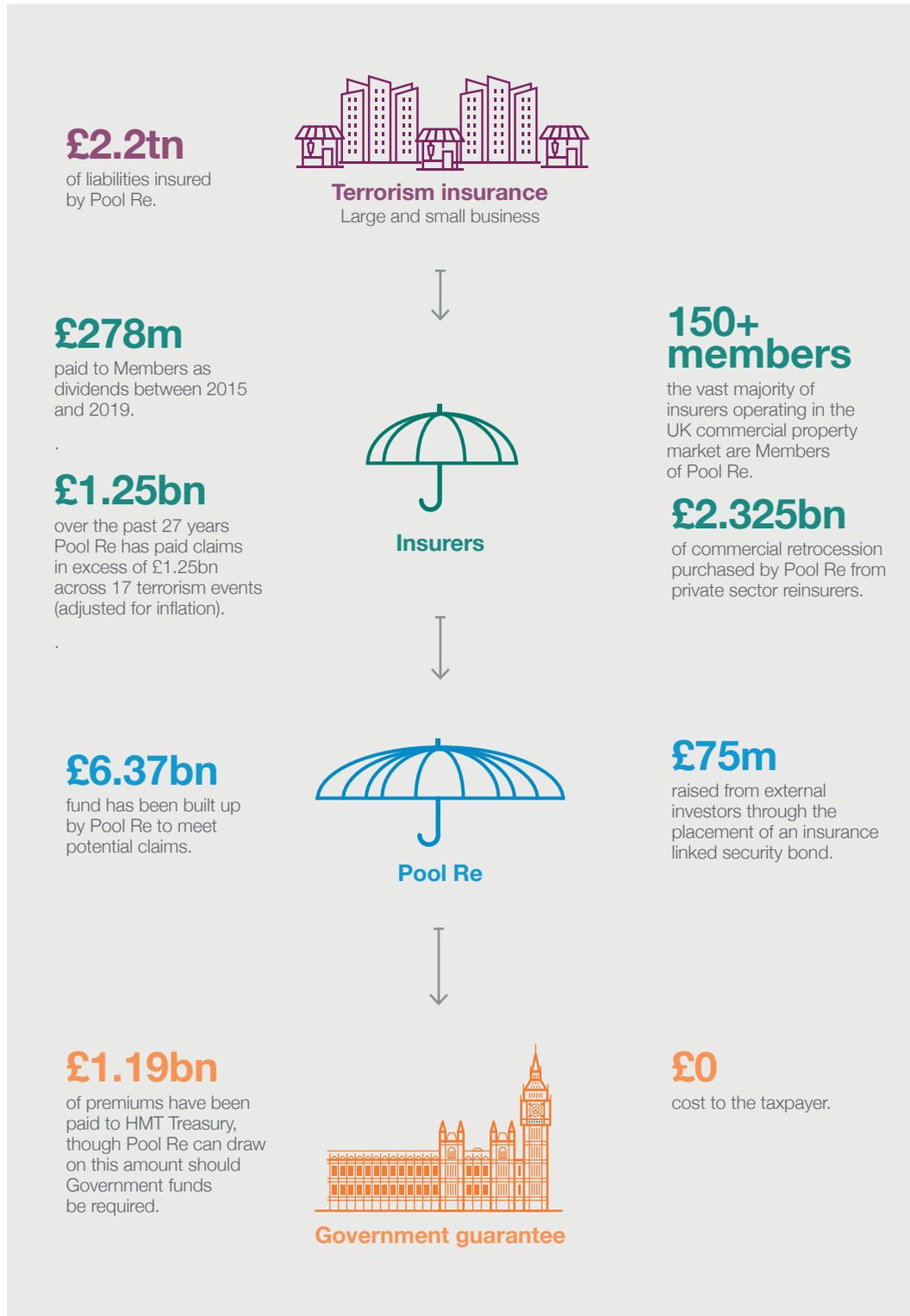


Guaranteeing Great Britain:

Managing Terrorism Risk & Building Resilience

Pool Re's 2020 Review and the Next Five Years



“ I would like to thank you for your continued support for Pool Re. Our organisation was founded amidst the heat and uncertainty of major terrorist attacks on several of the UK’s biggest cities. Nearly three decades on, our industry continues to rise to meet the challenges of the evolving terrorism threat. That we do so is premised more strongly than ever on the principles of collective ownership, and combined endeavour.

