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Testimony of

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Before the United States House Committee
on Financial Services

Protecting America:
The Reauthorization of the Terrorism Risk Insurance Program

October 16, 2019
Washington, D.C.

MARSH & McLENNAN COMPANIES

Good afternoon Chairwoman Waters, Ranking Member McHenry and members of the Committee. My name is John Doyle, and I am the President and Chief Executive Officer of Marsh. Thank you for inviting me to share our perspective on the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) ahead of its expiration at the end of 2020.

As the world's leading insurance broker and risk advisor, Marsh has a unique perspective on the terrorism risk insurance marketplace. At Marsh, we understand the role insurance plays in the moments that matter for individuals and businesses alike. We enable risk taking. We guide clients through effective risk mitigation strategies, and we step in when losses do occur to help people get back on their feet.

Our colleagues advise policyholders on purchasing terrorism insurance across all industries and in every major economy in the world, and we have published the Terrorism Risk Insurance Report for more than a decade. It is used by a broad array of public and private stakeholders to understand the state of the terror risk insurance market. Our sister company, Guy Carpenter, is the leading global risk and reinsurance specialist and handles 74% of the terror risk schemes globally. For our company, the impact of terrorism is deeply personal. Marsh & McLennan Companies lost 295 colleagues and scores of business associates in the September 11, 2001 attack on the World Trade Center.

9/11 was the original impetus for the passage of the Terrorism Risk Insurance Act (TRIA) in 2002, which created a federal reinsurance backstop for terrorism losses. By all accounts, the program has been a model public-private partnership. The backstop remains a critical component to a stable terror insurance market, particularly for NBCR events, and has enabled insurance to be placed and investments to be made. As such, I urge you and your colleagues to reauthorize TRIPRA without delay.

My testimony addresses four main areas:

- I will start by emphasizing the economic implications of TRIPRA not being reauthorized, or a decision on its reauthorization being pushed too close to the expiration date.
- Second, I will talk about TRIPRA's critical role in the workers' compensation market.
- Third, I will discuss current trends in the commercial insurance and reinsurance market, and highlight the dynamic nature of terrorism risk insurance.
- Finally, I will identify key highlights from Marsh's 2019 Terrorism Risk Insurance Report, released in May 2019 (Appendix A).

Impact of TRIPRA Backstop on Economic Growth

While the Marsh 2019 Terrorism Risk Report notes that the take-up rate for property terrorism risk insurance in the US has broadly been around 60% for several years, for certain sectors of the US economy, including education, media, financial institutions and real estate, take-up rates are much higher. Indeed, TRIPRA backs all workers compensation coverage, which is mandatory in nearly every state. Absent a public-private backstop for large-scale terror attacks, many industries would struggle to find sufficient or affordable insurance coverage. Economic activity could be slowed and large workforces could be at greater risk. Marsh data underscores the diverse scope of industries that rely on TRIPRA coverage.

Insurers and rating agencies are closely monitoring legislative activity related to TRIPRA. Uncertainty about the future of the federal backstop as the deadline looms closer will impact the availability and nature of insurance coverage. That, in turn, could affect companies' decision-making processes about hiring and investing, potentially sending ripple effects through the economy.

We are already seeing an impact on policies that extend beyond 2020, with some insurers either seemingly unwilling to offer terrorism coverage beyond the expiration of TRIPRA or seeking to increase prices to cover the additional risk to their portfolios. Without a decision to reauthorize or extend TRIPRA, we expect to see more sunset provisions in policies and higher costs as we get closer to December 31, 2020. In some cases, state-run markets of last resort, which must accept the risk, may be the only option for coverage .

Rating agencies continue to emphasize terrorism stress tests and assess ratings against specified criteria, including in scenarios where the industry trigger falls short and there is no TRIRPA backstop protection. As we approach 2020, rating agency analysts will meet with carriers and ask tough questions about these topics, further underscoring the need for a timely reauthorization. This dynamic will have an outsized impact on smaller insurers.

Allowing TRIPRA to expire or renewing it with significant increases in insurer participation will have an impact on all terrorism-exposed insurers, particularly those insurers with less than $500 million in capital reserves. We expect this to adversely affect pricing and limit the availability of terrorism risk coverage. If TRIPRA is allowed to expire and not replaced, those insurers that are still able to offer terrorism coverage will likely only write coverage for buyers with operations in preferred locations and could consider increasing prices for other locations. This would lead to capacity shortfalls for central business districts, at-risk industries and employers with significant workers' compensation accumulations.

Thus, a federal backstop remains essential to the availability and affordability of terrorism coverage in higher-risk areas, including here in Washington, in New York and in hundreds of other communities across the country with universities and colleges, large shopping malls, hospitals and sports arenas.

As an alternative, businesses can consider standalone property terrorism insurance. But while it can complement TRIPRA coverage, offering broader coverage—for example, for non-certified acts of terrorism—its pricing, along with the constraint of limited available aggregate for certain risks, prevent it from serving as a replacement for TRIPRA for many organizations.

It is also important to underscore that cyber-attacks remain an ever-present and escalating threat over which businesses have little control. December 2016 guidance from the U.S. Department of the Treasury addressed a unique issue related to TRIPRA's coverage of cyber perils. Treasury's guidance clarified that losses from cyber-terrorist attacks that were subject to the coverage of cyber insurance policies were to be treated the same as commercial property and casualty losses. While organizations can take steps to strengthen their cyber resilience, including thorough scenario-based testing and quantifying the potential financial impact of an attack, it remains essential that they transfer the financial risk from cyber-attacks via insurance. With TRIPRA serving as a critical federal backstop for covered cyber-terrorism losses, cyber insurance policies have, over time, evolved to respond to the failure of technology and the resulting interruption or loss of revenue in addition to traditionally important privacy risks.

The use of captive insurance provides some policyholders with the flexibility of securing adequate coverage which may not be readily available in the commercial marketplace. Organizations that employ captives also are likely to be affected in the event that TRIPRA is allowed to expire or is significantly changed. Captives are widely used to supplement what is available in the commercial market, and in some cases captive insurers are the only available option for certain layers and/or perils. This is most common in areas of higher perceived risk, such as for property or employee-related coverages in major cities. Generally speaking, since captives are best suited to primary operating layers, or as a mechanism for accessing risk transfer solutions, it is very likely that, absent a TRIPRA-like program with a backstop, captive utilization for terrorism coverage would change significantly.

Despite available insurance capital, in the absence of TRIPRA's mandatory "make available" provision, insurers might not offer terrorism coverage, and there is a real risk that many property and casualty insurers will decide not to underwrite terrorism risks.

The Impact of TRIPRA on Workers Compensation Coverage

The potential expiration of TRIPRA is and will remain a major issue for employers, as buyers of workers' compensation insurance, and for providers of the coverage. As we begin 2020 and draw nearer to the program's expiration date, employers will likely see a significant reduction in the number of insurers willing to write their risk, especially after the program's expiration date.

It is worth noting that in the world of insurance, workers' compensation policies are unique. Participation by employers in workers' compensation systems is mandatory in nearly all states. By law, primary workers' compensation policies must provide coverage for terrorism risk, and thus the effective take-up rate for this line is 100%. Unlike other forms of commercial coverage, workers' compensation policies do not include any stated policy limits, nor can they limit or exclude coverage for perils such as terrorism losses. Instead, insurers can only reduce their aggregate workers' compensation terrorism exposure by limiting the number of employers for which they underwrite coverage in certain areas.

Thus, insurers monitor their exposures to workers' compensation terrorism loss very closely—in particular, they monitor concentrations of insured employees in major urban areas. Insurers also monitor the number of accounts they insure for workers' compensation, other correlated lines of business in these geographic areas, as well as the specific risk characteristics of the accounts.

Modeling of this exposure has become more sophisticated. For context, a study by the Rand Corporation[1] ahead of the 2014 TRIPRA expiration noted that workers' compensation losses from a large conventional attack—such as a 10-ton truck bomb—could exceed $10 billion, while losses from a nuclear attack could exceed $300 billion. And many workplaces remain soft targets that are increasingly vulnerable to the attack types that are on the rise globally.

As insurers begin to underwrite workers' compensation policies that contemplate coverage without the potential financial protections of TRIPRA, most will be less willing to underwrite the risks of employers in certain high-profile industries, with large employee concentrations or in certain major cities. These employers are likely to see insurers offer shorter-term policies and higher workers' compensation rates and premiums.

Organizations with large concentrations of employees are most likely to be affected. In addition to potential price increases, they also face the possibility that their insurers will decline to renew their coverage. The issue of employee aggregation affects any employer with a large number of employees in a single location or campus, as is common among hospitals, higher education institutions, financial institutions, defense contractors, hotels, professional services companies and power and utility companies.

[1] Rand. *The Impact on Workers' Compensation Insurance Markets of Allowing the Terrorism Risk Insurance Act to Expire.*

Additionally, insurers that write multiple lines of business, such as workers' compensation and property, will consider the impact of potential terrorism losses across all correlated lines, including cyber and business interruption. Insurers may decline certain risks outright because they have accumulated too much risk in a particular ZIP code or city, while others may impose a premium surcharge for a particularly large workers' compensation risk. Improved catastrophe modeling that can produce detailed worst-case scenarios—including some that generate losses so large that insurers would not write in the absence of TRIPRA—has increased underwriting scrutiny. In light of the current uncertainty, insurers will evaluate their risk appetite, and some will limit their exposure to workers' compensation for companies with high concentrations of employees in major cities. It is important to reiterate that because workers' compensation insurers cannot exclude terrorism-related losses and employers are almost always required to buy terrorism insurance, the options available to buyers will likely shrink and rates will increase, some dramatically.

In 2014, the year leading up to TRIPRA's most recent renewal, some insurers attached endorsements to policies limiting coverage, including in this example:

> *"The premium charge for the coverage your policy provides for terrorism or war losses… may continue or change for new, renewal, and in-force policies in effect on or after December 31, 2014, in the event of TRIPRA's expiration, subject to regulatory review in accordance with applicable state law."*

It is reasonable to assume some insurers will take similar actions as TRIPRA's expiration date looms. Other insurers could go further and align a policy's expiration date with the program's December 2020 expiration date.

If TRIPRA is allowed to expire or renewed with significant modifications, it is likely a large number of employers will be forced to obtain workers' compensation coverage from assigned risk or residual markets, which are considered to be insurers of last resort.

Current State of the Terrorism Market

Based on data from AM Best, US property and casualty reinsurance dedicated capital is estimated at $779B. According to our sister company Guy Carpenter, global dedicated reinsurance capital is estimated to be $440 billion; dedicated reinsurance capital in North America is estimated to be between $120 billion and $140 billion. Reinsurance capacity for terrorism, however, is dependent on a reinsurer's preference, appetite, expertise and aggregate constraints. Capital must be deployed to protect all of society's insured risks including auto, homeowners, business interruption and liability. Capacity for terrorism insurance is determined after other needs are met.

According to AM Best, the US property and casualty market is expected to register a $12.1 billion underwriting loss in 2018. Driven primarily by catastrophe losses from Hurricane Harvey and other natural disasters, this is the third consecutive year of unprofitability for the industry.

If overall capacity erodes from the market—meaning that insurers and reinsurers restrict the amount of capital they are willing to put at risk—we could see increases not only in pricing for property insurance, but also for other lines of business, including terrorism risk, business interruption and cyber risk.

Globally, insurance markets have adapted to shifts in attack methodologies, and we expect threats to continue becoming more diverse and complex as cyber and drones add to the array of possible attacks, the range of credible nuclear, biological, chemical and radiological scenarios broadens and a degree of strategic leverage elevates otherwise simplistic attacks.

Some recent tactics by terrorists are less sophisticated than what we saw on 9/11. For example, in the London Bridge attack, which marked its second anniversary earlier this month, assailants deployed bladed weapons and vehicles. A vehicle was also used in the October 2017 attack that killed eight people after a man drove a rented pickup truck into cyclists and runners on the Hudson River Park's bike path.

While these new methodologies tend to generate relatively little property damage, the impact on businesses can be severe, to say nothing about the impact on human life. In response, we have seen some insurers offer new coverage options to businesses. According to the Insurance Information Institute, business interruption costs represented 31% of the losses attributed to the September 11 attacks, followed by property losses at 19%.[2]

Of special interest is coverage for nuclear, biological, chemical or radiological (NBCR) attacks, which are not typically covered by reinsurance programs, but can lead to very large losses that in some cases can exceed insurers' surplus. The Reinsurance Association of America estimates that the insured property and workers' compensation loss potential from a large nuclear detonation in midtown Manhattan could be $807 billion, while a biological attack—for example, using anthrax—in New York could lead to property and workers' compensation losses of approximately $624 billion (see Figure 1). Uncertainty about TRIPRA's future is already prompting insurers and terrorism insurance buyers to seek additional reinsurance limits and coverages, on the assumption that there is limited capacity available in the private market, especially for NBCR events.

