

## THE EFFECT OF POLITICAL RISKS LANDSCAPE TO AFRICAN INSURANCE AND REINSURANCE

By: Udai .R. Patel, Managing Director, Afro-Asian Insurance Services Ltd. (Lloyd's Brokers), U.K.

Mr. Chairman, Delegates, Ladies and Gentlemen.

I have the honour of being invited to share my thoughts on Political Risk insurance with you today. However, this is too wide a topic in my opinion to cover within the time allotted to me, and I shall therefore restrict my observations and comments to, in my opinion, the more relevant topic in Africa today – that of Political Violence and Terrorism.

Before examining the concept of political violence, we need to understand what is meant by “Political Risk” as a concept and “Political Risk Insurance” as a product. If you look up any standard insurance dictionary, you will see that political risk insurance as a product is defined as ***an insurance product sold to firms as a means to protect them against political risks associated with investing abroad***. It is a tool for businesses to mitigate and manage risks arising from the adverse actions or inactions of governments, which provides the investor with a stable environment for investments into developing countries, and thereby unlocks better access to finance.

A typical political risks policy will focus on mitigating three categories of risks:-

1. **Currency inconvertibility**: this coverage protects against losses caused by currency transfer restrictions, which typically applies to the interruption of scheduled interest payments or repatriation of capital or dividends due to currency restrictions imposed by the host government;
2. **Confiscation, Expropriation and Nationalization**: this coverage protects against losses caused by various acts of expropriation, and usually applies to outright confiscation of property or funds;
3. **Political Violence**: this coverage protects against losses by war, civil disturbance, or terrorism, and is usually limited to “politically motivated” violence. The term “politically motivated” is very vague, subjective and much discussed amongst sellers of insurance in Africa, and will be discussed in more detail later.

The fact that political risks insurance relates to investments abroad, suggests that it is only available for non-domicile individuals and corporates. It is not designed to protect the financial interests of the indigenous persons or corporate entities. Therefore, I would like to restrict my comments to “political violence”, but expand it to the protection of all financial interests present in the affected territory, whether domiciled or non-domiciled.

I wish to examine in greater detail the following issues in this particular order in the African context:-

- i) "Political violence" and expected Market response.
- ii) Focus on terrorism.
- iii) What drives demand for political violence and terrorism insurance?
- iv) How can the demand be met?
- v) A Public-Private Partnership and the role of the Regulator.

### "Political Violence" & Market response

Let me take you back to the scenes on your television screens from London and Middle England between the dates of 6<sup>th</sup> and 10<sup>th</sup> August 2011. I was on a business trip in Eastern Africa at the time, and was shocked to watch rioters and looters clashing with the Police only half a mile away from my home, where I had left my family behind in (what I believed to be) a relatively safe environment.

The riots started as a protest against the shooting of Mark Duggan by the Metropolitan Police Service Firearms Officers. This quickly degenerated into looting of shops and other business premises, and arson attacks.

Were the riots and the arson attacks "political violence" or merely civil disturbances caused by the increasing social divide between the "haves" and the "have nots" caused over recent years following economic hardship after the UK banking crisis, which resulted in shrinkage of the economy, and which forced the ruling coalition Government at the time to put through harsh economic policies? You will appreciate that the line is very fine between a politically driven event and a non-politically driven event.

In my personal opinion, I would suggest that the riots immediately after the peaceful protest in London following the shooting of Mark Duggan, was political violence. However, I would suggest that much of the subsequent rioting and arson damage was as a result of criminal intent, emboldened by the lack of Police intervention for fear of appearing "heavy handed" in the eyes of the Press, Media and Social or Racial Pressure Groups. Nevertheless, the proximate cause for insurance purposes, of the later violent events, I would suggest, remains the original political protest which started the subsequent chain reaction. Some will argue otherwise with me.