Pool Re is a partnership between the insurance industry and the Government. Every five years, we have a Review with Government, an opportunity to ensure that the scheme is delivering the most efficient and effective solutions for both the terrorism insurance market and wider economy.

The 2020 Review will take place over the coming months, and is due to conclude in the new year. There will be a series of opportunities for both Members and the wider industry to participate in the process, and consequently influence how Pool Re operates and develops over the next five year term.

Mutual Interests

Since 1993, Pool Re has succeeded in its core aims of re-establishing a market able to offer comprehensive and affordable terrorism insurance, and paying claims without resorting to the taxpayer. Since the last Review in 2014, we have implemented a strategy to evolve the scheme beyond a liquidity and solvency mechanism into an advanced public-private disaster risk financing solution.

As an industry, we have good cause to look back at the last five years as a period of growth and maturity in terrorism (re)insurance.

Together, we have:

- Integrated non-damage business interruption and cyber into the coverage, the first terrorism pool to do so.
- Introduced and developed a sophisticated risk-financing programme to supplement the pool’s reserve fund; this includes the world’s largest terrorism retrocession placement, and its only terrorism catastrophe bond.
- Invested in the research, analysis and modelling necessary to double Members’ annual aggregate retention and all-important ‘skin in the game’ to over £400m, and £250m per event. As an indirect consequence of this increased capacity and heightened understanding, it is estimated that the standalone terrorism market in the UK has more than doubled over the same period.
- Established a global network for the world’s terrorism and catastrophe pools to come together annually to foster solidarity and share best practice in financing and mitigating contemporary terrorism risk.
- Invested in partnerships and protective security initiatives with academia, risk specialists, and public agencies as part of a broader strategic vision: to underpin, stimulate and grow the commercial market for terrorism risk, and in so doing, scale the UK’s resilience to catastrophic risk.

“ We will seek to ensure that Pool Re’s revised operating framework empowers us to continue to drive private market solutions and maximise commercial capacity in pursuit of national resilience.

The 2020 Review

Last summer, in preparation for the Review, we issued our Members with a Consultation Document outlining our vision for the next five years of Pool Re. The conversations which followed established a clear set of proposed reforms to the scheme’s operating model and scope of activity to ensure that our proposition remains relevant as terrorism risk and the insurance market continue to evolve.

These discussions are reflected in the pages that follow, and describe the reforms we will need to secure from the upcoming Review in order to address the issues identified. Chief amongst these is the industry’s desire to shift to a Catastrophe Treaty model. This structure will provide more cost-effective cover with less operational friction than the current Facultative Obligatory model allows for, passing greater freedoms to Members to drive product innovation and commercial return in the SME market. This reform of the scheme will be balanced against the need to preserve those elements of the model which for 27 years have provided solvency, certainty and transparency to the pool’s Members and their policyholders.

I am cognisant, however, of how two developments in 2020 have coloured the circumstances of the Review.

Pool Re Classification

The first development is Pool Re’s public-sector classification by the Office for National Statistics (ONS) in February this year. The classification was not sought by Pool Re. We contested the grounds of the classification and strongly made the case for maintaining the status quo. It gradually became clear, however, that being underpinned by an uncapped HM Treasury loan facility made this technical classification unavoidable, if only for the cosmetic purposes of the Public Sector Finance statistics.

