

Terrorism & Political Violence

Insurance Insight
2021



Insights

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Global Overview



Leader's insight



Vlad Bobko
Head of Crisis Management
Terrorism & Political Violence

For many risk managers, 2020 was not characterised by terrorism and political violence; the direct and unanticipated impacts of the pandemic dominated the horizon of a majority of businesses. However, the last year demonstrated two things: how rapidly businesses must pivot in response to high impact events and how the insurance industry needs to match that rate of turn to remain relevant to our clients' future needs.

The success of the broking teams in supporting clients around the world is a result of strong partnerships; between clients and the Aon network and between our brokers and markets, working together to identify needs and build robust, workable solutions.

The pandemic and its impacts are still with us, as is the need to foster and develop these relationships, to help our clients find solutions to what 2021 may yet deliver.



Tony Day
Chief Broking Officer
Terrorism & Political Violence

2020 imposed unprecedented challenges on our clients. Initial concerns around the relevance of Terrorism and Political Violence (TPV) solutions were set aside as the teams experienced an accelerated uptake of clients purchasing TPV risk transfer solutions. Two themes defined the year:

- **Enabling premium reductions for clients**
- **Collaborating with markets to offer cover that no longer fits with many Property carriers**

During this period of uncertainty, we've worked with our clients to tailor their insurance programmes to match their changing exposure and budget. This ability to respond reflects all stakeholders' agility in finding alternate ways to utilise our line of business, tools, and expertise in anticipating our clients' needs.

New entrants (bringing a maximum of USD 250 million additional capacity) and existing markets increasing line size illustrates underwriter appetite for this line of business and growth aspirations, serving to sustain competition through 2021.

This also underlines the decoupling of the TPV market from the current volatility in the Property market.

From a client perspective, 2021 will see an evolution of issues many have navigated throughout 2020: reduced revenues, the impact of social unrest, violent and non-violent protests, in addition to the more established risks associated with terrorism and political violence.

Our London team is positioned to work through our clients' needs, delivering broking expertise, peril data from our partners at The Risk Advisory Group, insight from our team, and a risk-managed approach. This year the Aon teams will make greater use of data and analysis to help clients understand and illustrate exposure in support of their insurance-buying decisions, minimising the potential for overspend on insurance solutions.

I hope this year's report proves informative, providing insight for you and your team. Please reach out via your local Aon contacts to the broking teams should you want to discuss any of the issues raised here.

Emerging threats

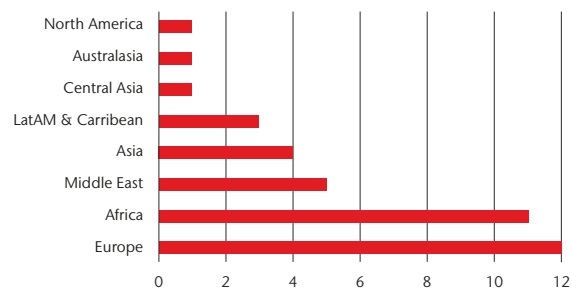


Scott Bolton
Director GBC Crisis Management
Terrorism & Political Violence

Civil Unrest: Aon's partner, The Risk Advisory Group, recorded significant civil unrest on its Security Intelligence & Analysis Service (SIAS) platform, throughout 2019 and 2020. Levels are increasing globally, and at the start of 2021, over 60% of countries have the potential to experience major SRCCMD events, with an increasing proportion of 'developed' economies now included in that figure.

The graph below shows the number of countries where the potential for civil unrest increased between Jan 2020 & Jan 2021.

Number of countries where potential for civil unrest increased (Jan 2021)



Extreme right-wing: 2019 saw acts of extreme right-wing (XRW) terrorism double in North America and Europe compared to the previous year. The Risk Advisory Group identified XRW as the fastest growing form of terrorism in 2019. Pandemic restrictions reduced plots and attacks back to 2018 levels, limiting opportunity rather than a change of intent by the groups. In several countries, anti-establishment reactions to restrictions added fuel to the fire in an already confrontational political environment.

Political violence: In 2020, an increasing number of countries were exposed to political violence. Several governments have taken advantage of the instability created by the pandemic to pursue political objectives through violence. The Risk Advisory Group assesses 40% of countries around the world are exposed to internal or cross-border conflict.

Terrorism & Sabotage: While the frequency of both plots and attacks reduced in North America and Europe in 2020, the underlying drivers for terrorism remain unaffected by COVID-19 and will continue once vaccine programmes ease travel restrictions. The apparent slow down in 2020 is unlikely to continue through 2021.

"2019 saw acts of extreme right-wing (XRW) terrorism double in North America and Europe compared to the previous year."