This clearly demonstrates the difficulty in determining whether the proximate cause of an event is politically motivated or not. The subjective and the emotive nature of the topic encourages debate after the loss event, and hence from an insurer's viewpoint, I would suggest that the cover being offered is as clearly defined as possible (using simple language). However, the London Market (which leads the global capacity for Political Violence & Terrorism Insurance) has had to continually review and redefine coverage in light of changing global terror groups and threats.

Today, Islamic State continues to drive terrorism concerns in a number of countries, and is expected to increase its international operations with the continued degradation of its Syrian/Iraqi power base. According to the 2017 Aon Risk Map, global politics in 2017 is expected to be more violent and crisis prone than 2016; the second consecutive year of deterioration. North Africa and especially Egypt continues to have a very high risk rating, along with Chad and Niger, which have comparable security environments. In Egypt, the overall terrorism and political

violence risk level is high with more than 200 recorded terrorist incidents in the last 12 months. Whilst most of these can be attributed to the Islamic State in the North Sinai Region, new anti-establishment groups such as Harakat Sawaid Masr (Hasm) have emerged and proven their ability to carry out attacks against targets that fit into their anti-Sisi narrative. Hasam has claimed at least 8 attacks since June 2016, including bombings and shootings of targeted government and security interests, which has increased the risk civil unrest in 2017/2018. In Sub-Saharan Africa, other local Islamic extremist groups prevail such as the Islamic State in West Africa, Boko Haram, AQIM and al-Shabaab, to name a few. In the context of this audience, a key finding of the 2017 Aon Risk Map is that, in Southern Africa, Zimbabwe already displays one of the highest levels of risk due to pressures for change in the political scene. The possible effects of this, according to the Aon Report, should not be overlooked, as it is expected to exert further pressure on businesses, including the banking sector amid the lack of FX inflows.

The global terrorist groups are also becoming more innovative in the spreading of terror. In 2016, at least 189 people died in terrorist attacks in Western countries, and over 52% of these fatalities was a result of vehicular attacks. This relatively new low-capability tactic which requires a lone wolf to carry out the attack under the scanner of the local security services with minimal resources and planning, became the single most lethal form of attack in 2016 in Western countries for the first time ever. The Islamic State has become very adept at producing significant quantities of propaganda and has effectively exploited online platforms such as Telegram and Twitter to disseminate such material, despite robust efforts by social media and messaging platforms to clamp down on I.S. propaganda activity. The group has also innovated on the battlefield, using drones to mount attacks, and as we all know, what works on the battlefield can be applied equally effectively on a non-suspecting population.

The November 2014 cyber attack on Sony Pictures Entertainment focussed the attention of cyber insurers on cyber terrorism, especially after the U.S. Government blamed the attack on North Korea. Standard Cyber policies use vague and ambiguous language when it comes to terrorism, i.e., some policies exclude "act-of-war" or "warlike activity". Had it been established that the attack on Sony by the North Korean Government was ideological or politically motivated, then the courts will have to decide whether the claim will fall under the Cyber policy or the Terrorism policy.

A similar comment can be applied to the Motor class of business with the advent of driverless cars and trucks (the latter being a reality in the near future in the U.S). If the on-board computer is hacked by a politically motivated organization or individual to cause maximum harm to persons and property, will this be covered under the Motor policy, or the Cyber policy, or indeed the Terrorism policy?

So far, the industry has been slow to respond to the challenges that are presented by these. In order to mitigate claims exposure and ambiguity, it is essential that proper investigation takes place now and existing wordings are reviewed to consider how contracts delineate between covered and excluded risks.

A first step is to factor in the dangers arising from social unrest into risk analysis and review coverage. By identifying the connection needed between the excluded political violence event and the losses suffered, the industry can mould policies to ensure that they only respond to events that have been factored into the risk analysis and premium fixing. Given the societal risks and differing loss exposures, it is important to note that reinsurers may not wish to provide cover on the same basis. They may wish to factor in a common transnational understanding of the terms for insurance purposes.

Crucially, insurance and reinsurance contracts may have wholly different political violence exclusion clauses which must be dealt with. A starting point is to identify which exclusions apply to which event and immediately address the evidence issues.