The classification has understandably led many Members to express concern over the control of Pool Re’s assets, strategic investments, and freedoms to operate effectively. As such, our priorities for the Review are to ensure, first, that Pool Re’s transition to a public-sector entity does not erode its efficacy in increasing the resilience of the economy and its value to the commercial market; and second, that Members are given appropriate assurances over their ownership of Pool Re’s reserves.

We are, in fact, cautiously optimistic that a managed transition of Pool Re’s status presents a significant opportunity for all of the scheme’s stakeholders. This is a central consideration for the upcoming Review, and we will work to ensure a clearer and more responsive structure for industry and Government to manage and respond to terrorism risk.

Moreover, we will seek to ensure that Pool Re’s revised operating framework empowers us to continue to drive private market solutions and maximise commercial capacity in pursuit of national resilience.

“ By growing the commercial terrorism market and equitably transferring risk from the public to the private sector, Pool Re has demonstrated that it is possible to balance national interest with the free market objectives of industry.

Covid-19 Crisis

The second development is the ongoing economic, social and political fallout from the global coronavirus pandemic. The scale of the crisis and subsequent response has led to a growing recognition that public-private partnerships are likely to play a far greater role in the management of complex risks that threaten nations’ security and prosperity.

Covid-19 has highlighted an accelerating divergence between businesses’ risk transfer requirements in the modern world, and the appetite or indeed practical ability of insurers to cater for them.

Our industry urgently needs to find a way to be at the heart of the recovery from the next systemic event, rather than on the margins. By growing the commercial terrorism market and equitably transferring risk from the public to the private sector, Pool Re has demonstrated that it is possible to balance national interest with the free market objectives of industry. This has put us at the centre of our sector’s discussion about how to manage future coverage for pandemic risk, and other tail events which are difficult but necessary to insure, if our society is to thrive in a decade already bringing deep uncertainty and challenge.

It’s Time to Pool Together

The years ahead may see an extension of Pool Re beyond terrorism to address such uncertainty. The 2020 Review will need to ensure that were such an extension to occur, the best model is in place as a platform: one which illustrates the optimum sharing of risk between the public and private sectors. The first concern of the Review, however, is to ensure that the current terrorism scheme provides the best value for its public and private partners over the next five years.

Pool Re cannot secure the reforms needed to ensure this without your support. There will be a series of opportunities for you and the industry to influence the Review process. There will for instance be a number of consultative events that both Pool Re and HM Treasury will be organising in the months ahead, as well as a more general Government-led ‘call for evidence’ on the themes outlined in the pages that follow here. We will ensure that you are kept well-informed of these initiatives.

Finally, thank you again for your continued support, and please do not hesitate to contact me with any observations or questions.

I look forward to partnering with you on the journey ahead.



Julian Enoizi Chief Executive Officer
August 2020

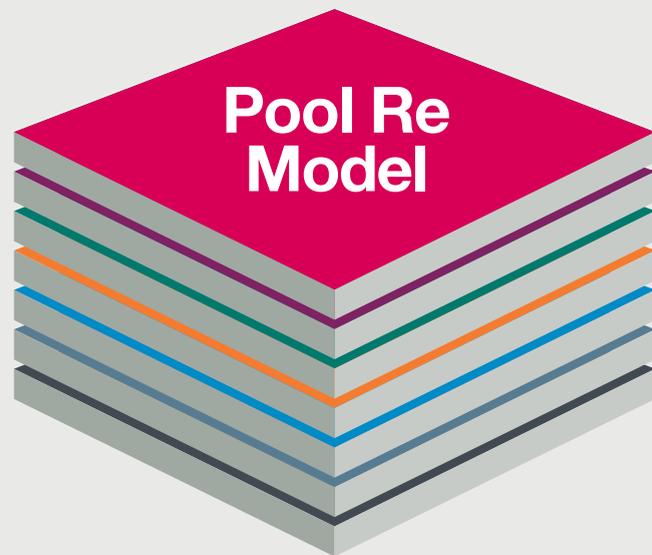
During its first two decades, Pool Re's operations comprised the core administration of the scheme: collecting premiums, investing fund reserves, and releasing funds in the event of a claim.