[2] Insurance Information Institute.

Figure 1

Large Loss Scenario Consideration

September 11, 2001

•$46.3B (2018 dollars)[1]

Largest Modeled Conventional Terrorism Losses[2]

•10-ton Truck Bomb $44.8B (Los Angeles)

•Workers Compensation: over 150 losses > $10B

Largest Modeled NBCR Losses[2]

•Nuclear Detonation	$807B	(New York)
•Biological (Anthrax)	$624B	(New York)
•Chemical (Sarin Gas)	$ 15B	(Chicago)
•Radiological:	$134B	(New York)

Notes:

1.2018 dollars based on Bureau of Labor statistics CPI Index

2.Modeled in RMS v18, Occurrence loss figures assume 100% Property & WC take-up rates among commercial insureds. All other lines of business: Life, Liability, Business Interruption etc., are excluded.

3.Industry capital figures presented assume 100% 12/31/2018 of capital is available, or deployed, to cover terrorism. In reality, many (re)insurers – particularly capital/convergence markets – have limited appetite to write terrorism due to the correlation with a financial markets loss.

4.Estimated dedicated capital figure is a joint estimate with A.M. Best and includes capital dedicated to both P&C and L&H lines

5.Estimated capital for North American P&C lines estimate uses current ceded premiums as the base level

Source: Guy Carpenter

A long-term reauthorization of TRIPRA should allow the reinsurance market to continue to assume more risk and provide insurers with additional terrorism capacity at a constant and measured pace. If, however, TRIPRA is allowed to expire at the end of next year or is reauthorized at the end of 2020 with substantial increases in cedent retentions, we believe that terrorism-exposed insurers with under $500 million in surplus will likely need to purchase additional private reinsurance market capacity both to help protect capital and satisfy rating agencies and regulators. This is likely to lead to multiple insurers trying to simultaneously access the private reinsurance market's limited overall capacity. The impact this would have on the aggregate US reinsurance sector capacity and pricing is not clearly known.

Highlights from the 2019 Terrorism Risk Insurance Report

Marsh's 2019 Terrorism Risk Insurance Report explores the state of terrorism and the terrorism insurance marketplace in key regions, leveraging insurance market insights and data and rankings from Marsh's World Risk Review ratings system. Key findings from the report include the following:

- Between May 2018 and May 2019, risk ratings fell in 116 countries and increased in 34, with little improvement noted in the world's riskiest countries, including Afghanistan, Yemen and Iraq. Despite an overall improvement, terrorism is a dynamic threat, and it is certain that new threats will arise. While religious extremism is expected to remain the dominant terrorism threat around the world, we are also seeing an increase in lone wolf attacks, including against "soft" targets with limited security.
- The US remains the world's largest buyer of terrorism insurance, with US-based companies continuing to purchase coverage at a high rate. The take-up, or purchase, rate for TRIPRA coverage embedded in US property insurance policies remained at 62% in 2018 (see Figure 2).
- Education entities had the highest industry-specific terrorism insurance take-up rates in 2018, followed by media organizations and financial institutions (see Figure 3), underlining how industries across the board depend on TRIPRA. Due to their perceived vulnerability, transportation and hospitality and gaming companies had the highest percentage spend on terrorism coverage as part of their overall premium spend, 8% and 7% respectively.
- Many companies obtain terrorism insurance through captive insurers that they own and use to underwrite various risks, often with more favorable pricing and terms and conditions. In 2018, 182 Marsh-managed captive insurers accessed TRIPRA to write property, workers' compensation, general liability and cyber risk for their parent companies, an increase of 10% over 2017.
- Take-up rates remained highest in the metropolitan areas—Atlanta, Chicago, New York and San Francisco had the highest percentage of companies purchasing terrorism insurance in 2018 while companies in Atlanta, Los Angeles and New York spent the most on terrorism insurance as a percentage of total premiums.

Figure 2

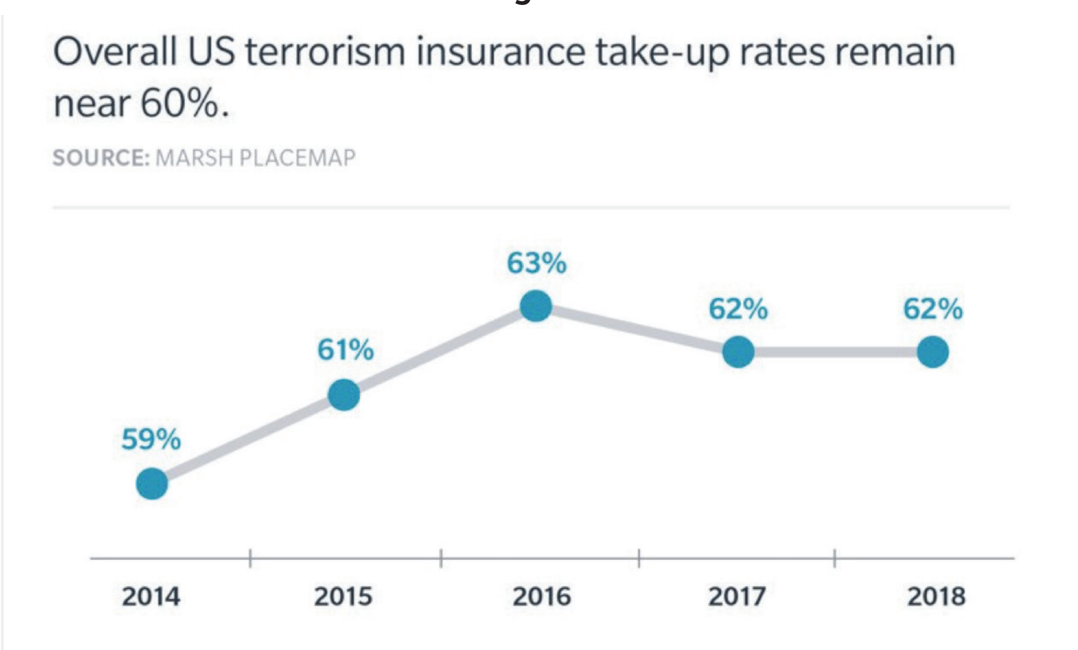
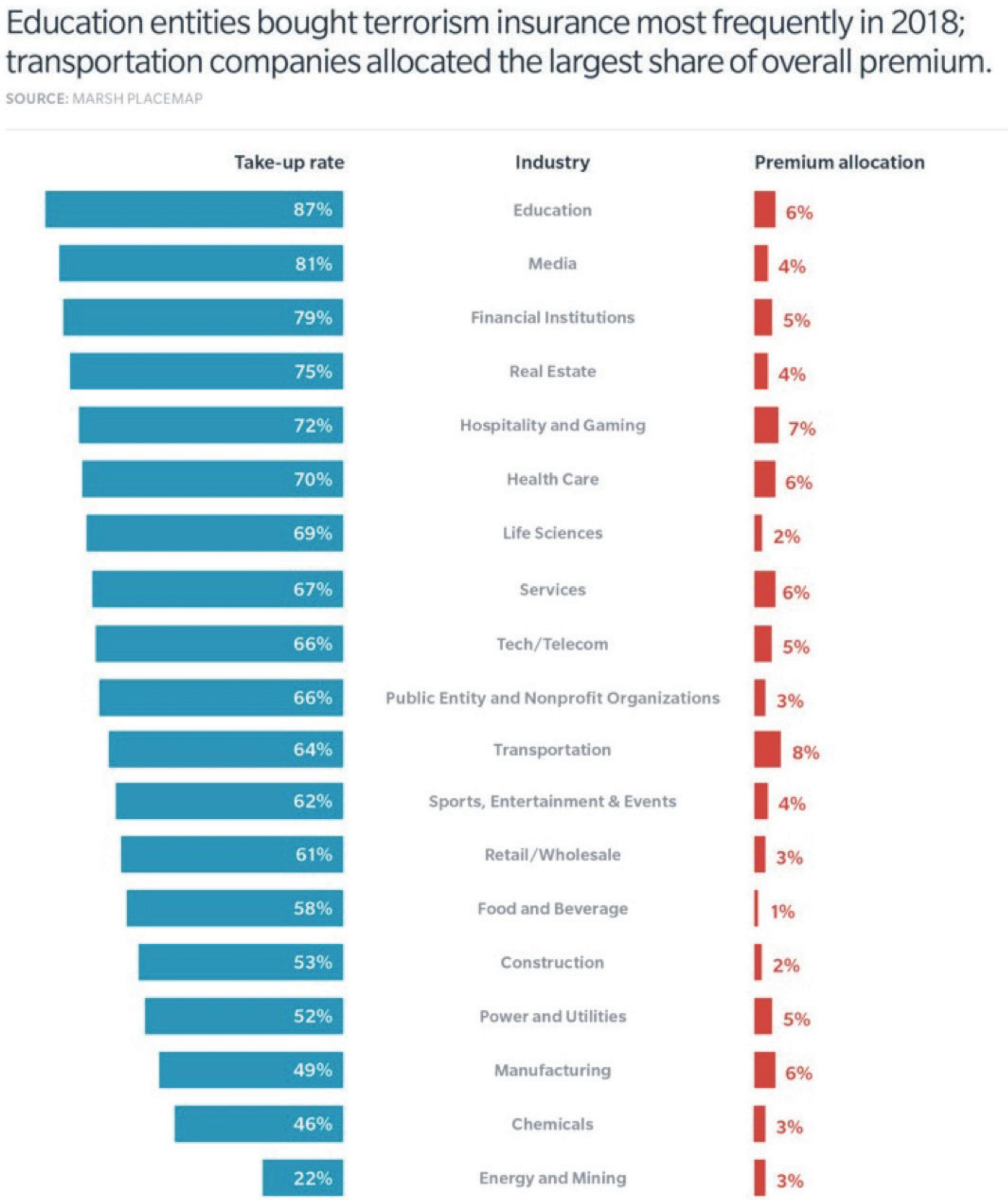


Figure 3



Conclusion

In Marsh's view, TRIPRA is a model public-private partnership and remains instrumental in providing a reinsurance backstop for insurers, which allows them to provide sufficient limits of terrorism coverage to the business community. TRIPRA affords the private insurance market the ability to provide affordable capacity even to areas perceived as high risk. It has been essential in making terrorism insurance available and commercially viable in the US and it has enabled the economy to function.

Other countries have also established public-private risk sharing mechanisms, with coverage typically triggered by a national government's declaration that an event was a terrorist attack (see Figure 4). It's important to note that unlike some other mechanisms—including the UK's Pool Re and France's Gestion de l'Assurance et de la Réassurance des risques Attentats et Actes de Terrorisme (GAREAT)—TRIPRA does not tap into the private market for reinsurance, and losses are funded and spread throughout the industry after an event has occurred.

Figure 4

Public/Private Terrorism Risk-Sharing Mechanisms

SOURCE: MARSH, GUY CARPENTER, US GOVERNMENT ACCOUNTABILITY OFFICE, WORLD FORUM OF CATASTROPHE PROGRAMMES, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Country	Terrorism Pool or Reinsurance Mechanism	Year Est.	Policyholder Coverage
Australia	Australian Reinsurance Pool Corporation (ARPC)	2003	Elective
Austria	Österreichischer Versicherungspool zur Deckung von Terrorrisiken (The Austrian Terrorpool)	2002	Elective
Bahrain	Arab War Risks Insurance Syndicate (AWRIS)	1981	Elective
Belgium	Terrorism Reinsurance & Insurance Pool (TRIP)	2007	Elective For Large Property Risks
Denmark	Danish Terrorism Insurance Scheme	2010	Elective
Finland	Finnish Terrorism Pool	2008	Elective
France	Gestion de l'Assurance et de la Réassurance des risques Attentats et actes de Terrorisme (GAREAT)	2002	Mandatory
Germany	Extremus Versicherungs-AG	2002	Elective
Hong Kong - China	Motor Insurance Bureau (MIB)	2002	Elective
India	Indian Market Terrorism Risk Insurance Pool (IMTRIP)	2002	Elective
Indonesia	Indonesian Terrorism Insurance Pool (MARIEN)	2001	Elective
Israel	The Victims of Hostile Actions (Pensions) Law and The Property Tax and Compensation Fund Law	1970/ 1961	Mandatory
Namibia	Namibia Special Risk Insurance Association (NASRIA)	1987	Elective
Netherlands	Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden (NHT)	2003	Elective
Northern Ireland	Criminal Damage Compensation Scheme Northern Ireland	1972	Elective
Russia	Russian Anti-Terrorism Insurance Pool (RATIP)	2001	Elective
South Africa	South African Special Risk Insurance Association (SASRIA)	1979	Elective
Spain	Consorcio de Compensación de Seguros (CCS)	1941	Mandatory
Sri Lanka	Strike, Riot Civil Commotion and Terrorism Fund – Government	1987	Elective
Switzerland	Terrorism Reinsurance Facility	2003	Elective
Taiwan	Taiwan Terrorism Insurance Pool	2004	Elective
United Kingdom	Pool Reinsurance Company Limited (POOL RE)	1993	Elective
United States	Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA)	2002	Elective

The presence of private-public mechanisms in different countries shows the importance of a joint approach in helping to mitigate the economic threats posed by terrorism. Over the last decade, more than 230,000 people have been killed by terrorists and other non-state actors globally, according to Jane's Terrorism and Insurgency Centre from IHS Markit. Every terrorism attack shatters lives, instills fear and disrupts business. Its financial impact is widespread: The Institute for Economics & Peace estimates that terrorism cost the global economy $415 billion between 2013 and 2017,[3] highlighting the need for organizations, insurers and governments to put this risk at the top of their agendas.