The main problem for all-risk policies, when dealing with riot and looting cover, is establishing whether the riot correlates directly or indirectly with an excluded event, identifying what happened and whether a causal connection can be made between the looting or riot damage and the excluded event. A particular difficulty arises from an evidential perspective when riots or civil unrest is covered in some circumstances and not another. For example, in most instances losses from riots or civil unrest are covered even when they eventually escalate into an uprising or other excluded event, unless the excluded event is actually the cause of the riots or the losses in question. It may be necessary to factor in other causal connection elements, for example, if it transpires that looting is due to a breakdown in law and order, as we saw during the Arab Spring in 2011 in Egypt.

Ascertaining the distinction between the different types of riots and whether they are political or economic has long been a problem. An attempt to make this distinction was made in Indonesia in the late 1990s when fire policies did not cover losses due to strikes, riots and civil unrest but were later covered by endorsements, many of which excluded losses resulting from terrorism or politically motivated actions.

There is a great deal of intricate detail involved in drafting such wording and in practice, it often comes down to what degree the loss may be covered based on the factual matrix surrounding the event.

Another issue insurers face in cases of riots and protests is finding out what really happened. There is often a real lack of reliable, factual information and the industry does not fully understand the burden of proof and evidence required when showing causation in this scenario. Special care must be taken when considering coverage wording in the following:

- The context of words such as riots, looting and civil unrest in the policy;
- Relevant case law and questions of law and jurisdiction;
- Burden of proof;
- Proximate or, distant (if the wording allows) of the loss; and
- Macro position and geopolitical context of the loss.

Depending on the nature of the protest or unrest, the claim may fall under a wider political violence exclusion.

With all this doubt over where the riot or unrest in question is defined and ultimately covered, insurers and reinsurers may unwittingly be covering losses relating to the growing socio-politico-economic unrest unless they make clear distinctions between types of activities, or provide a wide enough definition of a causal link to tie the losses to the excluded political violence or event.

So that the industry can effectively respond to the challenges caused by unrest, certain industry experts on the subject advise insurers to:

- Review existing wording to ensure contracts clearly delineate between covered risks and excluded risks;

and

- Provide a clear distinction between different types of activities and a wide enough definition of the causal links to tie losses to relevant exclusions, to ensure that insurers and reinsurers do not pick up unintended losses.

Ultimately, this will help mitigate debates between reinsurers covering "All Risks" and the political / terrorism risk market.

### Terrorism

A facet of political violence is Terrorism. This is a very difficult term to reach consensus on and to define, with over 100 definitions in existence. The debate dates back to Biblical times, and is a matter of perception – one man's terrorist is another man's freedom fighter.

Terrorism is the systematic use of terror, especially as a means of coercion. In the international community, however, terrorism has no universally agreed, legally binding, criminal law definition.

A definition proposed by Carsten Bockstette at the George C. Marshall Centre for European Security Studies, underlines the psychological and tactical aspects of terrorism:

"Terrorism is defined as political violence in an asymmetrical conflict that is designed to induce terror and psychic fear (sometimes indiscriminate) through the violent victimization and destruction of non-combatant targets (sometimes iconic symbols). Such acts are meant to send a message from an illicit clandestine organization. The purpose of terrorism is to exploit the media in order to achieve maximum attainable publicity as an amplifying force multiplier in order to influence the targeted audience(s) in order to reach short- and mid-term political goals and/or desired long-term ends."

In early 1975, the Law Enforcement Assistant Administration in the United States formed the National Advisory Committee on Criminal Justice Standards and Goals. The Task Force on Disorders and Terrorism under the direction of H.H.A. Cooper, classified terrorism into six categories:

**Civil disorder** – A form of collective violence interfering with the peace, security, and normal functioning of the community.

**Political terrorism** – Violent criminal behaviour designed primarily to generate fear in the community, or substantial segment of it, for political purposes.