These functions continue to ensure the availability of commercial terrorism insurance following the market withdrawal in 1992.

Given the financial limits of the commercial market and the complex nature of terrorism risk, public sector intervention continues to be critical to the provision of accessible commercial terrorism insurance in Great Britain.

While the need for reform of the reinsurance model was made clear in our 2019 Consultation, the core functions below will remain broadly consistent, and continue to underpin the availability of viable commercial terrorism insurance in the UK.

Model strengths



- **Solvency:** Members of Pool Re are guaranteed solvency for any legitimate claims arising from a certified act of terrorism, and are not required to hold the vast capital reserves that Solvency II regulation would require in Pool Re's absence. This is particularly the case for CBRN cover.
- **Availability:** Pool Re cover is accessible through any of the scheme's Members, who together constitute the vast majority of property insurers in the UK market.
- **Guaranteed acceptance:** Membership of Pool Re is open to any authorised insurer, and if the general property cover is acceptable to the insurer, Pool Re cover must be offered upon request. Cover and terms are not restricted by geographic area or risk profile.
- **Capacity:** Pool Re is backed by an uncapped HMT guarantee, underpinning £2.2 trillion of UK assets. After even a series of catastrophic events, Members can be certain of immediate liquidity, and continued reinsurance cover at an affordable rate, something that would not otherwise be available.
- **Claims transparency:** Claims are handled by the underlying property insurer within a pre-defined protocol. There is an agreed process for the certification of an event as one of terrorism, with a binding tribunal process to resolve disputes.
- **Accessible:** Enables the UK insurance market to offer terrorism cover to any commercial property in Great Britain that requires it. Central to the proposition is the integration of Pool Re's cover with the underlying property policy which ensures that there is no gap in the cover provided.
- **Breadth of cover:** Terrorism damage caused by CBRN means is included as standard. We also cover acts of terrorism where damage is caused by a remote digital trigger, and in February 2019 the scheme was widened to include non-damage business interruption, available to those Members who sign up to Class B Membership.

Since the last Review in 2014, Pool Re has evolved rapidly from a liquidity and solvency mechanism into a sophisticated disaster-risk financing solution which is both profitable for the insurance industry and serves the national interest by building resilience.

At the heart of this evolution has been creating the conditions to steadily transfer terrorism risk from the public to the private sector. Facilitating this transfer has been one of the pool's objectives since the market withdrew in 1992.

From 2015, and under new leadership, Pool Re committed to a modernising scope of works aimed at growing the private terrorism market and its appetite to assume more terrorism risk on a commercialised basis. Working closely with Members to understand the obstacles to greater private market engagement, we have invested in the tools and technical expertise to evaluate and quantify terrorism risk in a way which would not be commercially viable on a non-mutualised basis.

With the pool acting as an incubator, Members are shielded from the extreme tail risk, but gradually armed with the tools and incentives to benefit from assuming a growing portion of attritional terrorism liabilities. This collaboration has led to the fastest repatriation of terrorism risk since the scheme was established, and underpinned a wide range of critical developments to the scheme as terrorism risk has continued to evolve.

Pool Re Solutions and the 2020 Review

Pool Re's evolution into a modern disaster risk financing solution can be attributed to the range of activities it now undertakes over and above administration of the scheme. These would not have been possible without harnessing the latent potential of Pool Re's pre-funded model. Since 2015, we have invested a very low percentage of Pool Re's annual premium income into developing capabilities which are unique within the UK, and also globally when compared with similar pools.

