

Pool Re broadens its reach

Background

Overview

Pool Re, the U.K. Government backed provider of terrorism reinsurance, provides property damage and business interruption terrorism reinsurance for its insurer members [‘insurers’]. With the last significant update in 2015, Pool Re has made some further changes to the Scheme for its insurers effective for risks renewing or incepting on or after 1 April, 2018.

The insurer has to follow the Pool Re underwriting manual when calculating the tariff (reinsurance) premiums it has to pay Pool Re. Although the insurer can charge whatever premium it wishes to the insured, in practise, insurers tend to pass on the tariff premium to the insured plus a small loading to fund the amount of risk that the insurer has to retain. This technical insight provides a brief overview of the latest key changes with a more detailed review available upon request.

In Detail

Premium Discounts Available

Risk Management and Self-Assessment Tool

Pool Re has increased the Risk Management discount from 2.5% to 5%. In addition to the discount being available for those participating in the “Crowded Places” risk management programme run by the National Counter Terrorism Security Office, Pool Re has launched a new risk management platform – the Vulnerability Self-Assessment Tool (VSAT). It should be noted that the various Risk Management discounts cannot be aggregated; a maximum of 5% is available and cannot be applied to individual assets which already apply for other discounts.

VSAT is available to companies whose portfolio is greater than £50M (other than those whose portfolios are entirely private domestic homes) and allows member insurers the ability to offer up to a 5% premium credit to participating clients. The tool, which was co-developed with London-

The Key Changes

- The Risk Management Discount has been increased to 5% with a new Vulnerability Self-Assessment Tool (VSAT) available to determine if individual insurance buyers qualify.
- Further discount revisions include:
 - Infrastructure Risks and Housing and Flats discount decreased.
 - However, Infrastructure Construction Risks to receive a new 25% discount.
 - SME 40% discount removed but business interruption values to no longer be rated on.
 - Large risks to receive new or simplified discounts for large deductibles and Flexible Loss Limits.
- The U.K. Government has announced its intention to expand Pool Re to include non-damage triggered business interruption coverage in the future.
- New coverage for Remote Digital Interference (RDI) to be included to cover direct physical damage and resultant business interruption following a terrorist act involving “cyber attacks”.

based security and risk management firm ARL, is completed online by the client and responses determine if the client can qualify for a discount. After completing the online assessment, participants will receive a Red, Amber or Green rating for each question as well as an online report that will provide feedback in improving loss control measures.

The VSAT Tool can be accessed at the following site: <https://poolre.vsat.site/landing>

Changes to existing discounts

Alongside the Risk Management discounts, other existing discounts have been amended or added:

- Infrastructure - for those risks such as power or utility companies, communication networks, railways, airports and road managers, the individual asset rate discount on

transmission lines, pipelines, pylons, reservoirs, track and signalling equipment, road systems (excluding bridges and tunnels), open-air car parks (not multi-story), and airport runways has been reduced from 90% to 80%.

- Infrastructure Construction – for projects covering infrastructure construction/erection, a new rate discount of 25% is available.
- Houses and Flats – for houses and flats owned and insured by housing associations, local authorities or other public bodies the rate discount has been reduced from 90% to 80%. Notwithstanding this premium increase, the “zone C” rate will continue to be used on such assets regardless of their actual Pool Re “zone” location.
- SMEs (small and medium enterprises) – for those businesses whose “property only” values (excluding business interruption) do not exceed £2 million, the 40% reduction on all rates has been removed but the premium will be rated on the property exposure only, with no premium rating applied to the business interruption exposure.
- Large Deductibles – all deductibles must match the “property all risks/fire and explosion” deductible. For “large” deductibles, whether aggregated or not, the discounts have been improved as follows:
 - £250,000 to £499,999 deductible – 3% (new discount)
 - £500,000 to £999,999 deductible – 5% (up from 4% if not aggregated, or 3% if aggregated)
 - £1,000,000+ deductible – 6% (unchanged from 6%, or up from 5% if aggregated)
- Flexible Loss Limits – the flexible loss limit discount threshold has been reduced from loss limits of at least £500 million to loss limits of at least £250 million. In such instances, where an individual location’s values exceed the limit by 25% or more, a special rate discount between 3% and 10% may be applied for that individual location. Further discounts, including those relating to business interruption values, may be available within certain criteria or upon the insurer’s referral to Pool Re.