**Non-Political terrorism** – Terrorism that is not aimed at political purposes but which exhibits “conscious design to create and maintain a high degree of fear for coercive purposes, but the end is individual or collective gain rather than the achievement of a political objective.”

**Quasi-terrorism** – The activities incidental to the commission of crimes of violence that are similar in form and method to genuine terrorism but which nevertheless lack its essential ingredient. It is not the main purpose of the quasi-terrorists to induce terror in the immediate victim as in the case of genuine terrorism, but the quasi-terrorist uses the modalities and techniques of the genuine terrorist and produces similar consequences and reaction. For example, the fleeing felon who takes hostages is a quasi-terrorist, whose methods are similar to those of the genuine terrorist but whose purposes are quite different.

**Limited political terrorism** – Genuine political terrorism is characterized by a revolutionary approach; limited political terrorism refers to “acts of terrorism which are committed for ideological or political motives but which are not part of a concerted campaign to capture control of the state. An example of this would be a campaign of bombing or other form of focussed intimidation by Animal Rights Activists.

**Official or state terrorism** – “referring to nations whose rule is based upon fear and oppression that reach similar to terrorism or such proportions.” It may also be referred to as Structural Terrorism defined broadly as terrorist acts carried out by governments in pursuit of political objectives, often as part of their foreign policy.

Having attempted to explain the concepts of political violence and terrorism, let us take some time to explore the causes, or at least, the conditions that trigger or encourage this.

### The root causes and triggers

#### **Root Causes**

1. It is generally agreed that a lack of democracy, civil liberties and the rule of law are preconditions for many forms of domestic terrorism. Generally, the most democratic and the most totalitarian societies have the lowest levels of oppositional violence. Failed or weak states on the other hand, lack the capacity – or sometimes the will – to exercise territorial control.

This often leaves a power vacuum that can be exploited by terrorist organizations to maintain safe havens, training facilities or serve as bases for launching terrorist campaigns. However, this should not be perceived as

simply a lack of democracy or democratic processes. Long standing liberal democracies with established traditions of free speech and tolerance have been the targets of both domestic and foreign terrorism.

2. Rapid modernization and urbanization in the form of high economic growth has also been found to correlate strongly with the emergence of ideological terrorism, but not with ethno-nationalist terrorism.

This may be particularly important in countries where sudden wealth (e.g. from oil) has precipitated a change from tribal to high-tech societies in one generation or less. When traditional norms and social patterns crumble or are made to seem irrelevant, new radical ideologies that are sometimes based on religion or perhaps nostalgia for a glorious past, may become attractive to certain segments of society.

3. Extremist ideologies of a secular or religious nature are at least an intermediate cause of terrorism, although people usually adopt such extremist ideologies as a consequence of more fundamental political or personal reasons. When these worldviews are adopted and applied in order to interpret situations and guide action, they tend to take on a dynamics of their own, and may serve to dehumanize the enemy and justify atrocities.
4. Historical antecedents of political violence, civil wars, revolutions, dictatorships or occupation may lower the threshold for acceptance of political violence and terrorism, and impede the development of nonviolent norms among all segments of society. The victim role as well as longstanding historical injustices and grievances may be constructed to serve as justifications for terrorism.

When young children are socialized into cultural value systems that celebrate martyrdom, revenge and hatred of other ethnic or national groups, this is likely to increase their readiness to support or commit violent atrocities when they grow up.

5. Hegemony and inequality of power. When local or international powers possess an overwhelming power compared to oppositional groups, and the latter see no other realistic ways to forward their cause by normal political or military means, "asymmetrical warfare" can represent a tempting option. Terrorism offers the possibility of achieving high political impact with limited means.
6. Illegitimate or corrupt governments frequently give rise to opposition that may turn to terrorist means if other avenues are not seen as realistic options for replacing these regimes with a more credible and legitimate government or

a regime which represents the values and interests of the opposition movement.