As methods used to perpetrate acts of terrorism continue to shift, so do the at-risk areas. We can no longer focus on larger cities, but instead need to ensure the appropriate coverage is readily available across the country. This includes protection against NBCR attacks, which are not typically covered by reinsurance programs despite the potentially devastating human and economic losses they could generate.

According to the Reinsurance Association of America, the federal share of a $100 billion ground-up loss subject to TRIPRA would be 51%, with the private market covering the remaining 49%. If TRIPRA is reauthorized next year, the federal share will continue to decline over the years as the marketplace aggregate deductible rises with premium growth and until the uncompensated insurance industry loss share (deductibles and the 20% insurer copayment) reaches the industry retention of estimated US $50 billion. Taxpayers would continue to be fully protected since the government is mandated to recoup 140% of its share of a certified terrorism event.

With just over 18 months before TRIPRA's expiration, time is of the essence. If modifications to TRIPRA are to be considered, it is imperative for the industry to have ample time to prepare for and implement the changes. Reforms to the program should only be made with a full understanding of shifts in the nature of terrorism and how changes can affect policyholders and insurers.

We are concerned that TRIPRA's expiration, or renewal with significant increases in retentions, would lead to capacity shortfalls, with high-profile businesses, top business districts and larger employers—including universities, hospitals and hospitality companies—most affected.

The expiration of TRIPRA without a replacement would adversely affect workers' compensation policies and potentially ripple across the economy. AM Best has already warned that the expiration of TRIPRA without a suitable replacement could lead to rating downgrades for property and casualty insurers that are not able to provide sufficient action plans to reduce their exposures to terrorism risks in the absence of a federal backstop.[4]

A robust reauthorization bill will keep the terrorism insurance market viable and competitive for all buyers in the US far into the future. Congress should pass legislation to extend this vital public-private backstop. I encourage the committee to consider legislation without delay.

[3] Institute for Economics & Peace. *Global Terrorism Index 2018: Measuring the Impact of Terrorism*, Sydney, November 2018. Available from http://economicsandpeace.org/?s=Global+Terrorism+Index

[4] Best's Commentary. *TRIPRA Expiration Raises Potential for Rating Downgrades for P/C Insurers*. May 10, 2019.

Appendix A

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2019 Terrorism Risk Insurance Report

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2019 Terrorism Risk Insurance Report

CONTENTS

Introduction

Terrorism remains a dynamic global risk and a serious threat for people and organizations. The evolution of terrorism risk exposes many countries to complex threats from both international and home-grown groups, as well as individuals acting on their own, known as "lone wolves."

Ebbs and flows in terrorism are common, but the evolving and ever-present nature of this risk requires people and organizations to be continuously on guard.

The means and perpetrators of terrorist attacks continue to shift, with soft or relatively unprotected targets becoming more of a focal point. In response, insurers are continuing to develop and offer new and innovative solutions for risk professionals, who have been challenged to adopt new strategies to protect properties, employees, and balance sheets in response to constantly evolving threats. The market for property terrorism insurance remains competitive for most buyers, due in recent years to a steady decline in the number of global terrorist incidents and minimal insurance claims.

In the US, attention will soon turn to Congress as the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) approaches expiration at the end of 2020. TRIPRA, as with similar public-private mechanisms in other countries, has played an important role in ensuring the continued stability and health of the property terrorism insurance market, and Marsh will continue to monitor developments regarding its renewal.

Our *Terrorism Risk Insurance Report* explores the state of terrorism and the terrorism insurance marketplace in key regions. In this year's report, you will find insurance market insights and data and rankings from Marsh's *World Risk Review* ratings system.

We hope you find this report to be useful as you take steps to manage your terrorism risk.

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WORLD RISK REVIEW

World Risk Review is Marsh's proprietary country risk rating platform, providing risk ratings across nine different perils for 197 countries. Ratings are generated by an algorithm-based modeling system that incorporates more than 200 international indices.

The terrorism risk rating is generated using a number of individually weighted indicators, and assesses the risk of the use of force or violence by one or more persons or any organization, the object of which includes the intimidation or coercion of a government and/or the civil population for political, religious, or ideological purposes.

Overall Terrorism Risk Remains Complex

Despite Declining Trendline, Riskiest States See Little Improvement

Between May 2018 and May 2019, *World Risk Review* ratings reveal a trend toward decreasing terrorism risks.

In that period, risk ratings fell in 116 countries, while increasing in only 34. Rating scores fell in many countries as security services redoubled their efforts to tackle international terrorist groups in the Middle East, Europe, and Sub-Saharan Africa.

FIGURE 1

Little change in the countries at highest risk from May 2018 to May 2019.

SOURCE: WORLD RISK REVIEW

Terrorism

May 2018	May 2019
1. Afghanistan	1. Afghanistan
2. Yemen	2. Syrian Arab Republic
3. Iraq	3. Libya
4. Syrian Arab Republic	4. Yemen
5. Somalia	5. Iraq

Strikes, riots, and civil commotion

May 2018	May 2019
1. Venezuela	1. Venezuela
2. Yemen	2. Yemen
3. South Africa	3. South Africa
4. Bangladesh	4. Zimbabwe
5. Bolivia	5. Iraq

War and civil war

May 2018	May 2019
1. Syrian Arab Republic	1. Syrian Arab Republic
2. Afghanistan	2. Afghanistan
3. South Sudan	3. Yemen
4. Yemen	4. Libya
5. Libya	5. South Sudan

Terrorism risks fell notably in Egypt, Turkey, and Spain between May 2018 and May 2019. However, there has been little improvement in the world's riskiest states for terrorism. In May 2018, Afghanistan, Yemen, and Iraq held the top three highest terrorism risk ratings. A year later, Afghanistan retained its position, followed by Syria, then Libya (see Figure 1).

Despite a trend of decreasing risk, the dynamic nature of terrorism all but ensures that new threats will arise in the coming years. In 2018, a number of key trends emerged that will likely affect terrorism risks in 2019. First, Islamic State (IS) suffered a near-total collapse. By March 2019, the self-described "caliphate" no longer controlled territory; at its peak, the group held territory the size of Portugal. Abu Bakr al-Baghdadi, the group's leader, reappeared in April via video after a five-year absence.

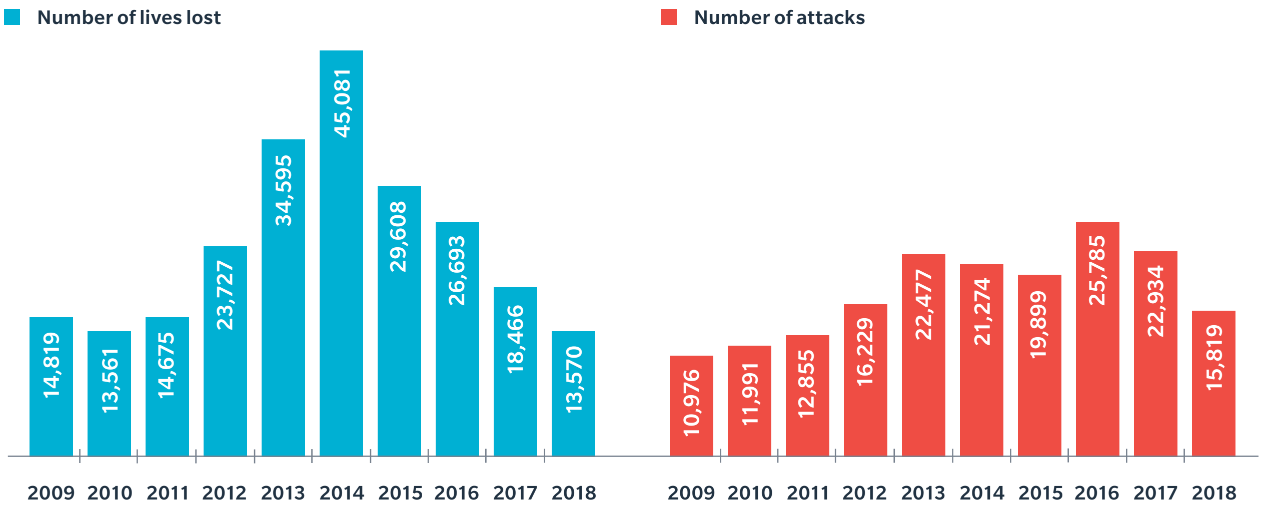
The territorial defeat of IS will likely bring new threats both in the Middle East and in Western states. In Iraq and Syria, IS is expected to revert to insurgent-style attacks. European governments will continue to grapple with the legal and security challenges presented by returning fighters.

Although terrorists and other non-state actors globally have killed more than 230,000 people over the last decade, the number of people killed in terrorist incidents fell by more than one-quarter and the number of attacks fell by nearly one-third in 2018, according to Jane's Terrorism and Insurgency Centre by IHS Markit (see Figure 2). But as attacks by lone wolves and small groups become more commonplace — including against soft targets, which are not limited to major metropolitan areas — the threat of terrorist incidents occurring in or near workplaces has become a growing concern for employers.

FIGURE 2

The number of lives lost to acts of terrorism, insurgency, and politically or ideologically motivated violence fell again in 2018.

SOURCE: JANE'S TERRORISM AND INSURGENCY CENTRE BY IHS MARKIT



While religious extremism is expected to remain the dominant terrorism threat globally, the threat from the extreme right-wing (ERW) is deepening in Western states. Boosted by the success of far-right political parties, there has been a growing trend of attacks by lone perpetrators inspired by far-right ideology. Security services face a difficult task in disrupting plots, given the absence of a unifying ERW structure and the unlikelihood of perpetrators being directed by an organized group. ERW attacks may mirror the methodology used successfully by extremists since 2014. Low-capability attacks using firearms, bladed weapons, or vehicles are likely to be favored, entrenching a shift toward attacks that generate little property damage, but pose significant risks to people.

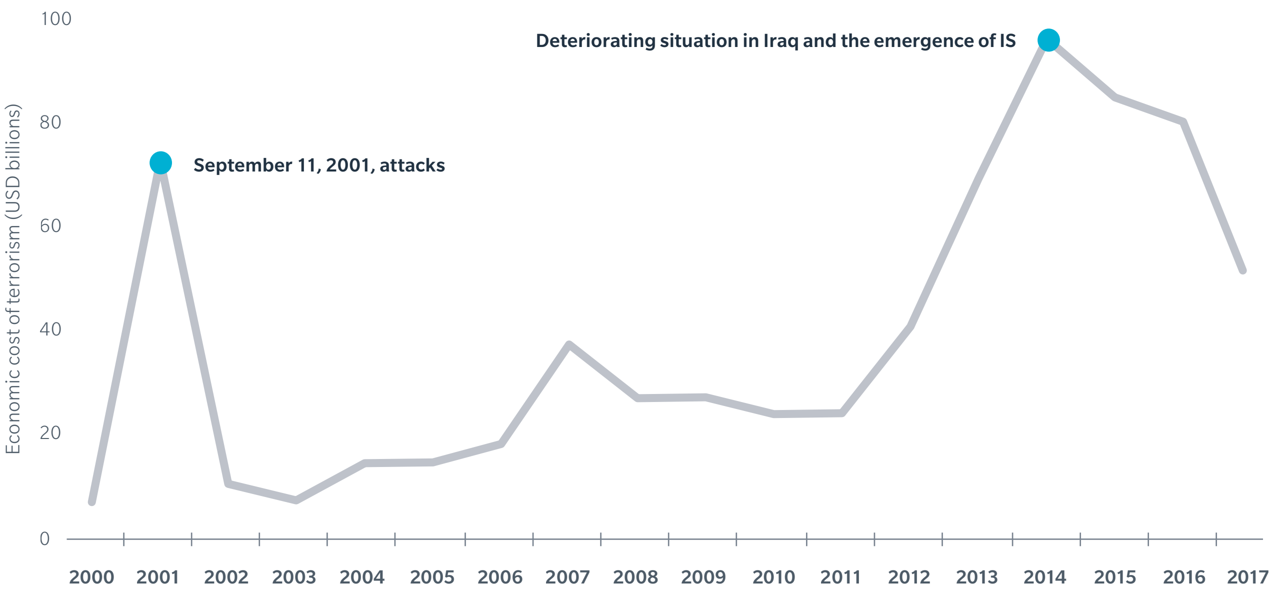
Moreover, the financial and reputational impacts of terrorist attacks remain sizeable. Organizations operating internationally, and their employees, are often priority targets for terrorists.