Extension of cover for Non Physical Damage Business Interruption

While not formalized to date, Pool Re has announced the Government’s intention to broaden the 1993 Reinsurance (Acts of Terrorism) Act to cover non-damage business interruption (BI) losses stemming from acts of terrorism. Necessitated by a recent spate of terror attacks including those in Westminster, Manchester, and London Bridge, this change in legislation closes a coverage gap and will make Pool Re the first global terrorism pool to overtly extend coverage to non-damage BI losses.

Under the current form of the 1993 Act, the reinsurer would only pay out if physical damage occurred to commercial property. SMEs and retail businesses like those in Borough Market affected by the 2017 London Bridge Attack were not covered for their loss of revenue as their policies were only triggered by physical damage occurrences during a terrorist event.

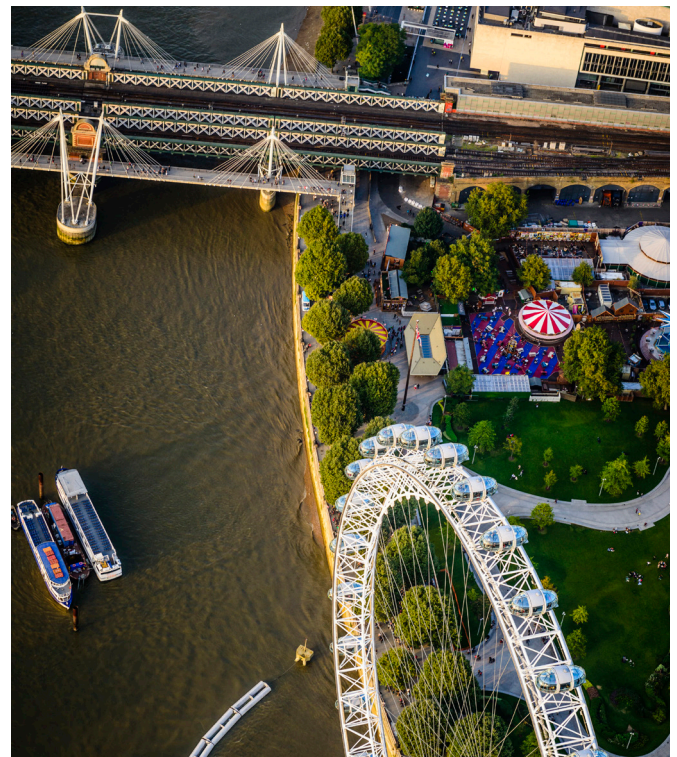
Julian Enoizi, chief executive of Pool Re said this extension “represents another landmark moment for the insurance industry... closing the terrorism insurance gap for businesses up and down the country.”

We can expect the private marketplace to continue to offer attractive standalone cover for non-damage BI incidents while the U.K. Government negotiates legislative changes to enable the reinsurer to extend its coverage.

Wider cover for cyber-terrorism events becomes available

Effective 1 April 2018, Pool Re will be providing cover for physical damage resulting from cyber terrorism insurance which is officially referred to as Remote Digital Interference, or RDI. It is included automatically for all policy holders buying standard terrorism from a Pool Re member at no additional charge for the insurer’s reinsurance (tariff premium) from Pool Re.

This development comes as cyber-related disturbances have continued to affect governments and the private sector across the globe, often with substantial financial loss and operational disruption. Thankfully, there has yet to be a wide-scale cyber terrorism attack that has resulted



in catastrophic physical damage. However, the markets as well as insurance buyers are seeking to be proactive, as technology and security experts warn it is only a matter of time before a terrorist group is sophisticated enough to launch a full-scale cyber-attack. It is no surprise then that as more insurers within Pool Re face demands for cover from their clients, that Pool Re would take up this increasingly sought after cover.

It is critically important, however, that Willis Towers Watson clients operating in the UK understand what Remote Digital Interference inclusion does and does not cover:

- Pool Re only covers properties in England, Wales, and Scotland, and the RDI inclusion is no different. This is important to note due to the often nebulous nature of the source of a cyber-attack. For this cover, the attack can originate anywhere, but it will need to affect property in the territories previously mentioned.
- For RDI to cover a cyber-attack, it still needs to be defined as an Act of Terrorism by Pool Re and Her Majesty's Treasury, and it must damage real, tangible property. RDI is more restrictive than the general Pool Re cover, as it covers only resulting named perils in the policy (versus the general "all resulting risks" of terrorism coverage). The business interruption cover only applies to the physical damage to the property covered under the policy, with the two following exceptions:
 1. When an RDI event damages property, as defined by Pool Re that is located within one mile of the property insured.
 2. Event cancellation and abandonment when the trigger is RDI damage to property at a venue, forcing a cancellation.

As with other coverages, "state sponsored" acts of terrorism are excluded.

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