Regional commentary

North America: The violence that erupted during social protests in 2020, and the US Capitol assault in January, were fuelled by divisive politics, racial inequality and the impact of the pandemic on the economy. It's unlikely these will be quickly resolved in 2021, raising the potential for further protests in US cities.

- XRW activity is unlikely to fade with the entrance of the new administration, with groups again potentially targeting legitimate protest events.
- The recent Department of Homeland Security alert raised the potential for terrorism within the US going into 2021, citing a range of ideologies, domestic and international, as drivers for potential attacks.

International: Previous hotspots for terrorism in Latin America (Colombia, Chile) and Southern Asia (India, southern Thailand, Philippines) are likely to see a return to a higher frequency of attacks in the second half of 2021.

- Europe is seeing growth of XRW and Extreme Left Wing terrorism.
- Property damage and business interruption from civil unrest in Hong Kong and Santiago (which paused during the 2020 lockdowns) and Paris, and the ongoing violence in Europe this year underscore the potential impacts to individual business. Unrest is likely to increase with the easing of pandemic restrictions.
- Myanmar's military coup, and the shifting US position on North Korea, for example, present businesses with additional political violence considerations for the APAC region.

UK: The dual challenges of Brexit and the pandemic impacts may generate instances of public unrest in 2021, with the attendant disruption or damage to businesses. Additional social protest around the environment and racial inequality are likely as movement restrictions ease.

- In spite of an apparent pause to terrorism within mainland UK over the last year, the threat level having been raised to Severe, in November 2020, has reverted to substantial as of February 2021; the UK remains exposed to extreme right, extreme left, Irish republican, and Islamic militant terrorism.



North American Overview



Rising civil unrest



James Bannister
Director, Head of North American
Terrorism

Broking Insight

In 2020 we saw increasing numbers of clients seeking terms for terrorism in the standalone market, compared to 2019. The reasons are twofold. Firstly, with Property and Casualty markets hardening, many clients left no stone unturned in the pursuit of cost savings, testing the standalone market as an alternative to the Terrorism Risk Insurance Act (TRIA). In many cases, premium savings are being offset against property programme increases.

"2020 saw a steady rise in the take-up of non- TRIA alternatives. The increase in property rates, in particular those in CAT-exposed regions, has impacted the TRIA allocation. A number of companies experienced significant rises, and as a result, alternative pricing and coverage were sought from the standalone terrorism market."

Dan O'Connell – AXA XL

Secondly, in light of recent protest, rioting, and civil unrest in the US, clients with vulnerable assets, explored civil unrest extensions within the standalone terrorism market. Coverage is being restricted in the Property All Risks programmes, with carriers remaining cautious about writing strike, riot, and civil commotion (SRCC) following high-profile claims. Options remain available in the terrorism standalone market in the face of these losses.

Market trends

With US terrorism market capacity stable and a number of new entrants – there remains sufficient insurer appetite to offer coverage solutions as an alternative to TRIA and during 2020, the number of new clients binding standalone terrorism programmes increased by > 50% compared to 2019. Routes to market varied depending on client sector and insured perils. Aon's Terrorism facility utilisation stood at 63% for new business, with the remainder taking up options within the open market.

For coverage extensions, Malicious Attack continues to have the most uptake, which covers property damage (PD) and business interruption (BI), and non-PD BI following a malicious event.



percent of new clients in 2020 purchased Malicious Attack cover, with most enquiries generated by the Real Estate and Education sectors.

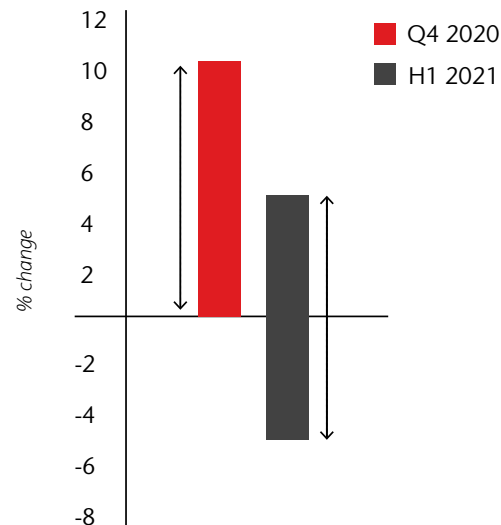
The increase in some sectors (Hospitality & Entertainment and Retail & Municipalities) pursuing civil unrest coverage was significant. While options remain available despite recent events, insurers remain more cautious when reviewing these submissions following some high-profile losses.