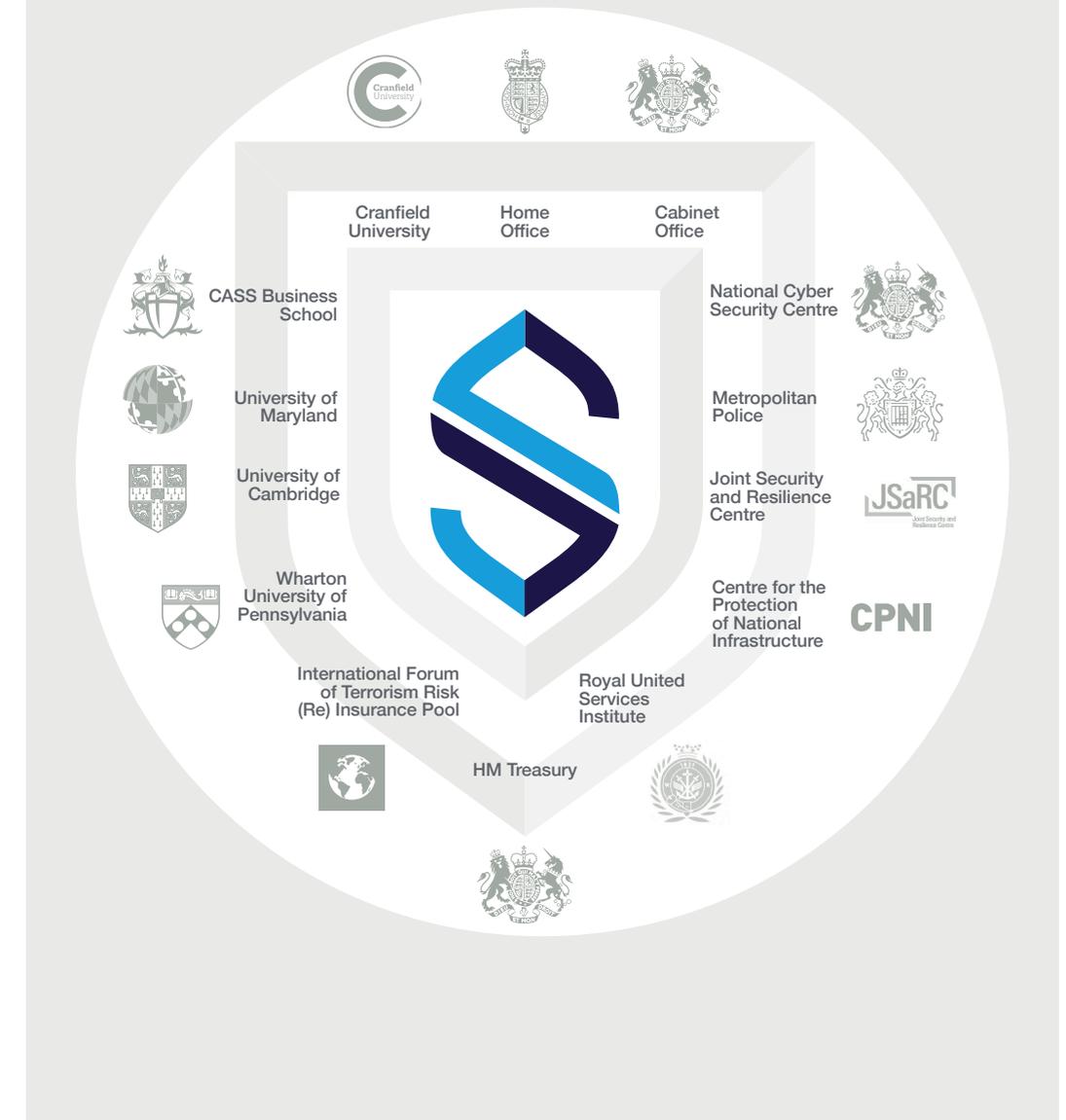
These capabilities were formally introduced to the market in 2019 as Pool Re Solutions: PReS. This centre of excellence drives the scheme's expertise in understanding the terrorism threat, its mitigation, and the multi-layered financing of a catastrophic risk which is difficult to model and price.