The Institute for Economics and Peace estimates that the average annual economic impact of terrorism was $83 billion between 2013 and 2017 (see Figure 3). Organizations should continue to implement adequate risk and crisis management strategies to protect their people and balance sheets from the persistent threat of terrorism.

FIGURE 3

Economic cost of global terrorist attacks averaged $83 billion between 2013 and 2017.

SOURCE: GLOBAL TERRORISM DATABASE, INSTITUTE OF ECONOMICS AND PEACE



US Terrorism Risk Backstop up for Renewal in 2020

The last several years have been characterized by a decline in both the frequency and severity of terrorist incidents in the US. There have been no certified terrorism losses in the country since the Terrorism Risk Insurance Act (TRIA) was originally passed following the attacks of September 11, 2001. Nevertheless, the federal backstop created by TRIA and reauthorized as TRIPRA — along with similar public-private mechanisms that exist in other countries — remains crucial to the continued stability and health of the property terrorism insurance market.

As TRIPRA's expiration on December 31, 2020, approaches, Marsh & McLennan Companies (MMC) colleagues have spoken with Treasury department officials and legislators in both chambers of Congress, who generally recognize TRIPRA's importance and appear optimistic about its extension. In the coming months, policymakers will continue to consider their options and the potential effect that program changes could have on the marketplace.

MMC will continue to advocate for a robust reauthorization bill to help keep the terrorism insurance market viable and competitive for US buyers.

Meanwhile, we expect that insurers will closely monitor legislative activity. If it appears likely that the backstop will not be in place beyond 2020, they may impose sunset clauses in upcoming renewals for policies that would be in effect beyond December 31, 2020. Some insurers may also increase prices or limit deployed capacity as they reassess their exposure to terrorism.

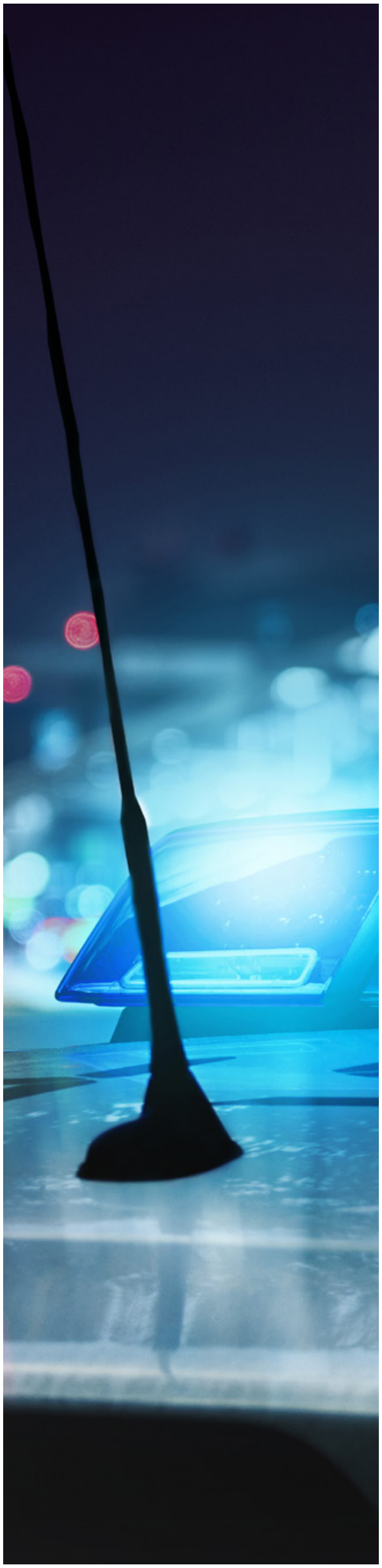
TRIPRA'S IMPACT ON THE REINSURANCE MARKET

Reinsurance capacity for terrorism can differ by reinsurers' preference, appetite, and expertise. For conventional terrorism, reinsurers can deploy multiple aggregates to individual attack types. However, the potential exposure from nuclear, biological, chemical, and radiological (NBCR) events is much larger and likely a "net loss" to reinsurers since retrocessional facilities do not typically cover NBCR. Due to uncertainty around TRIPRA's future, insurers and terrorism insurance buyers are selectively seeking additional reinsurance limits and coverages, under the assumption that there is a finite amount of capacity available in the private market, especially for NBCR events.

If TRIPRA is allowed to expire or is renewed with significant cedent net retention increases, terrorism-exposed insurers with less than $300 million in surplus will likely need to purchase additional private reinsurance market capacity to help protect capital and satisfy rating agencies and regulators. Multiple carriers accessing the reinsurance market capacity simultaneously will impact pricing.

Should TRIPRA expire without a replacement, insurers with the ability to do so will likely deploy terrorism capacity only for preferred locations and pricing. Reinsurers are also likely to only provide additional capacity at notably higher rates, which could create capacity shortfalls for some central business districts and employers with significant workers' compensation accumulations. As such, a federal backstop remains essential if the private reinsurance market is to continue to provide capacity to higher-risk areas.

"The federal backstop created by TRIA remains crucial to the continued stability of the property terrorism insurance market."



Global Terrorism Insurance Market Trends

Insurance Markets Adapt to Meet Global Business Needs

Terrorism cover was originally designed to respond to property losses from terrorism caused by large explosive devices. However, attack methodologies have shifted in recent years.

Today, the predominant threat globally is from Islamist extremists focused on inflicting mass casualties in low-capability attacks on crowded public spaces. Modern attacks are often less sophisticated, with assailants deploying bladed weapons, firearms, and/or vehicles.

This new attack methodology generally generates relatively little property damage. In fact, two-thirds of terrorist attacks in Western Europe between 2014 and 2018 did not generate any property damage, according to Pool Re. Still, multiple businesses suffered significant revenue losses as a result of various attacks.

For example, in the wake of the 2017 London Bridge attack, extensive police cordons remained for 10 days, generating widespread business interruption losses. Since there was limited physical damage, many insureds were left without cover. Businesses lost an estimated £1.4 million from the London Bridge attack, according to Pool Re.

Beyond direct business interruption losses, many businesses in or near areas struck by terrorism often see a decline in foot traffic well after cordons are cleared. The tourism and retail sectors are particularly at risk for losses following terrorist attacks.

These trends, coupled with the proliferation of incidents that are not clearly described as acts of terrorism, such as mass shootings in schools, churches, private businesses, and public settings, have prompted insurers to innovate amid demand from buyers. Specifically, insurers have focused on developing:

- **Active assailant coverage,** also known as active shooter, malicious attack, or deadly weapons coverage — which typically offers affirmative coverage that is triggered by premediated malicious physical attacks by active assailants who are physically present and armed. Such policies can offer coverage for property damage, business interruption, and extra expenses; legal liability; loss of business and denial of access; and the costs of public relations consulting, crisis management, medical services, counseling and/or psychiatric care, the hiring of additional staff, and added security.
- **Non-damage business interruption (NDBI) coverage,** which can respond to the loss of revenue even without a physical damage coverage trigger. NDBI policies are evolving to respond regardless of whether an event is officially classified as a terrorist attack. This coverage is tied to a predetermined vicinity of an insured location, which can vary from policy to policy.

Standalone Market Offers Flexible and Dependable Coverage

Standalone property terrorism insurance is available as an alternative or complement to TRIPRA coverage. Pricing for the standalone market is typically not affected by natural catastrophe events and is expected to remain competitive in 2019, barring a material change in market conditions.

Unlike TRIPRA coverage, which is available within annual "all-risk" property policies for US locations, a standalone property terrorism insurance policy does not require the government to certify an act of terrorism in order for a claim to be paid.

Standalone policies offer broad terms and conditions that can include:

- A definition of "act of terrorism" as the use of force or violence — of any person or group, whether acting alone or on behalf of or in connection with any organization — for political, religious, or ideological purposes, including the intention to influence any government and/or to put the public in fear for such purposes.
- Consistent wording globally.
- Tailored coverage for selected locations, coverage outside of the US, and political violence coverage.
- Multiyear policy terms.
- Nuclear, biological, chemical, and radioactive (NBCR) coverage, although this may be limited in scope and costly.
- Non-damage business interruption coverage.
- Property damage as a result of a cyber-attack.

Although available standalone capacity currently has a theoretical maximum of approximately $4.3 billion, locations in the central business districts of Tier 1 cities, which are perceived as at higher risk for terrorism, can present accumulation concerns for insurers. Any uncertainty about the future of TRIPRA could depress capacity in Tier 1 cities as companies lock in the coverage certainty on a first-come, first-served basis.

Political Violence Coverage can Supplement Terrorism Insurance

While terrorism insurance can cover physical damage and business interruption resulting from acts that are motivated by politics, religion, or ideology, multinational businesses may also wish to consider purchasing political violence (PV) coverage. In addition to terrorism, PV policies can provide coverage related to war, civil war, rebellion, insurrection, coup d'état, and other civil disturbances.

Because PV policies are designed to respond to the perceived risk within the territories in which a business operates, purchasing such coverage can help avoid disputes about whether an event was an act of terrorism or political violence.

Purchasing terrorism and/or PV coverage alone, however, can leave some buyers with gaps in coverage, as potential risks can extend beyond the threat of violence. Broader political risk insurance policies can include PV coverage while also responding to a range of other perils related to government actions and instability, including expropriation of assets, forced abandonment, currency inconvertibility, and nonpayment and contract frustration.

TIER 1 CITIES

1. London
2. New York
3. Chicago
4. San Francisco
5. Washington
6. Toronto
7. Montreal
8. Calgary
9. Frankfurt
10. Singapore
11. Bangkok

60%

Terrorism insurance take-up rates have remained close to 60% in the US over the last several years.

US Organizations Continue to Purchase Terrorism Insurance at High Levels

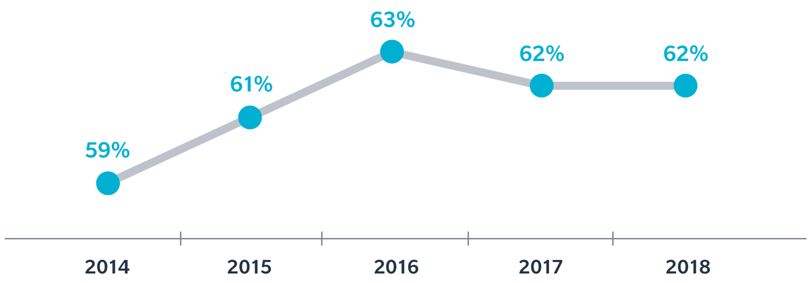
Overall Purchasing Rates Steady

The US is the world's largest buyer of terrorism insurance, and US-based organizations continue to purchase coverage at a high rate. In 2018, the take-up rate for TRIPRA coverage embedded in US property policies was 62% (see Figure 4). Take-up rates have remained close to 60% over the last several years.

FIGURE 4

Overall US terrorism insurance take-up rates remain near 60%.