Rates

Rates did firm in 2020 in response to market-wide COVID-19-losses and the widespread civil unrest. Though not to levels seen in other market segments, insurers were under pressure to recover rate where possible. For 2021 the rating outlook for clients is more positive, with new market entrants expected to sustain competition across the sector.

The rating environment continues to firm for clients with exposures in New York, San Francisco, and Chicago as terrorism capacity remains restrictive in these city centres. The rating environment for clients seeking SRCC or full political violence (PV) extensions is also firming as demand increases.

The ranges for sabotage and terrorism renewal rates for Q4 2020 and H1 2021 are shown below.



Claims

The majority of claims witnessed during 2020 have been linked to civil unrest, with numerous notifications among clients in the Retail sector across the US. Claims are predominantly for property damage, and looting, with resultant business interruption.

"Political tensions, demands for social/legislative change, and wealth inequality are often cited as being core grievances. In line with this increase, there has been a notable rise in the cost of damages and business disruption – this is clearly illustrated in the quantum of losses that the insurance market has paid as a result of SRCCMD events."

Dan O'Connell – AXA XL

Outlook

Outlook for 2021 is positive, particularly from a rating perspective, being assisted by several new market entrants and terrorism carrier growth aspirations. However, the focus of underwriters this year will be core coverages. Demand for SRCC coverage is likely to continue as we move through 2021, with many multinationals reviewing their domestic and international resiliency to these perils.



North American network insight



Vincent Flood
Chief Broking Officer, US National
Property



Jason Caya
Account Executive Practice Leader
Southern California

With losses from COVID-19, event cancellation, and riots, the market has endured more change in 2020 than in the previous five years. Client buying patterns have also shifted.

The Property market remains very firm with rates up a couple of percentage points on the previous quarter. Carriers favour organic growth with line sizes being cut on certain accounts, deploying capital elsewhere. Aon's broking and network teams must re-educate clients about the impacts of loss activity.

TRIA vs. standalone

The challenges created by the pandemic are encouraging clients to review their spend, with many looking to their property or terrorism programme for savings and coverage options.

From an SRCC perspective, loss-active hospitality, retail, and municipalities are struggling to get capacity for civil unrest coverage. Outside of this, a majority of US property carriers are still offering cover.

Following TRIA's renewal, client appetite is varied, with property premiums influencing uptake. Clients are focused on comparisons against TRIA and achieving savings rather than widening investment into non-core lines like Active Assailant or Chemical/Biological coverage.

Increasing appetite

Client interest in the terrorism market has increased significantly, thanks to heightened civil unrest in 2020. There is greater awareness of potential exposures, and particularly how events may impact existing programmes, people, and operations.

In LA, we have seen property damage and looting linked to demonstrations following wins by the LA Lakers and the LA Dodgers; many clients – particularly in retail – have installed barriers or introduced physical security to protect their operations.

This, combined with the impact of COVID-19, is having a significant financial impact on clients, who are considering all options when it comes to mitigating the risks facing their people and property.

Fortunately, our team is seeing good options in the market and strong, continued appetite for US risks. The commercial market is also providing a reliable alternative to TRIA, with our more sophisticated and exposed clients increasingly turning to the standalone terrorism market.

"Client interest in the terrorism market has increased significantly, thanks to heightened civil unrest"

International Overview



Violent protests



Julia Dickson
Director, Head of International
Terrorism

Broking Insight

International Terrorism Political Violence (TPV) rates stabilised at the start of 2020 as the market adjusted the various civil unrest losses experienced in 2019. The near-universal response from governments to the global pandemic was to 'control and contain', which resulted in public unrest within some countries previously considered low risk.

Consequently, while several TPV markets have restricted their appetite in those more volatile regions, the majority continue to provide capacity and relevant coverage to enable clients to access appropriate TPV cover.

Market trends

An upsurge of violent and non-violent protests internationally has prompted clients to evaluate their TPV coverage.

Challenging renewal conversations with substantial rate rises on other lines of business have reduced

client appetite to explore extensions of cover, including non-damage business interruption, cyber, and threat.

A number of international Property markets have restricted SRCCMD cover (excluding or sub-limiting), increasing the demand from clients for standalone TPV solutions, a trend that will continue throughout 2021.

While clients' primary focus is the core terrorism cover, the impacts of the pandemic are forcing them to reflect on what is now 'core cover'. It is also prompting clients to consider how to use their terrorism programme as a vehicle for SRCCMD or full PV cover. Additionally, the new operational environment of reduced revenues and asset base and how to illustrate and communicate this appropriately at renewal are factors now higher on the agenda.