7. Powerful external actors upholding illegitimate governments may be seen as an insurmountable obstacle to needed regime change. Such external support to illegitimate government is frequently seen as foreign domination through puppet regimes serving the political and economic interests of foreign sponsors.
8. Repression by foreign occupation or by colonial powers has given rise to a great many national liberation movements that have sought recourse in terrorist tactics and other political means. Despite their use of terrorist methods, some liberation movements enjoy considerable support and legitimacy among their own constituencies, and sometimes also from segments of international public opinion.
9. The experience of discrimination on the basis of ethnic or religious origin is the chief root cause of ethno-nationalist terrorism. When sizeable minorities are systematically deprived of their rights to equal social and economic opportunities, obstructed from expressing their cultural identities (e.g. forbidden to use their language or practice their religion), or excluded from political influence, this can give rise to secessionist movements that may turn to terrorism or other forms of violent struggle. Ethnic nationalisms are more likely to give rise to (and justify) terrorism than are moderate and inclusive civic nationalisms.
10. Failure or unwillingness by the state to integrate dissident groups or emerging social classes may lead to their alienation from the political system. Some groups are excluded because they hold views or represent political traditions considered irreconcilable with the basic values of the state. Large groups of highly educated young people with few prospects of meaningful careers within a blocked system will tend to feel alienated and frustrated. Excluded groups are likely to search for alternative channels through which to express and promote political influence and change. To some, terrorism can seem the most effective and tempting option
11. The experience of social injustice is a main motivating cause behind social revolutionary terrorism. Relative deprivation or great differences in income distribution (rather than absolute deprivation or poverty) in a society have in some studies been found to correlate rather strongly with the emergence of social revolutionary political violence and ideological terrorism, but less with ethno-nationalist terrorism.
12. The presence of charismatic ideological leaders able to transform widespread grievances and frustrations into a political agenda for violent

struggle is a decisive factor behind the emergence of a terrorist movement or group. The existence of grievances alone is only a precondition: someone is needed who can translate that into a programme for violent action.

### **Trigger Causes**

The first condition that can be considered a direct cause of terrorism is the existence of concrete grievances among an identifiable subgroup of a larger population, such as an ethnic minority discriminated against by the majority. This is not to say, however, that the existence of a dissatisfied minority or majority is a necessary or even a sufficient cause for terrorism; for not all those who are discriminated against turn to terrorism.

The second condition that can create motivations for terrorism is the lack of opportunity for political participation. The last category of situational factors involves the concept of a precipitated event that immediately precedes outbreaks of terrorism. While general consensus points to the fact that precipitants (trigger causes) are usually unpredictable, a common pattern has emerged that highlights particular government actions as catalysts for terrorism.

Terrorist retaliations can thus occur as a result of unusual and unexpected use of force by the government, a so-called "action-reaction syndrome". In general, provocative events that call for revenge or action, may trigger terrorist action by spoilers on both sides. Contested elections, police brutality and even peace talks are all examples of triggering causes.

### How can the demand be met?

As we all know, insurance is not the only solution to the risk of political violence and terrorism. In fact, I would suggest that identifying and managing the threats is a starting point. According to The RAND Centre for Terrorism Risk Management Policy, there are three components of terrorism:

- the threat to a target;
- the target's vulnerability to the threat;
- the consequences should the target be successfully attacked.

People and organizations represent threats when they have both the intent and capability to damage a target. The threats to a target can be measured as the probability that a specific target is attacked in a specific way during a specified period. Thus, a threat might be measured as, for example, the annual probability that a city's football stadium will be subject to attack with a radiological weapon.

Vulnerability can be measured as the probability that damage occurs, given a threat. Damages could be fatalities, injuries, property damage, or other consequences; each would have its own vulnerability assessment.

Consequences are the magnitude and type of damage resulting, given a successful terrorist attack.

Risk is a function of all three components: threat, vulnerability, and consequences. These constructs can be used to measure risk consistently in terms of expected annual consequences.