SOURCE: MARSH PLACEMAP



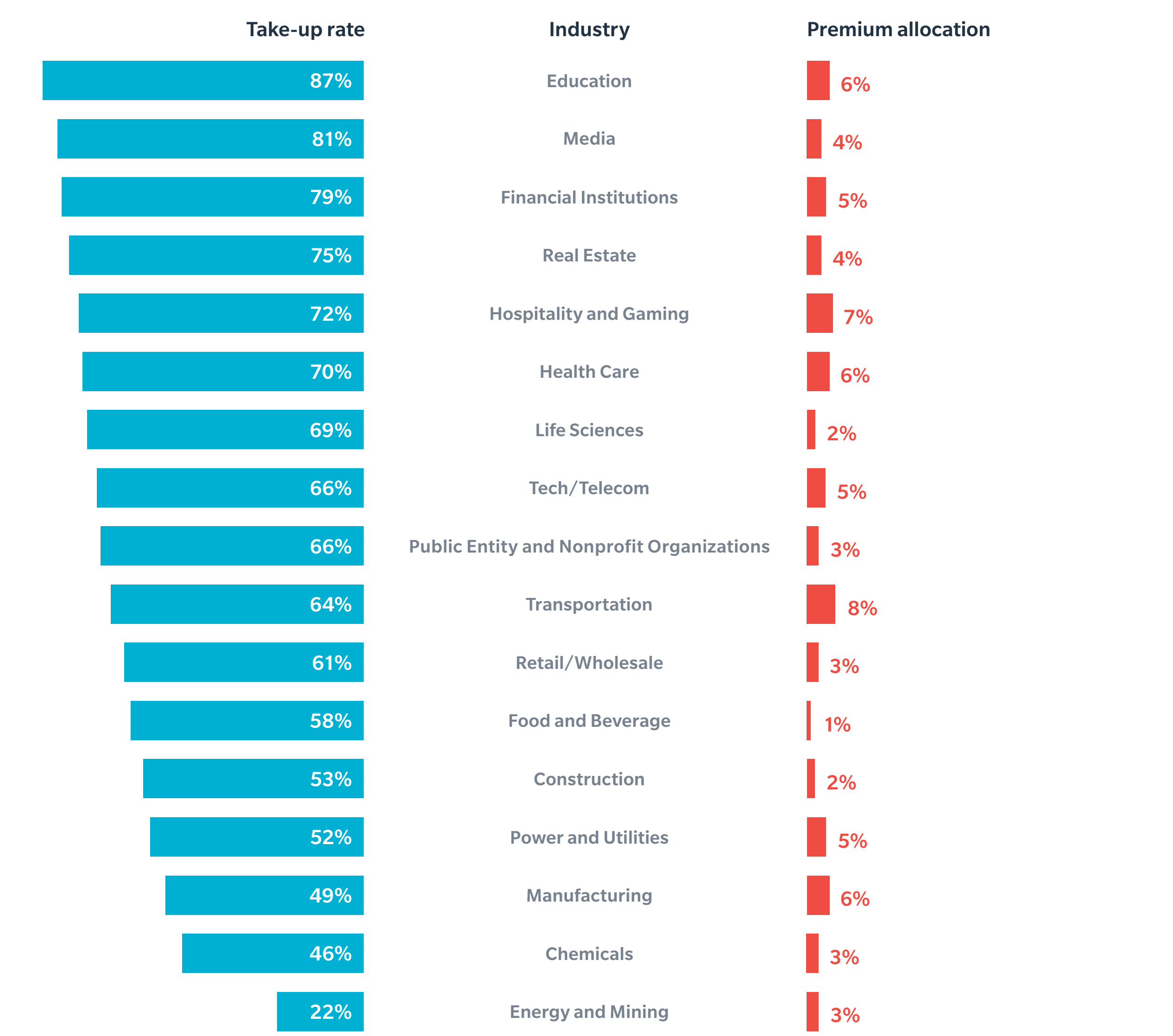
Industry Approaches Vary

The percentage of companies that purchased terrorism insurance — and the amount they spent on terrorism insurance as a portion of their overall premiums — varied significantly by industry in 2018. Education institutions, media organizations, financial institutions, and real estate companies were the most frequent buyers while transportation and hospitality and gaming companies spent the most on terrorism as a percentage of their total premium spend due to their perceived vulnerability (see Figure 5).

FIGURE 5

Education entities bought terrorism insurance most frequently in 2018; transportation companies allocated the largest share of overall premium.

SOURCE: MARSH PLACEMAP



Lower Costs for Larger Companies

With insurers suffering few significant losses in recent years — most of which occurred outside of the US — and both new entrants and incumbents committing to underwriting terrorism risk, overall property terrorism insurance capacity remains abundant. Consistent with previous years, property terrorism insurance rates in 2018 were typically lower for larger companies (see Figure 6). In 2018, the cost of terrorism insurance as a percentage of overall property premiums was highest for companies with total insured values (TIV) of $1 billion or more (see Figure 7).

FIGURE 6

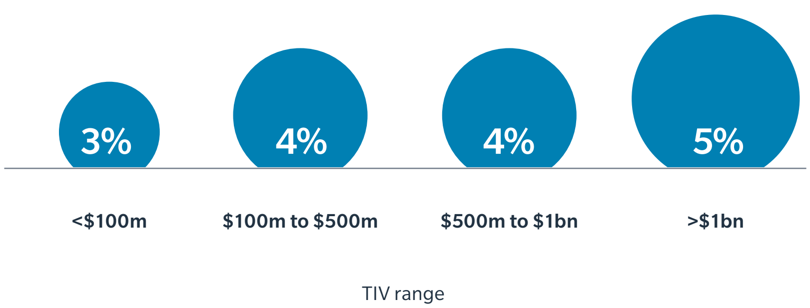
2018 median terrorism insurance pricing per million was generally lower for larger companies.

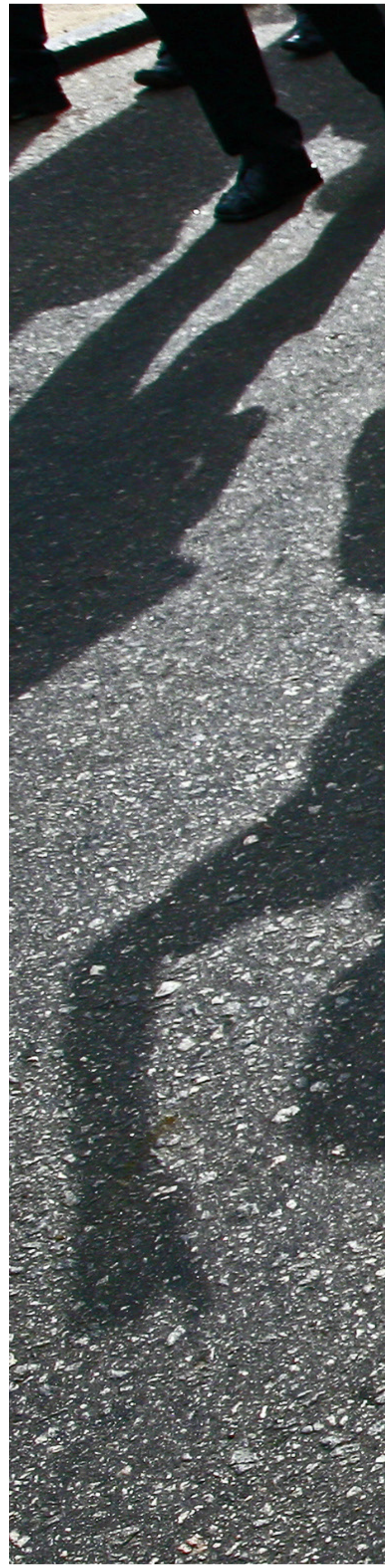
SOURCE: MARSH PLACEMAP

FIGURE 7

Larger companies generally allocated more of their property premium to terrorism in 2018.

SOURCE: MARSH PLACEMAP





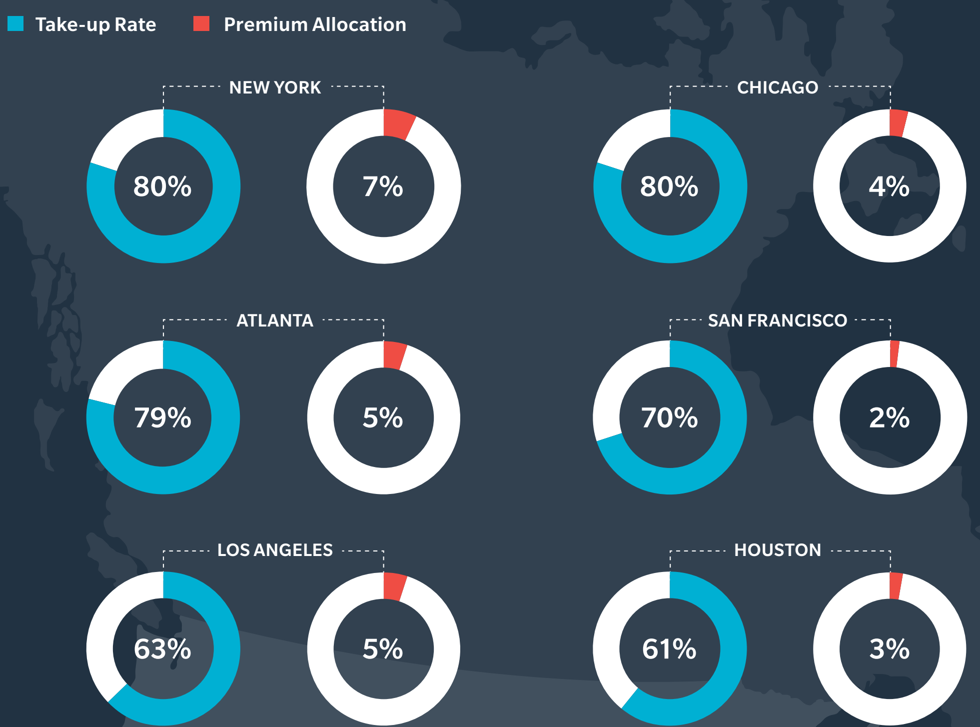
Take-Up Rates Highest in Major Metropolitan Areas

Companies based in the Northeast United States have traditionally purchased property terrorism insurance at a higher rate than companies based in other regions. Unsurprisingly, 80% of companies based in New York purchased terrorism insurance in 2018, tying it with Chicago for the lead among major US cities that are perceived as higher-value targets for terrorist acts (see Figure 8).

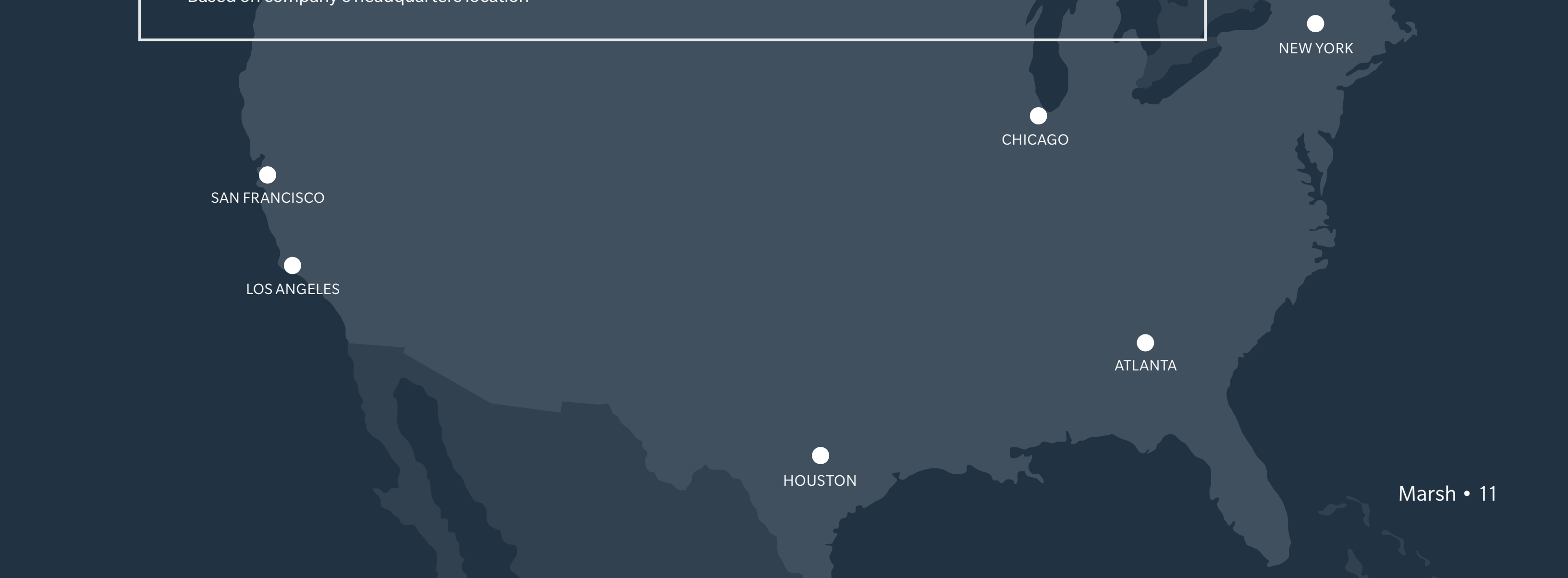
New York-based companies also spent the most on terrorism insurance as a percentage of total premiums. Companies based in Los Angeles and Houston purchased terrorism insurance at the lowest rate within this group, but the price per million for terrorism insurance was highest for Houston-based companies — exceeding even New York-based companies — in part because of high overall property insurance premiums paid by energy companies, many of which are headquartered in Houston.