The 2020 Review will assess the balance of risk-sharing between Government and the private sector. As Member appetite to retain more risk grows, and the market for insuring conventional terrorism risk matures, our goal is to continue gradually to reduce the industry's reliance on the Government's guarantee.

As such, one of our key aims for the 2020 Review is to protect and develop the capabilities developed over the last five years. These capabilities are fundamental to the continued repatriation of terrorism risk, and the scheme's central mission of driving private market solutions to a public policy objective. We will need to ensure that our stakeholders continue to benefit from economies of scale through PReS' understanding of the risk, investment in mitigation, and efficiencies in administering market-wide terror solutions in response to the protection and information gaps posed by a constantly evolving risk.

Increased capacity and growing confidence have been crucial for developing a competitive terrorism market able to meet the needs of policyholders, and respond to a dynamic risk as it evolves. These are the two principles which form the bedrock of our 2025 vision, and the second phase of our modernisation.

Our strength lies in our partnerships



Return of risk to the market

Members’ annual retention doubled to £410m in the aggregate and £250m per event (from £100m and £200m respectively in 2014).

Placed world’s largest commercial terrorism reinsurance programme - £2.325bn.

Placed world’s first terrorism insurance linked security (ILS) of £75m. Standalone market estimated to have grown from £30m to £108m. In addition, repatriation of Contingency risk to the standalone market.

Integration of Cyber and Non Damage BI cover

Pool Re’s cover, including for CBRN, is amongst the widest globally, and continually evolving to match and anticipate the threat, ensuring Members’ value proposition remains relevant to today’s risks.

International best practice

Pool Re established and continues to convene the International Forum of Terrorism Risk (Re) Insurance Pools (IFTRIP). IFTRIP is the world’s largest coalition of terrorism (re)insurance experts and provides a platform for the exchange of experience and best practice.

Actuarial modelling, pricing and exposure management

PReS builds terrorism modelling tools to underpin better pricing, inform retrocession and ILS purchase, and educate Members. The models being developed will allow Pool Re and its Members to more accurately quantify not only traditional terrorism risk, but also CBRN attacks.

Risk awareness and threat analysis

Regular reports and analysis are freely accessible to Members, businesses and the public sector. As well as educating about existing and emerging terrorism protection gaps, these PReS resources improve knowledge of the threat, advise on mitigation strategies, and provide Members with more confidence to underwrite the risk.

Identification of legislative gaps in scheme proposition

Pool Re has been working with industry, public agencies and think-tanks to establish the limitations of the definition of terrorism used by the market, the financial and reputation risks of these limitations, and pathways to harmonise the legal and industry definitions that underpin the Pool Re scheme.

Risk management

PReS is working to become a key facilitator of terrorism risk management information and techniques by linking government agencies, risk professionals, the insurance industry and its policyholders. Pool Re Members can offer policyholders the opportunity to qualify for premium discounts by implementing protective security measures accredited by the UK Government.

Strategic use of the fund

Pool Re invests in partnerships, research and protective security initiatives with academia, risk specialists, and public agencies to understand and reduce the risk posed by modern terrorism (e.g. financing an Information Sharing Platform project with the Metropolitan Police).

Claims management

Pool Re provides guidance and awareness in dealing with tail risk events and the unique challenges of a CBRN event.

Member support

Pool Re now offers a comprehensive suite of operational and strategic support to Member insurers, from risk engineer training to technical reviews.

Innovations since 2014



It is important that the outcome of the 2020 Review allows Pool Re to continue to develop its model, products and legislative arrangements to most effectively meet the needs of its public and private partners for the next five years. The table

below outlines the reforms we will need to secure in the months ahead, based on our discussions with Members over the last year.