Overall, London market capacity remains abundant. However, in regions that have experienced a higher frequency of events (LATAM & APAC) and impacted sectors (Retail and Municipalities), it is more restricted due to increasing demand and waning carrier appetite.

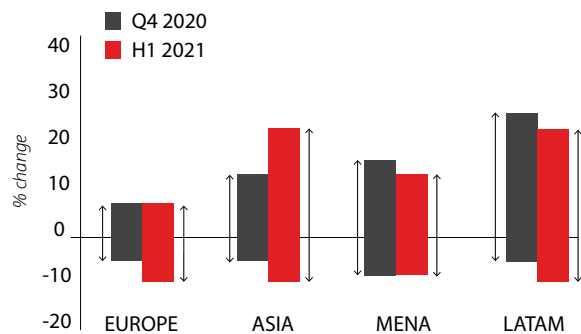
"One thing is clear; the appetite to provide coverage for this new global risk continues to evolve and develop to adapt to the needs of businesses."

Andrew Bauckham, Senior Class Underwriter Political Violence



Rates

The initial rate firming in 2020 from 2019 losses was compounded by the global pandemic response generating wider insurance industry losses. We anticipate rates will stabilise for clients in 2021, while those more exposed occupancies such as Retail, Municipalities and Life Sciences and countries such as Myanmar, Thailand, Chile sit as the outliers.



Claims

Unsurprisingly the rate of loss notification associated with civil unrest coming into the market accelerated during 2020, peaking during the second half of the year.

Claims in the Political Violence market are characterised by limited property damage, and significant business interruption following looting, with Retail and Transport most frequently affected.

"We expect the demand for the product to remain high as clients try to quantify and monitor the ongoing threat while digesting the impact of the pandemic and reduced or fluctuating business interruption."

Andrew Bauckham, Senior Class Underwriter Political Violence

Outlook

In the short-term, developed regions, including Europe, are likely to experience a degree of civil unrest, responding to poor government management of either the vaccine rollout, infection control, or economic impact. Looking ahead into 2021, we can expect further restrictions and travel bans, with parts of the world emerging sooner than others. As the recessionary impact becomes apparent, the political and social issues that were prevalent pre-pandemic are likely to resurface.

The client need and demand for TPV cover is likely to continue throughout 2021. Rates will be driven by occupancy, location, and loss history, increasing for risks in major metropolitan areas.



International network commentary



Rupert Roberts
Director, Specialty Growth International
(Asia)

Outlook: From a terrorism and political violence perspective, the Asian experience in 2020, in contrast to the sustained political violence in Hong Kong and the Easter Sunday bombings in Sri Lanka in 2019, was largely benign. This shift was driven by the COVID-19 pandemic; the reluctance of people to gather in large groups reduced the ability to protest or present soft target opportunities for terrorists. Asian countries may again see an increase in social unrest due to the economic impact of COVID-19 restrictions, exacerbated by underlying grievances, particularly in societies with significant wealth inequality. In Thailand, we have witnessed large scale student-led protests against the monarchy, something which would have been almost unthinkable a short time ago.

Civil unrest: After the Hong Kong unrest, there are a number of clients making claims on SRCC extensions under their Property programmes. One of the key client lessons from this experience was the actual value of full TPV cover vs. the narrower and more competitively priced alternatives.

Sri Lanka experienced a sustained reduction in tourism following the 2019 bombings (even pre-COVID-19), impacting hospitality, travel, and retail sectors. Again, the learning was that broader coverage, including loss of attraction, would have provided significantly more value in response than cheaper alternatives. The challenge for markets and brokers in our very price-sensitive region is articulating the value to clients and providing real-world examples of how coverage responds to different events.

Future: 2021 will experience an increase in political violence and/or extremism in the region. The European increase in terrorist activity as lockdowns are relaxed has not been mirrored in Asia thus far, though it is not unreasonable to assume this may change.



UK Overview



Exploring alternatives



Richard Sawyer
Director, Head of UK Terrorism

Broking Insight

Aon has supported clients in leveraging the arbitrage between open market and (the UK Government-backed) Pool Re pricing for terrorism coverage, enabling clients to significantly reduce property-related spend by stepping away from Pool Re.

Clients pursued deeper savings where they chose defensible loss limits to retain more of the excess exposure, accessing savings of up to 30-40% vs their Pool Re spend.

**Savings of up to 30–40%
vs their Pool Re spend**

Aon has supported clients through these near-term requirements, balancing insurance spend with the ongoing impacts from COVID-19.

Market trends

From a coverage perspective, the UK commercial market offering continues to broaden,

accommodating non-damage business interruption from terrorism as well as malicious attacks; attacks from other non-terror groups or individuals. This development reflects the growth in the use of violence by some direct action groups.