FIGURE 8 New York City-based companies were the most frequent buyers of terrorism insurance.

SOURCE: MARSH PLACEMAP



* Based on company’s headquarters location



PLANNING EXERCISES REMAIN CRUCIAL

Although insurance can provide essential protection in the event of a terrorist attack, it's vital that businesses also develop, maintain, and exercise corporate and site-level crisis management plans.

Organizations should develop and test an overall framework and crisis management team structure for management, response, and recovery at the senior executive level. Following a terrorism incident, organizations should be prepared to ensure the safety of employees and provide them with support as needed, protect physical assets, and stay in contact with employees and their families, customers, investors, and other stakeholders.

Once life safety issues have been addressed, organizations should look to keep operations — including critical technologies — running smoothly. Among other actions, businesses should develop and test business continuity plans, coordinate insurance coverage, and prepare to gather appropriate information to support a claim. Risk models and other analytic tools can help organizations assess the potential magnitude of terrorism events and optimize insurance programs and other risk financing strategies.

Captives Continue to Write Terrorism Risk

In 2018, 182 Marsh-managed captives accessed TRIPRA to write property, workers' compensation, general liability, and cyber risk for their parent companies. Captive owners have often found that the total cost of implementing terrorism insurance programs compares favorably to the cost of buying from commercial insurers. Captive insurers can generally offer broader coverage than commercial insurance policies, which often restrict coverage for:

- NBCR events.
- Contingent time-element losses.
- Cyber terrorism.

Managing Risks to Workers

As attacks by lone wolves and small groups remain a significant threat, employers are increasingly concerned about terrorist incidents occurring in or near their workplaces.

UNITED STATES

Work-related injuries and deaths are covered under workers' compensation systems in US states. Workers' compensation insurance policies cannot exclude terrorism-related losses and are a compulsory purchase for employers in nearly all states. Still, insurers carefully manage their overall portfolios and consider large employee concentration exposures and the associated loss potential, which means that data quality in underwriting submissions can significantly affect how insurers evaluate and price an organization's workers' compensation terrorism risk.

Robust and complete data can also enable insurers to understand employers' risk profiles in the context of their overall workers' compensation book and correlating risks, including property, personal lines, and life insurance.

Simple payroll data by location, however, is unlikely to suffice; instead, employers should be prepared to share with underwriters:

- Detailed address information, including ZIP codes.
- Employee locations on campuses.
- The number of shifts per location and employees assigned to each.
- The number of telecommuters that an organization employs.
- Details from swipe cards showing the actual or maximum number of employees present at each location or building on a given day.

OUTSIDE OF THE US

Globally, employers are often legally required to secure workers' compensation for some or all employees. In many countries, it is provided through government programs; in others, employers must secure it.

Workers' compensation policies issued to the parent company or "local" operations in other countries alone, however, may not address exposures associated with multinational enterprises and a transient workforce. To expedite workers' recovery and to protect companies from lawsuits, employers may also purchase discretionary coverages. These include:

- Employers liability coverage, which defends and indemnifies employers from lawsuits brought by workers for injuries arising out of the course of their employment within the policy territory. Similar to foreign voluntary workers' compensation (FVWC), it is provided in the US as part of workers' compensation insurance. Outside of the US, the coverage may be found as an endorsement on local workers' compensation or general liability policies or purchased on a standalone basis.

Coverage under employers liability is customarily included in umbrella or excess liability policies.

- Personal accident insurance coverage, which can supplement local workers' compensation benefits or act as an employee benefit program.

The provision of compensation for medical care and lost wages for terrorism-related injuries will depend on the system in place in the worker's country of hire and/or work. Expatriate workers present a unique situation; when and where specific programs will apply to an expat will depend on:

- The employee's nationality (country of origin).
- Where payroll is reported (country of hire).
- The length of the employee's work assignment.

Coverage for injuries and illnesses due to acts of war or terrorism may differ depending on which insurance policies are in place, which are triggered and, for workers' compensation, whether the law extends coverage to such events. For compulsory workers' compensation coverage, terrorism is typically provided due to the broad extent of coverage under the law or by specific laws. In some countries, however, government-provided benefits are broad and may not distinguish the cause of injury or illness in determining eligibility.

For discretionary insurance, such as FVWC, employers liability, and personal accident policies, terrorism coverage is typically not required and may be excluded by default. Coverage for terrorism can typically be added by endorsement, usually for an additional premium. However, terrorism is generally not excluded for FVWC policies placed in the US. Multinationals based in the US should review their general liability controlled master programs and other umbrella or excess liability policies for coverage.

As part of an effective terrorism risk management program, employers should consider local insurance regulations along with the size, concentration, and significance of their workplace injury exposure in the countries in which they operate.

Global Terrorism Trends

World Risk Review Ratings Showed an Overall Trend Toward Decreasing Terrorism Risks, Though Country Results Vary

FIGURE 9

Mozambique saw largest year-over-year increase in terrorism risk as measured by *World Risk Review* score.

SOURCE: WORLD RISK REVIEW

Country	Score change	Actual score (May 2019)
Mozambique	2.1	6.4
Iran	0.7	5.8
Chad	0.7	7.1
Venezuela	0.6	4.9
Tajikistan	0.6	5.1

FIGURE 10

South Sudan saw the largest year-over-year decrease in terrorism risk as measured by *World Risk Review* score.

SOURCE: WORLD RISK REVIEW

Country	Score change	Actual score (May 2019)
South Sudan	-1.3	7.0
China	-1.2	2.9
Egypt	-1.1	7.0
Spain	-1.0	3.5
United Kingdom	-0.9	4.3

World Risk Review ratings are based on modeling more than 200 international indices. The terrorism risk rating, or score, for each country is generated using a number of individually weighted indicators. Among the trends identified over the last 12 months through the terrorism score modeling:

MOZAMBIQUE SCORE 6.4 | INCREASE 2.1

Mozambique faces an emergent terrorism risk in its northern Cabo Delgado province. Between October 2017 and December 2018, at least 20 attacks and 57 non-militant deaths were recorded. In February 2019, militants used small arms to attack convoys transporting employees to a liquefied natural gas (LNG) project. One contractor was killed, in what was the first attack to directly target assets or personnel in the LNG sector.

CHAD SCORE 7.1 | INCREASE 0.7

Chad faces increased activity by insurgents in the north. Libya-based militants from the Union des Forces de la Résistance (UFR) have staged incursions into Chadian territory, which security forces have struggled to contain. In February 2019, President Idriss Déby requested air support from France's Barkhane counterterrorism operation to tackle an incursion.

TURKEY SCORE 6.6 | DECREASE 0.5

Terrorism risks in Turkey receded in 2018. The government effectively used unmanned aerial vehicles to counter the threat posed by the Partiya Karkerên Kurdistanê (PKK) in the southeast. IS's capacity to organize attacks has similarly reduced. IS has not launched a successful attack in Turkey since January 2017.

SPAIN SCORE 3.5 | DECREASE 1.0

In May 2018, Basque separatist group Euskadi Ta Askatasuna (ETA) officially disbanded, significantly reducing the threat of separatist terrorism in Spain. However, Islamist extremists continue to organize in Spain, generating a persistent risk of attacks targeting crowded public spaces with small arms or bladed weapons. The 2017 Barcelona and Cambrils attacks, in which 15 people died, also revealed the existence of a cell with bomb-making capabilities.

EGYPT SCORE 7.0 | DECREASE 1.1

The government launched a counterterrorism campaign in February 2018 that successfully reduced the frequency of IS attacks to the west of the Suez Canal. However, IS retains capabilities in Sinai and is likely to launch effective attacks against religious minorities and security forces. Tourist resorts in Sinai will likely be aspirational targets, although the risk can be mitigated by adequate security measures.

UNITED KINGDOM SCORE 4.3 | DECREASE 0.9

The frequency of terrorist attacks decreased in 2018, as IS's influence and authority eroded in the Middle East. The number of terrorist attacks in 2018 was far below that of 2017, when 36 people lost their lives across 107 foiled and completed attacks. The UK increasingly faces risks posed by returning fighters, while the extreme right wing is emerging as a growing risk.

“There have been more arrests and deaths [in the US] caused by domestic terrorists than international terrorists in recent years.”

MICHAEL C. MCGARRITY
ASSISTANT DIRECTOR,
COUNTERTERRORISM DIVISION,
FBI

North America

The US continues to be a high-risk target for terrorism. Soft targets such as transport systems and public events will be at the highest risk of attack. The threat level in Mexico and Canada is greatly reduced, though the risk of lone wolf attacks in Canada remains.

Terrorism in the US is more likely to be carried out by lone wolves and small groups inspired by, but not directly affiliated with, international terrorist organizations. However, the threat from the ERW continues to increase. Across both far-right and Islamist extremist attacks, the availability of firearms in the US will likely make active shooter incidents a continuing threat (see Figure 11). Mass shootings such as those at an Orlando nightclub in 2016 and a music festival in Las Vegas in 2017 have increased interest in insurance coverage relating to active shooter threats.

Terrorism risks in Canada have been greatly reduced over the last five years, though the threat from Islamist extremists and the ERW still present a danger. In Mexico, Islamist terror organizations have little presence, and the threat level to both businesses and individuals is minimal.

KEY TERRORIST ACTORS IN 2019

- **Islamist terrorism: lone wolf or small terrorist cells**
- **Extreme right-wing: individuals or groups**

Which Sectors Are Most Exposed?

Commercial Businesses

Businesses in densely populated urban areas, such as New York and Toronto, may look to non-damage denial of access and non-damage loss of attraction cover to mitigate low-capability attacks on public areas (see Figure 12). For example, in April 2018, an attack using a vehicle in Toronto’s North York City Centre killed 10 pedestrians and injured 16 others. The incident forced a rerouting of public transport services away from the central business district and the police cordon closed access routes for a number of businesses for up to 48 hours.

Transport

Transport infrastructure poses a target for terrorists across North America, exemplified by the detonation of a pipe bomb in a New York subway station by an Islamist extremist in 2017 that injured four people. Mail bomb packages have unsuccessfully targeted densely populated subway stations in Toronto over the last two years, including an incident in March 2019.

FIGURE
11

Firearms were the most commonly used weapon in terrorist attacks in North America from 2014 to 2018.

SOURCE: POOL RE

14
Firearms

7
Bladed Attacks

5
Explosive

4
Vehicle

1
Person-Borne Improvised Explosive Device (PBIED)

1
Other

FIGURE
12

Potential targets in North America from 2014 to 2018 included public areas and police and military installations.

SOURCE: POOL RE

13
Police, Military and Government

13
Public Area

3
Symbolic

2
Individual

1
Critical National Infrastructure (CNI)

9.6%

Of global attacks on critical national infrastructure between 2014 and 2018, nearly 10% occurred in Latin America.

SOURCE: POOL RE

Latin America and the Caribbean

While domestic terrorism risks from left-wing insurgent groups have generally fallen across Latin America in recent years, energy sector assets remain attractive targets in Colombia. The risk from international terrorism is currently low in Latin America and the Caribbean.

Terrorist activity by left-wing insurgent groups is likely to recede in 2019, continuing a decade-long trend. The 2016 Colombian peace agreement ended decades of conflict between the Fuerzas Armadas Revolucionarias de Colombia (FARC) and the Colombian government. Left-wing guerrilla groups, such as Sendero Luminoso in Peru, have also lost much of their ideological appeal as living standards have improved.

However, the risk of domestic terrorism has not disappeared. Pockets of FARC dissidence remain in Colombia, while the Ejército de Liberación Nacional (ELN) has both the capability and intent to carry out attacks on oil and mining operations. Oil pipelines and contractors in eastern and western Colombia face high risks of attack, kidnap, and assassination by ELN insurgents.

KEY TERRORIST ACTORS IN 2019

- **Sendero Luminoso (Peru)**
- **Dissident rebels from the Fuerzas Armadas Revolucionarias de Colombia (FARC)**
- **Ejército de Liberación Nacional (Colombia)**

Which Sectors Are Most Exposed?

