBs, so good for diversification



Terrorism Coverage— The Basics

- Insurance purchased by property owners to cover losses (property damage, BI, liability) due to terrorism
- Excludes nuclear, biological, radiological, and possibly fire following
- Two main sources
 - TRIP - Terrorism Risk Insurance Program
 - Standalone coverage



TRIP – Terrorism Risk Insurance Program

- Created in 2002 by the Terrorism Risk Insurance Act (TRIA), extended in 2005 and renewed in 2007 and 2015... and 2019!
- Losses must be certified by the US Department of Treasury
 - Covers US locations or sovereign territories
 - Violent act or dangerous to human life, property, infrastructure
 - Effort to coerce civilian population or policy/conduct of gov't by coercion
 - More than \$5M in insurable P&C losses in aggregate
- Has never paid a claim (Boston Marathon, Orlando night club, MGM)
- Prior version was set to expire on December 31, 2020 - renewed early as the TRIP Renewal Act of 2019
 - Saved the industry quite a bit of paper work



Actuarial Considerations

	Terrorism Risk Insurance Act of 2002	Terrorism Risk Insurance Program Reauthorization Act of 2007	Terrorism Risk Insurance Program Reauthorization Act of 2015	Terrorism Risk Insurance Program Reauthorization Act of 2019
Trigger (Total Insured Industry Loss)	\$5M	\$100M	\$100M (+\$20M annually)	\$200M
Insurer Deductible	17.5% of Direct EP	20%	20%	20%
Coinsurance	10%	15%	15%	20%
Industry-wide Retention	\$10B-\$15B	\$27.5B	\$27.5B (+\$2B annually)	3 Yr. Avg. of sum of Participating Insurer Deductibles
Total Cap	\$100B	\$100B	\$100B	\$100B
Acts Covered	Foreign Only	Foreign & Domestic	Foreign & Domestic	Foreign & Domestic

Standalone Coverage

- Unlike TRIP, standalone coverage can cover global assets
- Does not require government certification
- Can expand coverage, significant source of competition between carriers:
 - Strikes
 - Riots
 - Civil Commotion
 - Active Shooter
 - Cyber resulting in Fire/Explosion
 - Crisis Response coverage
- Unlike TRIP, standalone coverage has claims history



Actuarial Considerations

Pricing

- Location is major consideration
 - Tier 1 cities (London, NY, Chicago, San Francisco, Washington...) are higher risk, and therefore charged higher rates¹
 - Tier 2 and 3 cities
- Should also consider industry and occupancy
- But don't forget Location!



¹Marsh & McLennan Companies. (May 2019). 2019 Terrorism Risk Insurance Report. Retrieved from https://www.ncci.com/Articles/Pages/II_MARSH2019-terrorism-risk-insurance-report.pdf



Actuarial Considerations

Reserving

- Similar to Property CAT
- Occurrence is obvious once event is certified
- Depending on size of event and exposure density, can be many claims
- Uncertainty in reserves is around cost of damages

Portfolio Management

- Similar to Property CAT
- Limits/retentions must fit with risk appetite (basics)
- Aggregation of risk within:
 - City
 - Region
 - Close proximity to landmarks (250 ft., 500ft. ¼ mile)



Questions?