	Reform of the Reinsurance Model & Scheme	Preservation of Members' control over scheme proposition and strategic investments
Industry feedback	<p>After 27 years, the Facultative Obligatory model is restrictive and leads to product integration issues for insurers.</p> <p>The rigid, rules-based approach has become inconsistent with the modern digital insurance marketplace.</p> <p>Elements of the scheme could be reformed to incentivise the greater retention of risk.</p> <p>Scheme rules may be limiting penetration, particularly in the SME segment, where take-up is below 15%.</p> <p>Elements of the scheme could afford greater incentives for insurers and brokers to promote cover.</p>	<p>Concern that restrictions resulting from the ONS public-sector classification will erode Pool Re's efficacy and value to the commercial market.</p>
Proposed actions	<p>Transition to a Treaty Reinsurance Model by January 2022</p> <p>Design Treaty mechanics to:</p> <ul style="list-style-type: none"> • Create three sub-classes: conventional (blast), non-conventional (CBRN & Cyber) and NDBI. • Bifurcate, or separate, retention structures for conventional and non-conventional terrorism. • Price at account level to better reflect retentions and attachment levels. • Integrate terrorism cover within existing insurer products, including SME packaged products. • Accord with a review into whether terrorism cover should be mandatory to offer. • Accord with a review into the scheme's 'All or Nothing' rule (designed to prevent adverse selection). 	<p>Protect and develop Pool Re Solutions' functions and value by embedding them within a revised operating structure for Pool Re as a newly classified entity</p> <p>Continue to leverage PReS' unique capabilities and partnerships to underpin continued:</p> <ul style="list-style-type: none"> • Return of risk to the market. • Evolution of the scheme's cover. • International collaboration. • Actuarial modelling, pricing, and exposure management. • Risk awareness and threat analysis. • Identification of legislative gaps in scheme proposition. • Risk management initiatives and integration. • Strategic investments in risk mitigation projects. • Catastrophic claims management expertise. • Technical and strategic support to member insurers. <p>Develop PReS' expertise in the management, mitigation and financing of correlated tail risks and systemic perils which are difficult to insure:</p> <ul style="list-style-type: none"> • CBRN and Cyber risk management . • Risk Assessments for SMEs and mid-sized corporates. • Realistic Catastrophe Recovery Planning and Resilience Preparation. <p>Establish a 2021 – 2025 Scope of Works to maintain scheme evolution and relevance</p> <ul style="list-style-type: none"> • Reform of the Reinsurance Model & Scheme. • Harmonise legal and industry definitions of terrorism. • Reporting to Parliament on terrorism protection gaps. • Develop role as strategic partner to Government on public/private tail risk transfer and mitigation.
Expected benefits	<p>A Catastrophe Treaty structure would provide more cost-effective cover with less operational friction, and pass greater control and profit opportunity to Member insurers by:</p> <ul style="list-style-type: none"> • Freeing Members to set pricing within their own products and segments, allocating the cost of the treaty within their own strategy and risk appetite. • Bifurcating the risk, freeing Members to vary retention breakdown between the classes according to appetite. This will facilitate greater retention of conventional risk, and accelerate transfer of liability to the private sector. • Freeing Members to vary retention breakdown between the classes, facilitating greater retention of conventional risk and accelerating transfer of liability to the private sector. • Empowering Members to drive SME penetration. Significant increased premium would flow directly into private market. • Operating within a framework that is still broadly familiar for insurers, preserving the elements of the scheme that Members value. • Integrating terrorism cover into digital distribution channels. • Creating a more attractive environment for retrocession and Insurance Linked Securities. • Removing unnecessary bureaucracy and rules that impair policyholder take-up. 	<p>Delivering the second stage of Pool Re's modernisation programme will continue to underpin the commercial market, and maximise resilience to terrorism risk</p> <ul style="list-style-type: none"> • Commercial market continues to benefit from economies of scale through Pool Re. • Pool Re <i>Solutions</i> will facilitate new solutions to existing and emerging terrorism protection gaps by continuing to innovate in the commercial terrorism space. • Proposition and cover benefits from more responsive relationship with Government, for example in the development of products to bridge market failures and information gaps. • Members' financial and reputational risk reduced by resolving uncertainty arising from Pool Re's founding legislation (1993 Reinsurance (Acts of Terrorism) Act).