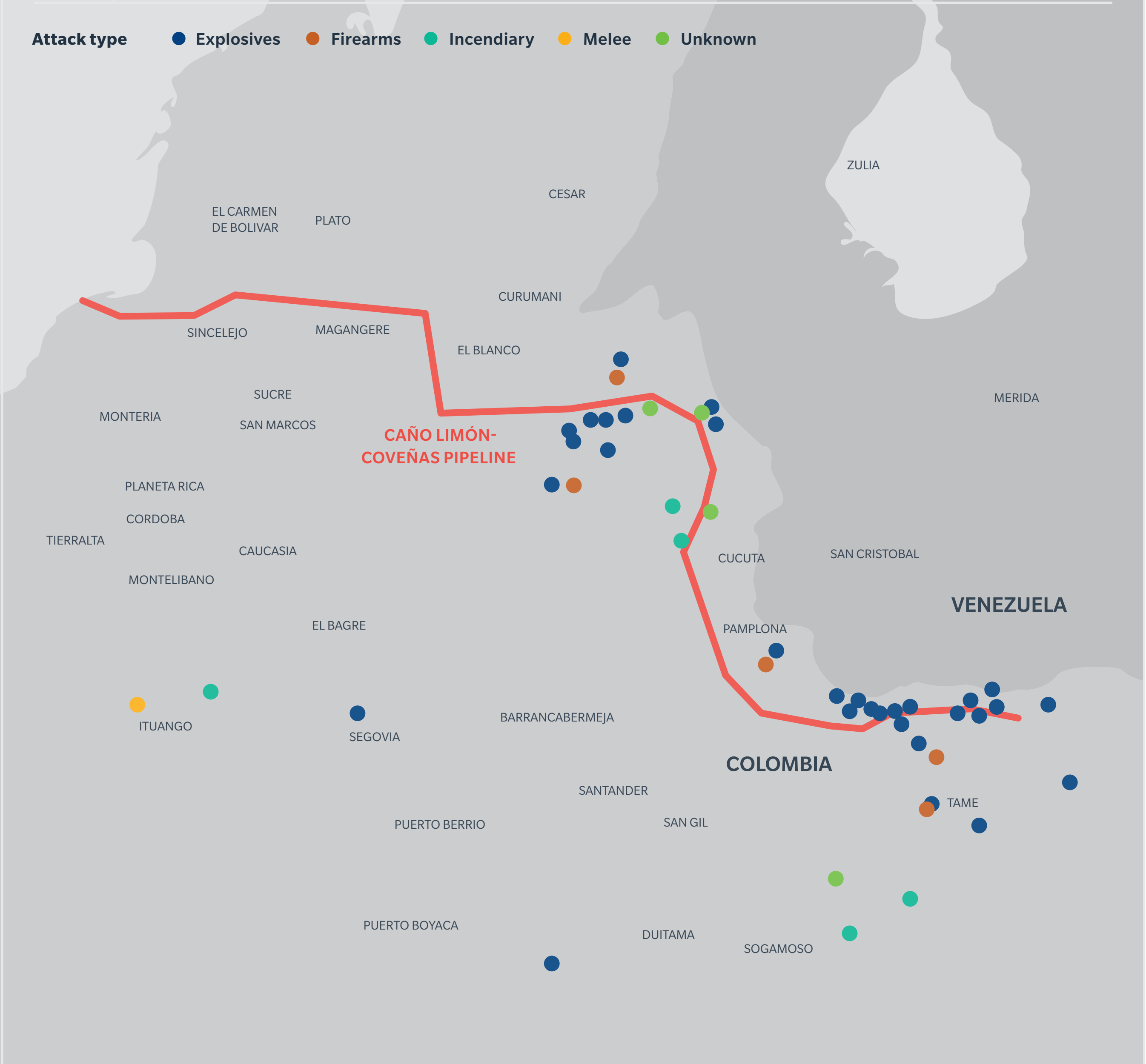
Energy and Mining

In Colombia, the ELN is active in regions with mining and energy activities, such as Arauca, Nariño, and Norte de Santander. The group is likely to use improvised explosive devices (IEDs) to target pipelines. Authorities have recorded at least nine attacks against the Caño Limón-Coveñas oil pipeline — Colombia's most important pipeline, with a daily transportation capacity of 210,000 barrels — in 2019, including six in Arauca and three in Norte de Santander provinces (see Figure 13). Throughout 2018, at least 89 attacks against pipelines were reported in Colombia.

FIGURE
13

Pipelines remain attractive targets in Colombia.

SOURCE: GLOBAL TERRORISM DATABASE



The Caño Limón-Coveñas is Colombia's most important pipeline, with a daily transportation capacity of 210,000 barrels.

€180bn

The approximate total losses incurred in real GDP terms by the 28 EU member states due to terrorist events, from 2004 to 2016.

SOURCE: RAND

Europe

The threat of Islamist extremism remains high in Europe, driven in part by radicalized individuals returning from fighting in Iraq and Syria. Religious extremist attacks in the EU will likely target the entertainment and hospitality sectors and public spaces frequented by tourists.

Although the frequency of attacks has fallen since 2017, extremists have been most active in France, Spain, and the UK, with vehicles, firearms, and knives the most prevalent weapons. Right-wing extremism is on the rise and likely to gain ground in 2019 (see Figure 14), which will elevate operational risks for businesses and individuals. In the UK, the assassination of Member of Parliament Jo Cox in 2016 and an attack on a north London mosque in 2017 by right-wing extremists are evidence of an elevated threat. The absence of a single organizational structure makes it harder for security forces to detect ERW activity.

KEY TERRORIST ACTORS IN 2019

- **Islamist terrorism: lone wolf or small terrorist cells**
- **Extreme right-wing groups**
- **Dissident republican terrorist groups (Northern Ireland)**

Which Sectors Are Most Exposed?

Transport

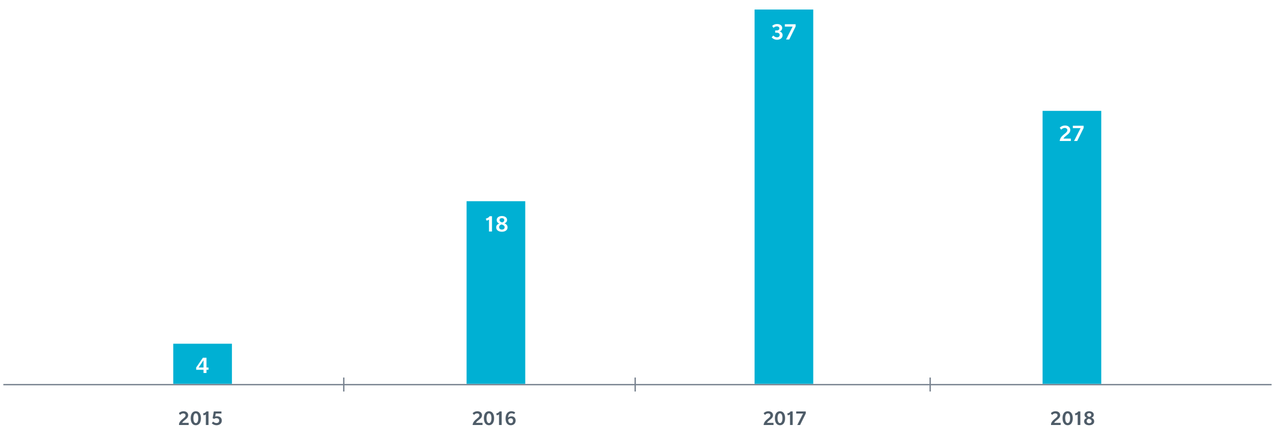
Public transport systems and hubs have often been deemed soft targets for terrorist activity in Europe. In the last four years, indiscriminate, low-capability terrorist attacks have been carried out on commuter trains in France, Germany, and the Netherlands.

Retail and Hospitality

These sectors may not be direct targets of terrorism, but the impact related to a potential blast radius poses risks. Significant business interruption is possible during and after attacks that cause limited property damage, as police may enforce cordons over multiple days. Public markets have been the subject of terrorist attacks in Germany and France over the last three years.

FIGURE
14
Counterterrorism operations against right-wing extremists in Western Europe sharply increased in 2017 and 2018.

SOURCE: IHS MARKIT



901

Terrorist attacks across SSA from 2014 to 2018.

57.4%

Attacks that caused property damage.

8,592

Number of deaths.

JUNE 2014 TO JUNE 2018
SOURCE: POOL RE

Sub-Saharan Africa

Islamist extremism remains potent in Sub-Saharan Africa (SSA), with West Africa and the Sahel particularly affected.

The last three years have seen a significant decline in total terrorism-related deaths per year in SSA, mainly due to the decrease in activity of Nigeria-based Boko Haram. The G5 Sahel security alliance has reclaimed significant territory from Boko Haram, but the group retains influence throughout the Lake Chad basin.

Porous borders in West Africa and the Sahel continue to hamper regional efforts to combat terrorism threats, as terrorist groups seek to destabilize the entire region. Loss of territory in the Middle East will also drive a pivot towards SSA by IS and al-Qaida. There is a strong likelihood of organizations such as al-Qaida in the Islamic Maghreb (AQIM) pooling resources with splinter groups and militias, particularly in Somalia, Niger, Mauritania, Burkina Faso, and northern Mali. This means that individuals and businesses remain exposed to attacks, including IEDs, shootings, and kidnappings. Al-Qaida-affiliated Jamaat Nusrat al-Islam wal Muslimin (JNIM) remains a significant threat across the Sahel. The group is shifting its target set to national and international government assets, away from soft targets. French companies will likely remain particularly exposed across the region.

KEY TERRORIST ACTORS IN 2019

Al-Qaida in Islamic Maghreb (AQIM)	Al-Shabaab
Boko Haram	Jamaat Nusrat al-Islam wal Muslimin (JNIM)
Ansar al Islam	Islamic State in the Greater Sahara (ISGS)

Which Sectors Are Most Exposed?

Mining

Islamist extremism is a risk to firms operating in Burkina Faso, Côte d'Ivoire, Mali, and Nigeria. Mali accounts for 75% of all terrorist incidents across the Sahel region since 2015. While mines in southwest Mali are relatively sheltered from direct attacks, porous land borders contribute to an underlying risk. Mali-based militants are also active in Burkina Faso, where mining sector employees have become a principal target for kidnappings.

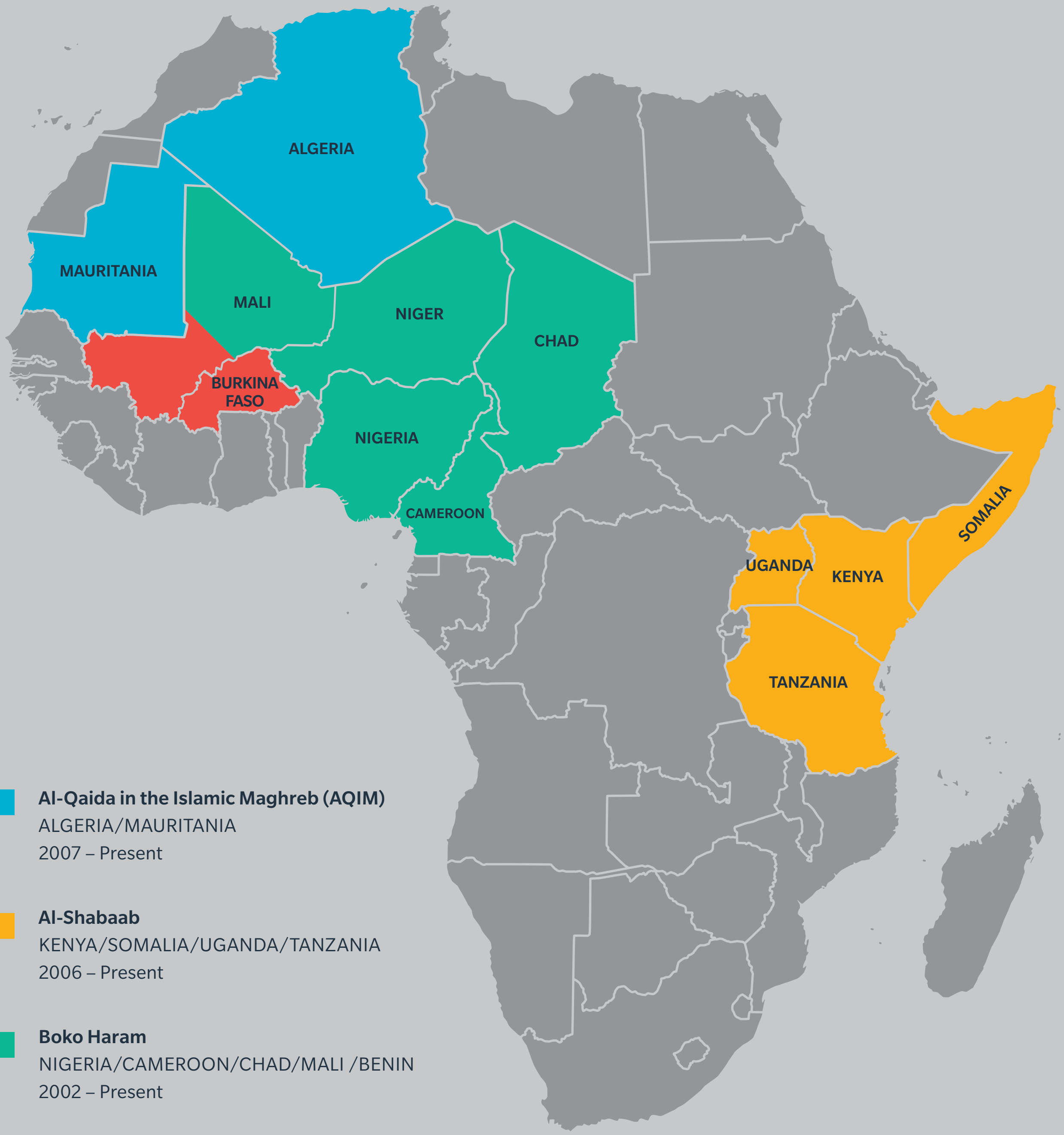
Retail and Hospitality

Soft targets such as hotels, shopping malls, and restaurants remain attractive targets for terrorist actors across SSA, given the concentration of foreign nationals in these locations. Attacks are likely to include the use of IEDs and firearms. Recent major incidents include attacks on a shopping complex in Nairobi, Kenya, in 2013; a hotel in Bamako, Mali, in 2015; and a complex in Nairobi, Kenya, in 2019.