Non-Damage “Threat” coverage, for example, has evolved to respond to both verbal (phone call) and written (email, social media, or via digital platforms) threats. The “Threat” element responds to lockdown or evacuation of premises based on a threat, covering resulting loss of income (revenue, earnings, profits). These covers, alongside those responding to the impact from police and military-led evacuations and restrictions of access, form

Clients also see the value of the protective components of “Brand rehabilitation” cover embedded within the commercial solution. This offers funding of marketing costs and expenses, post-event, to support the insured’s brand, limiting the negative, longer-term impacts of an attack on an organisation’s business.

Rates

The UK terrorism market has remained very competitive, in contrast to the firming observed in

the UK Property market. Significant reductions are still being achieved, supporting the expectations of many clients still experiencing ongoing business challenges in 2021.

Claims

The standalone terrorism solution can respond to claims without the need for government certification of a Terrorism event. The basis that the commercial solution will respond to a religiously, politically, or ideologically motivated event reduces any element of uncertainty.

The UK did not see any significant claims in the market, which would impact pricing and appetite for 2021.

Outlook

Several markets left the government Pool in 2020, enabling them to write terrorism directly; an example of the competitive nature of the UK terrorism market and the appetite for an increasing number of markets to deliver growth on this line of business.

UK network insight



Christopher Wright
UK Network Insight
Real Estate



Andrew Millard
UK Network Insight
Public Sector

Exposures: for Real Estate, the most obvious is the pandemic, with lost revenue and insolvencies having a knock-on effect for large retail operators. In terms of terrorism, the greatest exposure is the reputational fallout from an attack. Shopping malls and hotels have greater anxiety around ‘lone wolf’ attacks (whether terrorist or malicious) than more traditional forms of terrorism such as bombings. Other key issues for clients include the reduction in footfall resulting from an attack on an airport or city centre, or cyber extortion and how they would respond to a ransom demand, in addition to the third-party exposure.

For Public Sector, exposure concerns are centred on:



1 Their sites in general e.g. offices & depots, operational sites



2 A council’s commercial properties with public access/higher footfall (leisure and retail have a more concentrated exposure)



3 Wider liability exposure for public areas/events, for example, the Manchester Arena event touching the council, police, and other blue light services

Client need: Where there is still a gap in preparedness, how do you align your risk management framework to the potential for an attack? There is the scope for insurer innovation; bursaries to support risk management initiatives in this area would be of real value to clients. Also, if banks decide to include non-physical damage as part of their lending requirements for terrorism, this could shape how we respond to these covenants that clients cannot afford to ignore.

Clients are prepared to invest where they see value. The objective is to identify the exposures, explain the benefits and then find the most cost-effective way of transferring risk.



Claims



Skills & expertise



Mark Fox
Head of Claims



Hugh Ross
Claims Director

Claims into the TPV market increased significantly over the last 18 months, with Black Lives Matter (BLM) protests in particular very quickly generating a peak of claim advices. Aon colleagues saw potential claims arise in unfamiliar territory - civil unrest - providing an opportunity for our London Claims team to advocate, share knowledge, and ensure client interaction was prompt and comprehensive.

A common theme was managing expectations around Sabotage and Terrorism programmes in relation to civil unrest claims; these typically fall under an all risks or political violence programme. We worked with our colleagues in the network to communicate and educate during client conversations around coverage response. Maintaining the balance between customer advocacy and setting realistic expectations.

The pandemic has lengthened the lifecycle of claims, and made calculating some business interruption claims more of a challenge. Although in many cases the claim was simplified where clients were not, or had limited, trading.

In some instances, there was difficulty acquiring information to support claim presentations when clients were unable to access premises. This underlines the importance of remote access to and management of company data, in conjunction with current business continuity planning. It also highlights the value of partnering with the appropriately skilled resource within the adjusting/accounting arena.

A number of clients accessed the pool of experts within the AGRC framework's CPAV* teams. In the Claims team's opinion, this brought great value as an enhanced service to our client base, facilitating the claim process, shouldering the heavy lift on behalf of the client.

Aon's Claims team feels it vital that appropriate independent loss adjusters and expert support, both specialising in this field, are considered for selection and work with carrier partners, pre-loss. Product knowledge adds value in client interactions, potentially mitigating loss quantum and the claim lifecycle. The Aon claims team can help facilitate these discussions, including pre-loss workshop planning where appropriate.

*CPAV = Claims Preparation, Advocacy & Valuations

"Clients accessed the AGRC framework's Claims Preparation, Advocacy & Valuation teams, as an enhanced service."

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About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions.

Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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