We cannot secure these reforms without your support. Together, we need to use the 2020 Review to secure a platform that will allow us to build on the progress of the last five years, and upon nearly three decades of stability in Great Britain's terrorism insurance market. At stake are the safety and

prosperity of a wide spectrum of public and private stakeholders in relation to terrorism risk. Their vulnerabilities and interests may vary, but all are united by the need to finance, understand and mitigate this unique threat with confidence in the years ahead.

Delivering value

Securing our proposed reforms will allow us to protect and continue to develop Pool Re's value for a wide spectrum of stakeholders and strategic partners.



UK businesses/ policyholders

- Access to affordable terrorism insurance protection to enable and encourage economic activity and investment in the UK, including large infrastructure projects.
- Access to a relevant and comprehensive product which evolves with and anticipates the threat and remains available after even a large event.
- Insurance cover can be designed to reward risk mitigation activities.



Members insurers of Pool Re

- Offered a solution in response to market failure, and an evolving product which meets the needs of customers.
- Offered clear terms for terrorism coverage and reinsurance which are simple to operate, provide unbroken coverage, and remain stable post-event.
- Access to unique tools and information from Pool Re *Solutions'* partnerships with public agencies, academia, and international pools.
- Profit and innovation opportunities associated with increased terrorism risk understanding and access to threat and actuarial expertise.
- Value realised from the Pool Re annual dividend.
- Insulated from the tail risk of terrorism, including CBRN.
- London's reputation as a world-leading insurance and risk-transfer industry is further enhanced.



Wider (re)insurance industry

- Provided with a route to market normalisation to ensure confidence remains in the insurance industry.
- Enables non-direct reinsurer (i.e., retrocession) participation which would not otherwise be possible.



UK Government

- Public finances boosted through sharing of collected risk premium, and distanced from loss by accrued funds and risk-financing solutions (e.g. ILS).
- A maturing market for conventional terrorism risk will reduce reliance on the HM Treasury guarantee of Pool Re, distancing the taxpayer from potential loss, and gradually allowing for more targeted public interventions in the commercial terrorism market.
- Supports CONTEST strategy and provides unique conduit to incentivise businesses to implement accredited risk mitigation strategies.
- Access to expertise in the quantification and pricing of terrorism risk liabilities and advice on how to manage existing and emerging protection gaps.
- Access to an efficient mechanism for getting money to the victims of terrorism quickly, and enabling the

economy to 'build back' in the event of catastrophic loss.

- Pool Re's transition to a Treaty model will increase take-up of terrorism insurance by SMEs and businesses outside London, supporting regional recovery in the event of loss.
- Access to a trusted advisor on how government can intervene effectively in the market to address other risks which are difficult to insure on a purely commercial basis.
- Able to remain operationally removed from the running of reinsurance processes.
- Moral hazard is reduced by formalising the hierarchy of losses between the public and private sectors in the event of an attack.
- International reputation for efficient management and financing of catastrophic risk.



International

- IFTRIP, launched in London in 2015 at the initiative of Pool Re, is the only forum for collaboration between the world's terrorism (re)insurance pools.
- Governments, the (re) insurance industry, and their policyholders all over the world benefit from the exchange of best practice and enhanced management of terrorism risk fostered through IFTRIP.
- Potential for Pool Re to support UK export revenue and foreign policy ambitions if its expertise can be made available on a commercial basis internationally.

**Want to share your views, get
in touch, or find out more?**

Find us at:

poolre.co.uk

enquiries@poolre.co.uk

+44 (0)20 7337 7170

 [@poolreinsurance](https://twitter.com/poolreinsurance)

 [Pool Re](https://www.linkedin.com/company/poolre)

Pool Reinsurance Company Limited
Equitable House 47 King William Street London EC4R 9AF

poolre.co.uk