FIGURE
15

Islamist militant groups remain active in Africa.

SOURCE: POOL RE



Al-Qaida in the Islamic Maghreb (AQIM)
ALGERIA/MAURITANIA
2007 – Present

Al-Shabaab
KENYA/SOMALIA/UGANDA/TANZANIA
2006 – Present

Boko Haram
NIGERIA/CAMEROON/CHAD/MALI /BENIN
2002 – Present

Jamaat Nusrat al-Islam wal Muslimin (JNIM)
MALI/BURKINA FASO
2017 – Present

51.3%

More than half of global terrorist attacks from 2014 through 2018 on public areas occured in the Middle East and North Africa (MENA).

1,940

Terrorist attacks across MENA.

58.4%

Attacks that caused property damage.

15,512

Deaths.

SOURCE: POOL RE

Middle East and North Africa

Terrorism risks have decreased in line with the collapse of Islamic State across the Middle East and North Africa (MENA). However, risks persist to the energy sector, particularly oil and natural gas facilities.

Terrorism activity has declined since 2017 as IS suffered heavy territorial losses. Attacks fell by 64% in Syria and 32% in Iraq between 2017 and 2018. While the group no longer holds territory, it retains the ability to launch IED attacks in southern Syria and central and northern Iraq.

Private civilians and their property have been the principal targets of terrorism, with 42% of terror incidents in MENA between 2017 and 2018 targeting civilians. There is a growing risk of successful attacks on property and infrastructure in politically unstable countries, including Iraq, Syria, and Yemen. Houthi militants in Yemen have clear intent and increasing capability to target aviation assets, as well as sea vessels and oil infrastructure, using unmanned air and sea craft and ballistic missiles.

KEY TERRORIST ACTORS IN 2019

Islamic State	Al-Qaida
Hay'at Tehrir al-Sham	Ansar al-Sharia Libya
Hezbollah	

Which Sectors Are Most Exposed?

Energy

Terrorist attacks on oil and natural gas facilities have decreased from their peak in 2014-2015, but remain widespread. In Algeria, energy facilities remain vulnerable to cross-border militant attacks. Areas most at risk are facilities closest to Algeria's southern border with Mali and eastern border with Libya. In Iraq, there is evidence of increased attacks by IS against energy sector targets.

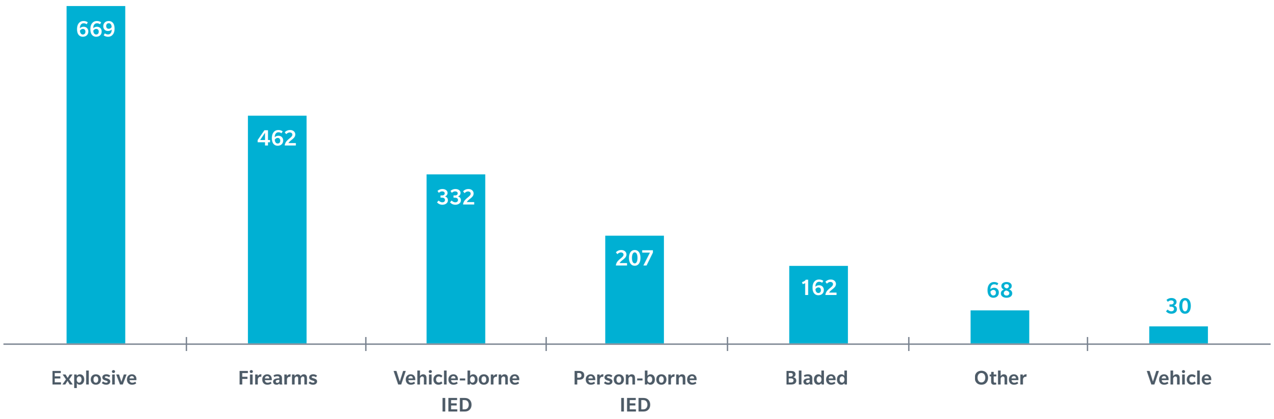
Cargo

There is an elevated risk of one-off attacks targeting cargo belonging to Western companies operating in Saudi Arabia. Companies most at risk include energy and fuel suppliers as well as those supplying religiously sensitive goods such as tobacco and luxury products. Risks are similarly elevated in Egypt, particularly in northern Sinai. Roadside IEDs pose high risks to cargo, particularly along the Suez-Ismailya-Port Said road that runs parallel to the Suez Canal.

FIGURE 16

Explosives were the main type of attack mode in MENA from 2014 to 2018.

SOURCE: POOL RE



KEY TERRORIST ACTORS IN 2019

- Abu Sayyuf (Philippines)
- Moro Islamic Liberation Front (Philippines)
- Jemaah Islamiya (Indonesia)
- Tehreek-e-Taliban Pakistan (Pakistan/Afghanistan)
- Baloch Seperatists (Pakistan)
- Al-Qaida in the Indian Subcontinent (Pakistan, India, Myanmar, Bangladesh)
- Jaish-e-Mohammed (Pakistan/Kashmir)
- Naxalite militants (India)
- Extreme right-wing groups (Australia/New Zealand)

Asia-Pacific

Terrorism risks vary across the Asia-Pacific region, with three countries among the ten most affected globally: Afghanistan, India, and Pakistan. At the other end of the spectrum, countries including Australia and Japan offer superior risk profiles.

Coordinated small-arms attacks by ERW actors in Australia and New Zealand are an exceptional but significant threat. Following the right-wing terrorist attack on two Christchurch mosques in March 2019, there is an increased risk of retaliatory attacks by Islamist extremists (see Figure 17). In Pakistan, the separatist movement in Balochistan presents a significant threat to the interests of Chinese firms. Sporadic attacks on Chinese individuals and infrastructural assets have resulted in a series of casualties since August 2018 and caused project disruption in the China-Pakistan Economic Corridor (CPEC). In the Philippines, the threat of Islamist militancy remains confined to southern provinces, primarily Mindanao, where small IED attacks against security forces are likely in the one-year outlook.

Which Sectors Are Most Exposed?

Transport Sector

Public transport systems have been aspirational targets for terrorist organizations operating throughout Asia-Pacific (see Figure 18). The 2017 Jakarta terrorist attacks in Indonesia targeted a bus terminal with IEDs, killing five people and injuring a dozen more. In 2019, public transport systems in India will be a higher-risk target for Pakistan-based militants.

Public Spaces/Religious Institutions

Public spaces across Asia-Pacific are attractive targets for extremist Islamists, as well as right-wing actors in Australia and New Zealand. A stabbing in Melbourne, Australia in November 2018 targeted civilians in the central business district, killing one person and injuring two others. A firearms attack by an individual with extreme right-wing views on two mosques in Christchurch, New Zealand in March 2019 killed 51 and injured 50 others. And in April 2019, suicide bombings by a little-known Islamist group devastated churches and hotels across Sri Lanka, killing more than 250 people and injuring approximately 500 more.

FIGURE
17
New Zealand attacker targeted Muslims; Sri Lanka bombers attacked Christians.

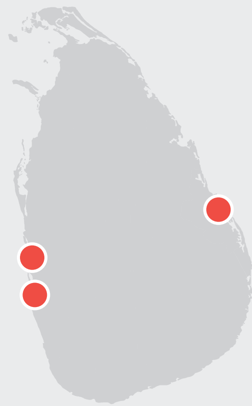
SOURCE: POOL RE

LOCATION
Christchurch

DATE
15 March 2019

FATALITIES
51

INJURIES
50



LOCATION
Several sites in Sri Lanka

DATE
21 April 2019

FATALITIES
250+

INJURIES
Hundreds

Lone Wolf Attacker Targets NZ Muslims

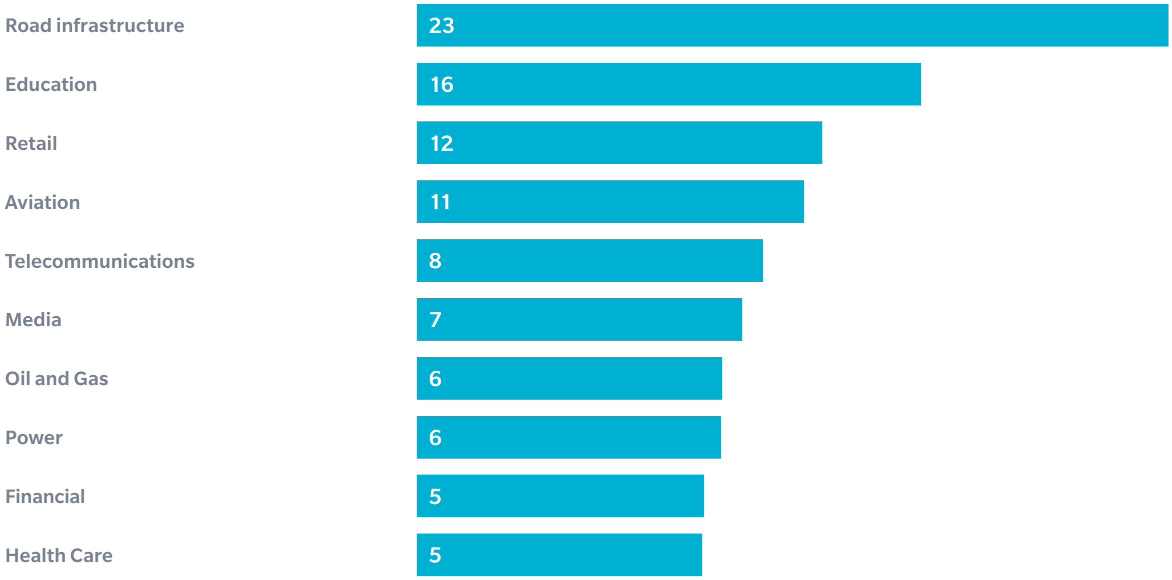
A firearms attack on two mosques in Christchurch, New Zealand killed 51 people and injured 50 others. The perpetrator held extreme-right wing views, and is believed to have acted alone.

Attacks Across Sri Lanka on Easter Sunday

Suicide bombings at churches and hotels across Sri Lanka on Easter Sunday killed more than 250 people and injured hundreds more. Group claimed ties to IS.

FIGURE
18
Road infrastructure was the business sector most affected by Islamist terrorist incidents in the Asia-Pacific region from 2014 to 2018.

SOURCE: POOL RE



Recommendations

Understand Changes in Terrorist Attacks

The nature of terrorism is shifting away from large-scale attacks on property to less sophisticated ones, often carried out by individuals without ties to a particular group. Such changes can affect the way your organization prepares and responds to an incident.

Follow Shifting Geographical Risks

Terrorism can change over time in a given country or region. To best protect your business and people, it's important to know the risks in the areas where you do business.

Ensure the Right Coverage is in Place

Insurers have responded to changes with coverage such as active assailant coverage and non-damage business interruption. It's also important to know when a coverage such as political violence insurance may best suit the organization's needs, or when policies that wrap around existing coverage and government schemes may be most effective.

Stay up to Date on Legislation

Government schemes provide an important backstop in many areas. But, as with the US TRIPRA program, they can be subject to deadlines requiring periodic re-evaluation and reauthorization.

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Ratings are generated by a proprietary, algorithm-based modelling system incorporating over 200 international indices. The ratings deliver, quickly and easily, an understanding of political risk in any given country upon which a risk management strategy can be built. The six-week trial will commence upon the issuance of login details following a webinar.

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