Without going into too much technical detail, each of the three components mentioned above can be statistically measured. The methods used to estimate threat are qualitatively different than those used to measure vulnerability and consequences. The former relies on collection and interpretation of intelligence. The latter requires scientific and engineering expertise of attack modes and target responses to attacks. One sophisticated way of measuring such risk is to use Event-based Risk Estimates, and the RMS Terrorism Risk Model is an effective tool to arrive at such estimates.

In the UK, the CNPI (Centre for the Protection of National Infrastructure) advocates strong security planning. Their Top TEN security guidelines for the protection of property & personnel against terrorist attacks are:-

1. Conduct a risk assessment to decide on the threats the organisation might face and their likelihood. Identify existing and potential vulnerabilities and the impact of any breaches of security.
2. If acquiring or extending premises, consider security requirements right from the planning stage. It will be cheaper and more effective than adding measures later.
3. Make security awareness a part of the organisation's culture. Ensure staff are kept regularly informed and that security standards are fully supported at a senior level.
4. Ensure good basic housekeeping throughout the premises. Keep public areas tidy and well-lit, remove unnecessary furniture and keep garden areas clear.
5. Keep access points to a minimum and issue staff and visitors with passes. Where possible, do not allow unauthorised vehicles close to the building.
6. Install appropriate physical measures such as locks, alarms, CCTV surveillance, complementary lighting and glazing protection.
7. Maintain appropriate mail-handling procedures, consider establishing the mailroom away from the main premises.
8. When recruiting staff or contractors, check identities and follow up references.
9. Consider how best to protect information and take proper IT security precautions. Ensure there are appropriate provisions for disposing of confidential waste.

- 10.** Plan and rehearse business continuity and incident response plans, make sure that key business functions can continue during disruptions.

In my opinion, a common sense approach to the management of terrorism risk is usually the best course to take, without the necessity of spending large sums of money on expensive risk models (and modellers), and if the 10 Point Plan suggested by the CNPI is followed, owners of commercial property will not go far wrong.

As already mentioned, the alternative is to offload the risk onto third party carriers by buying appropriate insurance covers. A vast array of covers are available for Property Risks on a facultative basis:-

Wording	Coverage
T3/LMA 3030	Terrorism/Terrorism including Sabotage.
LPO 437/LMA 3092 (New)	Terrorism/Strikes, Riot, Civil Commotion/Malicious Damage.
Full Political Violence	Terrorism/Strikes, Riot, Civil Commotion/Malicious Damage/Insurrection/Rebellion/Coup D'état/Civil War/War on Land.
Terrorism Liability	Terrorism 3 <sup>rd</sup> Party Liability including Third Party Bodily Injury and Third Party Property Damage.
Business Interruption (LMA 5039 amended)	Gross Profit/Indemnity period protection based on repair period.
Energy specific coverage	Operators Extra Expense (EED 86), Care Custody and Control including limited re-drill

I do not propose going into the detail of each wording listed above, due to constraints of time. However, if any of you require further information, please do not hesitate to contact me.

#### A Public-Private Partnership (PPP)

According to the Arthur J. Gallagher & Co's Report & Market Update: Credit and Political Risk Insurance, published annually, as at January 2017 global "total possible maximum per risk" capacity stands at US\$ 2.90 billion, up 6.30% from the previous year. Globally, major terror pools currently consume approximately USD9 billion of capacity. The largest transactions in-force today for terrorism provide coverage to individual national pools such as the Australian Reinsurance Pool Corporation (ARPC), GAREAT in France, the Danish Pool and others. Today, approximately US\$ 9 billion of terrorism reinsurance limit is in-force across major global terror pools. Abundant capacity for such risk also is currently available at Lloyd's of London.

In Africa, there has been a move for a long time to build domestic capacity, which now needs to accelerate since we all know that Africa is no longer immune to political violence and terrorism risks. Regional initiatives have been in place with examples such as SASRIA in South Africa and NASRIA in Namibia. Other jurisdictions in Sub-Saharan Africa are exploring similar initiatives, whilst regional reinsurers offer capacity through retrocession treaty programmes that they have arranged for their territories.

