

TERRORISM RISK TRANSFER & MITIGATION

The New Reality

- > Terrorism losses are unpredictable and potentially catastrophic.
- > Insurers find it very hard to model and price terrorism risk. Prior to 9/11, insurance coverage for terrorism was routine. In the foreseeable future, it will be available on a limited basis.
- > Risks managers must now view the terrorism risk differently to 'traditional' risks. This involves new risk management techniques, planning and fresh ideas for risk transfer.
- > A terrorist attack is not a fortuitous occurrence from the perspective of the terrorist. Standard risk management techniques employed today will not adequately mitigate loss. Whatever its profile, a corporation must consider the threat dynamics of its locality – are neighbors targets?



FUTURE TERRORISM INSURANCE CAPACITY: THE UNCERTAINTY OF TRIA

No real alternative to TRIA exists in the global insurance market. TRIA expires 12/31/2005. Three distinct bills have been submitted to US Congress to reauthorize TRIA. It is unlikely that a clear outcome will emerge until mid 2005.

If TRIA is not reauthorized, Aon predicts an insurance capacity squeeze and huge upward pressure on pricing - particularly in New York and major metropolitan areas.

The impact will extend to key industries like energy, transportation, chemical, entertainment and real estate.

THE AON 'CALL OPTION'

In response to the uncertainty of future terrorism pricing and capacity (including TRIA non-extension), Aon has developed a 'Call Option' product.

The 'Call Option' enables Aon clients to pre-reserve capacity at a pre-agreed price. Buyers of the Call Option have until 1/31/2006 to 'exercise' the option at the pre-agreed terms.



ADEQUACY OF INSURANCE LIMITS

Influenced by current 'hard' markets, many clients purchase limits based upon a Maximum Foreseeable Loss (MFL) fire study.

TRIA limits from the original risk carrier mirror 'Fire' limits. Is this limit adequate for an extreme terrorist event?

Aon clients in or near target properties or zones are now looking at the full Total Insured Value (TIV) as the Maximum Possible Foreseeable Loss (MPFL) figure.

Aon is able to provide expert advice on 'terrorism specific' MFLs. Taking out additional layers of terrorism insurance for 'Certified' and/or 'Non Certified' events may be the prudent solution.

THREAT AND EVACUATION EXPENSE

Absent physical damage to the insured property, BI or extra expenses as a result of evacuation are typically not covered.

Aon can arrange cover against loss of business income and expenses following forced evacuation by order of a civil authority, irrespective of any physical damage.

CHEMICAL, BIOLOGICAL, RADIOLOGICAL AND NUCLEAR – THE CAPTIVE SOLUTION

CBRN terrorism is a major concern. Yet insurers and reinsurers, with very few exceptions, exclude CBRN perils absolutely.

There is a captive solution. 'Certified' acts involving CBRN can be covered within the original policy written by a domestic captive.

Many large US corporations have used this solution. It is a quick process with low frictional cost but may be a short-term solution – if TRIA is not extended beyond 12/31/2005.

Standalone terrorism markets have emerged for certain CBRN exposures. These markets do not provide a comparable solution to the 'TRIA Captive' concept, but can be effective.

A CAPTIVE FOR COMPREHENSIVE RISK TRANSFER

The use of an onshore (US) captive – coupled with standalone terrorism reinsurance – is the most comprehensive risk transfer solution available. A qualifying US captive can:

- Access TRIA directly at tailored rates
- Retain the full TRIA premium
- Provide direct access to the (re)insurance markets – including TRIA's CBRN backstop
- Increase terrorism loss limits
- Assist access other global terrorism backstops
- Extend beyond TRIA

AON CRISIS CONSULTING

Aon Crisis Consulting helps organisations view threat (terrorist intentions and capability), and vulnerability (predictability and security) as the components of risk. We then use risk scenarios and analyse the business impact of attacks on key locations including damage to corporate image and reputation. Our services range from comprehensive business impact analysis, to security reviews, to 'Probable Maximum Loss' studies to industry threat reports.

Our counter-terrorism analysts include former intelligence and government security service personnel who are all experts in national and international terrorism including chemical and biological terrorism. Among them are agents and analysts who have attended and dealt with more than 1,000 real-life terrorist incidents.

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