However, as we have already examined briefly, the factors that determine such risks are varied and fluid. Therefore, I would suggest that a prudent approach would be to localise capacity as much as possible by creating national or domestic market pools in which there is a “partnership” between domestic insurers and the Insurance Regulator. Hence, my use of the term “Public-Private Partnership”, which although a slight misnomer, intends to convey the need for such a working relationship to exist to achieve the following results:-

- to ensure that there is an adequate spread of similar risks so that the coverage is priced correctly according to domestic exposures. One way of achieving this spread, I would suggest, is for the domestic market regulator to make it mandatory in their jurisdiction for each commercial property (Fire or Industrial All Risks) insurance policyholder to purchase a base level of terrorism/political violence insurance cover which would be an extension to the main policy. This need not necessarily be for full value, as the appetite for such coverage differs from one country to the next. Terrorism acts can be random, and therefore by definition, very difficult to foresee in advance. Therefore, a base level of domestic market cover provided by a domestic pool would be a safety net in case of such events occurring, which although not designed for full indemnity, would mitigate losses to some extent and can be adjusted as conditions (and exposures) change.
- to ensure that there is access to domestic government agencies or departments to produce the high quality of information necessary for the domestic pool underwriters to price the terrorism/political violence risks adequately. My rationale on this is that the domestic insurance regulator is usually affiliated to a Government Ministry (usually the Ministry of Finance). Through intra-departmental cooperation (for example, with the domestic security or homeland security services), data can be gathered to prepare a picture of sensitive security risks that can assist the Pool Managers to underwrite prudently. The domestic insurance regulator in such circumstances, could also provide early warning of changes in the domestic security level for the benefit of the domestic Pool.
- to ensure that the domestic Pool Members participate proportionately in every terrorism and political violence policy issued. It may be that the Pool Members' exposures may differ due to differing capital commitments to the Pool. However, proportional participation will ensure a commensurate share of the premium, thereby avoiding negative selection.
- to ensure that there is maximum domestic premium retention for this specialist class of business, subject to the capital of the Pool. It is expected that during the initial stages, the Pool's capital will be limited due to domestic insurers restricting their investment to build up their own experience. However, overall capacity need not

be restricted since reinsurance would be available to the Pool, mostly in the form of excess of loss reinsurance protection.

➤ to promote growth in the domestic premium income. For example, by regulating that every commercial property insurance policy will have a base level of terrorism/political violence insurance cover as an extension, this presupposes a separate premium being charged for the latter coverage. If this analogy is taken a little further, and there exists a domestic reinsurer (separate from the Pool), then one can conclude that the reinsurer can build its own risk profile and participate in the reinsurance of the Pool, thereby increasing the domestic retention of the premium generated by such risks.

➤ to promote knowledge transfer in the management and underwriting of this special risk class. I would expect the Pool Managers and their advisors to spearhead such initiatives for the common good of the local insurance market.

➤ to promote social responsibility when a terror or politically violent event occurs. We have all seen in the media, time and again, that a terrorist bomber's favourite target tends to be areas where he or she can achieve maximum loss of life – usually a Marketplace frequented by the common citizen. The losses in such circumstances are usually uninsured losses, and hence it takes time for commercial enterprises affected by such events to recover. A base domestic insurance capacity of the nature being suggested here provides at least some capital towards reconstruction following the terror event.

Ladies and gentlemen, I am already stretching the patience of the Session Chairperson and have probably exceeded my time allotment. However, I hope that you appreciate the message that I am trying to convey – terrorism and political violence are global phenomena, and we can no longer afford to bury our respective heads in the sand. It is very difficult to forecast in advance, and when an event occurs, the losses are usually very large both financially and emotionally. Unfortunately, the need for such special coverage arises after the loss making event, and hence there is a need, through the “Public-Private Partnership” being suggested here, to take some of the initiative and decision-making out of the hands of the policyholder through regulatory action.

I thank you for your patience.